DFCC BANK

WINNING WAYS...
WHEN YOU'VE GOT THEM
YOU CAN CHANGE CHALLENGES INTO SUCCESS
THE SPEED YOU LOSE ON THE BENDS
YOU CAN MAKE UP ON THE STRAIGHTS

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


"GREAT MOMENTUM..."
IT HELPS WHEN YOU'RE
'STRONG OUT OF THE BLOCK...'
WHEN YOU'VE MADE A STRONG START,
WITH THE RIGHT FUNDAMENTALS IN PLACE...
IT MAKES US GREAT CONTENDERS
FOR SUCCESSFUL TOMORROWS

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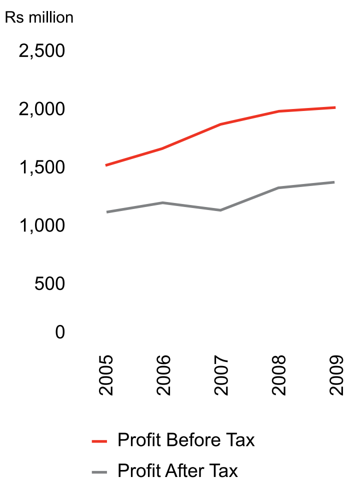

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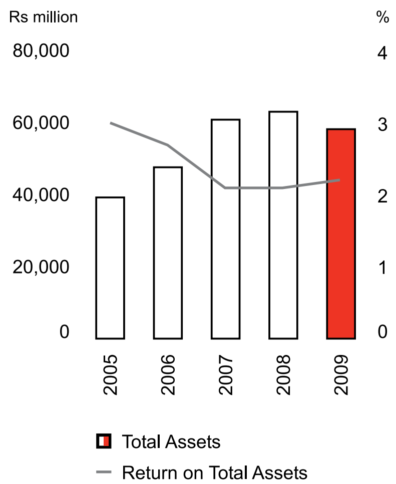

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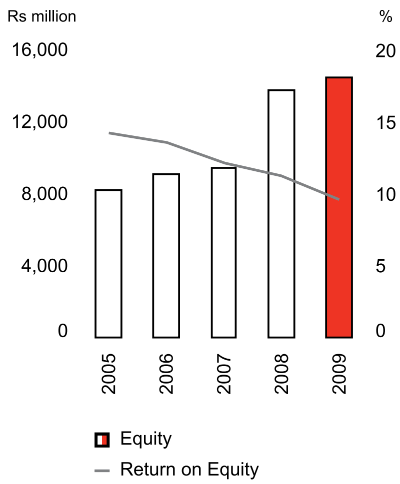


For the year ended 31 March	**2009**	2008	% change
Income - Rs M	9,888	9,636	3
Profit before tax	2,006	1,983	1
Profit after tax	1,360	1,318	3
Earnings per share - Basic - Rs	10.41	10.41	–
Diluted - Rs	–	10.34	–
Gross dividend - Rs M	654	654	–
Dividend payout %	48	50	–
Shareholders' funds (capital & reserves) - Rs M	14,491	13,756	5
Medium/long-term borrowing, deposits & debentures - Rs M	38,988	43,435	(10)
Total assets - Rs M	58,485	63,359	(8)
Return on average total assets - %	2.2	2.1	–
Return on average shareholders' funds	9.6	11.3	–

Chairman's Statement

It is my privilege to present the Annual Report of DFCC Bank for the financial year ended 31 March 2009.

Much has been said and written of the worldwide economic crisis and its ramifications for Sri Lanka and I shall not elaborate on what has taken place. Even though the national economy was able to record a laudable 6% growth in the face of adversity, its renowned resilience has yet to experience tougher tests given that the global recession is still to fully impact Sri Lanka. The early effects have been felt with the slowdown in foreign demand stifling export industries and creating a deleterious domino effect that has infected the value and supply chain. Besides a halt in new investment, pay-cuts, work-hour cuts, labour lay-offs and closures have been effected by industries striving to curtail costs and conserve cash flows. Dependence on the global economy means that Sri Lanka's prospects are unlikely to improve in the short-term, given the prognosis for recovery in international markets. At the same time, the unprecedented success of the military action that has paved the way for future peace and prosperity deserves the highest appreciation by all Sri Lankans. However, any immediate effort to revitalise the economy is likely to be limited by the Government's need to urgently address the financial deficits as well as rebuild cleared areas in the North and East. As such, while the peace dividend will materialise, the near-term outlook is indeed challenging in most respects.

The adverse economic environment also took its toll on the performance of the banking industry. Balance sheet growth was stifled as lending and deposit mobilisation slowed down. This was accompanied by a deterioration in credit quality. Although these developments were not unexpected, the situation was exacerbated by some high profile failures in the local financial services sector. Thankfully, the threatened crisis of confidence in the system was arrested by the swift response of the Central Bank. However, looking ahead, the landscape is likely to be challenging and a fundamental transformation to the financial system has to take place in order to augment and preserve its integrity as well as provide the wherewithal to absorb shocks and weather adverse times. In this context, the case for consolidation is strong, especially in the banking industry. Let us take just two aspects: on the one hand, there is the need for raising additional equity capital to strengthen the base for loan growth and customer support; on the other, there is the need for cost rationalisation and profitability enhancement through scale economy and operational homogeny. All these require a minimum critical mass and cannot be achieved efficiently, if at all, in a fragmented industry space occupied by many players.

I must also make reference to the high levels of taxation to which banks in Sri Lanka are subject to. The combination of Financial VAT and Corporate Tax is approaching 60% and in this scenario the Return on Equity is sub-optimal and not commensurate with the market risk as far as long-term investors are concerned. This means that the raising of equity capital, already a difficult feat under the currently depressed stock market conditions, may only be possible with a steep discount to fair value for most banks, even if the market was to improve substantially. While DFCC Bank and its commercial banking Subsidiary, DFCC Vardhana Bank Limited (DVB) are well positioned in terms of regulatory capital, the difficult outlook implies that the banking industry may be hard pressed to sustain loan growth and weather future shocks. I trust that the concerned authorities will take due heed of the emerging situation.

THE STRENGTH OF STRATEGY AND PROCESS... POSITIONS DFCC WELL TO FACE A FUTURE THAT WILL CHALLENGE US...

Although the outlook is difficult, the opening up of the North and East of the country presents opportunities for the private sector and financial institutions to participate in the development of the North and East. At the initial stages, the activities to be focussed on could be agriculture, fisheries, small and medium industries, and trading. However, given the capacity limitations of the local institutions, larger public undertakings, particularly infrastructure projects, would need to be implemented with financial support from external multilateral agencies. Anyhow, in order to facilitate the involvement of the private sector, the Government's role is vital. As such, the shift of focus from the warfront to the economic front has to be achieved as soon as possible. In this context, the long awaited conclusion of the separatist war will create an environment that should enable all stakeholders to concentrate fully on the urgent development tasks at hand.

I would now like to briefly review the performance of DFCC Bank. Profit after tax at the Bank level was up 3% while that at the Group was down 8%. As could be expected, the adverse macro situation and the resulting slowdown in project investment took its toll on DFCC's core business of financing capital assets. At the same time, the Bank was mindful of the increasing stress on the cash flows and debt servicing capacity of customers, both existing and new, and the focus was proactively shifted from growing the lending portfolio to managing its quality. As part of this strategy, industry assessments were carried out with a view to effecting, where required, sector-wide restructuring of credit facilities in the case of businesses that were experiencing temporary cash flow difficulties. It is notable that DFCC was the first Bank to extend such a programme to the low country tea manufacturing industry. This enabled a much needed breathing space to several factory owners in the aftermath of the collapse of tea prices in late 2008.

DFCC was once again a recipient of an Annual Award by the Association of Development Financing Institutions in Asia & the Pacific. In recognition of its efforts to promote new technologies, DFCC was adjudged winner in the Technology Development Category for assisting a pioneering turbine manufacturing project.

At the Group level, the dip in profits reported by DVB reflected the increased level of provisioning for non-performing assets. Costs were also incurred as part of a strategy to invest in the expansion of its distribution network. This investment will duly bear a commensurate return and enable DFCC Vardhana Bank Limited to increase its future contribution to Group profit. Meanwhile, despite a challenging year, the associate company, Commercial Bank of Ceylon PLC, posted a solid performance and provided a substantial contribution to the Group. Even so, the total profit contribution from the subsidiary and associate companies was impacted by the Bank's share of the post - tax losses reported by Lanka Ventures PLC due to a prior year tax charge and Synapsys Limited, the IT subsidiary, which is in the capacity building phase.

Acuity Partners (Private) Limited, the equally-owned investment banking joint venture with Hatton National Bank PLC (HNB) and the newest member of the Group, formally began operations in July 2008. DFCC's contribution to the venture amounted to Rs250 million, which comprised a transfer of 100% of the shares of DFCC Stockbrokers (Private) Limited and the balance in cash. Acuity Partners (Private) Limited is carrying out the merged corporate finance and capital market businesses of the two Banks, and is the holding company for the stockbroking companies previously owned by DFCC and HNB, and the primary dealer company earlier owned by HNB.

During the year, much effort was directed towards the areas of risk management and corporate governance and further details are given in the relevant sections of the Annual Report.

As you are aware, the ownership limits on banks require DFCC to reduce its ownership in DVB to 15% by 2012. We are regarding this as an opportunity to transform the Bank and recast the Group to be well positioned to meet the challenges ahead while maximising value to shareholders. All available options are being considered and studied with a view to selecting the strategy that would best achieve these objectives. In the meantime, DFCC and DVB would be working closely to develop further synergies in common operational areas such as credit approval and administration, finance and risk management. As regards DFCC's shareholding in Commercial Bank of Ceylon PLC, which DFCC was directed to reduce to 15% by October 2008, the Board is awaiting the outcome of court proceedings seeking time until 2012 to effect the reduction. In the meantime DFCC will abide by the consequential provisions of the Central Bank direction that limits its voting rights to 10% and other restrictions imposed by court on voting arising from other litigation relating to the same matter.

Messrs Gamini Karunaratne (Shareholder Director) and Reinhard Dalchow (alternate Shareholder Director) resigned from the Board in October 2008 and March 2009 respectively. I thank them for their valued contribution and wish them well. I also thank my fellow Directors for their unstinted co-operation, and will count on their support and guidance in taking DFCC Bank forward.

The Chief Executive Officer, Mr. Nihal Fonseka, has once again successfully led DFCC's team in a performance that was creditable given the challenging environment. The commitment from all ranks of employees remains steadfast and I am very confident that this will enable DFCC to prosper as one of the most productive corporate entities in Sri Lanka. My thanks go out to all and my expectations for their future efforts are high.

Our valued clients are a cornerstone of the Bank's success. I thank all for their loyalty and regard for DFCC as the preferred long-term financier. We look forward to extending our support, maintaining a mutually advantageous relationship and facilitating their success.

DFCC has long enjoyed the support of the officials of the Ministry of Finance and the Central Bank of Sri Lanka. We are appreciative of their support and would be relying on their assistance and co-operation in the future.

As Shareholders, you have displayed faith in our ability to guide and direct DFCC and I, together with my fellow Directors, thank you for your conviction. The way ahead for the DFCC Group will be challenging but also full of promise and we assure you that under our stewardship, the enhancement of the value of your shareholding would be a top priority.

JMS Brito

J M S Brito
Chairman
27 May 2009

Chief Executive's Report

It was a Tough Year all Round...

The global economic crisis, which emerged with the sub-prime crisis in the USA quickly spread to Europe turning into a full-blown financial tsunami. It initially struck the developing economies in the form of a cross-border funding crunch and then their real economies, as they began to feel the downturn in consumer demand for goods and services in the USA and Europe.

The Sri Lankan economy was not spared the stress caused by the global conditions. While the Sri Lankan banks proved to be more robust than some familiar global names, the failure of some large unregulated deposit takers in late 2008 threatened to undermine the domestic financial system. Prompt regulatory intervention contained the contagion threat but further action may be required to restore full confidence especially in the non-bank financial institutions sector.

Tight monetary policy imposed by the Central Bank to bring inflation under control during 2008 made credit very expensive and resulted in many businesses facing serious liquidity problems, arising from the longer working capital cycles. Several sectors such as tourism, tea, construction, industrial exports as well as domestic retail trade were affected to varying degrees with the Small and Medium Enterprises bearing the brunt of the problem. This in turn led to higher non-performing advances in the Sri Lanka banking sector and lower risk appetite for new lending even when monetary policy was eventually relaxed in 2009 with inflation coming down. Thus, the year under review was one of immense challenge not only for the banking and financial sectors in Sri Lanka but also for the economy in general.

Profit Steady at DFCC Bank but Balance Sheet Contracts; Group Profit Drops...

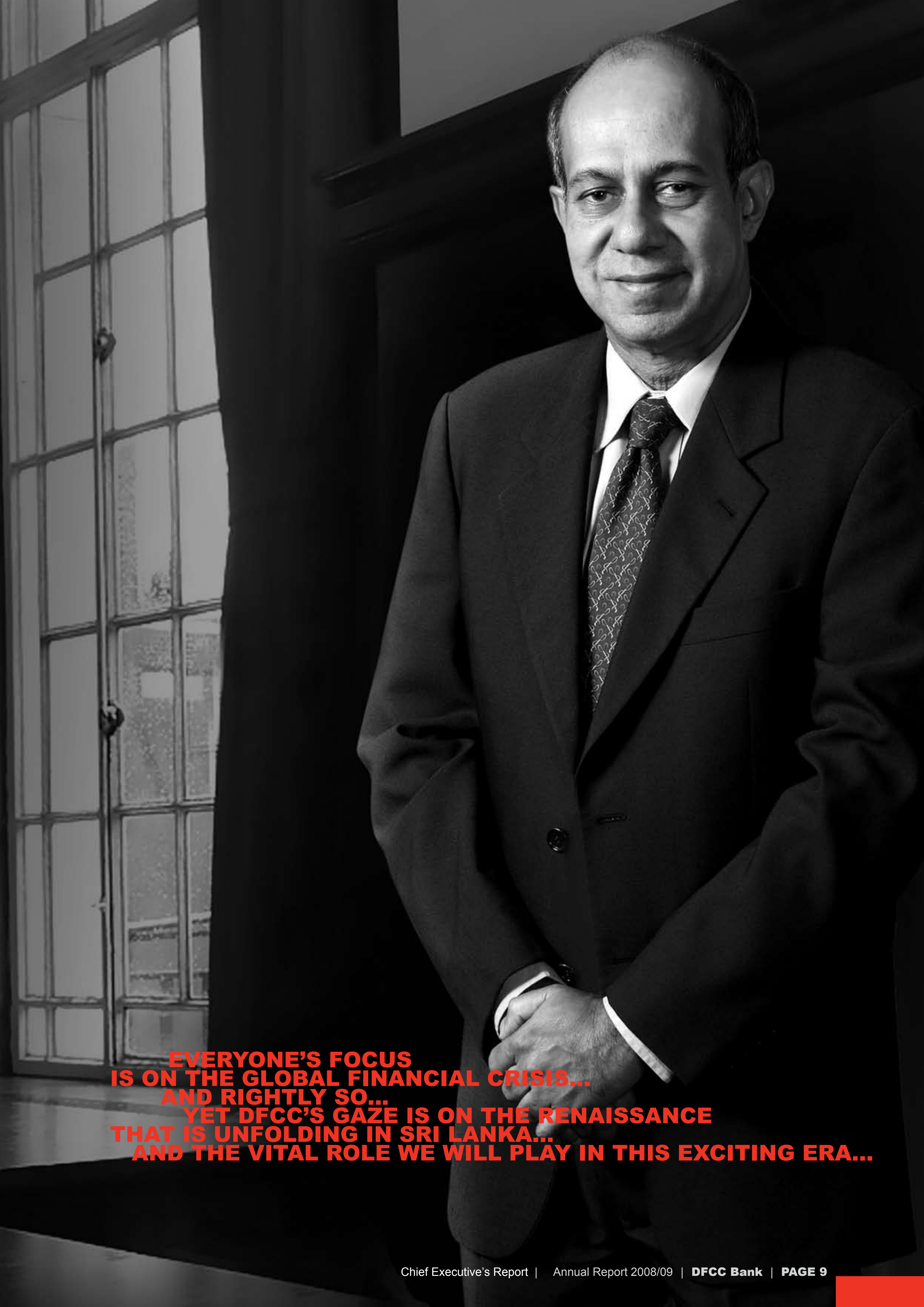
The foregoing had a mixed impact on the performance of the DFCC Bank and DFCC Group. At the Bank level, profit was steady, slightly ahead of the previous year. However, demand for new project loans declined with both approval of loans and disbursements falling behind the previous year. The Bank was also compelled to take a much more cautious approach to the expansion of credit, especially the granting of fixed rate finance leases, due to clear signs of stress in that segment. Net interest income on customer advances was affected by the contraction of the portfolio through the year as well as higher non-performing loans and leases. However, judicious allocation of assets to high-yielding Government Securities countered this decline. Capital gains on disposal of mature equity investments and emphasis on cost control despite the high average inflation that prevailed, helped to negate the adverse impact of higher provisions for possible credit losses.

The Bank redeemed its Floating Rate Notes totalling USD 65 million issued in 1998 that had been listed on the Luxembourg exchange. However, there was no adverse impact on liquidity due to the sinking fund assets that had been built up to meet this obligation.

The Group profit after tax of Rs2,068 million was 8% lower than the previous year due to reasons explained later.

Internal Processes and Risk Management Improved...

The Bank also used the downturn to upgrade its internal processes. The Integrated Risk Management function was greatly enhanced and significant investment was made in training staff both in the division and in the business lines.



EVERYONE'S FOCUS
IS ON THE GLOBAL FINANCIAL CRISIS...
AND RIGHTLY SO...
YET DFCC'S GAZE IS ON THE RENAISSANCE
THAT IS UNFOLDING IN SRI LANKA...
AND THE VITAL ROLE WE WILL PLAY IN THIS EXCITING ERA...

A project was commenced to collect data and further expand as well as refine the credit-related databases and credit risk appraisal models. The aim is to progress to the advanced internal ratings approaches of Basle II in a few years, thereby improving capital efficiency. Plans were also drawn up for extracting further synergies from the operational activities of the Bank and its commercial banking subsidiary DFCC Vardhana Bank Limited (DVB) to be given effect to in 2009. The Management and the Boards of Directors are working on selecting the best option for the longer-term relationship between the two banks.

The Bank opened a new branch in Galle and has also completed the relocation of all its branches other than the Kandy branch to modern spacious premises providing greater visibility and customer convenience. Expansion into the East in 2009 and subsequently to the North is under active consideration as part of the future expansion strategy. The Bank also did not ignore its responsibility to the community and commenced a programme, in collaboration with the Ministry of Education, to introduce into selected schools a programme to equip school children with the discipline and attention to order that would be helpful for their future development and success.

DFCC Vardhana Bank Expands Distribution but Higher Provisions Reduce Profit...

At the Group level, DVB was also affected by the difficult credit climate although it was able to grow its customer advances due to the higher working capital requirements of businesses. Nevertheless, it too had to cope with a worsening of credit quality with higher non-performing advances and provisions.

DVB also bore the costs relating to the expansion of its distribution network since a conscious decision was taken to continue with this strategy for the medium-term benefit. It was also affected by the high funding cost in the first half of the year due to the absence of legacy low cost savings account balances that have accumulated over time in mature banks. DVB has added 20 branches during 2007 and 2008 that are still in their break even phase pending the build up of critical mass. It also entered into an agreement with Sri Lanka Post to set up low cost distribution points. Five locations were operational as at March 2009 and another 25 are planned which, together with the branches to be opened will bring the network to about 50 branches and 30 postal units by the end of 2009. It is planning to join both the Global Visa network and the domestic payment gateway that is under development and the significant enhancement to the distribution network that all of these initiatives will lead to, will enable it to enter the personal financial services market when the economic environment is conducive.

Subsidiary, Lanka Ventures PLC Suffers Loss due to Prior Year Tax Charge but Settles Tax Dispute ...

The venture capital subsidiary Lanka Ventures PLC, had a steady year at the operational level but a prior year tax charge of Rs137 million relating to a refund that had been received in 2004 under the subsequently repealed tax amnesty resulted in a significant loss for the year. This long outstanding dispute was settled in court recently without the payment of any penalties that had been claimed by the Inland Revenue.

Other Subsidiaries, Joint Venture and Associates

Lanka Industrial Estates Limited (LINDEL) that owns and operates an industrial estate in a Colombo suburb recorded a profit after tax exceeding Rs100 million for the first time, a slight increase from the previous year.

The recently established information technology subsidiary, Synapsys Limited, recorded a loss due to expenses incurred in building capacity to enter foreign markets. It has entered into service partnerships with several technology majors and is pursuing initiatives aimed at providing business solutions domestically and overseas in the financial services, healthcare and retail sectors.

DFCC consulting (Pvt) Limited made only a nominal contribution in the absence of new overseas assignments.

The new investment banking joint venture, Acuity Partners Private Limited, became fully operational and moved to one location in early 2009. Although the environment under which this business operated was very challenging due to the virtual drying up of domestic corporate debt markets and the sharp downturn in the equity market, the Acuity brand has now been established as a one-stop investment bank. DFCC Stockbrokers now re-branded as Acuity Stockbrokers, made its mark when it handled the largest ever equity sale in the history of the Colombo bourse during the year.

Associate company, Commercial Bank of Ceylon PLC performed well although it had to make significant provisions for certain disputed oil hedging transactions with a state owned enterprise. Capital gains arising from the disposal of an associate leasing company helped profit after tax to be maintained at prior year level. National Asset Management Limited, increased its revenue by increasing its funds under management but its contribution remained small.

Exporting Expertise

The Bank successfully bid to provide consultancy services to Oman Development Bank, a development finance Institution that is in the process of broad basing its funding. This could prove to be a stepping stone to providing expertise to other DFIs that are re-engineering themselves for sustainable growth whilst continuing to be involved in development banking.

Global Outlook Uncertain but Opportunities for Sri Lanka

Experts still differ widely on how the global economy will unfold. Most agree that 2009 will be difficult for trade and growth. There are those who contend that 2010 will see a sustained recovery and yet others who believe that the turnaround will only occur later. Even in a weak global scenario, Sri Lanka should be able to record 3% GDP growth in 2009 but domestic developments may help Sri Lanka to perform better.

A key factor that could drive a stronger positive outcome is the vesting of all territory in the North and the East under the writ of the Government after almost 25 years, after a bold and concerted effort at fighting terrorism. However, immediate follow on action to arrive at a lasting political settlement and significant investment to rebuild devastated infrastructure and livelihoods of the affected and displaced people will be needed, if we are to reap the peace dividend. The goodwill and partnership of the international community will be essential for this since the Government has insufficient fiscal space to allocate funding for this mammoth task. Furthermore, inflation has been tamed and interest rates are on a downward trend and businesses will again be able to afford medium-term investments and also participate in the development of the North and the East.

A key export earner, apparel, and, private inward remittances have so far held up and the much lower oil prices will also help improve the balance of payments, but concerted and quick action needs to be taken to rebuild the depleted foreign exchange reserves by accessing funds from the International Monetary Fund (IMF) or other non-commercial long-term funding sources.

Equally important would be to ensure the continued stability of the domestic financial system. While commendably swift and decisive action relating to a failed bank taken by the Central Bank averted a crisis in the banking sector at the end of 2008, the non-bank financial sector may require further assistance to restore confidence.

The Government and the Central Bank have provided some support to regulated deposit taking companies that are illiquid by offering schemes to buy underlying collateral relating to delinquent loans and leases. While this is a good start, any sustained flight of deposits from these institutions may require the Central Bank to provide limited and time-bound support for deposit liabilities as well. Such action, although normally frowned upon by Central Banks, have proved to be effective in other countries, where non-bank financial institutions (including insurers) experienced liquidity problems.

The adverse global environment and contraction of some domestic business sectors also present a window of opportunity for strong local companies to retain and build their human talent pool while employment opportunities abroad remain limited.

High Taxation continues to Inhibit Capital Formation in Banks...

Much has been said and written about taxation over the years. The basis for computing the Financial Services Value Added Tax was changed at the beginning of 2008 that resulted in the effective tax rate increasing by a further three percentage points. While recognising that the Government needs to increase its revenue in proportion to GDP, it should not be forgotten that banks need adequate capital if they are to carry out their role of intermediation and support the Government's efforts to stimulate the economy. Continued discriminatory taxation of banks makes the sector less attractive to capital providers while at the same time making self-capitalisation through internally generated capital to support loan growth very difficult.

The need to formulate a sound policy framework for taxation for sustained economic development was identified as a need in the last budget presented by the Government. It is hoped that this key issue will be speedily addressed through the budget proposal relating to the setting up of a Taxation Commission.

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

The Chairman and the Board of Directors were a tower of strength to management during a very tough year and they have conscientiously looked after the interests of shareholders and other stakeholders. All my colleagues in the management team and the employees also put their best foot forward, and I express my sincere gratitude to all of them. I also acknowledge with appreciation the support received from the Government and the Central Bank of Sri Lanka in our various endeavours.

Optimism Warranted...

While it is easy to adopt a negative approach and wait for everything to become right, the better course for businesses, and indeed banks in Sri Lanka, is to realise that stimulating the economy is in their own interest. While we cannot influence the world economy, until such time as regional and global opportunities re-emerge, we must use whatever internal opportunities we have to get ahead in the recovery curve.

Sri Lanka has shown resilience in dealing with adversity over a long period and at DFCC Bank, we remain optimistic that the advantage of being a small and flexible economy will stand us in good stead to meet the challenges ahead. For its part, DFCC Bank will continue to abide by its mandate to support Sri Lanka's development to the full extent of its capabilities.

Nihal Fonseka
Chief Executive
27 May 2009

Profiles of Directors

01. Mr J M S Brito
Chairman

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

Deputy Chairman and Managing Director of Aitken Spence & Company PLC, Chairman of DFCC Vardhana Bank Limited. A former Chairman of SriLankan Airlines and was a Non-Executive Director of Sri Lanka Insurance Corporation. A former member of the Strategic Enterprise Management Agency (SEMA) and the post-tsunami Presidential Task Force for Rebuilding the Nation (TAFREN) and the Public Enterprises Reform Commission (PERC).

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

02. Mr T Caglayan
Director

Appointed to the Board of DFCC Bank in August 1999.

First Vice-President and Head of Asia Department of the German Investment and Development Company - DEG, a part of the KfW Banking Group. Prior to his current position, in different capacities he took responsibility for various sectors and emerging markets focused on East/South-East Europe and Asia. The initial period of his career was at Deutsche Bank and Bayer AG, in Germany before joining DEG in 1992.

03. Mrs S Cooray
Government Director

Appointed to the Board of DFCC Bank in March 2008.

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

B A (Hons) and B Phil, University of Colombo, Sri Lanka. MA in Economic Development, Institute of Social Studies, The Hague, The Netherlands

04. A N Fonseka
Chief Executive Officer
Ex-Officio Director

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

Chairman of the Colombo Stock Exchange and a Vice-Chairman of the Association of Development Financing Institutions in Asia and the Pacific, (ADFIAP). A Committee Member and serves on the Advisory Committee on Finance and Banking of the Ceylon Chamber of Commerce.

Member of the Governing Board of the National Institute of Business Management (NIBM), Sri Lanka's Financial Sector and Tax Clusters of the National Council for Economic Development (NCED), National Payments Council and Inter-Regulatory Institutions Council.

Graduate of the University of Ceylon, Colombo. A Fellow of the Chartered Institute of Bankers, UK.

"KEEPING THINGS ON TRACK..."
STEWARDSHIP TODAY
BRINGS THE SUCCESS OF TOMORROW...

05. Deshabandu A M de S Jayaratne

Director

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

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

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

06. S N P Palihena

Director

Joined the Board of DFCC Bank in October 2002.

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

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

07. C P R Perera

Director

Joined the Board of DFCC Bank in July 2005.

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

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

08. D S Weerakkody

Director

Joined the Board of DFCC Bank in June 2003.

Managing Director of Cornucopia Lanka Limited, Director of Commercial Bank of Ceylon PLC and GlaxoSmithKline Sri Lanka. A former Chairman/CEO of the Employees Trust Fund Board of Sri Lanka, Adviser to the Prime Minister of Sri Lanka in 2003/04. Past Council member of CIMA, Sri Lanka Division.

Received extensive training in leadership, international relations, change management and human resource management in Singapore, UK, Japan, France and USA. He is an eminent writer and a leading economic commentator.

MBA, University of Leicester, UK. Associate of the Chartered Institute of Management Accountants (CIMA), UK.

The Directors who are Independent non-executive directors in terms of the Direction No. 12 of 2007 issued by the Central Bank and Section 7.10 of the Listing Rules of the Colombo Stock Exchange have been identified in the Corporate Governance disclosures in this Annual Report.

Management Team

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

Lending

01. H A Ariyaratne
Executive Vice President
Lending
BSc

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

03. Chandana Dharmawardana
Vice President
Corporate Banking
BSc (Eng) MIESL

04. Roshan Jayasekara
Vice President
Corporate Banking
ACMA

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

06. Ananda Kumaradasa
Senior Vice President
Branch Banking & SME
BSc ACMA MBA

07. Dharmasiri Wickramatilaka
Vice President
Branch Credit
BSc (Eng) MBA ACMA

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

09. Prasad Dharmaratne
Vice President/Manager
(Colombo Office)
BSc (Eng)

10. Samarakodi Godakanda
Vice President/Manager
(Kurunegala Branch)
BSc (Agri)

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

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

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

14. Gunaratne Bandara
Assistant Vice President/Manager
(Ratnapura Branch)
BSc (Pb.Admn)

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

16. Wajira Punchihewa
Assistant Vice President/Manager
(Kalutara Branch)
BSc ACMA AIB

17. Kapila Samarasinghe
Assistant Vice President /Manager
(Malabe Branch)
BSc (Eng) MSc (Eng)

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

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

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

21. Bandula Gamarachchi
Assistant Vice President
Deposit Mobilisation
ACMA AIB MBA

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

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

Human Resources & Special Loans Administration

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

02. Nanediri Karunasinghe
Vice President
Lease Recoveries
BSc (Eng) MPhil (Eng) ACMA

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

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

05. Chaminda Gunawardana
Assistant Vice President
Special Loan Administration
BSc AIB MBA

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

07. Patabendi Premaratne
Assistant Vice President
Relief Duties
BSc (Eng)

Treasury

01. Manohari Gunawardhena
Senior Vice President
Treasury
BSc MBA

Finance

01. S Nagarajah
Executive Vice President
Finance
FCMA FCA FACCA

02. Chinthika Amarasekara
Vice President
Accounting & Reporting
ACA

Risk Management

01. Suraj De Silva
Vice President
Integrated Risk Management
BCom MBA FCMA

Operations

01. Anomie Withana
Senior Vice President
Operations
FCMA FCA MBA

02. Chanaka Kalansuriya
Vice President
Procurement & Services
MBA

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

04. Nimali Ranaraja
Assistant Vice President
Transaction Processing
LLB Attorney-at-Law ACMA

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

Information Technology

01. Dinesh Fernandopulle
Group Chief Information Officer
BSc MSc

02. Neville Fernando
Vice President
Business Systems
BSc ACMA PMP

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

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

Legal and Secretarial

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

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

Audit

01. Mala Goonatilake
Assistant Vice President
Internal Audit
FCA

Corporate Communications

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

Project Management

01. Kapila Subasinghe
Vice President
Project Management
BSc (Eng) ACMA

Secondments

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

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

03. Jayangani Perera
Assistant Vice President on secondment to DFCC Vardhana Bank Limited as Senior Manager Credit Administration
BCom

Management Team as at April 2009 with names in alphabetical order within each grade.

Subsidiary, Joint Venture and Associate Companies

Subsidiary Companies

Company
DFCC Consulting (Pvt) Limited
73/5, Galle Road, Colombo 03
Tel : (011) 2442442
Incorporated: September 2004

DFCC's Interest
100%

Principal Activity
Consultancy

Directors
1. A N Fonseka (Chairman)
2. T W de Silva
3. D E de Mel
4. S E de Silva

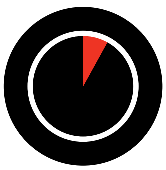
Profit After Tax 2008/09
Rs2 million

Profit After Tax 2007/08
Rs21 million

Dividend per share 2008/09
Rs11.00

Dividend per share 2007/08
Rs2.00

ROE
8.14%



Company
DFCC Vardhana Bank Limited
73, W A D Ramanayake
Mawatha, Colombo 02
Tel : (011) 2371371
Incorporated: August 1995

DFCC's Interest
95.58%

Principal Activity
Commercial Banking

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

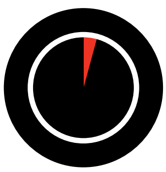
Profit After Tax 2008
Rs111 million

Profit After Tax 2007
Rs153 million

Dividend per share 2008
Rs0.10

Dividend per share 2007
Rs0.06

ROE
4.3%



Company
Lanka Industrial Estates Limited (LINDEL)
Pattiwila Road, Sapugaskanda, Makola
Tel : (011) 2400318
Incorporated: March 1992

DFCC's Interest
50.20%

Principal Activity
Leasing of lands and buildings to industrial enterprises

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

Profit After Tax 2008/09
Rs101 million

Profit After Tax 2007/08
Rs84 million

Dividend per share 2008/09
Rs4.00

Dividend per share 2007/08
Rs4.00

ROE
31.2%

Company
Lanka Ventures PLC
2nd Floor 'Sayuru Sevana',
46/12 Navam Mawatha,
Colombo 02
Tel : (011) 2439201
Incorporated: February 1992

DFCC's Interest
58.34%

Principal Activity
Venture Capital Financing

Directors
1. A N Fonseka (Chairman)
2. J D N Kekulawela
3. J M J Perera
4. T L F W Jayasekara
5. S E de Silva
6. T W de Silva
7. A R Munasinghe

Net Loss 2008/09
Rs(91) million

Profit After Tax 2007/08
Rs80 million

Dividend per share 2008/09
Rs1.50*

Dividend per share 2007/08
Rs1.50*

ROE
–

** Paid in respect of the previous financial year.*

Company
Synapsys Limited
540, Nawala Road, Rajagiriya
Tel : (011) 2880770
Incorporated: October 2006

DFCC's Interest
100%

Principal Activity
Provision of IT solutions to the Financial Services Industry

Directors
1. A N Fonseka (Chairman)
2. D J P Fernandopulle (Managing Director/CEO)
3. T W de Silva
4. D E de Mel
5. S Nagarajah

Net Loss 2008
Rs(19 million)

Profit After Tax 2007
Rs13 million

Dividend per share 2008
–

Dividend per share 2007
–

ROE
–

Joint Venture

Company
Acuity Partners (Pvt) Limited
53, Dharmapala Mawatha, Colombo 03
Tel : (011) 2206206
Commenced commercial operations in July 2008

DFCC's Interest
50%

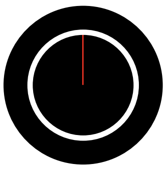
Principal Activity
Corporate Finance

Directors
1. A N Fonseka (Chairman)
2. R Theagarajah
3. M R Abeywardena (CEO)
4. J M J Perera
5. T W de Silva
6. D A B Ellepola
7. G Ramanan
8 M S Gunawardhena

Profit After Tax for 6 months ended 31 December 2008
Rs16 million

Dividend for 6 months ended 31 December 2008
Nil

ROE
2.4%



Associate Companies

Company
Commercial Bank of Ceylon PLC
"Commercial House"
21, Bristol Street P.O. Box 856
Colombo 1, Sri Lanka
Tel: (011) 2445010
Incorporated - June 1969

DFCC's Interest
26.9%

Principal Activity
Commercial Banking

Directors
1. M J C Amarasuriya (Chairman)
2. B R Fernando (Deputy Chairman)
3. A L Gooneratne (Managing Director)
4. Dr H S Wanasinghe
5. A N Fonseka (*Resigned w.e.f. January 31 2009)*
6. L J A Fernando
7. D S Weerakkody
8. P M Martelli (*Appointed w.e.f. October 16, 2008)*
9. P. Kjellerhaug (*Alternate Director to Mr. P. M. Martelli)*
10. R M S Fernando (*Appointed w.e.f. December 19, 2008)*
11. S.N. Wickramasinghe (*Appointed w.e.f. February 1, 2009)*

Profit After Tax 2008
Rs4,119 million

Profit After Tax 2007
Rs4,149 million

Dividend per share 2008
Rs7.00

Dividend per share 2007
Rs7.00

ROE
16.3%

Company
National Asset Management Limited
No. 73, W A D Ramanayake Mawatha, P.O Box 134, Colombo 2
Tel : (011) 2445911
Incorporated: September 1990

DFCC's Interest
30%

Principal Activity
Fund Management

Directors
1. A Abeywardana (Chairman)
2. L U D Fernando
3. H A Herat
4. A N Fonseka
5. T W de Silva
6. R de Silva

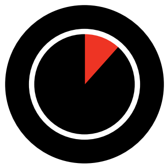
Profit After Tax 2008/09
Rs18 million

Profit After Tax 2007/08
Rs14 million

Dividend per share 2008/09
Rs1.00

Dividend per share 2007/08
Rs0.75

ROE
12.13%



Annual Report of the Board of Directors

The Directors of the DFCC Bank have pleasure in presenting to the members the Annual Report together with the audited financial statements for the year ended 31 March 2009.

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

General

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

Activities

Bank

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

Subsidiaries, Joint Venture and Associates

The subsidiaries of the Bank are DFCC Consulting (Pvt) Limited, DFCC Vardhana Bank Limited, Lanka Industrial Estates Limited (LINDEL), Lanka Ventures PLC (LVL) and Synapsys Limited. The equally owned joint venture company is Acuity Partners (Pvt) Limited and associate companies are National Asset Management Limited (NAMAL) and Commercial Bank of Ceylon PLC while the nature of business and the Bank's interest in these entities are set out in Pages 20 & 21.

Except for the exchange of shares of DFCC Stockbrokers (Pvt) Limited for shares of Acuity Partners (Pvt) Limited there were no significant changes relating to the business of the Subsidiaries and Associates of the Bank.

Going Concern

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

Financial Statements

The financial statements of the Bank and the Group of Companies are given on pages 73 to 78 of the Annual Report. They have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, the Banking Act and other applicable statutory and regulatory requirements.

Principal Accounting Policies

The significant accounting policies adopted in the preparation of the financial statements of the Bank and the Group are stated on pages 79 to 94 of the Annual Report.

Directors' Interests in Transactions with the Bank

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

Particulars extracted from the Interests Register relating to Directors' interest in transactions with the entities/persons listed under each Director for the financial year ended 31 March 2009 are as follows.

Mr J M S Brito	Rs.mn
a. *Ace Exports (Pvt) Limited*	
b. *Kandalama Hotels Limited*	
c. *Elpitiya Plantations PLC*	
d. *Aitken Spence Holdings PLC*	
e. *Aitken Spence Hotel Managements (Pvt) Limited*	
f. *Elevators (Pvt) Limited*	
(A) Aggregate amount of credit facilities approved:	46.65
(B) Aggregate amount of payments made for services:	1.20

Mr C P R Perera	
Kotagala Plantations PLC	
Aggregate amount of credit facilities approved:	49.70

Mr A N Fonseka	
a. *Colombo Stock Exchange*	
b. *Credit Information Bureau of Sri Lanka*	
c. *Mrs R D Fonseka*	
Aggregate amount of payments made for services/rent:	3.51

Messrs J M S Brito, A N Fonseka and D S Weerakkody are Chairman/Director of one or more of the subsidiary, joint venture or associate companies and transactions with subsidiary and associate companies are disclosed under Note 58 in Notes to financial statements

Auditor's Report

The Auditor's Report on the financial statements is given on page 72.

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 financial year ending 31 December 2010. The Audit Committee has reviewed the appointment of the Auditor, the effectiveness and the relationship with the Bank including the fees paid to the Auditors (Reported in Note 17 to the financial statements). The Directors are satisfied that based on the written representation made by the Auditors they have no relationship or interest with the Bank or with any of its subsidiaries which would impair the Auditor's independence. A Resolution pertaining to their re-appointment and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting.

Employee Share Option Plan (ESOP)

The last grant under the ESOP approved by shareholders was made in 2006 and there will be no further grants. As at 31 March 2009, the details of unexercised options were as follows:

Tranche	Total Award	Exercise Price*	Exercise Period	Outstanding
3rd	1,867,066	Rs110/48	1-7-2005 to 30-6-2009	1,851,497
4th	200,454	Rs117/46	3-7-2007 to 2-7-2011	200,545

** Price per share (adjusted for rights and bonus issues)*

Retirement and Re-election of Directors

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

The Board of Directors

The Board of Directors of the Bank consist of eight Directors with wide knowledge and experience in the fields of finance, trade, commerce, manufacturing, services and banking. Profiles of each of the Directors are given in pages 14 to 16 The following are the present Directors of the Bank

Mr J M S Brito *(Chairman)*
Mrs S Cooray - *Government Director*
Mr T Caglayan
Mr A N Fonseka - *CEO and Ex-officio Director*
Mr A M de S Jayaratne
Mr S N P Palihena
Mr C P R Perera
Mr D S Weerakkody

Resignation and Appointments of Directors

Mr G P Karunaratne resigned from the Board with effect from 01 October 2008 to take up another assignment and Mr R Dalchow, alternate to Mr Caglayan resigned with effect from 31 March 2009 as he had completed his assignment in Sri Lanka.

Directors' Remuneration

The Director's remuneration for the financial year ended 31 March 2009 are given in Note 17 of the financial statements.

Directors' Meetings

The Bank held 13 Board Meetings during the financial year. The attendance of Directors is shown in the Table on page 29 of the Annual Report.

Directors' Interests in Shares

	No. of Shares* As at 31 March 2009	No. of Shares* As at 31 March 2008
Brito, J M S	**9,380**	9,380
Caglayan T	**Nil**	Nil
Cooray, Mrs S	**Nil**	Nil
Dalchow R	**Nil**	Nil
Fonseka, A N	**57,332**	27,332
Jayaratne, A M de S	**750**	750
Palihena, S N P	**5,000**	5,000
Perera, C P R	**4,500**	4,500
Weerakkody, D S	**1,244**	1,244

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

Mr A N Fonseka in his capacity as General Manager has been awarded options on shares under the Employee Share Option Plan (ESOP). Mr Fonseka held 151,171 options as at 31 March 2009 (181,171 as at 31 March 2008). During the financial year 2008/09, Mr Fonseka exercised Options on 30,000 shares. The other Directors do not participate in the ESOP.

No Director directly or indirectly holds debentures of DFCC Bank.

Board Committees

The following Directors serve as Members of the sub-committees of the Board on (i) Audit (ii) Credit (iii) Human Resources & Remuneration (iv) Nomination and (v) Integrated Risk Management. The Board has also invited external advisers and Key Management Personnel to serve on some of the sub-committees -

Audit Sub-committee

Mr A M de S Jayaratne - *Chairman*
Mr S N P Palihena
Mr D S Weerakkody

Credit Sub-committee

Mr S N P Palihena - *Chairman*
Mr A N Fonseka
Mr C P R Perera

Human Resources & Remuneration Sub-committee
Mr J M S Brito - *Chairman*
Mr C P R Perera
Mr D S Weerakkody

Nomination Sub-committee
Mr C P R Perera - *Chairman*
Mr J M S Brito
Mr D S Weerakkody

Integrated Risk Management Sub-committee
Mr J M S Brito - *Chairman*
Mrs S Cooray
Mr S N P Palihena
Mr A N Fonseka - *Chief Executive Officer*

The Heads of key risk assuming units, the head of Risk Management, the Chief Financial Officer are also members of this committee.

The Annual Report contains reports submitted by the Chairmen of the respective sub-committees.

Review of Business of the Year

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

Profit and Appropriations

(Rupees million) *Year ended 31 March 2009*	
Retained profit on 31 March 2008	792
Previous year dividend approved on 30 June 2008	(653)
Unappropriated profit on 31 March 2008	139
Profit after tax of the Bank	1,360
Total available for appropriations	1,499
Appropriations:	
Transfer to Reserve Fund (statutory requirement)	(70)
Transfer to General Reserve	(656)
First and final dividend recommended for financial year ended 31 March 2009	(654)
Unappropriated profit on 31 March 2009	119

Dividend

The Directors have recommended to shareholders the payment of a final dividend of Rs5 per share, being the same as that paid in the previous year. The proposed distribution is approximately Rs654 million (Rs654 million in the previous year) which amounts to 48% of the Bank's distributable profit.

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

Property, Plant & Equipment and Leasehold Property

The total expenditure of acquisition on property, plant and equipment during the year amounted to Rs83 million. Intangible assets amounted to Rs23 million. Details of these are given in the Notes 38 and 39 to the financial statements.

Reserves

Total revenue reserves augmented by the annual appropriation and retained profit amounted to Rs773 million.

Market Value of Freehold Properties

The information is in Note 38.1.1 to the financial statements.

Share Capital and Subordinated Debentures

With the options exercised by the employees during this financial year, the total share capital as at 31 March 2009 was Rs1,307,324,700 consisting of 130,732,470 shares of Rs10 each. Further information is given on page 123. The DFCC Bank Act No.35 of 1955 mandates a par value of Rs10 per share. The Stated Capital, if computed in accordance with the requirements of the Companies Act No.7 of 2007 amounts to Rs4,515 million.

Share Information

Information relating to earnings, net asset and market value per share are given in page 143 of the Annual Report and also contains information pertaining to the share trading during that period.

Shareholders

As at 31 March 2009 there were 7,699 registered shareholders and the distribution is indicated on page 144 The 20 largest shareholders as at 31 March 2009 are listed on page 145.

Employment & Remuneration Policies

The policy of DFCC Bank is to develop and maintain a dedicated and highly motivated group of employees who are committed to creating sustainable value through effective risk management and high quality service while supporting sustainable private sector development within the ambit of the DFCC Bank Act. The Bank continuously invests in training and development of its staff to meet these objectives. DFCC Bank is an equal opportunity employer. Remuneration of employees consists of fixed and variable pay. Annual increments and pay awards are based on the performance of the Bank and the individual. It is the Bank's policy to fix remuneration at a level which will attract, motivate and retain high quality employees. A compensation survey is conducted once in three years, in order to appropriately benchmark the Bank's remuneration levels and policies with those in the banking and other competing private sector institutions.

Statutory Payments

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

Compliance with Laws and Regulations

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

Post Balance Sheet Events

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

Corporate Governance

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

The Bank has complied with the mandatory provisions of Direction No.12 of 2007 - Corporate Governance of Licensed Specialised Banks in Sri Lanka as amended by Direction No.2 of 2008.

The disclosure on compliance with the requirements of Section 7.10 of the Listing Rules of the Colombo Stock Exchange on 'Corporate Governance' is reported on pages 33 to 35.

Details of governance practices and the required disclosure are given in pages 28 to 35.

Regulatory Disclosures

Rule 3(8) of the Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks in Sri Lanka prescribes disclosures in the Annual Report. These disclosures have been included in appropriate sections of the Annual Report as given below.

The Table below provides cross references to facilitate easy reference.

Reference to Rule	Requirement	Reference to Annual Report
8 (i)	financial statements on prescribed format	financial statements on pages 73 to 78
8 (ii) (a)	Affirmative assurance of compliance with accounting standards and requirements	Directors' Responsibility Statement on page 70
8 (ii) (b)	Affirmative assurance of the Integrity of financial reporting system	Directors' Responsibility Statement on page 70
8 (ii) (d)	Information on Directors	
8 (ii) (d)	Remuneration of Directors	Notes on the financial statements 17
8 (ii) (e)	Net accommodation granted to each category of related party	Notes on the financial statements 58.8
8 (ii) (f)	Compensation and other transactions with key management personnel	Notes on the financial statements 58.5.2
8 (ii) (h)	Compliance with prudential requirements regulations	This report

For and on behalf of the Board of Directors

J M S Brito
Chairman

A N Fonseka
Ex-Officio Director & Chief Executive

T Wijemanne
Secretary to the Board

27 May 2009

Corporate Governance

General

Good Corporate Governance is the process and the control that align the interests of a wide range of different stakeholders such as shareholders, depositors, management, employees, creditors and the community. It contributes to sustainable growth by enhancing the performance and improves access to capital. DFCC Bank had been practicing high standards of Corporate Governance for several years based on the Organisation of Economic Cooperation & Development (OECD) principles of good governance.

An account of some of the key Corporate Governance practices of DFCC Bank is given in this report. It is followed by specific disclosures relating to the status of compliance with the mandatory requirements of Direction No. 12 of 2007 of the Central Bank of Sri Lanka (as amended) and Section 7.10 of the Listing Rules of the Colombo Stock Exchange.

Rights and Equitable Treatment of Shareholders

The basic right of the shareholders include ability to transfer shares freely while obtaining relevant information about the entity on a regular and timely basis and effectively participating in shareholder meetings while sharing the profits of the entity. The shares of DFCC Bank can be freely transferred through the Colombo Stock Exchange subject to the aggregate limits imposed by law applicable to banking companies.

DFCC Bank holds its Annual General Meeting within three months of the end of the financial year and gives adequate notice of such meetings in terms of the Regulations. The information relating to the performance of the Bank is sent to all shareholders in order to enable effective shareholder participation in person or by proxy.

The Bank shares a reasonable portion of its profit with the shareholders while retaining the balance to support its growth and development. This year, the Bank intends paying out just under half of its distributable profit as dividends to its shareholders.

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

The Head of Compliance advises closed periods for the trading in the Bank's shares by Employees and Directors when he is of the view that they may be in possession of information that is not yet in the public domain and procedures are in place to monitor adherence.

Disclosure and Transparency

In good governance it is important to have a framework that ensures timely and accurate disclosure of material matters regarding the entity including financial position, performance, ownership and governance practices. DFCC Bank has a Board approved Corporate Communications Policy that pays a high degree of emphasis to providing accurate information quarterly to its shareholders with regard to the financial performance and the progress of the Bank. The Annual Report contains comprehensive reviews of performance as well as other information of relevance to the various stakeholders apart from reporting on the financial status of the Bank and Group. Price sensitive information is disclosed immediately to the Colombo Stock Exchange to be disseminated among the stockbrokers and shareholders. Such information is also given publicity through the media and in the Bank's website.

Attendance

The attendance of Directors at meetings of the Board and the Committees are given in the Table below. The Credit Committee conducts its meetings by circulation of the relevant papers and telephone conference when necessary.

Committee	Main Board		Audit Committee		Remuneration Committee		Nomination Committee		Integrated Risk Management Committee	
Name of Director	**Eligible to attend**	**Attended**	**Eligible to attend**	**Attended**	**Eligible to attend**	**Attended**	**Eligible to attend**	**Attended**	**Eligible to attend**	**Attended**
Mr J M S Brito	13*	13			4*	4	1	1	2*	2
Mrs S Cooray	13	12							2	2
Mr R Dalchow (resigned w.e.f. 31 March 2009)	13	9								
Mr A N Fonseka	13	13	6**	6**	4**	4	1**	1	2	2
Mr A M de S Jayaratne	13	12	6*	6						
Mr S N P Palihena	13	11	6	4					2	1
Mr C P R Perera	13	12			4	4	1*	1		
Mr D S Weerakkody	13	11	6	5	4	4	1	1		

* *Chairman*
** *By Invitation*

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

Set out below is the status on the Bank's Adherence with the Corporate Governance Rules as Required by Section 3 (8) of the Direction No. 12 of 2007 issued by the Central Bank of Sri Lanka.

Disclosure Requirements

i. The Board shall ensure that:

Annual audited financial statements and quarterly financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards; and such statements are published in the newspaper in an abridged form, in Sinhala, Tamil and English

Status: Complied with.

ii. The Board shall ensure that the following minimum disclosures are made in the Annual Report:

A statement to the effect that the annual audited financial statements have been prepared in line with applicable

The aggregate values of remuneration paid by the Bank to its key management personnel and the aggregate values of the transactions of the Bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.
Status: Complied with. Please refer Note 58 to the financial statements on 'Related Party Disclosures' in this Annual Report.

accounting standards and regulatory requirements, inclusive of specific disclosures.
Status: Complied with. Please refer 'Statement of Directors' Responsibility' on page 70 of this Annual Report.

A report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.
Status: Complied with. Please refer 'Statement of Directors' Responsibility' on page 70 of this Annual Report.

Total net accommodation as defined in 3 (7) (iii) of the Direction, granted to each category of related parties. The net accommodation granted to each category of related parties be disclosed as a percentage of the Bank's regulatory capital.
Status: Complied with. Please refer Note 58 to the financial statements on 'Related Party Disclosures' in this Annual Report.

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

Status: There was no material non-compliance that has led to the breach of any prudential requirement with regard to a Direction issued by the Central Bank to reduce the shareholding in Commercial Bank of Ceylon PLC to 15% before 23 October 2008, the Bank has complied with the consequential provisions limiting the Bank's voting rights to 10% until the shareholding is reduced. This matter is sub-judice. Please refer to the Statement of Directors' Responsibility on page 70 of this Annual Report for details on compliance measures.

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

Responsibilities of the Board

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

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

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

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

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

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

The Board has put in place systems and controls to facilitate the effective discharge of Board functions. The Board has also put in place effective systems to secure the integrity of information, internal controls and risk management.

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

Board's Composition

Chairman
Mr. J M S Brito - Non-Executive Director
Ex-Officio Director
Mr. A N Fonseka - General Manager/ Chief Executive
Independent Non-Executive Directors
Mr. A M de S Jayaratne - Senior Director
Mr. S N P Palihena
Mr. T Caglayan
Mr. C P R Perera
Government Director
Mrs. S Cooray
Non-Executive Director
Mr. D S Weerakkody

At present, there are eight Directors on the Board, whose bio data are given in this Annual Report. All the Directors have the necessary skills and experience to direct and lead the Bank.

The Chairman, J M S Brito is not an independent Director in terms of the Direction because he is the Chairman of the Subsidiary DFCC Vardhana Bank Limited. Mr. D S Weerakkody is not an independent director as he is a director of the associate company, Commercial Bank of Ceylon PLC. Mr A M de S Jayaratne, who is an independent Director has been designated Senior Director. The other independent Directors in terms of the Direction are Messrs C P R Perera, S N P Palihena and T Caglayan.

New appointments and re-election of Directors to the Board are considered and recommended by the Nominations Committee and based on such recommendations, final decisions are made by the Board. All Directors appointed to the Board, other than the Chief Executive Officer (Ex-officio Director) and Government Director are subject to re-election by shareholders at the first general meeting after their appointment. During the year 2008, the Board announced resignations of Directors and the reasons for such resignations.

Fitness and Propriety of Directors

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

Delegation of Authority by the Board

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

Chairman and Chief Executive

Mr J M S Brito, is the Chairman of the Bank and Mr A N Fonseka is the Chief Executive Officer. There are no relationships, including financial, business, family any other material/relevant relationship between the Chairman and the Chief Executive Officer, other than being common Directors of DFCC Vardhana Bank. Similarly, no relationships prevail among the other members of the Board.

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

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

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

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

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

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

Sub-committees

The following sub-committees have been appointed by the Board in terms of the requirements of Direction No. 12 requiring each such Committee to report to the Board:

- Board Audit Committee
- Board Human Resources and Remuneration Committee
- Board Nominations Committee
- Board Integrated Risk Management Committee

The Committee reports have been published in this Annual Report.

Related Party Transactions

Suitable mechanisms are in place to identify and capture related party transactions. The Directors and other Key Management

Personnel make declarations identifying related parties and take due steps to avoid any conflicts of interest referred to in the Direction. Related party transactions, when undertaken, are carried out on an arm's length basis without any special benefit to the party. Some Key Management Personnel (but not the Chief Executive Officer) have participated in approved loan schemes available to employees.

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

Directors

Non-Executive Directors

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

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

c. Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.
Status: Complied with.

Independent Directors

a. Where the constitution of the Board of Directors includes only two Non-Executive Directors as mentioned above, both such Non-Executive Directors shall be 'independent'.

In all other instances two or one-third of Non-Executive Directors appointed to the Board of Directors, whichever is higher shall be 'independent'.
Status: Complied with.

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

Disclosures Relating to Directors

a. The Board shall make a determination annually as to the independence or non-independence of each Non-Executive Director based on such declaration and other information available to the Board and shall set out in the Annual Report the names of Directors determined to be 'independent'.
Status: Complied with. Messrs J M S Brito, A M de S Jayaratne, S N P Palihena, C P R Perera and D Weerakkody meet all the specified criteria and have been determined by the Board to be independent.

b. In the event a Director does not qualify as 'independent' against any of the criteria, but if the Board, taking account of all the circumstances, is of the opinion that the Director is nevertheless 'independent'; the Board shall specify the criteria not met and the basis for its determination in the Annual Report.

Status:
The following Non-Executive Directors do not meet all the specified criteria for Independent Directors. The criteria that are not met are set out below:

Mr T Caglayan - Has served over nine years as a Director having being appointed in August 1999.

Mrs S Coorey - Represents a specific stakeholder, the Government of Sri Lanka, on the Board.
However, taking into account the following factors, the Board has determined that they could nevertheless be considered independent.

a. The Alternate Director who represented the Director has served more than nine years at the Board meetings until 31 March 2009 was only appointed as Alternate Director in September 2006.

b. The Directors do not participate when considering transactions in which they have an interest and the DFCC Act requires unanimous approval of the other Directors on such transactions. On other matters, they act in accordance with their beliefs in the best interest of the Bank.

c. No Director exercises undue influence over the deliberations of the Board or uses his/her seniority or position to prevent any other Director expressing his views on any matter.

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

d. Upon appointment of a new Director to its Board, the Company shall forthwith provide to the Exchange a brief resume of such Director for dissemination to the public. Such resume shall include information on the matters itemised in paragraphs a, b and c above.
Status: Did not arise as no new Directors were appointed.

Remuneration Committee

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

Composition

The Remuneration Committee shall comprise a minimum of;

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

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

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

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

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

Functions

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

Disclosures

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

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

Audit Committee

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

Composition

The Audit Committee shall comprise a minimum of:

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

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

Bank's Response: Complied with.

In a situation where both the Parent Company and the Subsidiary are 'listed companies', the Audit Committee of the Parent Company may function as the Audit Committee of the Subsidiary. However, if the Parent Company is not a listed company, then the Audit Committee of the Parent Company is not permitted to act as the Audit Committee of the Subsidiary. The Subsidiary should have a separate Audit Committee.
Status: Does not arise.

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

Unless otherwise determined by the Audit Committee, the Chief Executive Officer and the Chief Financial Officer of the Listed Company shall attend Audit Committee meetings.
Status: Complied with.

The Chairman or one Member of the Committee should be a Member of a recognised professional accounting body.
Status: Complied with.

Functions

Shall include -

i. Oversight of the preparation, presentation and adequacy of disclosures in the financial statements of a listed company, in accordance with the Sri Lanka Accounting Standards.
Status: Complied with.

ii. Oversight of the company's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting-related regulations and requirements.
Status: Complied with.

iii. Oversight over the processes to ensure that the company's internal controls and risk management are adequate, to meet the requirements of the Sri Lanka Auditing Standards.
Status: Complied with.

iv. Assessment of the independence and performance of the company's external auditors.
Status: Complied with.

v. To make recommendations to the Board pertaining to appointment, re-appointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors.
Status: Complied with.

Disclosures

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

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

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

Note: The specified criteria for independence of Directors in Direction No. 12 of 2007 of the Central Bank and Section 7.10 of the Listing Rules of the Colombo Stock Exchange are different.

AUDIT COMMITTEE REPORT

Meetings

During the financial year ended 31 March 2009, six Audit Committee Meetings were held. Proceedings of the Audit Committee Meetings are reported regularly to the Board.

Attendance by the Committee members at each of these meetings is given in the table on page 29 of the Annual Report.

The General Manager/CEO and Executive Vice President (Finance) attend the meetings by invitation. The Committee met with the external auditor, KPMG Ford, Rhodes, Thornton & Company on 1 December 2008 and 25 March 2009 without any executive being present so as to provide the external auditor an opportunity to have a frank dialogue with the Committee.

The Composition of the Committee

The Board appointed Audit Committee comprises the following non-executive Directors of the Bank:

- Mr A M de S Jayaratne *(Chairman)*
- Mr S N P Palihena
- Mr D S Weerakkody

Mr T Bandaranayake serves as an adviser to the Committee. Mr Bandaranayake was a Partner of Ernst & Young, Chartered Accountants until 31 March 2009.

The Chairman of the Committee is the designated senior director and is an independent Director as defined in Rule 3(2)(iv) of Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Bank in Sri Lanka issued by the Central Bank on 26 December 2007. (Hereinafter referred to as the Corporate Governance Direction)

The Chairman of the Committee and the Adviser are senior Chartered Accountants. The Head of Internal Audit holds the management rank of Assistant Vice-President and serves as the Secretary of the Committee. The Head of internal Audit has direct access to the members of the Audit Committee.

Role of the Audit Committee

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

The Bank has complied with Rule 3(6)(ii) of the Corporate Governance Direction No12 of 2007 issued by the Central Bank of Sri Lank on the composition of the Audit Committee and its terms of reference.

Financial Reporting

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

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

Internal Audit and Inspection

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

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

Risks and Controls

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

External Audit

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

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

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

Regulatory Compliance

The Bank's procedures in place to ensure compliance with mandatory Banking and statutory requirements were under constant check. The Committee is satisfied that the Bank substantially complies with these requirements. With regard to its continuing investment in Commercial Bank of Ceylon PLC, the Bank has not as yet reduced its shareholding to 15% as directed by the Central Bank but has complied with the consequential provision whereby its voting rights are restricted to 10% until such reduction takes place. This matter is sub-judice.

Evaluation of the Committee

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

Reappointment of Auditor

The Audit Committee having evaluated the quality of audit services provided by the current auditor has recommended to the Board of Directors that M/s KPMG Ford, Rhodes, Thornton & Company be reappointed as Auditors for the year ending 31 March 2010, subject to the approval of shareholders at the Annual General Meeting.

Ajit Jayaratne
Chairman - Audit Committee
27 May 2009

HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

The Human Resources and Remuneration Committee appointed by the Board of Directors, consists of three Non-Executive Directors. Mr J M S Brito is the Chairman of the Committee and Messrs C P R Perera and Dinesh Weerakkody act as members. The Chief Executive Officer/ Director - Mr. Nihal Fonseka attended meetings by invitation and participated in its deliberations except when his own evaluation and remuneration was under discussion. The Executive Vice-President, Special Loans Administration & Human Resources and the Group Vice-President, Human Resources assisted the Committee by providing relevant information.

In compliance with Direction No. 12 of 2007 on Corporate Governance for licensed specialised banks, the Committee determines the remuneration policy relating to Directors, Chief Executive Officer and Key Management Personnel of the Bank. In determining the appropriate compensation levels, the Committee recognises the need for the Bank to attract, retain and motivate talent with the core capabilities matched to its strategy and needs to ensure the Bank consistently delivers value to all stakeholders and make the organisation more competitive.

The Remuneration Committee recognise rewards as one of the key drivers influencing employee behaviour and influencing business results. The Committee engaged Hewitt Associates (India) to carry out an assessment of the Bank's compensation and benefits programme to optimise its investment in people cost. Key deliverables of this project included a detailed diagnostic study of the competitiveness of the Bank's salaries and benefits programme and to realign the Bank's compensation philosophy to drive and support the Bank's short-term goals and long-term goal of sustainable growth.

The Committee held two meetings during the financial year to decide on the basis for granting annual merit and market adjustments and the variable pay awards and a revision to base salaries based on the salary survey conducted by Hewitt Associates, India.

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

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

JMS Brito

J M S Brito
Chairman - Human Resources and Remuneration Committee
27 May 2008

NOMINATION COMMITTEE REPORT

The Composition

The Nomination Committee of the Board of Directors consist of three Non-Executive Directors. Mr C P R Perera, an independent Director is the Chairman with Messrs J M S Brito and D S Weerakkody serving as members. The General Manager, Mr A N Fonseka attends meetings by invitation, while the Secretary to the Board functions as the Secretary of the Committee.

The Mandate

The Mandate of the Committee is to identify and evaluate persons with the required skills, knowledge, standing, fitness and propriety to join the Board of the Bank and evaluate the suitability of Directors seeking re-election. The Committee is also tasked with the responsibility of a putting in place a procedure for the appointment of the CEO and Key Management Personnel, when necessary. The Committee makes recommendations to the Board for consideration.

The Procedure

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

Meetings

One meeting was held during the financial year to identify possible candidates to fill Board vacancies. The Committee also deliberated and decided to recommend the re-election of Mr J M S Brito, who retires by rotation in terms of Regulation 87 of the Bank as a Director at the next Annual General Meeting. Mr Brito withdrew from the meeting during these deliberations.

C P R Perera
Chairman - Nominations Sub-committee
27 May 2009

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

Composition

The Board Integrated Risk Management Committee (BIRMC) of DFCC Bank was established during the second half of the year and comprised of the following four Directors and five other members.

Mr J M S Brito - *Chairman*
Mr S N P Palihena - *Non-Executive Director*
Mrs S Cooray - *Non-Executive Director*
Mr A N Fonseka - *Ex-Officio Director/ Chief Executive Officer*

Mr H A Ariyaratne
Executive Vice-President/Lending
Mr S Nagarajah
Executive Vice-President/Finance
Ms A Withane
Senior Vice-President/Operations
Mrs M Gunewardena -
Executive Vice-President/Lending
Mr S de Silva (Secretary of BIRMC)
Vice-President/Integrated Risk Management

Invitee: Ms M Gunathilake
Assistant Vice-President/Internal Audit

Charter and the Responsibilities of the BIRMC

The Board approved the BIRMC Charter during the year which stipulates authority, structure, responsibilities and tasks of BIRMC. As per its Charter, the primary responsibilities of BIRMC is to review and ensure:

a. The integrity and adequacy of the risk management function of the Bank
b. The adequacy of the Bank's capital on a solo and consolidated basis and its allocation
c. Risk exposures and risk profiles of the Bank and its subsidiaries are within acceptable parameters and to make recommendations to the Board of Directors on any action required
d. The compliance of the Bank's operations with relevant laws, regulations and standards including the adherence to the Direction on corporate governance issued by the Central Bank.

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

BIRMC Meetings

BIRMC holds meetings at least quarterly. During the year, DFCC Bank convened two BIRMC meetings. The attendance of members is listed on page 29 of the Annual Report. The proceedings of the meetings are reported to the Board subsequently. The Committee reviewed policy frameworks, risk management strategies and key risk indicators at these meetings and was satisfied that the risk exposures of the Bank were being appropriately managed.

JMS Brito

J M S Brito
Chairman
27 May 2009

Management Discussion & Analysis

Operations Review

Overview

The global and local economic downturn impacted many business sectors in the country reducing demand for capital asset funding. A wide range of businesses were simultaneously affected increasing their level of risk and making them more vulnerable. This resulted in DFCC Bank having to adopt a more cautious approach towards portfolio growth during the year under review, with a more focused and pro-active outlook on project follow-up and monitoring, especially in the case of project loans that had been committed and were in the implementation or commissioning stages.

Approvals

Facilities approved totalled Rs13,868 million, 15% lower than the previous year's Rs16,239 million. Project loans and investments accounted for 85% of approvals, finance leases for 9% and financial guarantees made up the balance. The Bank followed a much more cautious approach in granting fixed-rate finance leases to the more vulnerable SME sector, since the high interest rates that prevailed made the payment of installments difficult. Nearly half of the approvals were for businesses in electricity and gas, communications and transport, construction, financial and business services, trade and diversified businesses. A further 10% was for the food and beverage sector. The Branch Banking division that caters to the SME sector, contributed 45% of total approvals and the Corporate Banking division approved the balance 55%.

Portfolio

The total credit portfolio of the Bank which was Rs41,858 million as at FYE 31 March 2009 indicated a decline of 11% from the previous year's figure of Rs46,784 million. Capital repayments of Rs15,095 million exceeded new disbursements of Rs10,170 million causing the portfolio to contract. In the case of DFCC's portfolio, a relatively high percentage of credit facilities is repaid during a year unlike in the case of commercial banks whose advances for working and trade finance tend to revolve and even increase when the working capital cycle slows down.

The Bank's portfolio is made up of term loans (84%), finance leases (11%) and investment securities (5%). A significant reduction of 25% has been recorded in the case of the lease portfolio, which is a fixed interest rate product that is primarily demanded by the more vulnerable SME sector.

The portfolio is well diversified with nearly 75% being accounted for by 10 broad sectors and no single sector having an exposure exceeding 15%.

Diversified businesses & Trade	14.3%
Manufacture of Food & Beverages	11.0%
Finance & Insurance	9.0%
Community, Social & Personal Services	7.6%
Agriculture, Forestry & Fishing	7.5%
Real Estate & Business Services	5.3%
Manufacture of Non-Metallic Mineral Products, Glass etc.	5.3%
Construction Industries	4.7%
Electricity, Gas & Water Industries	4.7%
Telecommunications	4.6%

Portfolio Quality

The stressed economic environment led to greater levels of delinquency. The Non-Performing Asset (NPA) ratio increased to 9.1% from the previous year's figure of 6.2%. This year as well, the adverse variance in the NPA ratio is attributable to an increase in infections of the SME portfolio, for both loans and leases. The reduction in the portfolio size also contributed to the increase in the ratio. In contrast, maintaining a less than 1% NPA ratio in the Corporate Banking portfolio is considered satisfactory given the current context.

In the light of increasing pressure on the quality of the portfolio, the Bank allocated more resources to project follow-up, monitoring and rehabilitation with a view to assisting enterprises, particularly in the SME sector to revive projects facing difficulties. Indications are that the problems of the borrowers are of a temporary nature as most of them still continue to be in business but are affected by lower business volumes. The Government has also provided relief schemes to the apparel industry and tea smallholders in which the Bank is participating and some signs of revival are already visible. A recent scheme introduced by the Government to reduce the burden on finance leases is also expected to provide a further degree of relief to the SME Sector.

Corporate Banking

The environment for large-scale project financing remained challenging during the year. While Rs7,331 million in new facilities was approved, the uncertain macro situation caused many projects to be shelved or delayed in implementation. With disbursements lagging behind loan repayments, the Bank's corporate banking portfolio also underwent a contraction towards the latter part of the financial year. Even so, the focus remained on portfolio profitability and quality rather than volume. Interest margins were judiciously managed while a special effort was made towards improving project follow-up and monitoring. This resulted in the overall profitability of the portfolio improving with an increase in net interest income. At the same time, portfolio quality was maintained, recording a NPA ratio of 0.83% while the average of loans in arrears was 0.42%.

As regards sector-wise approvals, Manufacturing accounted for 39% followed by Power & Energy 22%, Trade 9%, Transport & Communications 8% and Construction 8%. Major projects and financing activity in most business sectors were confined to areas such as incremental capacity enhancement, technology upgrading and working capital. However, there was sustained interest in the renewable energy sector, and in addition to several run-on-the-river hydropower projects, the Bank was also evaluating new projects using wind and biomass energy technologies.

Branch Banking

The branch relocation programme that commenced three years ago is nearing completion. Two more branches in Kurunegala and Kalutara were relocated to more modern and spacious premises. The programme is helping to provide the full range of banking to the public in conjunction with our commercial banking subsidiary, DFCC Vardhana Bank Limited. A new branch was opened in Galle in December 2008 increasing the total number of branches to 14 and easing operational constraints in the Matara Branch, which was servicing three districts in the Southern Province. In line with the Government initiative to develop the Eastern and Northern Provinces, the Bank is exploring opportunities to set up branches in suitable locations during 2009 and 2010.

Small and Medium Enterprise Financing

The year was marked by a severe drought in the tea and rubber producing areas, which caused a decline in prices of these commodities in the latter half of 2008 affecting the overall performance of the Small and Medium Enterprise (SME) sector. Credit approvals to SMEs through our branch network accounted for only Rs6,193 million compared with Rs6,563 million in the previous year reflecting the lower demand for capital asset funding. The funds approved were mainly for sectors such as agriculture, processing of agricultural commodities, food and beverage, healthcare services, professional and vocational education and transport services. The total SME credit portfolio contracted by 8% to Rs18,041 million compared to Rs19,628 million in the previous year. The reduction of the finance leases portfolio by 22.6% from Rs6,698 million to Rs5,183 million was the main cause for the overall contraction of the total credit portfolio.

One of the major sectors financed by the branch network has been tea, both cultivation and manufacturing. With the sharp decline of the tea market in August 2008, the Bank proactively offered a relief package to tea factory owners by way of deferment of both interest and capital repayments. This measure helped ease their working capital and cash flow constraints and enabled the tea factory owners to make timely payments to green-leaf suppliers and be in continuous production.

In June 2008, DFCC launched a new Credit Scheme “Small & Medium Enterprises Regional Development Credit Scheme” funded by the Asian Development Bank for financing SMEs located outside the Western Province. Additionally, the Bank continued to use funds that became available under SMILE 111, SMILE 11 Revolving, DASUNA and E-Friends 11 with a view to offering facilities at concessionary rates.

DFCC Vardhana Bank Limited

Assets of DFCC Vardhana Bank Limited (DVB) grew by Rs7.9 billion to Rs24.8 billion, a 47% increase over the year.

The proportion of loans and advances to total assets declined from 63% to 58% due to higher allocations to Government securities though the loan portfolio itself grew by Rs4.2 billion. Customer advances grew from Rs10.9 billion to Rs15.1 billion being a 38% increase during 2008. New credit exposures were to businesses and individuals in trade, industry, professions or vocations. Corporate credit represented Rs8.6 billion or 57% of the loans and advances portfolio while the balance Rs6.8 billion was credit granted through branch banking to the SME sector.

Deposits from customers remained the main funding source for DVB with the total deposit base standing at Rs18.9 billion as at 31 December 2008, an increase of 58% over the previous year’s Rs12.1 billion. The Bank had a successful campaign to increase lower cost savings deposits by 74% from Rs1,360 million to Rs2,362 million. This is a notable achievement during a year when time deposit rates were very much higher. Amongst other things, the expansion of the branch network and distribution outlets to a total of 43 in 2008 was a contributory factor in growing the deposit base.

The profitability of DVB was affected by an increase in the NPAs relating to a few borrowers in the tea exports, construction and apparel sector. Although, individual exposures were not large in the context of the DFCC Group, the level of provisioning was much higher than in the previous year.

Capital Markets and Investment Banking

The year under review was a challenging period for the Colombo stock market. With corporate earnings under pressure, investors opted to stay on the sidelines or shift from equities into risk-free fixed income securities, which were yielding attractive returns. The All Share Price Index dropped 36% while the sensitive

Milanka Price Index was hit further to fall by 45%. Even though Colombo was not as badly affected as some regional share markets, its liquidity was low with turnover frequently dropping well below the Rs100 million mark. Market average statistics however, improved as a result of two strategic transactions that boosted the average daily turnover to Rs448 million compared to last year's Rs363 million. The acquisition of NTT's 35% stake in Sri Lanka Telecom by Global Telecommunication Holdings enabled the Colombo Stock Exchange (CSE) to record the largest ever transaction (Rs32.1 billion), as well as the highest daily turnover (Rs33.4 billion) in its history. The other notable transaction was the acquisition of a majority stake in Associated Motorways by the Al Futtaim Group, which totalled Rs6.9 billion. Even so, general market activity levels remained low as investors chose to focus on the macro economic environment.

The market trend meant that DFCC had to carefully consider its strategy for managing its portfolio of quoted and unquoted shares and holdings in Unit Trusts. While a passive investment strategy was adopted, at the same time, opportunities to divest from mature holdings were actively pursued. During the year, a total of Rs135 million in capital gains was achieved. As at FYE 31 March 2009, the market value of the total quoted portfolio and unit trust holdings was Rs799 million of which Rs57 million was the unrealised capital gain.

While DFCC manages its own equity portfolio and undertakes the in-house fund-based investment banking activity, the fee-based corporate finance and advisory business is now carried out by Acuity Partners (Pvt) Limited, the equally owned joint venture with Hatton National Bank PLC. Acuity Partners is also the holding company for the stockbroking companies earlier owned by DFCC and HNB and the primary dealer company earlier fully owned by HNB. It is especially noteworthy that DFCC Stockbrokers (since renaming Acuity Stockbrokers) participated in both the major strategic share transactions that took place on the CSE in 2008 that were referred to earlier and was ranked the first in market share for the year.

Treasury Operations

Group Treasury is responsible for managing liquidity, interest rate and foreign exchange risks arising out of the Bank's core activities, funding and permitted investments. Since the acquisition of DFCC Vardhana Bank Limited in year 2003, Treasury has been functioning as a Group unit which helps to exploit the opportunities available in the market utilising the individual strengths of both institutions while optimising resources.

During the year, the cost of funds of both Banks was managed efficiently. The Treasury optimised funding costs through planned exposure to the wholesale and inter-bank market within stipulated limits laid down by the Asset and Liability Management Committee (ALCO) and the Board Integrated Risk Management Committee. The high marginal cost of customer deposits is always a challenge for DFCC with its single deposit product type of fixed deposits. Since the average investment horizon of the depositor in Sri Lanka ranges from three months to a year, optimising marginal cost based on a changing interest environment was achieved with proactive pricing strategies. DFCC Vardhana Bank focused on retail fund raising activities to support its own operations.

The fixed income market provided opportunities in the latter half of the financial year which were exploited. The mismatch risk arising out of such investments is well within the guidelines stipulated for such risk. The Bank maintains an investment portfolio of highly liquid Rupee Government Securities that have an average residual tenor to maturity of under two years.

Funding

Domestic market liquidity was tight during the first half of the financial year. The global financial crisis tightened global liquidity available for lending to South Asia. However, the Treasury successfully negotiated a cross border credit line, for which the agreement is in the process of being finalised. Negotiations are under way with another foreign long-term lender for a further medium-term credit line to be obtained during 2009. Although the declining rates of interest in the global financial markets have contributed to reduced benchmark interest rates on such borrowings, margins have increased to reflect the global liquidity constraints and higher risk premia expected by lenders. The Bank will ensure that any foreign exchange exposures arising from such borrowings are actively managed with natural or market-based hedges where appropriate.

In December 2008, the Bank redeemed the Floating Rate Notes (FRNs) of USD65 million issued in 1998 utilising assets in a sinking fund built up over the life of the instrument. As such there was no strain on the Bank's liquidity. The repayment however led to a contraction in the balance sheet.

The Bank also proactively managed the wholesale customer deposit portfolio which is an important source of funding for the Bank. The deposits and other market based borrowings accounted for 42% of the total borrowings of DFCC as at 31 March 2009. The possibility of issuing medium-term debt was explored but not undertaken due to the high interest rate environment and low demand for project finance.

Management of Credit Lines

The Project Management Department manages four credit programmes of the Government of Sri Lanka.

The World Bank and Global Environment Facility (GEF) assisted Renewable Energy for Rural Economic Development (RERED) Project aims to (i) improve the quality of rural life by utilising off-grid renewable energy technologies to bring electricity to remote communities and (ii) promote private sector power generation from renewable energy sources for the main grid. Now in its third iteration - RERED (Additional Financing) - these credit lines and associated grant programmes have supported the addition of 137 MW of grid-connected capacity and electrification of 132,434 off-grid households through community-based projects and Solar Home Systems (SHS). Hydro and solar technologies are now well established in Sri Lanka and the Project intends to promote other renewable energy technologies including biomass and wind.

The credit component of the Plantation Development Project, funded by the Asian Development Bank and a revolving fund set up by the Government of Sri Lanka, focuses on the transformation of Regional Plantation Companies (RPCs) from primary producers into agribusiness entities. As at 31 March 2009, seven participating financial institutions have collectively disbursed Rs1,410 million to 14 eligible RPCs. These funds have been used for field development, crop and non-crop diversification, factory consolidation and process automation, and marketing ventures.

The European Investment Bank (EIB)-assisted Post-Tsunami Reconstruction Project provides assistance to revive the economies of 11 affected districts in the Eastern, Northern, Southern and Western provinces. Over 80% of the cumulative fund allocated for both directly and indirectly affected components is committed for development projects in leisure, health, manufacturing and service sectors.

The KfW-assisted Small and Medium Enterprise Development Project in the North and the East focuses on improving access to financial services for entrepreneurs. The credit line is geared to cater to the SME sector in the two provinces which is expected to develop with a new vigor along with the on-going and proposed large-scale development projects in the North and the East.

Financial Review

Despite this challenging environment the Bank was able to post a modest growth of 3% in post tax profit due to proactive measures taken by the Bank to maintain profitability and a high level of liquidity. These measures included:

Profitability

The Group profit after tax in the financial year under review (referred to in this report as current year) was Rs2,068 million a decrease of 8% from Rs2,247 million in the previous financial year (referred to as previous year). The unconsolidated profit after tax of the Bank in the current year was Rs1,360 million a 3% increase over Rs1,318 million in the previous financial year.

The difficult economic environment that prevailed and the impact on portfolio quality have been dealt with elsewhere in this Annual Report. The higher level of non performing loans and leases led to the specific provisions for bad and doubtful loans net of recoveries to increase to Rs326 million in the current year compared to Rs84 million in the previous year.

The banking sector continues to be subject to discriminatory higher taxation in the form of financial services VAT. The operating profit of the Bank before financial services value added tax and income tax was Rs2,563 million in the current year, a 6% increase over Rs2,418 million in the previous year. This increase of 6% was reduced to 3% increase at the post tax profit level due to the higher burden of taxes.

i. *Maintenance of net interest income margin*
   Net interest income of Rs2,905 million in the current year was a 9% increase over Rs2,676 million in the previous year despite the contraction in credit portfolio. This was achieved by a higher investment in high yielding Government securities.

ii. *Diversification of other income sources*
   The Bank pursued alternative avenues of income to augment the net interest income in an environment non-conducive to credit growth. This included contribution to capital gains realized through the sale of shares and income from a higher level of Treasury bill repurchase operations reaping benefits from the high interest rate environment.

iii. *Containment of personnel cost*
   The personnel cost of Rs544 million in the current year is a modest 4% increase over the previous year.

iv. *Containment of other operating expenses*
   The establishment and other overhead expenses in the current year was Rs483 million being only a 2% increase over the previous year despite a very high inflationary environment during most of 2008.

v. *Maintenance of solvency*
   The Bank was able to use funds released from the declining portfolio amounting to Rs4,791 million during the current year by repaying borrowing, reducing new borrowing and increasing the liquidity cushion of the Bank.

Although the Bank profit after tax recorded a modest increase of 3% the Group profit after tax of Rs.2,068 million in the current year was a 8% decline over the previous year. The primary reason was the one off loss by Lanka Ventures PLC (LVL) due to additional income tax expense in relation to prior years, which crystallised as a liability in the current year due to the company's appeal against the assessment in the Court of Appeal being decided in favour of the revenue authorities and a subsequent settlement reached in the appeal made to the Supreme Court. As a result, LVL which posted a profit before tax of Rs50 million in the current year ended up with a post tax loss of Rs91 million compared to post tax profit of Rs80 million in the previous year; a net change of Rs171 million. A further contributory factor to the decline was the lower profit after tax contribution from DFCC Vardhana Bank Limited (DVB), the commercial banking subsidiary amounting to Rs106 million in the current year compared to Rs146 million in the previous year. The lower profit of DVB is largely due to higher specific provisions for non-performing credit facilities. Synapsys Limited a fully owned subsidiary of the Bank providing information technology services recorded a post tax loss of Rs19 million in the current year compared to Rs13 million post tax profit in the previous year.

Loan Quality

The gross non performing loans (NPL) and finance leases was Rs3,783 million on 31 March 2009, increased from Rs2,891 million an year ago. However the infected exposure net of provisions and the realisable value of tangible collateral is only Rs302 million on 31 March 2009. This as a percentage of the equity on 31 March 2009 was only 3.5%.

Loans constitute 82% of the non-performing credit portfolio.

The composition of NPL by age of arrears indicates that Rs1,300 million (36% of the total gross non performing loans of Rs3,783 million) was over 18 months on 31 March 2009, increase from 29% in the previous year's non-performing loans in the same arrears category.

Analysis of NPL by industry sectors indicates six sectors accounted for 67% of the non-performing loans on 31 March 2009. The broad sectors in descending order of non-performing loans were, agriculture forestry & fishing, trade & finance, insurance, real estates & business services, manufacture of food beverage & tobacco, construction industries, transport storage & communication. Within these broad sector exposures to SMEs property, tea, construction, tourism and commercial transport were the prominent sub-sectors.

Investment in Joint Venture Company

During the current year the Bank invested in a new joint venture company partnering with an established private sector commercial bank, Hatton National Bank PLC. The joint venture partners contributed to the initial capitalisation of Rs500 million equally. The Bank's investment was funded by a cash investment and transfer of shares in the fully owned subsidiary of DFCC Stockbrokers (Pvt) Limited to the joint venture. This transaction yielded a profit on disposal of approximately Rs85 million. The consolidated profit however, has recognised only 50% of Rs85 million attributable to the transfer of ownership to the other joint venture partner.

Investment in Commercial Bank of Ceylon PLC

The Group Profit after tax of Commercial Bank of Ceylon PLC was marginally lower in the current year due to the impact of higher effective rate of income tax and higher provisions.

Dividend Distribution and Solvency

The Directors have recommended a first and final dividend of Rs5 per ordinary share, which will amount to a payment Rs654 million. The total dividend pay out as a percentage of Bank's own profit after tax for year to 31 March 2009 is 48%. This year's proposed dividend is the same as the dividend paid for the previous year.

Companies Act No. 7 of 2007

The provisions of the Companies Act do not apply to the Bank where the DFCC Bank Act No. 35 of 1955 or its Regulations have express provisions on the subjects covered by the Companies Act. Thus the financial statements of the Bank prepared under the DFCC Bank Act No. 35 of 1955 has retained the concept of par value of shares and the share premium whereas the Companies Act No. 7 of 2007 has abolished the concept of par value and share premium. The total of paid up capital and the share premium disclosed in the balance sheet is the equivalent of stated capital in the financial statements of companies, which have complied with the Companies Act.

The Bank however has voluntarily followed some of the requirements of the Companies Act as regards dividend distribution and certification as a matter of prudence.

Capital and Liability Structure

The Total equity of the Bank was Rs14,491 million on 31 March 2009.

Total interest bearing liabilities was Rs42,016 million with a gearing of 75% debt to 25% equity which is similar to the gearing in the previous year. The capital adequacy ratio on consolidated basis was 19.9% on 31 March 2009 (19% on 31 March 2008).

Combined Operations of the Bank and its Commercial Banking Subsidiary DVB

DVB is 96% owned subsidiary of the Bank with an investment of Rs2,286 million.

The combined non-interest expense (excluding provisions and financial services VAT) to operating income ratio of the Bank and its commercial banking arm DFCC Vardhana Bank Limited (DVB), the cost income ratio was 33.3% in the current year compared to 34.4% in the previous year.

DVB with 43 branches and extension offices as at 31 December 2008 will reach its target of maximum branch network during 2009, which will enable it to compete effectively in the commercial banking sphere consolidating its past gains and thereby improve profitability. The success of this strategy will however depend on the macro economic environment globally and domestically in the foreseeable future.

Risk Management

The DFCC Group (which in the context of this Report means the Bank and its subsidiary licenced commercial bank, DFCC Vardhana Bank Limited) continued to demonstrate its resilience under the stressed global and local economic conditions by focusing on managing credit risk and liquidity. The Group's operations are primarily associated with credit risk, operational risk, liquidity risk, market risk, business risk, legal risk and reputation risk of which credit risk is predominant. Management is tasked with managing all of these risks prudently to optimise stakeholder value, with oversight from the Board Integrated Risk Management Committee and the Board of Directors.

The Scope of Basel II Application

From January 2008, the Group adopted the simplest approaches of Basel II viz., Standardised Approach for credit risk, Standardised Measurement Approach for market risk and Basic Indicator Approach for operational risk for the quantification of risk for regulatory capital adequacy purposes.

Evolution of the Risk Management Function

During the year, the Group continued to review and upgrade its risk management function in line with the business needs, environmental factors, regulatory requirements and international best practices. An integrated risk management function, independent from risk assuming functions, became operational at the beginning of the financial year. The emphasis was on the management of liquidity and portfolio quality, which subsequently proved to be critical for the overall banking sector in the country. The strategic alignment of lending activities aimed at maintaining the portfolio quality and collection ratios within acceptable parameters, including de-emphasising exposure to higher risk sectors, further supported the liquidity management of the Bank. The Board Integrated Risk Management Committee (BIRMC) commenced oversight of the Group's integrated risk management function under the responsibilities set out in the Board-approved Charter for the BIRMC, which was developed during the year under review. Credit Risk Management was undertaken within the existing policy while three other risk policy frameworks viz., liquidity risk management framework, market risk management framework and new product development policy, were approved by the BIRMC and the Board. These frameworks will underpin the progress towards the implementation of advanced approaches of Basel II. These policy frameworks stipulate the Group's policies, strategies, systems and responsibilities of different parties and processes for the management of relevant risk. A validation of the DFCC Bank's credit rating models based on historical data was performed internally and required improvements to the rating process and the rating models were identified. Probability of Default was computed for the past three-year period as an interim measure with a view to progressing towards a five-year period as required by the advanced approaches of Basel II. This enabled the Group to build internal capacity in rating model development, validation and calibration.

Staff from risk management, business and other service divisions received local and overseas training as part of the on-going capacity building programme. A series of knowledge sharing sessions was conducted across the Group including the regional business units covering the areas of integrated risk management, Basel II, local and international market updates, with a view to promoting a strong risk management culture across the Group.

As an interim measure for capital planning under their Internal Capital Adequacy Assessment Process , regulatory Capital forecast was accommodated in the three-year business plan of the DFCC Bank. This task would support the decision making for business and financing strategies in the light of pricing and adequacy of risk capital. Herfindahl-Hirschman Index for the DFCC Bank's sectoral exposure distribution was computed as a measure of the concentration risk, and could be used as a tool for the management of concentration risk in the future.

Governance Structure for Risk Management

The Group's governance structure for risk management encompasses the concept of 'Three Lines of Defence', and is based on and the four fundamentals of Board and senior management oversight, risk management policies and procedures, risk measurement, monitoring and control, and internal controls and independent audit. The First Line of Defence involves the supervision and monitoring of risk management practices by the business managers, corporate management and executive committees while discharging their responsibilities and accountability for the day-to-day management of business operations. Independent risk monitoring, validation, policy review and compliance by the integrated risk management function, the compliance functions and BIRMC/ Board of Directors constitute the Second Line of Defence. The Third Line of Defence is provided by the independent check and quality assurance by the internal audit and external audit functions.

The Head of Integrated Risk Management Department reports to the BIRMC through the Chief Executive. The Executive Committees such as Asset Liability Management Committee (ALCO), Credit Committee, Investment Committee and Bad Debt Review Committee are guided and operate within risk frameworks and limits set out by BIRMC. The Executive Committees may, depending on circumstances, adopt such further risk parameters as they deem necessary as long as they do not conflict with those stipulated by BIRMC. The Integrated Risk Management Department is vested with the responsibility of measuring and monitoring risk at operational levels on an on-going basis to ensure compliance with the parameters set out by the Board/BIRMC and other Executive Committees. All exceptions are highlighted for corrective action and reported to the BIRMC. This structure for integrated risk management function will further evolve to be in line with the regulatory and Basel II recommendations and best practices over a period of time.

DFCC Group's policies for Integrated Risk Management

Apart from the macro policies and operating frameworks detailed above, the Group adheres to the following key risk management policies. In doing so, it however bears in mind that in the case of DFCC Bank it still has a mandated role to play in sustainable development by supporting private sector entrepreneurship:

- Entering into new business, developing products or adopting new strategy will depend on a detailed evaluation and sign off on risks and availability of adequate internal expertise and capabilities for risk management as has been stipulated in the New Product Development Policy.
- Ensuring that regulatory capital requirements are not compromised and sufficient capital is internally generated to support its normal business activities and internal growth through risk-based pricing.
- Comprehensive, transparent, timely and objective disclosure of the Group's risk exposure is made to the Board, relevant Board sub-committees, corporate management, regulators, shareholders and other stakeholders. Care is however taken to ensure that public disclosures do not compromise the Group's competitive position.
- Continuously assess delivery capabilities, resource requirements and capital requirements, and accommodate them in the Bank's business planning process and new product development process.

- Regulatory requirements are considered as minimum standards for risk management purposes. The Group focuses on progressively upgrading its risk management function with best practices and Basel II recommendations based on applicability in the Group's context.

Credit Risk

Credit risk is the risk that a loss will be incurred if a counterparty to a transaction does not fulfil its financial obligations in full and in a timely manner. The loss of market value of debt securities of the investment portfolio due to credit rating downgrades or the credit spread widening is also part of credit risk but in the Sri Lankan context only a very small proportion of corporate debt is traded. Counterparty credit risk is the most significant type of risk assumed by the Group, and accounted for 87% of risk-weighted assets as at FYE 31 March 2009.

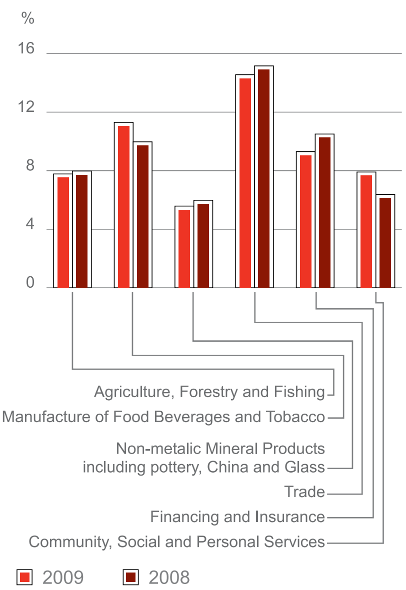
Process for Credit Risk Management

The use of internal rating models and the periodic review of assigned ratings form the basis for risk profiling of borrowers for the purpose of managing credit risk through structuring, pricing, monitoring, restructuring and recovery action. Concentration risk is currently managed and monitored in terms of single borrower limits, group limits and sector limits. Risk exposures to high-risk sectors are managed through sector restrictions that require prior high-level clearance before assuming individual risks for even small amounts.

Trade sector and the Food, Beverage & Tobacco sector, which amount to 14.3% and 11% of total earnings assets, respectively, are the largest sector concentrations in the earning assets of DFCC Bank. However, these sectors have diversity within themselves. In the Group's context, concentration risk arising from these two sectors is further reduced due to a low average exposure per borrower. All other sectors individually account for less than 10% of the total earning assets of DFCC Bank as at 31 March 2009. The individual exposures within the sectors are usually secured by a high level of tangible collateral.

During the year, the advances portfolio was affected by liquidity constraints of borrowers coupled with high interest rates that in turn led to a higher level of non-performing advances. The Leasing Portfolio relating to the Small and Medium Sector was particularly vulnerable to these conditions. BIRMC monitored the steps taken to manage this situation in the context of the difficult economic environment that prevailed and likely to prevail in 2009 and the need for the DFCC Bank to play its statutorily-mandated role as a development finance institution by supporting viable businesses through short-term difficulty.

Distribution of DFCC Bank's Earnings Assets within Selected Sectors*



* *Sectors accounting for 5% or more of the total earnings assets as at FYE 31 March 2009.*

Only six sectors accounted for 5% or more of the total earnings assets of the DFCC Bank as at 31 March 2009, compared to nine sectors, which accounted for a more than 5% of the total earnings assets in the previous year. Of these sectors, gross exposure to Finance and Insurance as a percentage of the total earnings assets declined by 1.2% during the period while the gross exposure to the Food, Beverage & Tobacco sector and the Community, Social & Personal services sector increased by 1.3% and 1.5%, respectively. The Herfindahl-Hirschman Index - a measure of sector concentration, indicated an acceptable and improved level of diversification of the DFCC Bank's earnings assets as at FYE 31 March 2009.

Market Risk

Market risk is the risk of potential losses accruing through the adverse fluctuation in the market interest rates, equity prices and exchange rates. Market risk could impact a bank mainly in two ways; viz., loss of cash flows or loss of economic value. Market risk can be looked at in two dimensions, as traded market risk, which is associated with the trading book and non-traded market risk, which is associated with the banking book. The ALCO, acting through the Group Treasury and the Investment Committee, are mandated to manage both the traded and the non-traded market risk at the operational level. Tools such as supervisory monitoring, exposure limits, stop-loss limits, scenario analysis and marking-to-market are used to manage the market risk exposure.

Interest Rate Risk

Interest rate risk can be termed as the risk of loss in the net interest income (earnings perspective) or the net worth (economic value perspective) due to the adverse changes in the market interest rates. The Group maintains the Trading and Investment portfolios separately with regard to fixed income securities as per the guidelines of the regulator. The Assets and Liability Management Unit continuously assesses the Bank's asset and liability profile in terms of interest rate risk and report to the ALCO for necessary realignment in the asset and liability structure and the pricing mechanism.

As a general rule, medium term fixed rate advances are funded by fixed rate liabilities. Foreign currency assets and liabilities are repriced periodically linked to a benchmark rate.

Equity Prices Risk

Equity prices risk is the risk of losses in the equity trading book, which is marked-to-market due to the decline in the market prices. The Investment Committee is responsible for making investment decisions and monitoring exposure to the equity market. Asset allocation limits are approved by the Board of Directors based on recommendations of ALCO/BIRMC. Rigorous appraisal, proper market timing and exposure limits are used to manage equity prices risk. The Bank's long-term investment horizon for equity investments smoothens out the adverse implications of short-term market volatility. The Group's exposure to equity prices risk through the equity trading and the investment portfolios is nominal as these two portfolios account for 0.6% of the total assets.

Exchange Rate (and country) Risk

Exchange rate risk emerges from adverse changes in exchange rates in terms of foreign currency transactions, assets or cross-border business activities. The Bank is not exposed to exchange rate risk on its foreign currency borrowings made with the concurrence of the Government of Sri Lanka since exchange risk relating to such borrowings is borne by the Government in terms of the DFCC Act No. 35 of 1955. The Bank has extended foreign currency denominated loans to borrowers in Sri Lanka who have the capacity to service these loans from their foreign currency revenue. The total foreign currency assets are less than 4% of the total assets and are substantially matched by liabilities in the same currency.

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

The Bank's foreign currency liabilities have a longer maturity than its foreign currency assets, thereby mitigating the foreign currency liquidity risk.

Operational Risk

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

Liquidity Risk

Liquidity risk is the risk of not having sufficient resources to meet financial obligations in time and in full, at a reasonable cost. The Group's liquidity risk management process includes regular analysis and monitoring of the liquidity position and the maintenance of market accessibility. Regular cash flow forecasts, liquidity ratio and maturity gap analysis are used as analytical tools by the ALCO. The Group goes beyond the statutory definition of liquid assets when assessing liquidity. It takes into account the liquidity of each eligible instrument relating to the market at a given point in time as well as undrawn commitments made to borrowers when stress testing its liquidity position. The maintenance of a strong credit rating [AA(lka)] by Fitch Ratings Lanka, unchanged since January 2003] and reputation in the market enables DFCC Bank to access domestic wholesale funds when needed to supplement its traditional funding sources from multilateral and bilateral sources. For short-term liquidity support, the Bank has access to the money market at competitive rates. The diversification of the liability structure is also a key focus of the Group and access to retail deposits is being effected through expanding the reach of DVB. DFCC's risk-based pricing mechanism ensures that residual liquidity risk is duly priced when pricing assets.

Reputation Risk

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

Business Risk

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

Legal Risk

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

Regulatory Environment

The Group considers prudential regulatory specifications not a burden but a stimulus for maintaining an effective risk management function. The Group has taken necessary steps to bring its governance structure, policies, processes and procedures to be compliant with the mandatory prudential regulations, which became effective during the year under review. The Group further reviewed the Central Bank's guidelines on integrated risk management, outsourcing and AML risk profiling of customers and have commenced assessing the internal arrangements in the light of those guidelines.

Risk-based Capital Adequacy

DFCC Bank continued to maintain a healthy risk capital position on a solo and group basis computed under the simplest approaches of Basel II. Given the current downturn in global markets and the uncertainty in the local macro conditions, this risk capital buffer over the minimum regulatory requirement has been a strength for the DFCC Bank. The consolidated total regulatory capital base of the Group is lower than the core capital due to the reduction arising from the investment in the associate company, Commercial Bank of Ceylon PLC.

DFCC Group Regulatory Capital Ratios under the simplest approaches of Basel II as at 31 March.

	2009 %	2008 %
Core Capital	21.9	20.4
Total Capital base	19.9	19.0

DFCC Group Regulatory Capital position under Basel II as at 31 FYE March 2009

Allocation of Capital	Amount Rs million
Credit Risk	6,204
Market Risk	198
Operational Risk	706
Minimum Regulatory Capital	7,108
Buffer	7,039
Actual Regulatory Capital	14,147

The Group Risk-Weighted Assets as at FYE 31 March 2009

SUSTAINABILITY REPORT

Chief Executive's Message

DFCC Bank has a history that spans over half a century of service in the field of development banking in Sri Lanka. The Bank has been the financier of trail blazing Lankan entrepreneurs but more importantly played a pioneering role in supporting small and medium-sized entrepreneurs gain access to funds, fueling innovative investment ideas and growing new economic sectors: the benefits of which have reached thousands of people across the nation, providing sustainable livelihoods and enhancing the quality of life.

Today, not only the local businessman but also a farmer or a teacher in a remote village in Sri Lanka can enjoy our comprehensive package of financial products and services. Our products, be it long term loans or a simple savings account is designed to give people the best a bank can offer in terms of service and returns.

DFCC Bank's social responsibilities are correspondingly various. The Bank's rich history ensures that CSR is in its genes: an integral part of its value delivery process. DFCC's very mission - of nurturing enterprises and creating value for all stakeholders - implies the discharge of a social responsibility; the organisation is committed to being a prime mover of national economic and social development.

This is our maiden report on sustainability. It maps our commitment in the areas of product innovation, environment responsibility, educational advancement, investment in the community and employee empowerment. In 2008 we made headway in two key areas of sustainability. After many months of collaborating with educators and the Ministry of Education officials, we were able to achieve new milestones in child education with the launch of a new nation wide programme for schools. The programme, which is being implemented through 2009, is designed to prepare young children cope with the challenges of the future. It encompasses teacher training and parent guidance as well.

The focus on responsible and clean energy has never been more important. Helping meet Sri Lanka's growing energy needs in economically, environmentally and socially responsible ways has been a priority for DFCC Bank during the last decade. Our commitment to develop sustainable energy began with the support for the country's first grid connected mini hydropower project in Sri Lanka. Since then we have made steady progress resulting in being recognised as the proactive resource center for the country's Renewable Energy sector. In 2008 we assisted the commissioning of another 11.5 Mega Watts of Grid connected power and during 2007 and 2008 carried out overseas consultancy assignments in renewable energy development projects in the Philippines and Uganda.

The concept of sustainable development is gaining in global importance and significance. Whilst increasing shareholder value, the need to do so in a manner that is environmentally, socially and economically acceptable, will help 'to meet the needs of the present generation without compromising the ability of future generations to meet their own needs.' A culture of doing the right thing in the right way has been critical to our success in the past and we will continue to be committed to doing so in the future whether it is setting high ethical expectations for our employees, providing a progressive and inclusive workplace or delivering products and services that can change lives.

In terms of our own housekeeping we have been focusing on reducing our emissions, recycling waste, conserving water and rising to green challenges. In this report we have strived to offer a balanced view of our organisation's economic, environmental and social performance in 2008 with an outline of our sustainability priorities for the future.

DFCC Bank has been a pioneer in many respects and has been at the core of the country's development for decades. It is a position that demands responsibility and commitment. In the years ahead we will continue our quest to be one of Sri Lanka's leading corporate citizens serving our nation with responsibility.

Nihal Fonseka
Chief Executive
27 May 2009

WITH LEADERSHIP COMES RESPONSIBILITY... ENTERPRISES HAVE THUS THE RESPONSIBILITY OF BUILDING A STRONG FRAMEWORK OF GOVERNANCE... HIGH ETHICS... AND SUSTAINABLE LIVING FOR ALL...

ENVIRONMENT

Rising to Green Challenges

The Bank defines 'environment' in a broader sense to encompass not only ecological criteria but also social aspects. There are four aspects to DFCC Bank's environmental responsibility.

First the Bank pays special attention to the environmental aspects of the projects it finances, focusing on applying the Environmental and Social Impact Assessment policy and practice of the Bank, assessing the potential impact, adequacy of mitigating measures, resource utilisation, and energy efficiency of proposed technologies or processes. As a minimum, the Bank ensures that the projects it finances are compliant with the laws and regulations of the Central Environmental Authority of Sri Lanka.

Second, the Bank identifies and develops sectors and businesses that are specifically targeted at protecting and improving the environment with special focus on climate change, the sustainable use of natural resources and the management of waste. Going beyond, the Bank also identifies and provides funds to existing high risk projects which require the installation of pollution mitigating measure.

The third dimension is for the Bank to assume responsibility for its corporate environmental footprint. Even though DFCC own footprint is not of the same magnitude as the footprint from the projects it finances, the Bank works continuously to improve the environmental performance of the buildings and its offices.

The fourth aspect is the Bank's commitment to create awareness, educate and urge the public on matters relating to environment protection/conservation and appreciation.

Responsible Lending

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

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

During the year, loans amounting to Rs140 million were approved under 'e-friends' for 15 environmentally friendly projects.

The environmental management system is integrated into the Bank's project management system. A dedicated cell headed by a full-time environmental engineer works on assessing large projects whilst all loan officers are engaged in the environmental appraisals as well as management of the loans with input from the cell. Loan officers at the main office and at all branches are being provided with periodic training on the subject locally and overseas. The cell is also tasked with integrating the Bank's strategy on environment sustainability with the business strategy.

DFCC Bank's Environmental and Social Impact Assessment Policy and Practice, which specifies the internal processes and practices of the Bank in relation to environmental aspects of project appraisal, was revised, during the year, to better reflect the Bank's standing in relation to its business strategy, as well as to harmonise the policy with the principles of bilateral and multilateral funding agencies. A draft of the revised policy will be posted for two months running on the Bank's website, for public comment, before being adopted by the Board of Directors in December 2009.

Nurturing Environmentally Sustainable Business Sectors

The increased focus on the challenges of climate change has moved energy to the top of the agenda of Development Financing Institutions around the world. In response, DFCC Bank established a special lending window for renewable energy related projects more than a decade ago, the first bank in the country to do so. Further DFCC fully supported the country's first Grid-Connected mini hydro power project in Dickoya. However, real growth of the sector was mostly realised during the last seven years with the Government policy framework being made operational to buy energy to the National Grid at competitive rates.

DFCC Bank's pioneering work in renewable energy takes a three dimensional approach to developing the sector. Firstly, the Bank functions as the Administrative Unit for several credit lines extended to the Government of Sri Lanka by the World Bank amounting to US$134.7 million and two grants amounting to US$11.8 million from the Global Environment Facility and US$108.9 million from other funding sources. The credit lines aim to improve the quality of rural life by promoting access to electricity through off-grid renewable energy technologies and to add capacity to the national grid through private sector participation in power generation using renewable sources. As at end 2008, completed grid-connected projects include 61 mini hydro projects having 136.2 MW of aggregate capacity. Off-grid projects include the electrification of 6460 rural homes through village hydro schemes and 125,985 homes using solar home systems.

Secondly, the Bank acts as a participating credit institution to identify and approve funds from the above credit lines for renewable energy projects. DFCC has disbursed funds amounting to Rs2,769 million to 39 grid-connected mini hydro projects through the credit lines. As a result of the Banks pioneering work in this sector, DFCC is recognised as the resource centre for renewable energy in the country.

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

Good Housekeeping

Increasing awareness that the world is warming, due largely to the emissions of carbon dioxide and other greenhouse gasses from human activity, has drawn the Bank's attention to 'good housekeeping' through the practice of an internal environment management system which is being improved year on year.

Consumption	2008/09 Units	2007/08 Units	Increase/ Decrease %
Electricity (Kwh)/Avg.per branch	134,932	118,071	14
Water (m3)/Avg.per branch	1,032	986	5
Fuel (liters)/(Head Office)	44,803	39,351	14
No. of Km/(Head Office)	330,851	284,798	16
Hired Vehicles - No. of Km	5,603	9,598	(42)
White Paper (pkts)	2,470	2,450	1
Newspapers/(Head Office)	675	700	(4)
Average No. of Km per Executive	3,823	3,271	
Average No. of Km per Liter	7.38	7.24	

The Bank has been adopting various measures to reduce the consumption of electricity, water, paper and fuel. The data set out in the above table indicate increases in electricity (14%), fuel (14%) and travel (16%) whilst white paper and Newspaper consumption has been maintained/ decreased.

As a result of keeping the pool vehicles in peak condition, average number of kilo meters per liter has increased only marginally. Whilst there are no unusual increases in the consumption levels, measures would be adopted to maintain consumption at this year's levels.

DFCC has not been fined or been non-compliant with environmental laws and regulations of the country. The Bank is working towards formalising its internal environmental guidelines for office practices, facilities management and procurement and setting performance goals for 2009/10.

Educating the Public

The scientific community has been warning the world for some time that the climate change problem requires all segments of society - businesses, consumers and governments to take meaningful action urgently. There is strong consensus that temperature increases of this magnitude will bring changes in rainfall patterns, rise in sea levels, risk of droughts and floods, threats to biodiversity and a range of public health challenges. It is crucial that the corporate community do all they can to 'heal the earth'. However small the action may be, every little helps!

During the year, DFCC commenced a programme to educate young children in primary schools across the county on environment stewardship covering the '3R' principles of reduce, reuse & recycle and waste management. Specific projects are being organised periodically to put into practice what they learn in the classroom. During Vesak, focus was drawn to a competition in schools to build Lanterns using eco-friendly material. Several such projects and environmental awareness programmes for schools are in the pipeline for 2009/2010.

The wining team of the environment-friendly Vesak Lanterns competition of Godagama Subharathi Junior School, Homagama. Similar competitions were held in other schools where the 'Six-S' programme is being implemented.

An amateur photography competition and exhibition was held in October 2008 titled 'Sobha' based on the theme of flora, fauna and sights of Sri Lanka. It was an effort at cultivating an appreciation for nature amongst the public and a reminder that conservation of its habitat will help preserve this beauty for other generations to enjoy.

A section of nearly 2000 photographs exhibited at 'Sobha' 2008, nature photography exhibition and competition held at the Lionel Wendt, Colombo 07.

Going Forward

In 2009, DFCC will focus on implementing its revised environmental policy, integrating environmental considerations into the Bank's business planning process. Further sharpening this focus, the Bank will put at the disposal of project owners the expertise and experience, that DFCC has gained over five decades of development banking, to integrate environmental sustainability in to their businesses. This will include raising the awareness levels of the Bank's clientele on matters relating to the environment and how they can reduce the carbon foot print and contribute to 'heal the earth'. DFCC will also focus on developing other renewable energy options such as wind and biomass.

NURTURING SMALL AND MEDIUM ENTERPRISES

Small and Medium-sized Enterprises (SMEs) are a major source of employment, entrepreneurial skills and innovation. They are the backbone of developing economies. SMEs also support economic and social cohesion. In Sri Lanka, quite early in the evolution of the country's economy, the SME sector was identified as an important strategic sector with potential to create employment at a lower investment cost, reduce inequality in income distribution, assist in diversifying the production base, alleviate poverty and develop the regions.

The SME sector in Sri Lanka has its own set of problems. Systemic constraints such as lack of eligibility to gain access to finance and modern technology, lack of managerial and marketing skills, obsolete machinery and equipment, weaknesses in support programmes to compensate for these bottlenecks are some key problems that affect the development of sustainable SMEs.

Taking the Risky Route

Given these circumstances, supporting SMEs is seen as taking a risky path. However a development bank should really be doing what an ordinary bank would be willing to do only at outrageous rates and conditions. Therefore, support for SMEs has been a key priority for DFCC Bank since its inception and later in 1978, when it set up a separate business unit with special focus on developing the sector. As risky as it may be, it has been DFCC's policy to promote successful entrepreneurship and improve the business environment for SMEs in order to help them to meet the challenges faced in today's global, knowledge based economy and realise their full potential. Many trail blazing Lankan entrepreneurs who have built their enterprises to what they are today began the journey as SMEs and was supported by DFCC during their risky early stages.

The Bank's SME activity has provided support for an estimated 23,000 businesses mostly in the regions. During the year, triggered by the global economic slow down, the demand for credit for SMEs was low. However, nearly half of credit facilities approved were for 600 small and medium enterprises in the provinces, generating approximately 3000 direct jobs. The Bank increased its penetration in sectors such as health care, construction, education, agriculture based industries and commercial transport which are economically and socially important to the country.

Support Where it is Needed Most

DFCC's strategy for SMEs is three fold. First, the Bank strives to develop internal capabilities of SMEs, improving their eligibility and ability to gain access to finance. DFCC targets sectors that have the potential to impact favourably on regional economies and builds internal managerial capabilities of SMEs through conducting workshops and seminars on management practices, accounting, improving service quality, marketing etc.

Second, DFCC provides SMEs with accessibility to concessionary credit giving them a competitive advantage. Since its early days DFCC has been actively supporting the SME sector by channelling concessionary credit from bilateral and multilateral organisations, especially to small businesses located in rural areas of the country. The Bank has taken the lead in utilising credit made available through these organisations, becoming the highest lender for most credit lines available for the sector.

Third, the Bank guides small businesses in the effective use of credit to build sustainable businesses that can withstand economic setbacks. Credit alone does not ensure the survival of small enterprises. Close monitoring and guidance is a key aspect of managing the SME portfolio. The Bank has over 65% of its project officers operating in 14 branches located close to the projects and the officers spend a significant amount of their time advising and visiting businesses. Workshops and seminars are conducted to improve managerial and technical skills of clients and the Bank's multi disciplinary staff guides businesses in boost productivity, competitiveness and innovation.

Now more than ever, SMEs need DFCC's expertise and guidance on weathering the effects of the economic crisis. The Bank will focus on a plan of action to guide its current SME customer base through troubled waters. The Bank proactively supports disruptions to cash flows of the SME sector.

A group of clients of DFCC at a regional workshop on soft skills development in SMEs.

TRANSFORMING EDUCATION

Education is a top priority worldwide. In Sri Lanka, even if we do simple things like give computers to schools, equip a laboratory or library, supplement the curriculum with field trips, seminars and workshops for children or merely provide water, sanitation and other basic infrastructure where needed, we recognise that helping to educate a child has lasting effects on the nation.

DFCC Bank believes that students, especially in rural underprivileged schools, deserve to have the skills they need to be part of the knowledge-based economy. When a country takes care of its children, and for the whole of its children - not just the physical feeding- but the health of its children as a whole, mentally strong, emotionally robust and physically fit, we will see choices being made that bring about change for the common good.

Investment in children is never wasted. With that in view DFCC Bank and its subsidiary Vardhana Bank will place top priority on working with educators and the government on programmes to empower children through a holistic approach to education.

Beyond Basic Education

DFCC Bank in association with Sri Lanka's Ministry of Education commenced implementation of a new programme in January 2009 to introduce the Japanese management discipline 'Five-S' to Schools Island wide. This discipline aims to improve attitudes and behaviour of children in order to increase their efficiency and productivity levels through keeping the working environment clean and organised. DFCC bank has augmented this concept with a sixth 'S', for 'safety' - the necessity for integrating this added dimension has been widely recognised and is specially relevant in the case of children.

Enterprising students of Maliththa Maha Vidyalaya, Bandarawela selling the Vesak Lanterns made by them to raise funds. The Lanterns were sold in front of the DFCC Branch premises to clients as well as pedestrians.

The programme focuses on educating and training teachers and primary school pupils from selected public schools on the theoretical and practical application of the 'Six-S' concept and the '3R' (reduce, reuse, recycle) principles on environment stewardship. It's a year long programme whereby each step will be introduced and put into practice every two months. The bank has engaged an expert who has extensive experience working with children to train and guide schools in the implementation. Four months into the programme, we have seen considerable improvements in the school environment, classrooms as well as the behaviour and attitudes of students.

The parent's of children constitute a secondary group, based on the insight that the values of 'Six-S' should not be restricted in their application but should be followed at home and elsewhere as well as at school. Parents are invited for the training sessions in schools and also to assist in the activities related to the implementation of the five steps.

At the end of one year a panel of judges will select the best schools. The schools will be recognised and rewarded handsomely at a gala ceremony.

Students of the Daluwakotuwa St. Annes Primary School, Negombo anxiously getting ready to start their day in a clean and organized classroom arranged in accordance with 'Six-S' guidelines.

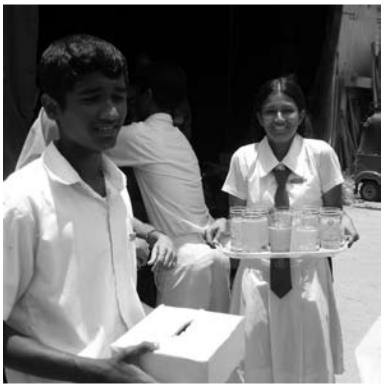
Employee Volunteerism

Generally most community projects initiated by Corporates do not go beyond the funding aspect. That's what differentiates this project from most others. Funding is only one part of the programme. What is more important is the involvement of our staff, with the teachers and children in schools, which contributes to building a culture of volunteerism. Even though the Bank has hired a consultant to guide the school staff, it is the 240 volunteers from the DFCC Group who are working with schools to creatively implement the programme that's making the difference.

Most schools are located within a 20-kilometer radius from DFCC and DFCC Vardhana Bank's branch offices, which makes it easier for volunteers to work with the respective schools. Each school has a dedicated team of DFCC volunteers who are competing to upgrade their school to be the best in the programme. We also see this involvement as being beneficial to our staff in terms of practical training in team building and professional development. During the year, on average an active volunteer put in approximately four hours of work for a month, which we hope to increase as the project rolls out to a mature stage.

Entrepreneurship for Children

Lack of funding for the day-to-day management of premises and classrooms is a problem faced by most rural schools resulting in the resistance of school staff to new programmes. As a measure of helping schools overcome the issue, the Bank has begun a 'Matching Grant' programme tied with the 'Six-S' implementation. The project revolves around cultivating an entrepreneurial spirit among children from a young age. The Bank advises and guides the schools on launching enterprising projects to raise funds, the proceeds of which will be matched by DFCC up to a maximum ceiling. During April and May 2009 five schools carried out projects and most were based on the Vesak theme. A school in Polnnaruwa conducted a 'Saruwath Kade' during the very warm month of April. Badulla, Naulla Madya Maha Vidayala is making preparations to stage their own drama. Several others held 'Pola's. On average each school has raised around Rs60,000/- from such activities.



The students of the Kaduruwela Nagara Vidyalaya expressing their entrepreneurial skills by organising a mobile 'Saruwath Kade' within the city limits of Polonnaruwa.

Moving Forward

Working with and for children on various projects over a period of time has given DFCC Bank a chance to make a difference in an important area of our community. The 'Six-S' project with its many facets is not only a sustainable programme but also one with potential to touch the lives of a vast number of children by laying positive foundations, which will benefit them as adults. An estimated 25,000 children between the ages of 5-13 years will benefit from the first programme. Its success, measured by a set of predetermined criteria at the end of the programme, will be a deciding factor for the expansion of the programme to other schools.

EMPLOYEE EMPOWERMENT

Engaging Talent

DFCC Bank has always regarded its valuable pool of well qualified and trained human resources as a key competitive advantage in holding its place in an increasingly challenging financial landscape. A continuously refined recruitment process has been the first step in building up such a pool of talent that has contributed to placing the Bank consistently at the top end of league tables on the criterion of profit per employee.

For quite sometime now, sourcing staff with the required set of skills to fulfil immediate functional requirements but more importantly possessing inherent competencies to take on higher levels of responsibility and leadership roles in the medium term has been posing a challenge not only to DFCC Bank but to the entire banking industry. Especially in this context and also considering the downturn in the economy following the global financial crisis, incremental staff numbers have been kept at an essential minimum. Despite substantial expansion in the scale and diversity of operations during the past five decades, DFCC Bank has been successful in limiting its staff numbers to 415 as at FYE March 31, 2009. In an attempt to build capacity in all aspects of commercial banking, DFCC Bank has seconded 21 of their staff to its commercial banking subsidiary, DFCC Vardhana Bank (DVB). Additionally DFCC Vardhana Bank has a head count of 389 to support it's branch operations that have been built up over the last four years.

Fostering Individual Growth and Harnessing Potential

The Bank has set in place an environment that is conducive to the development and growth of its staff. Quite apart from extensive training, the Bank has initiated special programmes to nurture its professional staff by offering them access to a wide range of development opportunities.

Last year, all managers were encouraged to formulate individual development plans for their executive level direct reports by making it a measure of their own performance. This year, managers were required to critically assess these plans in discussion with their direct reports and 'build' on them with the twin objectives of developing the employees themselves and also aligning such plans with the Bank's goals and priorities. In addition to identification of formal training requirements, these plans included project specific assignments, cross-functional stretch assignments, role expansion and job rotation. Through this process, managers devote more time to coaching and mentoring and staff are provided with regular feedback on their strengths and development needs. The initiatives formulated to address development gaps provide staff with opportunities to learn and expand their functional capabilities.

These plans together with feedback from departments/ branches are used as the basis for training needs analysis and formulation of the annual training plan of the Bank.

During the year under review, DFCC Bank invested approximately Rs15.4 million on staff training and provided 16,466 man-hours of training translating to about 40 hours of training per employee. The quantum of training opportunities provided to staff of DVB increased by almost 70% to 12,790 man-hours made available to 910 participants. The investment in training and development amounted to Rs27,600/- per group employee.

the better performers. The Bank is mindful of the need to align its remuneration levels with that of competition. From time to time, the Bank engages external consultants to carry out market surveys and make recommendations for improving on remuneration and benefits.

In 2008 we engaged internationally reputed HR consultants - Hewitt Associates to conduct a comprehensive benchmarking study of remuneration structures of DFCC and DVB *vis-à-vis* comparator institutions. Based on findings, adjustments were made to remuneration packages to ensure better alignment with the market. However, the Bank does not compete on the basis of being the highest payer.

The bank is committed to providing a healthy work-life balance enabling our staff to benefit in terms of both personal and professional development. Over the years, formal and informal opportunities have been made available for greater staff interaction. Today, we have in place a dynamic social environment driven primarily by the staff themselves and this in turn helps them integrate better with the Bank culture.

We continued to focus on developing job specific technical skills with emphasis on capacity building in integrated risk management and Basel II requirements with an intensive residential programme being conducted by two international experts for a selected staff representing a cross section of departments and branches. In addition, about 30 knowledge enhancement sessions on this topic were conducted throughout the year.

We remain committed to providing our staff with diverse exposures and opportunities for specialised training and in this context 65 executives participated in overseas programmes. Post-training evaluation mechanisms are used to assess the return on investment on training.

Retaining Talent

Retaining high performers can be as challenging as recruiting them though this is currently less of an issue given the slowdown in skilled migration and the freeze on employment by most businesses. Creating an excellent climate to nurture and develop talent and providing the best of working conditions would not be sufficient by themselves to retain especially

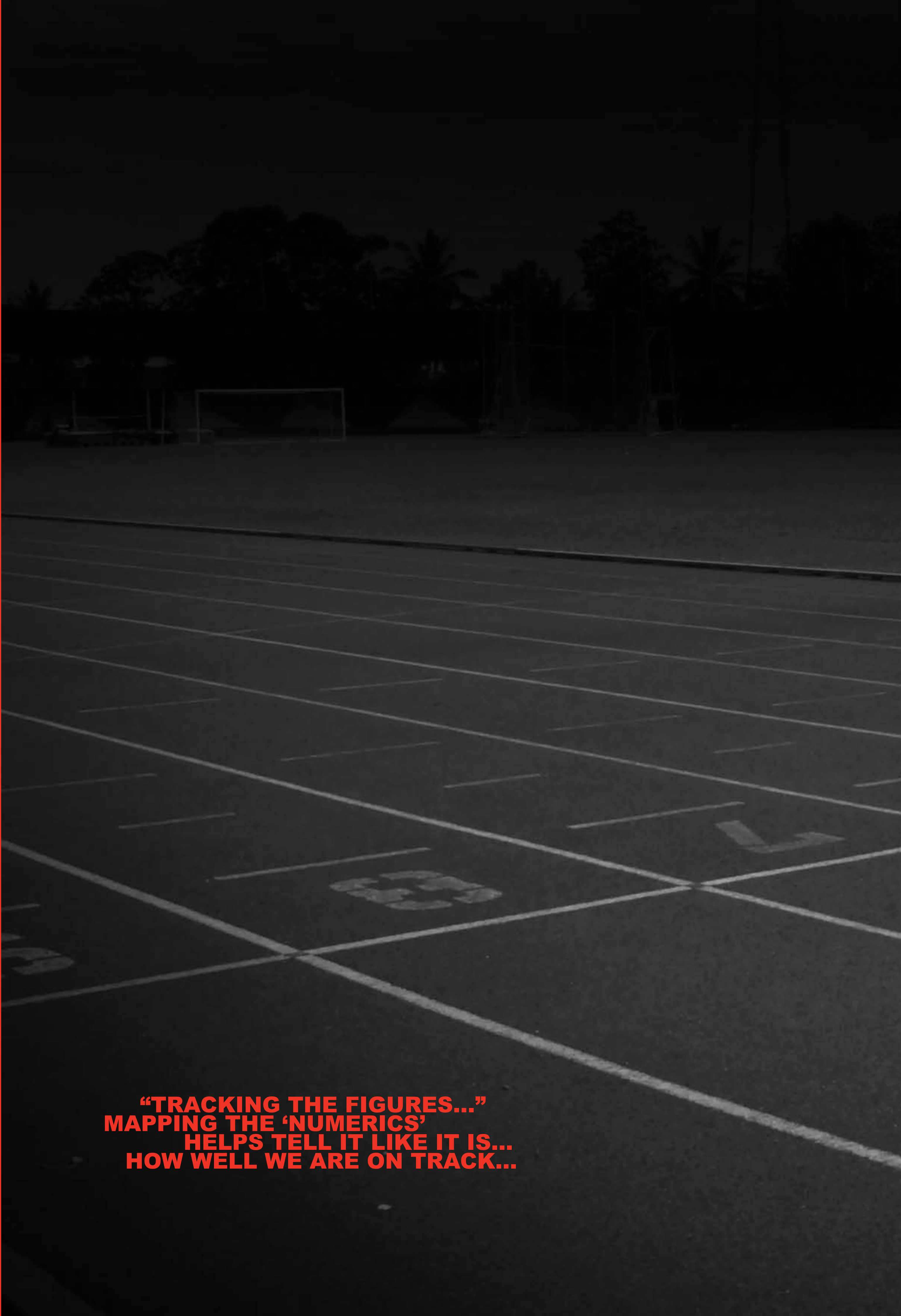
Perspectives on the Year Ahead

With the world still in recession and likely to be so well into the year ahead, bank staff will be challenged to deal with unusually difficult times and contend with a different set of issues and circumstances. This will require adjustments in staff deployments and re-training some of the staff to cater to the shift in emphasis. The year ahead will be dedicated to enhancing productivity of the Bank's lean staff team while pruning costs through a freeze on recruitment.

Despite challenging economic conditions, there will be no compromise on staff development with the Bank remaining committed to providing its employees with targeted and value adding training opportunities and avenues for growth. Our achievements in the past are primarily attributable to the quality and commitment of our staff and we firmly believe that continuing to invest in staff development today will help propel the Bank to scale even greater heights and profit from the economic crisis confronting all banks and commercial establishments.

Staff Productivity *Rs'000*

	2009	2008	2007	2006	2005
Income Per Employee	**23,884**	22,998	16,319	14,403	13,649
PBT per employee	**4,845**	4,733	4,420	4,418	5,934
Assets per employee	**141,267**	151,215	144,409	127,306	121,078


"TRACKING THE FIGURES..."
MAPPING THE 'NUMERICS'
HELPS TELL IT LIKE IT IS...
HOW WELL WE ARE ON TRACK...

FINANCIAL INFORMATION

Financial Calendar

Financial Statements

Interim Reports			
First Quarter to	30.06.08	:	29.08.08
Second Quarter to	30.09.08	:	28.11.08
Third Quarter to	31.12.08	:	27.02.09
Annual Report year ended	31.03.09	:	29.05.09
Meetings			
52nd Annual General Meeting		:	30.06.08
53rd Annual General Meeting		:	30.06.09
Dividends			
First and Final			
ended 31.03.2008			
Approved on		:	30.06.08
Ex-dividend Date		:	01.07.08
Payment		:	08.07.08
Proposed First and Final for year			
ended 31.03.2009			
to be approved on		:	30.06.09

Statement of Directors' Responsibilities in Relation to Financial Statements

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

The Directors are required by relevant statutory provisions to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank and the Group for that period. The statutory provisions are in DFCC Bank Act No. 35 of 1955, read in conjunction with Banking Act No. 30 of 1988 and amendments thereto and Companies Act No. 7 of 2007 to the extent it is applicable to the DFCC Bank. The application of principal qualitative characteristics and appropriate accounting standards and regulatory requirements inclusive of specific disclosures would result in financial statements that convey a true and fair view of financial information and financial position.

The Directors are satisfied that the Bank and Group have the resources to continue in business for the foreseeable future and therefore, these financial statements are prepared on a going concern basis.

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

The Directors are responsible for keeping proper accounting records and to take reasonable steps as far as practicable, to ensure the accuracy and reliability of accounting records, to enable the preparation of financial statements. The Directors have a general responsibility to take reasonable steps to safeguard the assets of the Bank. In discharging these responsibilities, the Directors have instituted a system of internal financial controls and a system for monitoring its effectiveness. These provides reasonable but not absolute assurance of safeguarding of the Bank's assets, maintenance of proper accounting records and the reliability of financial information.

The Board appointed Audit Committee chaired by an independent non-executive director who possesses qualifications and experience in accountancy and audit assists the Directors to discharge their responsibility on the integrity of financial reporting system and monitoring the effectiveness and adequacy of internal control system. This Committee has made an independent assessment of the financial reporting system of the Bank and confirmed "that to the best of its knowledge and belief the financial reporting system of the Bank has been designed to provide reasonable assurance on the reliability of the financial statements prepared for external purposes and is in compliance with relevant accounting principles and regulatory requirements". The report of this Committee is in pages 36 to 38.

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

As part of institutional checks and balances and accountability, in addition to this Directors' Responsibility Statement, the Directors have included the Chief Executive Officer's and the Chief Financial Officer's Responsibility Statement on page 71.

By Order of the Board

T Wijemanna
Secretary to the Board

27 May 2009

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

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

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

The financial statements of the Group except for Lanka Ventures PLC were audited by KPMG Ford, Rhodes, Thornton & Co. (KPMG FRT). The financial statements of the subsidiary Lanka Ventures PLC was audited by PricewaterhouseCoopers (PWC). National Asset Management Limited an associate company is also audited by KPMG FRT. Commercial Bank of Ceylon PLC, another associate company, is audited by Ernst & Young (EY). All the auditors are Chartered Accountants and independent auditors.

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

S. Nagarajah

S Nagarajah
Executive Vice President (Finance)

A N Fonseka
General Manager/Chief Executive

Colombo
27 May 2009

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of DFCC Bank ("Bank"), the consolidated financial statements of the Bank and its subsidiaries as at that date which comprise the balance sheet as at March 31, 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

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

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

Opinion

In our opinion, so far as appears from our examination, the Bank maintained proper accounting records for the year ended March 31, 2009 and the financial statements give a true and fair view of the Bank's state of affairs as at March 31, 2009 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at March 31, 2009 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Bank and its subsidiaries dealt with thereby, so far as concerns the members of the Bank.

Report on Other Legal and Regulatory Requirements

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

Ford Rhodes, Thornton & Co.

Chartered Accountants
27th May 2009
Colombo.

Income Statement

For the year ended 31 March	Notes	Page No.	BANK 2009 Rs 000	BANK 2008 Rs 000 (Restated)	GROUP 2009 Rs 000	GROUP 2008 Rs 000 (Restated)	* Variance Rs 000
Income	9	95	9,887,897	9,636,415	13,416,193	11,723,253	1,692,940
Interest income	10	95	8,528,857	8,491,044	11,998,933	10,497,378	1,501,555
Interest expense	11	95	5,623,964	5,814,833	7,761,960	7,043,170	718,790
Net interest income			2,904,893	2,676,211	4,236,973	3,454,208	782,765
Negative goodwill			0	0	0	1,119	(1,119)
Other income	12	95	1,359,040	1,145,371	1,417,260	1,225,875	191,385
Operating income			4,263,933	3,821,582	5,654,233	4,681,202	973,031
Personnel expenses			544,167	522,807	895,435	758,614	136,821
Provision for staff retirement benefits	13	96	163,822	150,618	203,217	176,856	26,361
Premises, equipment and establishment expenses			241,636	264,883	534,982	480,152	54,830
Other overhead expenses			241,149	207,596	478,766	374,155	104,611
Bad and doubtful debts - specific	14	99	326,443	83,578	571,688	141,278	430,410
- general	15	99	172,502	174,083	214,470	217,430	(2,960)
Investments - impairment losses	16	99	11,303	0	41,303	6,604	34,699
Operating expenses	17	99	1,701,022	1,403,565	2,939,861	2,155,089	784,772
Operating profit before value added tax			2,562,911	2,418,017	2,714,372	2,526,113	188,259
Value added tax on financial services			556,988	435,116	658,058	484,632	173,426
Operating profit before income tax			2,005,923	1,982,901	2,056,314	2,041,481	14,833
Share of profits of associates**			0	0	1,066,101	1,048,616	17,485
Profit before tax			2,005,923	1,982,901	3,122,415	3,090,097	32,318
Income tax expense	18	100	646,050	665,082	1,054,844	843,457	211,387
Profit for the year			1,359,873	1,317,819	2,067,571	2,246,640	(179,069)
Attributable to:							
Equity holders of the parent					2,044,706	2,167,545	(122,839)
Minority interests					22,865	79,095	(56,230)
Profit for the year					2,067,571	2,246,640	(179,069)
Earnings per share - Basic, Rs	19	101	10.41	10.41	15.65	17.12	(1.47)
- Diluted, Rs			No dilution	10.34	No dilution	17.01	–
Dividend per share, Rs			5.00	5.00	5.00	5.00	0

Notes from pages 79 to 136 form part of these financial statements.

* *Current year minus previous year, Group.*
** *After tax, minority interest and preference dividend.*

Balance Sheet

As at 31 March	Notes	Page No.	BANK 2009 Rs 000	BANK 2008 Rs 000	GROUP 2009 Rs 000	GROUP 2008 Rs 000
Assets						
Cash and short-term funds	20	102	2,509,971	1,704,545	4,213,984	3,688,519
Balances with Central Bank	21	102	0	0	768,383	611,301
Treasury bills and other securities eligible for rediscounting with Central Bank	22	102	5,905,209	6,419,940	12,650,799	7,492,985
Securities purchased under resale agreements	23	103	96,000	208,000	1,523,823	753,256
Placements with and loans to other banks and financial institutions	24	103	1,454,262	1,578,595	1,352,262	1,471,654
Dealing securities	25	103	9,607	17,591	17,033	17,591
Bills of exchange discounted	26	104	0	0	326,171	492,668
Loans and advances	27	104	33,892,706	37,255,598	48,491,281	47,960,790
Finance leases	28	105	4,804,430	6,481,118	4,804,430	6,481,118
Interest receivable	29	106	603,289	604,343	682,228	700,206
Investment securities	30	107	1,918,420	1,679,827	2,394,435	2,196,834
Investment in associate companies	31	113	3,187,229	3,187,229	7,160,671	6,395,789
Investment in joint venture	32	114	250,000	0	0	0
Investment in subsidiary companies	33	114	2,627,167	2,642,163	0	0
Group balances receivable	34	115	36,325	70,290	0	0
Prepayments			13,812	45,353	13,812	45,353
Income tax refund receivable	35	115	1,980	0	14,396	4,040
Investment property	36	115	6,500	6,500	141,215	137,181
Goodwill on consolidation	37	115	0	0	146,602	146,658
Property, plant and equipment	38	116	427,697	438,610	803,040	749,238
Intangible assets	39	117	45,942	53,930	169,482	170,107
Other assets	41	117	694,153	965,752	1,323,394	1,670,669
Total assets			58,484,699	63,359,384	86,997,441	81,185,957
Liabilities						
Deposits from customers	42	117	5,308,440	5,111,517	23,575,344	16,352,643
Borrowing - Medium and long-term	43	118	28,979,442	33,623,289	28,979,442	33,623,289
- Short-term	44	119	3,029,871	4,156,943	6,737,096	5,100,628
Debentures	45	119	2,700,000	2,700,000	2,700,000	2,700,000
Interest accrued			1,192,127	1,131,697	1,648,996	1,396,777
Current tax liability			0	132,130	220,576	197,147
Deferred tax liability	46	119	285,194	250,623	290,597	167,053
Other liabilities	47	120	498,781	497,593	1,152,212	1,360,239
Subordinated debentures	48	123	2,000,000	2,000,000	2,000,000	2,000,000
			43,993,855	49,603,792	67,304,263	62,897,776
Equity						
Share capital	49	123	1,307,325	1,301,956	1,307,325	1,301,956
Share premium			3,207,818	3,184,145	3,260,011	3,236,338
	50	124	4,515,143	4,486,101	4,567,336	4,538,294
Reserves	51	124				
Reserve fund			565,000	495,000	801,539	674,120
Other reserves			8,637,839	7,982,043	11,841,788	10,546,863
Retained earnings			772,862	792,448	1,841,264	1,923,213
Shareholders' Equity			14,490,844	13,755,592	19,051,927	17,682,490
Minority interest	52	125	0	0	641,251	605,691
Total equity			14,490,844	13,755,592	19,693,178	18,288,181
Total equity and liabilities			58,484,699	63,359,384	86,997,441	81,185,957
Commitments and contingencies	53	125	7,833,247	7,310,686	14,859,140	13,938,459
Net assest value per share, Rs.			110.90	108.62	145.81	139.63

Notes from pages 79 to 136 form part of these financial statements

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

S Nagarajah

S Nagarajah
Executive Vice-President (Finance)

For and on behalf of the Board of Directors,

J M S Brito
Chairman

A N Fonseka
Ex-Officio Director & Chief Executive

Colombo
27 May 2009

Statement of Changes in Equity

For the years ended 31 March

	Share capital Rs 000	Share premium Rs 000	Reserve fund Rs 000	Other reserves Rs 000	Retained earnings (Restated) Rs 000	Total equity Rs 000
Bank						
Balance as at 31.03.2007	865,565	607,106	425,000	6,606,248	990,230	9,494,149
Change in accounting policy - Note 47.3.5	–	–	–	–	(4,888)	(4,888)
Balance as at 31.03.2007 - Restated	865,565	607,106	425,000	6,606,248	985,342	9,489,261
Transfers	–	–	–	60,795	(60,795)	–
Profit for the year	–	–	–	–	1,317,819	1,317,819
Transfers from current earnings	–	–	70,000	1,315,000	(1,385,000)	–
First & final dividend approved on 30.06.2007	–	–	–	–	(64,918)	(64,918)
Bonus issue of shares	216,398	(216,398)	–	–	–	–
Rights issue of shares	216,391	2,813,088	–	–	–	3,029,479
Issue of shares under share option scheme	3,602	16,298	–	–	–	19,900
Share issue expenses written-off	–	(35,949)	–	–	–	(35,949)
Balance as at 31.03.2008	1,301,956	3,184,145	495,000	7,982,043	792,448	13,755,592
Profit for the year	–	–	–	–	1,359,873	1,359,873
Transfers from current earnings	–	–	70,000	655,796	(725,796)	–
Final dividend approved on 30.06.2008	–	–	–	–	(653,663)	(653,663)
Issue of shares under share option scheme	5,369	23,673	–	–	–	29,042
Balance as at 31.03.2009	**1,307,325**	**3,207,818**	**565,000**	**8,637,839**	**772,862**	**14,490,844**

	Attributable to equity holders of the Bank							
	Share capital Rs 000	Share premium Rs 000	Reserve fund Rs 000	Other reserves Rs 000	Retained earnings (Restated) Rs 000	Total Rs 000	Minority interest Rs 000	Total equity (Restated) Rs 000
Group								
Balance as at 31.03.2007	865,565	659,299	548,841	8,761,720	1,706,523	12,541,948	554,731	13,096,679
Change in accounting policy	–	–	–	–	(4,888)	(4,888)	–	(4,888)
Balance as at 31.03.2007 - Restated	**865,565**	**659,299**	**548,841**	**8,761,720**	**1,701,635**	**12,537,060**	**554,731**	**13,091,791**
Deferred tax effect on revaluation surplus on property - associate company	–	–	–	(29,418)	–	(29,418)	–	(29,418)
Realised revaluation surplus on disposal of property - associate company	–	–	–	(399)	399	–	–	–
Surplus on revaluation property - assocaite company	–	–	–	84,051	–	84,051	–	84,051
Net unrealised losses from translation of Bangladesh operations of - associate company	–	–	–	(3,081)	–	(3,081)	–	(3,081)
Net income recognised directly in equity	–	–	–	51,153	399	51,552	–	51,552
Profit for the year	–	–	–		2,167,545	2,167,545	79,095	2,246,640
Total recognised income and expenses for the period	–	–	–	51,153	2,167,944	2,219,097	79,095	2,298,192
Transfers	–	–	–	60,795	(60,795)	–	–	–
Transfers from current earnings	–	–	125,279	1,695,374	(1,820,653)	–	–	–
First & final dividend approved on 30.06.2007	–	–	–	–	(64,918)	(64,918)	(28,135)	(93,053)
Bonus issue of shares	216,398	(216,398)	–	–	–	–	–	–
Right Issue of shares	216,391	2,813,088	–	–	–	3,029,479	–	3,029,479
Issue of shares under share option scheme	3,602	16,298	–	–	–	19,900	–	19,900
Share issue expenses written-off	–	(35,949)	–	(22,179)	–	(58,128)	–	(58,128)
Balance as at 31.03.2008	**1,301,956**	**3,236,338**	**674,120**	**10,546,863**	**1,923,213**	**17,682,490**	**605,691**	**18,288,181**
Deferred tax effect on revaluation surplus on property - associate company	–	–	–	1,337	–	1,337	–	1,337
Deferred tax on re-classification of revaluation surplus to retained earnings - associate company	–	–	–	–	4,892	4,892	–	4,892
Surplus on revaluation property - associate company	–	–	–	10,574	–	10,574	–	10,574
Temporary diminution value of investment	–	–	–	–	(143)	(143)	(103)	(246)
Net unrealised gains from translation of Bangladesh operations of associate company	–	–	–	17,673	–	17,673	–	17,673
Net income recognised directly in equity	–	–	–	29,584	4,749	34,333	(103)	34,230
Profit for the year	–	–	–	–	2,044,706	2,044,706	22,865	2,067,571
Total recognised income and expenses for the period	–	–	–	29,584	2,049,455	2,079,039	22,762	2,101,801
Transfers	–	–	127,419	1,265,341	(1,392,760)	–	–	–
Final dividend approved on 30.06.2008	–	–	–	–	(653,663)	(653,663)	(62,187)	(715,850)
Issue of shares under share option scheme	5,369	23,673	–	–	–	29,042	–	29,042
Minority Interest on acquisition of joint venture	–	–	–	–	–	–	74,985	74,985
Disposal of subsidiary	–	–	–	–	(84,981)	(84,981)	–	(84,981)
Balance as at 31.03.2009	**1,307,325**	**3,260,011**	**801,539**	**11,841,788**	**1,841,264**	**19,051,927**	**641,251**	**19,693,178**

Notes from pages 79 to 136 form part of these financial statements.

Cash Flow Statement

For the year ended 31 March	BANK 2009 Rs 000	BANK 2008 Rs 000	GROUP 2009 Rs 000	GROUP 2008 Rs 000
Cash flow from operating activities				
Interest receipts	7,474,164	7,342,644	10,317,161	9,081,473
Interest payments	(5,481,414)	(5,530,788)	(7,467,568)	(6,655,922)
Recoveries on loans previously written-off	117,942	203,971	117,942	203,971
Receipts from other operating activities	340,818	240,256	3,330,916	765,790
Cash payments to employees and suppliers	(1,202,457)	(1,060,773)	(4,631,819)	(1,585,089)
Value added tax	(570,646)	(432,843)	(665,419)	(443,421)
Operating profit before changes in operating assets and liabilities	678,407	762,467	1,001,213	1,366,802
(Increase)/decrease in operating assets:				
Deposits held for regulatory or monetary control purposes	0	0	(157,082)	(132,634)
Funds advanced to customers	4,665,793	1,076,416	1,190,969	(2,352,351)
Other short-term securities	514,731	(2,990,442)	(2,056,632)	(3,668,527)
Others	494,039	(28,296)	324,030	(1,410)
Increase/(decrease) in operating liabilities:				
Security deposits from customers	0	(2,380)	4,288	(2,380)
Deposits from customers	196,788	(8,425,336)	7,071,315	(4,389,150)
Negotiable certificates of deposit	135	(35,718)	51,388	(74,891)
Net cash flow from operating activities before income tax	6,549,893	(9,643,289)	7,429,489	(9,254,541)
Income tax paid	(657,906)	(825,760)	(778,376)	(961,004)
Income tax refund receivable	(1,980)	0	(14,396)	(4,040)
Net cash from/(used in) operating activities (Note a)	5,890,007	(10,469,049)	6,636,717	(10,219,585)
Cash flow from investing activities				
Dividends received	707,875	629,611	652,398	588,321
Interest received	860,319	1,058,789	1,349,666	1,182,374
Proceeds from sale and redemption of securities	789,654	181,274	1,724,759	298,384
Purchase of securities	(919,394)	(564,523)	(1,017,153)	(681,780)
Investment in subsidiary - Synapsys Limited	0	(20,000)	0	0
Investment in joint venture - Acuity Partners (Pvt) Limited	(150,000)	0	0	0
Investment in additional shares of subsidiary - DFCC Vardhana Bank Limited	(23)	(5,318)	(23)	0
Subscription to rights issue in subsidiary - DFCC Vardhana Bank Limited	0	(851,957)	0	0
Subscription to rights issue in associate - Commercial Bank of Ceylon PLC	0	(1,602,541)	0	(1,602,541)
Purchase of property, equipment, intangibles and investment property	(105,082)	(153,497)	(299,117)	(379,783)
Proceeds from sale of equipment and investment property	687	16,666	743	21,280
Net cash effect on disposal of subsidiary				
DFCC Stockbrokers (Pvt) Limited (Note b)	0	0	(74,335)	0
Net cash effect on investment of joint venture - Acuity Partners (Pvt) Limited (Note c)	0	0	12,440	0
Net cash from/(used in) investing activities	1,184,036	(1,311,496)	2,349,378	(573,745)
Cash flow from financing activities				
Issue of debentures	0	700,000	30,000	700,000
Issue of new shares under option	29,042	19,900	29,042	19,900
Issue of new shares under rights issue	0	3,029,479	0	3,029,479
Issue of new shares by subsidiary (rights issue)	0	0	0	36,041
Share issue expenses	0	(35,949)	0	(35,949)
Borrowing, medium and long-term	7,331,802	11,356,053	7,750,216	11,356,053
Other borrowing	(988,506)	2,048,300	(1,814,189)	1,822,159
Repayment of borrowing, medium and long-term	(11,975,648)	(8,090,151)	(11,975,648)	(8,090,151)
Dividend paid	(651,075)	(62,951)	(718,671)	(128,296)
Net cash flow from/(used in) financing activities	(6,254,385)	8,964,681	(6,699,250)	8,709,236
Net increase/(decrease) in cash & cash equivalents	819,658	(2,815,864)	2,286,845	(2,084,094)
Cash & cash equivalents/(overdraft - net) at the beginning of period	1,690,313	4,506,177	3,875,461	5,959,555
Cash & cash equivalents at the end of period	2,509,971	1,690,313	6,162,306	3,875,461
Reconciliation of cash & cash equivalents				
Cash and short-term funds - Note 20	2,509,971	1,704,545	4,208,583	3,688,519
Treasury bills & other securities eligible for rediscounting with Central Bank - Note 22	0	0	1,950,080	205,179
Placements with & loans to banks & financial institutions - Note 20	0	0	5,400	1,559
Borrowing short-term - Bank overdrafts - Note 44	0	(14,232)	(1,757)	(19,796)
	2,509,971	1,690,313	6,162,306	3,875,461

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

Comparative figures have been re-stated to conform to the period ended 31 March 2009 classification.

Notes from pages 79 to 136 form part of these financial statements.

Note a

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

For the year ended 31 March	BANK 2009 Rs 000	BANK 2008 Rs 000	GROUP 2009 Rs 000	GROUP 2008 Rs 000
Profit for the year	1,359,873	1,317,819	2,044,706	2,167,545
Deduct: Dividend transferred to investing activities	(715,709)	(659,656)	(318,355)	(224,125)
	644,164	658,163	1,726,351	1,943,420
Add/(deduct) items not using/(providing) cash:				
Depreciation - Property, plant and equipment and investment property	93,066	87,628	172,278	144,844
Amortisation - Intangible assets	30,517	45,032	70,230	81,063
Negative goodwill	–	–	–	(1,119)
Gains on sale of investment securities	(206,367)	(32,143)	(177,909)	(44,467)
Loss from marked to market on dealing securities	8,883	5,034	20,170	5,034
Gain on sale of equipment and investment property	(286)	(11,614)	(108)	(14,513)
(Gain)/Loss on deemed disposal of associate companies' shares	–	–	(130)	4,814
Notional tax credit on treasury bills and bonds	(85,702)	(81,422)	(136,902)	(93,122)
Share of profits of associates	–	–	(1,066,101)	(1,048,616)
Bad and doubtful debts	498,945	257,661	786,158	358,708
Investments - impairment losses	11,303	–	41,303	6,604
Gain on disposal of subsidiary	–	–	42,491	–
Minority interests	–	–	22,865	79,095
(Increase)/decrease in account receivables	(955,792)	(1,069,743)	920,569	(1,305,639)
Increase/(decrease) in account payables	(6,372)	238,788	(2,474,896)	407,242
Increase/(decrease) in income tax payable	22,715	(273,897)	400,012	(230,766)
Increase in Income tax refund receivable	(1,980)	–	(14,396)	(4,040)
Increase/(decrease) in deferred tax	(34,571)	113,219	(123,544)	59,300
(Increase)/decrease in operating assets	5,674,563	(1,942,321)	(698,715)	(6,101,004)
Increase/(decrease) in operating liabilities	196,921	(8,463,434)	7,126,991	(4,466,423)
Net cash from/(used in) operating activities	5,890,007	(10,469,049)	6,636,717	(10,219,585)

Notes from pages 79 to 136 form part of these financial statements.

Cash Flow Statement

Note b

Net cash effect on disposal of DFCC Stockbrokers (Pvt) Limited Shares on 01 July 2008

	Rs 000	Rs 000
Fair value of shares exchanged		100,000
Elimination of net assets excluding cash and cash equivalent		
Investment securities	1,160	
Other assets	637,528	
Property plant and equipments	12,818	
Liabilities	625,841	(25,665)
Cash and cash equivalent disposed		74,335

Note c

Net cash effect on investment in Acuity Partners (Pvt) Limited Shares on 1 July 2008

Cash & cash equivalent acquired	174,880
Capital contributed by the Bank	(150,000)
Net cash & cash equivalents	24,880
Proportionate consolidation - 50%	12,440

Notes from pages 79 to 136 form part of these financial statements.

Notes on the Financial Statements

1. Reporting Entity

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

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

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

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

The Bank does not have a Parent of its own.

The Bank's Group comprises five subsidiary companies viz., DFCC Consulting (Pvt) Limited, DFCC Vardhana Bank Limited, Lanka Industrial Estates Limited, Lanka Ventures PLC and Synapsys Limited. DFCC Stockbrokers (Pvt) Limited ceased to be a subsidiary on 1 July 2008 consequent to transfer of its voting shares held by the Bank to Acuity Partners (Pvt) Limited in exchange for the voting shares in Acuity Partners (Pvt) Limited, which became a joint venture company of DFCC Bank and Hatton National Bank PLC from the said date.

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

All subsidiary companies and associate companies have been incorporated under Companies Act No. 17 of 1982 and re-registered under Section 487 (2) of the Companies Act No. 7 of 2007. The joint venture company was incorporated under the new Companies Act No. 7 of 2007.

Total employee population of the Bank and the Group on 31 March 2009 was 419 and 950 respectively.

(31 March 2008 - 419 and 810 respectively)

1.1 Principal Activities

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

DFCC Bank
Financial products and services to industrial, agricultural and commercial enterprises in Sri Lanka.

DFCC Consulting (Pvt) Limited
Technical, financial and other professional consultancy services in Sri Lanka and abroad.

DFCC Vardhana Bank Limited
Commercial banking.

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

Lanka Ventures PLC
Venture capital financing.

Synapsys Limited
Information technology services and information technology enabled services.

Commercial Bank of Ceylon PLC
Commercial banking.

National Asset Management Limited
Fund management.

Acuity Partners (Pvt) Limited
Investment company and providing financial services.

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

2. Basis of Preparation

2.1 Statement of Compliance with Sri Lanka Accounting Standards

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

2.2 First Time Adoption of Sri Lanka Accounting Standard 16 (Revised 2006) on Employee Benefits

The Group adopts this standard commencing in the financial year ended 31 March 2009. This standard deals with recognition, measurement, disclosure and presentation of short-term employee benefits and post-employment benefits in the form of defined benefit and defined contribution benefit. The Bank has changed the accounting policy relevant to employee benefits in accordance with the revised standard. The revised accounting policy and financial impact of the change have been disclosed in these notes.

Key changes include:

- Actuarial valuation of gratuity provision replacing the allowed alternative.
- Change in the recognition criteria of net actuarial gains and losses.
- Recognition of past service cost.
- Enhanced disclosures.

2.3 Approval of Financial Statements by Directors

The financial statements are authorised for issue by the Board of Directors on 27 May 2009.

2.4 Consolidated and Separate Financial Statements

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

2.5 Basis of Measurement

The consolidated and separate financial statements of DFCC Bank are presented in Sri Lankan Rupees, the functional and presentation currency, rounded to the nearest thousand and unless otherwise stated herein have been prepared under the historical cost convention. Exceptions to the historical cost convention of accounting relate to dealing and investment securities. In the separate financial statements of the DFCC Bank, the investments in associates, subsidiaries and joint venture company are accounted on the basis of direct equity interest rather than on the basis of the reported results and net assets of the investees.

2.6 Accrual Basis of Accounting

All revenue and expenses are recognised using accrual basis of accounting with the exception of interest income from non-performing assets and items given in Notes 5.1.6 and 5.1.7, which are recognised only on the cash basis.

2.7 Materiality and Aggregation

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

2.8 Critical Accounting Estimates and Judgments

2.8.1 General

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

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

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

2.8.2 Judgments and the Financial Impact

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

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

2.8.3 Accounting Estimates

2.8.3.1 Loan Losses

The assessment of loan loss as set out in Notes 27.2.1 and 27.2.2 involves considerable judgment and estimation. Judgment is required firstly to determine whether there are indications that a loss may already have been incurred in individually significant loans and secondly to determine the recoverable amount.

2.8.3.2 Pension Liability

The estimation of this liability determined by an independent, qualified actuary, necessarily involves long-term assumptions on future changes to salaries, future income derived from pension assets, life expectancy of covered employees etc. Key assumptions are disclosed in Note 13.6.

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

2.8.3.3 End of Service Statutory Gratuity Liability

The estimation of this liability, which is not funded, determined by an independent, qualified actuary necessarily involves long-term assumptions on future changes to salaries, resignations prior to the normal retirement age and mortality of covered employees. Key assumptions are disclosed in Note 13.6.

2.8.3.4 Income Tax

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

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

2.8.3.5 Deferred Tax Asset arising from Unused Tax Losses

This relates to the deferred tax asset arising from unused tax losses of Bank's subsidiary, DFCC Vardhana Bank Limited. The recognition of tax asset arising from unused tax losses required the future estimation of the taxable profit of the subsidiary company to assess the absorption capacity for unused tax losses on 31 December 2008. In the event the future results of the subsidiary indicates the probability of a decline in taxable profits, the consequent impairment of deferred tax asset will be recognised in that period.

2.8.3.6 Impairment of Tangible and Intangible Assets

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

Impairment losses if any are charged to income statement immediately.

3. Basis of Consolidation

3.1 General

The consolidated financial statements are prepared by consistent application of consolidation procedures, which include amalgamation of the financial statements of the parent and subsidiaries and accounting for the investments in associate companies and joint venture company on the basis of reported results and net assets of the investee instead of the direct equity interest. The consolidation of the joint venture company results is on proportionate consolidation method by combining Bank's share of assets, liabilities, income and expenses of the joint venture company with the similar items line by line in the financial statements of the Bank.

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

3.2 Transactions Eliminated on Consolidation

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

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

Audited financial statements are used. Financial statements of Lanka Ventures PLC, DFCC Consulting (Pvt) Limited, National Asset Management Limited and Lanka Industrial Estates Limited included in the consolidation have financial year to 31 March in common with the Bank. The financial years of DFCC Vardhana Bank Limited, Synapsys Limited and Commercial Bank of Ceylon PLC end on 31 December and financial statements of these companies for year to 31 December 2008 have been included for consolidation and equity accounted respectively with appropriate adjustments for significant events between the two dates. The Group financial statements for the year ended 31 March 2009 include half year ended 30 June 2008 results of DFCC Stockbrokers (Pvt) Limited and results of Acuity Partners (Pvt) Limited for half year ended 31 December 2008.

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

Results of subsidiaries, associate company and joint venture company is adjusted and disclosed for any such transactions.

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

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

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

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

4. Scope of Consolidation

All subsidiaries have been consolidated.

4.1 Subsidiaries

Subsidiaries are those entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of entities so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Note 33 contains the financial information relating to subsidiaries.

Minority interests in subsidiaries are determined on the basis of proportionate equity in the subsidiaries owned by minority equity holders. The minority interests and the interest of the equity holders of the Bank are separately identified in the consolidated income statement and consolidated balance sheet.

4.2 Associate Companies

Associate companies are those enterprises in which the Bank has significant influence but not control over the financial and operating policies. The consolidated financial statements include the Bank's share of the total recognised gains and losses of the associate companies, on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. Note 31 contains financial information relating to associate companies.

4.3 Joint Venture Company

Joint venture company is an incorporated enterprise in which the Bank owns 50% of the voting shares with a contractual arrangement with the other company, who owns the balance 50% of the voting shares, in terms of which both parties have joint control over that enterprise. Note 32 contains financial information relating to joint venture company.

5. Principal Accounting Policies

Accounting policies are the specific principles, bases, conventions, rules and practices applied consistently by the Bank in presenting and preparing the financial statements. Changes in accounting policies are made only if the Sri Lanka Accounting Standards requires such change or when a change results in providing more relevant information. New policies are formulated as appropriate to new products and services provided by the Bank or new obligations incurred by the Bank.

Changes to the accounting policies of the Bank, its subsidiaries and associate companies in the year ended 31 March 2009 are disclosed together with the financial impact of the change in accounting policy.

5.1 Revenue and Expense Recognition

5.1.1 Interest Income

Interest receivable is recognised on an accrual basis except for loans and advances classified as non-performing based on criteria set out in Direction No. 4 of 2008 dated 8 May 2008 as amended by Direction 10 of 2008 dated 30 December 2008 issued by Central Bank of Sri Lanka on 'Classification of Loans and Advances, Income Recognition and Provisioning' as amended.

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

The criteria for classification of loans and advances as non-performing is explained in Note 5.2.5.

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

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

5.1.3 Discount or Premium on Purchase of Dated Debt Securities

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

5.1.4 Finance Lease Income

Gross earnings from leases comprising the excess of aggregate rentals receivable over the cost of leased asset are allocated over the term of the lease commencing with the month in which the lease is granted, in proportion to the declining receivable balances. Income of finance leases included in lease rentals is recognised on an accrual basis except for finance leases classified as non-performing based on criteria set out in Direction No. 4 of 2008 dated 8 May 2008 as amended by Direction 10 of 2008 dated 30 December 2008 issued by Central Bank of Sri Lanka on 'Classification of Loans and Advances, Income Recognition and Provisioning' as amended.

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

5.1.5 Dividend Income

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

5.1.6 Discount on Bills of Exchange

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

5.1.7 Default Interest

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

5.1.8 Front-end Fee Income

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

5.1.9 Consultancy and Other Professional Service Income

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

5.1.10 Underwriting Commission

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

5.1.11 Guarantee Fee

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

5.1.12 Gains on Sale of Property, Plant and Equipment

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

5.1.13 Gains on Sale of Investment Property

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

5.1.14 Gains on Disposal of Dated Debt Securities

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

5.1.15 Sale and Repurchase Agreements

Where Treasury Bills/Bonds and other corporate debt securities are sold subject to a commitment to repurchase them at a predetermined price ('Repos') the difference between sale and repurchase price is recognised as other income over the life of the agreement.

5.1.16 Premises Rental Income

Rental income is recognised on accrual basis.

5.1.17 Marked to Market Gains on Dealing Securities

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

5.1.18 Marked to Market Gains on Forward Exchange Contracts

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

5.1.19 Foreign Exchange Income

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

5.1.20 Gains on Sale of Subsidiary to Joint Venture Company

Investment by the Bank in the voting ordinary shares DFCC Stockbrokers (Pvt) Limited was sold on 1 July 2008 to the joint venture company in which Bank owns 50% of the ordinary voting shares. The profit on sale being the difference between the sale consideration and the cost of investment was reduced by 50% as a consolidation adjustment.

5.1.21 Interest Expense

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

5.1.22 Allowances for Credit Losses

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

Group makes both general and specific provisions.

5.1.22.1 Specific Provisions

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

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

The specific provision has two elements:

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

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

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

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

5.1.22.2 General Provision

As at 31 March 2009, a general provision of 1% of the outstanding balances of performing and overdue loans has been made as per the direction issued by the Central Bank of Sri Lanka on all licensed banks operating in Sri Lanka. This general provision was imposed in December 2006 initially at 0.1% increasing at the rate of 0.1% per quarter up to a maximum of 1% on 31 March 2009.

In addition, the Bank has made a general provision of 1% on finance leases net of specific provision.

5.1.23 Investment Securities Losses

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

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

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

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

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

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

5.1.24 Income Tax Expense

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

5.1.24.1 Current Tax

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

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

5.1.24.2 Deferred Tax

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

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

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

   Deferred tax assets and liabilities are not discounted.

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

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

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

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

5.1.24.3 Social Responsibility Levy

The current rate of this levy, with effect from 1 April 2008 is 1.5% of the income tax and this is included in the current income tax expense. Previously this was 1%.

5.1.24.4 Value Added Tax

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

5.1.24.5 Withholding Tax on Dividends distributed by Subsidiaries and Associate Companies

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

5.2 Assets and Bases of their Valuation

5.2.1 Cash & Cash Equivalent

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

5.2.2 Balances with Central Bank

DFCC Vardhana Bank a subsidiary of the Bank is a licensed commercial bank. The monetary law act requires all commercial banks operating in Sri Lanka to maintain cash deposits with the Central Bank of Sri Lanka as a reserve against all deposit liabilities denominated in Sri Lanka Rupees. The details of this reserve requirement are given in Note 21.

5.2.3 Securities

5.2.3.1 Dealing Debt Securities

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

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

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

The loss arising from marked to market adjustment on 31 March 2009 was Rs8.8 million and is included in the income statement.

5.2.3.2 Investment Debt Securities

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

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

5.2.3.3 Securities Purchased under Resale Agreements (Reverse Repurchase Transactions)

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

5.2.3.4 Securities Sold under Repurchase Agreements ('Repos')

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

5.2.3.5 Dealing Securities - Ordinary Shares

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

5.2.3.6 Investment Securities - Shares, Debentures and Units Purchased from Unit Trusts

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

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

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

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

5.2.3.7 Investment Securities - Venture Capital Investments

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

5.2.4 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.

5.2.5 Non-Performing Loans and Finance Leases

The classification on 31 March 2009 is based on the Direction No. 4 of 2008 dated 8 May 2008 as amended by Direction 10 of 2008 dated 30 December 2008. The loans are classified as non-performing based on the following criteria:

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

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

The determinant for classification of loans and finance leases of the Bank as non-performing, as interpreted by the Bank based on the earlier direction, was similar to the new criteria on 31 March 2009 with no significant difference. Thus the Bank had proactively adopted the new criteria previously.

The classification criterion as per the direction is applied individually to each credit facility extended to a borrower. The Bank proactively classified all credit facilities to a borrower as non-performing when 60% of the total facilities were non-performing during the year to 31 March 2008. During the year to 31 March 2009 the threshold for classification of all credit facilities to a borrower was reduced to 50%.

As per the Direction No. 4 of 2008 as amended, where multiple credit facilities have been granted to a single borrower, in the event the aggregate outstanding amount of non-performing credit facilities exceed 30% of the total credit facilities extended to the borrower, the balance facilities also have to be classified as non-performing by 1 January 2010.

5.2.6 Categorisation of Non-Performing Loans and Finance Leases

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

Category	Facility Type	Determinant
Special Mention	Credit facilities, repayable in monthly instalments	3 instalments or more but less than 6 instalments, principal and/or interest are due and unpaid
	Other credit facilities	The payments are in arrears for 90 days or more but less than 180 days from the due date
Sub-standard Credit Facilities	Credit facilities, repayable in monthly instalments	6 instalments or more but less than 12 instalments, principal and/or interest are due and unpaid
	Other credit facilities	The payments are in arrears for 180 days or more but less than 360 days from the due date
Doubtful Credit Facilities	Credit facilities, repayable in monthly instalments	12 instalments or more but less than 18 instalments, principal and/or interest are due and unpaid
	Other credit facilities	The payments are in arrears for 360 days or more but less than 540 days from the due date
Loss Credit Facilities	Credit facilities, repayable in monthly instalments	18 instalments or more principal and/ or interest are due and unpaid
	Other credit facilities	The payments are in arrears for 540 days or more

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

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

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

Previously on 31 March 2008 reclassification of non-performing loans and leases to performing was only on settlement of all dues by the borrower and rescheduled non-performing loans were reclassified as performing after a mandatory watch period of 6 months.

5.2.8 Finance Leases

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

5.2.9 Investment Property

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

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

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

The rates of depreciation are as follows:

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

5.2.10 Investment in Subsidiaries and Associate Companies

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

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

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

Groups' investment in associates includes goodwill identified on acquisition, net of any impairment losses. (Note 31)

5.2.11 Investment in Joint Venture Company

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

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

5.2.12 Property, Plant and Equipment

5.2.12.1 Basis of Recognition

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

5.2.12.2 Measurement at Recognition

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

5.2.12.3 Subsequent Measurement

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

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

The rates of depreciation are as follows:

Buildings	5% per annum
Furniture, fittings & plant	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.

5.2.12.4 Derecognition

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

5.2.13 Goodwill or Negative Goodwill on Consolidation

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

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

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

5.2.14 Intangible Assets - Computer Application Software

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

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

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

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

5.2.15 Impairment of Assets

5.2.15.1 Tangible and Financial Assets

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

5.2.15.2 Intangible Assets - Computer Application Software and Goodwill on Consolidation

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

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

5.2.16 Foreign Currency Translation

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

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

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

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

5.2.17 Comparative Information

Where items are regrouped, comparative information is also adjusted.

5.3 Liabilities and Provisions

5.3.1 Provision for Pension Liability under a Defined Benefit Plan

5.3.1.1 Description of the Plan and Employee Groups Covered

The Bank established a Trust Fund in May 1989, which operates the pension scheme for payment of pension approved by the Commissioner General of Inland Revenue. The fund of the scheme is managed by trustees appointed by the Bank and is separate from the Bank. The scheme provides for payment of pension to retirees, spouse and minor children of deceased retirees based on preretirement salary. All members of the permanent staff who joined prior to 1 May 2004 except one are covered by this funded pension scheme subject to 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 and prior to 1 May 2004.The amendment reduced the scope of the benefit in the interest of long-term sustainability of the pension plan as advised by the independent actuary.

The defined benefit pension plan does not permit any post-retirement increases in pension nor any other benefit (e.g. medical expenses reimbursement).

5.3.1.2 Funding Arrangement

The Bank's contributions to the Trust Fund are made annually based on the recommendation of an independent actuary. The employees make no contributions to qualify for the basic pension, which is therefore a non-contributory benefit to the employees. Eligible employees who desire to provide for the payment of pension to spouse and minor children, who survive them are however, required to contribute monthly, an amount based on a percentage of gross emoluments, excluding bonus, if they joined the Bank on or after 31 August 1998 and prior to 1 May 2004.

5.3.1.3 Recognition of Actuarial Gains and Losses

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

Sri Lanka Accounting Standard (SLAS) 16 (Revised 2006) on - Employee Benefits effective for the financial year ended 31 March 2009 provided an option to the Bank to either recognise only the excess net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period, over a defined corridor or recognise the entire net unrecognised cumulative actuarial gains and losses.

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

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

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

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

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

This accounting policy is adopted commencing from the financial year ended 31 March 2009.

Previously the accounting policy adopted by the Bank was to recognise the entire net unrecognised cumulative actuarial gains and losses at the end of the previous reporting period, over the remaining working life of the participants in the pension scheme.

5.3.1.4 Transitional Arrangements

SLAS 16 (Revised 2006) provides options to deal with differences in the net accrued liability recognised under the current revised standard and the previous standard. The Bank has determined that on 1 April 2008 the net accrued liability recognised in the balance sheet under the current revised standard **exceeds** the net accrued liability recognised in the balance sheet on 31 March 2008 under the previous standard.

SLAS 16 (Revised 2006) permits the Bank to recognise this loss arising from a change of accounting policy necessitated by a revised accounting standard, immediately by retrospective application or amortise this loss over a five-year period commencing from year ended 31 March 2009.

The Bank has chosen to recognise the net loss of Rs2.2 million immediately by retrospective application.

5.3.1.5 Recognition of Past Service Cost

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

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

5.3.2.1 Description of the Plan and Employee Groups Covered

Bank provides for the gratuity payable under the Payment of Gratuity Act No. 12 of 1983 for all employees who do not qualify under the Pension Scheme. Therefore, this applies to employees recruited to the permanent cadre on or after 1 May 2004 on tenured or fixed term contract employment in the Bank.

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

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

5.3.2.2 Funding Arrangement

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

5.3.2.3 Recognition of Actuarial Gains and Losses

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

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

This accounting policy is adopted commencing from the financial year ended 31 March 2009.

5.3.2.4 Transitional Arrangements

The Bank has determined that on 1 April 2008 the net accrued liability recognised in the balance sheet under the current revised standard exceeds the net accrued liability recognised in the balance sheet on 31 March 2008 under the previous standard.

As in the case of pension liability, the Bank has chosen to recognise this loss of Rs3.3 million immediately by retrospective application. The portion of the loss attributable to the year ended 31 March 2008 is debited to that year by restating the comparative amount for that year. The balance of Rs2.6 million is credited to the retained profit of the Bank on 1 April 2007 as a prior year charge. Details in Note 47.3.5.

5.3.2.5 Recognition of Past Service Cost

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

5.3.2.6 Previous Accounting Policy

Previous standard permitted a non-actuarial computation of the provision for end of service gratuity liability as an alternative method to the benchmark treatment of actuarial valuation method. Under this method the balance sheet provision was the number of completed years of service multiplied by half a months of the applicable salary on the balance sheet date, for each employee eligible to participate in the end of service gratuity scheme.

The revised standard has eliminated the alternative method and made the benchmark treatment of actuarial valuation method as the only method. All other elements of the current accounting policy is the same. The revised standard also provides a formulaic method which approximate the actuarial valuation only for specified enterprises

5.3.3 Defined Contribution Plans

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

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

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

5.3.4 Debentures Issues by the Bank and Deposit from Customers

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

5.3.5 Borrowing

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

5.3.6 Provisions for Liabilities

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

5.3.7 Off Setting

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

5.3.8 Commitments and Contingencies

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

5.3.9 Events after Balance Sheet Date

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

6. Cash Flow

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

7. Business Segment Reporting

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

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

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

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

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

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

8. Directors' Responsibility Statement

The Directors' acknowledge the responsibility for true and fair presentation of the financial statements in accordance with the books of account and Sri Lanka Accounting Standards. Further elaboration of the Directors' Responsibility is on page 70.

For the year ended 31 March	BANK 2009 Rs 000	BANK 2008 Rs 000	GROUP 2009 Rs 000	GROUP 2008 Rs 000

9. Income

Gross income	9,887,897	9,636,415	13,416,193	11,723,253
Interest income	8,528,857	8,491,044	11,998,933	10,497,378
Other income	1,359,040	1,145,371	1,417,260	1,225,875
	9,887,897	9,636,415	13,416,193	11,723,253

10. Interest Income

Loans	6,489,723	6,203,091	9,119,574	8,001,762
Treasury Bills Bonds and placements with other banks	1,046,381	1,098,768	1,856,742	1,281,213
Gross earnings under finance leases	939,277	1,141,271	939,277	1,141,271
Default interest on lease rentals	53,096	47,914	53,096	47,925
Interest and discount arising from debt securities	380	0	30,244	25,207
	8,528,857	8,491,044	11,998,933	10,497,378

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

	BANK 2009 Rs 000	BANK 2008 Rs 000	GROUP 2009 Rs 000	GROUP 2008 Rs 000

11. Interest Expense

Medium and long-term borrowing	2,280,827	1,974,367	2,267,370	1,987,887
Short-term borrowing:				
Interest on overdrafts and revolving facilities	1,467,675	1,454,631	1,750,581	1,716,706
Debentures	791,306	662,161	791,306	662,161
Time deposits from customers	1,084,156	1,723,674	2,952,703	2,676,416
	5,623,964	5,814,833	7,761,960	7,043,170

For the year ended 31 March	BANK 2009 Rs 000	BANK 2008 Rs 000	GROUP 2009 Rs 000	GROUP 2008 Rs 000

12. Other Income

	BANK 2009 Rs 000	BANK 2008 Rs 000	GROUP 2009 Rs 000	GROUP 2008 Rs 000
Dividend income from securities				
Quoted ordinary shares	16,548	25,644	16,777	28,643
Unquoted ordinary shares	879	2,652	11,210	13,001
Unquoted preference shares	172,076	115,674	183,462	125,602
Units in unit trusts	97,277	44,848	105,075	51,817
Dividend income from investments in associates/subsidiaries				
Quoted ordinary shares	376,649	436,694	0	0
Unquoted ordinary shares	50,449	29,082	0	0
Quoted preference shares	1,831	5,062	1,831	5,062
	715,709	659,656	318,355	224,125
Gain/(loss) on sale of investment securities				
Quoted ordinary shares	135,462	16,820	135,462	25,395
Others	(14,076)	15,323	(44)	19,072
Gain on disposal of subsidiary*	84,981	0	42,491	0
Loss from marked to market on dealing securities	(8,883)	(5,034)	(20,170)	(5,034)
Recovery of bad debts	117,942	203,971	117,942	203,971
Front end fee	20,694	18,045	24,784	19,426
Consultancy and other professional services	64,470	112,225	69,793	146,978
LC commission	0	636	57,349	39,553
Underwriting commission and guarantee fees	12,325	19,179	51,048	57,893
Net gain on repurchase transactions	82,133	24,033	119,389	43,296
(Loss)/gain on sale of Treasury Bills and Bonds	(330)	92	(1,921)	853
Net gain on sale of equipment and investment property	286	11,614	108	14,513
Gain/(Loss) from marked to market on Treasury Bills and Bonds	583	(583)	15,539	(583)
Premises rental income:				
Investment property	0	0	120,493	116,443
Freehold property	39,229	31,333	18,045	18,943
Foreign exchange profit/(loss)	60,306	(3,654)	76,593	99,637
(Loss)/gain on deemed disposal of associate	0	0	130	(4,814)
Others	48,209	41,715	271,874	206,208
	1,359,040	1,145,371	1,417,260	1,225,875

**Only 50% of the profit from sale to the joint venture company is recognised.*

13. Provision for Staff Retirement Benefits

13.1 Amount Recognised as Expense

13.1.1 Funded Liability

	BANK 2009 Rs 000	BANK 2008 Rs 000	GROUP 2009 Rs 000	GROUP 2008 Rs 000
Current service cost	53,633	49,614	53,633	49,614
Interest on obligation	105,289	90,199	105,289	90,199
Expected return on pension assets	(86,297)	(70,483)	(86,297)	(70,483)
Net actuarial loss recognised in the financial year	22,442	22,217	22,442	22,217
Over provision in the previous financial year	(7)	0	(7)	0
	95,060	91,547	95,060	91,547

For the year ended 31 March	BANK 2009 Rs 000	BANK 2008 Rs 000	GROUP 2009 Rs 000	GROUP 2008 Rs 000
13.1.2 Unfunded Pension Liability				
Current service cost	3,023	2,518	3,023	2,518
Interest on obligation	2,552	1,869	2,552	1,869
Net actuarial loss recognised in the financial year	2,385	909	2,385	909
	7,960	5,296	7,960	5,296
13.1.3 Unfunded End of Service Gratuity Liability				
Current service cost	1,769	1,470	10,691	8,179
Interest on obligation	1,092	748		
	2,861	2,218	10,691	8,179
Total Defined Benefit Plans	105,881	99,061	113,711	105,022
13.1.4 Defined Contribution Plan				
Employer's contribution to Provident Fund	48,269	42,964	74,601	59,819
Employer's contribution to Employees Trust Fund	9,672	8,593	14,905	12,015
Total Defined Contribution Plans	57,941	51,557	89,506	71,834
Total Expense recognised in the Income Statement	163,822	150,618	203,217	176,856

13.2 Amortisation of Net Actuarial Losses/(Gains)

	BANK 2009 Rs 000	BANK 2008 Rs 000
13.2.1 Funded Liability		
Balance at beginning	126,901	147,100
Recognised in the financial year	(22,442)	(22,217)
	104,459	124,883
Net actuarial loss/(gain) during the financial year	(154,691)	2,018
	(50,232)	126,901
13.2.2 Unfunded Pension Liability		
Balance at beginning	4,358	1,321
Recognised in the financial year	(2,385)	(909)
	1,973	412
Net actuarial loss/(gain) during the financial year	(899)	3,946
	1,074	4,358
13.2.3 End of Service Gratuity Liability		
Net actuarial loss during the financial year	5,333	

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

Bank will recognise only the portion of the net cumulative actuarial loss/(gain) that exceeds 10% corridor by amortising such excess over the remaining working life of the employees participating in the defined benefit plans. The 10% corridor is the greater of 10% of present value of defined benefit obligation before deducting the plan assets; and 10% of the fair value of any plan asset. These limits are calculated and applied separately for each defined benefit plan. Thus only the net actuarial loss in respect of end of service gratuity which exceeds 10% of the present value of defined benefit obligation on 31 March 2009 (Note 47.3.3) shall be amortised over the remaining working life of participants, during the year ended 31 March 2010.

13.3 Unfunded Pension Liability

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

13.4 Actuarial Valuation

Actuarial valuation was carried out by Mr. Piyal S Gunathilake, Fellow of the Society of Actuaries USA of Piyal S Gunathilake & Associates, on 31 March 2009.

13.5 Actuarial Valuation Method

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

13.6 Principal Actuarial Assumptions

	Pension benefit (%)	End of service gratuity (%)
Discount rate as at 31 March 2009, per annum		
Pre-retirement	9.0	11.5
Post-retirement	9.0	not applicable
Future salary increases per annum	11.5	11.0
Expected rate of return on pension assets	9.0	–
Actual rate of return on pension assets	18.4	–
Mortality	UP 1984 mortality table	
Retirement age	55 years	55 years
Normal form of payment:		
Pension benefit	lump sum commuted pension payment followed by reduced pension for 10 years (25% reduction).	
End of service gratuity		lump sum.
Turnover rate -		
Age		
20	10.0	10.0
30	10.0	10.0
40	5.0	5.0
50/55	1.0	1.0

The discount rate is the yield rate on 31 March 2009 with a term equalling the estimated period for which all benefit payments will continue. This period is approximately 23 years for pension and 10 years for end of service gratuity. The differences in the discount rates for pension and end of service gratuity reflect the differences in the term.

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

Changes to assumptions: In the previous year the discount rate for the pension was 9% in the pre-retirement period reducing to 8% in the post-retirement period. The annual increase in total pensionable remuneration was 11%.

For the year ended 31 March	BANK 2009 Rs 000	BANK 2008 Rs 000	GROUP 2009 Rs 000	GROUP 2008 Rs 000

14. Bad and Doubtful Debts - Specific

Provision for the year				
Loans	350,013	208,760	706,372	446,343
Leases	208,564	104,543	208,564	104,543
Dues on terminated leases	9,801	10,233	9,801	10,233
Bills of exchange	0	0	11,021	5,282
Others	14,329	1,485	14,329	1,485
Loan/lease losses	2,697	14,981	5,767	14,981
	585,404	340,002	955,854	582,867
Less: Reductions in the year				
Loans	166,318	176,898	289,738	361,058
Leases	59,151	62,405	59,151	62,405
Dues on terminated leases	26,702	17,121	26,702	17,121
Bills of exchange	5,620	0	7,405	1,005
Others	1,170	0	1,170	0
	326,443	83,578	571,688	141,278

15. Bad and Doubtful Debts - General

Provision for the year				
Loans	114,187	150,707	155,782	192,120
Leases	58,315	23,376	58,315	23,376
Bills of exchange	0	0	373	1,934
	172,502	174,083	214,470	217,430

16. Investment - Impairment Losses

Investment securities	11,303	0	41,303	6,604

17. Operating Expenses

Operating expenses include the following:				
Directors' remuneration	33,446	25,844	47,955	36,059
Employers contribution to Employees' Provident Fund	48,269	42,964	74,601	59,819
Employers contribution to Employees' Trust Fund	9,672	8,593	14,905	12,015
Gratuity provision	2,861	2,218	10,691	8,179
Auditors' remuneration				
Audit fees and expenses	2,052	1,782	3,684	2,718
Audit related fees and expenses	581	1,114	873	1,194
Fees for non-audit services	214	463	214	463
Fees for other auditors	0	0	530	445
Depreciation - Investment property	0	0	6,354	6,069
- Property, plant and equipment	93,066	87,628	165,924	138,775
Amortisation - Intangible assets	30,517	45,032	70,230	81,063
Expenses on litigation	4,375	4,469	11,910	8,278

18. Income Tax Expense

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

18.2 Relationship between Tax Expense and Accounting Income

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

For the year ended 31 March	**BANK** 2009 Rs 000	2008 Rs 000	**GROUP** 2009 Rs 000	2008 Rs 000
Profit before tax as per the income statement	2,005,923	1,982,901	3,122,415	3,090,097
Disallowed expenses and provisions	977,538	706,316	1,044,849	143,824
Lease rentals net of capital allowances	896,786	1,554,863	896,786	1,554,863
Reported earnings under finance lease net of provision for bad & doubtful debts	(806,765)	(1,106,021)	(806,765)	(1,106,021)
Capital allowances on property, plant and equipment	(96,630)	(77,031)	(234,687)	(214,605)
Dividend income	(715,709)	(659,656)	(318,355)	(224,125)
Gain on sale of investment securities	(206,367)	(32,143)	(163,877)	(44,467)
Other exemptions	(255,155)	(100,228)	(309,987)	(176,338)
Assessable Income	1,799,621	2,269,001	3,230,379	3,023,228
Offset of brought forward tax lossess (limited to 35% of assessable income)	–	–	(215,130)	(135,001)
Taxable Income	1,799,621	2,269,001	3,015,249	2,888,227
Income tax expense reported in the Income Statement at the effective income tax rate	629,867	794,150	813,445	930,789
Effective tax rate %	31	40		

Companies/income taxed at rates lower than 35%

	2009 %	2008 %
Lanka Ventures PLC - On venture capital income	20	20
Lanka Industrial Estates Limited (BOI approved company) - On business turnover	2	2
Synapsys Limited (BOI approved company) - Income other than investment income	exempt	exempt
Profit earned on overseas assignment rendered in Sri Lanka and paid in foreign currency	35	15

18.3 Tax on Profit on Ordinary Activities

For the year ended 31 March	**BANK** 2009 Rs 000	2008 Rs 000	**GROUP** 2009 Rs 000	2008 Rs 000
Taxation based on profits for the year	629,867	794,150		
Tax over provision	(18,388)	(15,849)		
Increase in deferred tax asset	(371)	(186)		
Increase/(decrease) in deferred tax liability	34,942	(113,033)		
Bank	646,050	665,082	646,050	665,082
Acuity Partners (Pvt) Limited - joint venture		0	10,112	0
DFCC Consulting (Pvt) Limited	0	0	(54)	4,690
DFCC Stockbrokers (Pvt) Limited	0	0	6,087	8,437
DFCC Vardhana Bank Limited	0	0	227,586	138,142
Lanka Industrial Estates Limited	0	0	19,275	16,112
Lanka Ventures PLC	0	0	144,193	10,893
Synapsys Limited	0	0	1,595	101
Subsidiary companies' tax	0	0	408,794	178,375
Total	646,050	665,082	1,054,844	843,457

	GROUP	
	2009 Rs 000	2008 Rs 000
18.4 Summary		
Bank	646,050	665,082
Subsidiaries		
- current tax	321,828	124,182
- deferred tax - asset (Note 40)	74,728	44,807
- liability (Note 46)	12,238	9,386
Total	1,054,844	843,457

19. Earnings per Share

19.1 Basic Earnings per Share

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

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

19.2 Diluted Earnings per Share

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

		BANK		GROUP	
For the year ended 31 March		**2009**	2008	**2009**	2008
19.3 Computation of Basic and Diluted Earnings per Share					
Profit for the year (Rs 000)		1,359,873	1,317,819	2,044,706	2,167,545
Weighted average number of shares		130,664,310	126,642,134	130,664,310	126,642,134
Basic earnings per share, Rs		10.41	10.41	15.65	17.12
Number of shares that would have been issued at fair value					
in respect of options granted on	31.03.2003		197,276		197,276
	31.03.2004		1,448,892		1,448,892
	31.03.2006		165,933		165,933
			1,812,101		1,812,101
Number of shares at nil consideration (dilutive potential					
shares) in respect of options granted on	31.03.2003		330,093		330,093
	31.03.2004		412,014		412,014
	31.03.2006		34,521		34,521
			776,628		776,628
Total number of shares under option			2,588,729		2,588,729
Ordinary shares in issue and dilutive potential shares			127,418,762		127,418,762
Diluted earnings per share, Rs			10.34		17.01

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

19.5 Restatement of Diluted Earnings Per Share

For the year ended 31 March	BANK 2008 Rs 000	GROUP 2008 Rs 000
Diluted earnings per share as reported	10.35	17.02
Less: Net effect of change in accounting policy	0.01	0.01
Diluted Earnings per Share restated	10.34	17.01

20. Cash and Short-Term Funds

	BANK		GROUP	
	31.03.2009 Rs 000	31.03.2008 Rs 000	31.03.2009 Rs 000	31.03.2008 Rs 000
Cash and balance with banks	668,498	142,135	1,491,263	1,160,984
Call deposits				
DFCC Vardhana Bank Limited	857,598	1,562,410	220,973	873,585
Others	0	0	785,100	489,851
Time deposits				
DFCC Vardhana Bank Limited	636,625	0	636,625	0
Others	347,250	0	1,080,023	1,164,099
	2,509,971	1,704,545	4,213,984	3,688,519

Balances with banks includes the rupee equivalent of foreign currency denominated escrow account, established for the purpose of repaying Japanese Yen to Asian Development Bank on 15th April 2009.

21. Balances with Central Bank

	BANK		GROUP	
	31.03.2009 Rs 000	31.03.2008 Rs 000	31.03.2009 Rs 000	31.03.2008 Rs 000
Statutory deposit with Central Bank of Sri Lanka	0	0	768,383	611,301

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

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

There are no reserve requirements for deposit liabilities of the foreign currency banking unit and foreign currency deposit liabilities in the domestic banking unit

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

	BANK		GROUP	
	31.03.2009 Rs 000	31.03.2008 Rs 000	31.03.2009 Rs 000	31.03.2008 Rs 000
Treasury Bills and Bonds held for trading				
Repurchase transactions	0	1,984,065	1,775,696	1,984,065
Others	0	268,708	1,388,080	268,708
	0	2,252,773	3,163,776	2,252,773
Treasury Bills and bonds held to maturity				
Repurchase transactions	3,196,185	0	3,196,185	0
Others	2,709,024	4,167,167	6,290,838	5,240,212
	5,905,209	6,419,940	12,650,799	7,492,985

23. Securities Purchased under Resale Agreements

	BANK 31.03.2009 Rs 000	BANK 31.03.2008 Rs 000	GROUP 31.03.2009 Rs 000	GROUP 31.03.2008 Rs 000
Loans at cost	96,000	208,000	1,523,823	753,256

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

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

	BANK 31.03.2009 Rs 000	BANK 31.03.2008 Rs 000	GROUP 31.03.2009 Rs 000	GROUP 31.03.2008 Rs 000
Placements	0	0	20,000	0
Loans to banks	1,454,262	1,578,595	1,332,262	1,471,654
	1,454,262	1,578,595	1,352,262	1,471,654

24.1 Placements

	BANK 31.03.2009 Rs 000	BANK 31.03.2008 Rs 000	GROUP 31.03.2009 Rs 000	GROUP 31.03.2008 Rs 000
Financial Institutions	0	0	20,000	0
	0	0	20,000	0

24.2 Loans to Banks

	BANK 31.03.2009 Rs 000	BANK 31.03.2008 Rs 000	GROUP 31.03.2009 Rs 000	GROUP 31.03.2008 Rs 000
Subordinated loan - DFCC Vardhana Bank Limited	122,000	122,000	0	0
Refinanced loans - Plantation development project	812,086	956,595	812,086	956,595
- KFW DFCC (V) SME in the North and East	20,176	0	20,176	0
Other loans	500,000	500,000	500,000	515,059
	1,454,262	1,578,595	1,332,262	1,471,654

25. Dealing Securities

	BANK 31.03.2009 Number of ordinary shares	BANK Cost Rs 000	BANK Market value Rs 000	GROUP 31.03.2009 Number of ordinary shares	GROUP Cost Rs 000	GROUP Market value Rs 000
Quoted Ordinary Shares						
Dialog Telekom PLC	54,890	919	269	54,890	919	269
John Keells Holdings PLC	148,335	17,555	9,308	205,477	26,708	12,894
Lanka IOC PLC	0	0	0	240,000	9,560	3,840
Sri Lanka Telecom PLC	900	16	30	900	16	30
		18,490	9,607		37,203	17,033
Marked to market adjustment		(8,883)			(20,170)	
Market value on 31.03.2009		**9,607**			**17,033**	
Market value on 31.03.2008		17,591			17,591	

	BANK 31.03.2009 Rs 000	31.03.2008 Rs 000	GROUP 31.03.2009 Rs 000	31.03.2008 Rs 000
26. Bills of Exchange Discounted				
Balance on 31 March				
Local bills	0	5,640	0	5,640
Export bills	0	0	256,330	321,102
Import bills	0	0	86,555	178,320
Less: Provision for overdue bills - Specific	0	5,640	13,947	10,000
- General	0	0	2,767	2,394
	0	0	326,171	492,668
26.1 Movement in Specific Provision				
Balance on 31 March 2008	5,640		10,000	
Add : Provision for the year	0		11,021	
Exchange rate difference on foreign currency provision	0		350	
Less : Recoveries	5,640		7,405	
Write-off	0		19	
	0		13,947	
26.2 Movement in General Provision				
Balance on 31 March 2008	0		2,394	
Add : Provision for the year	0		373	
	0		2,767	
27. Loans and Advances				
27.1 Balance on 31 March				
Sri Lanka Rupee Loans				
Direct loans	32,872,158	34,673,243	38,282,667	39,303,310
Commercial papers & asset back notes	354,901	1,052,277	354,901	1,052,277
Debenture loans	615,038	1,023,252	615,038	1,023,252
Overdrafts		0	8,377,716	5,371,315
Staff loans for miscellaneous purposes	240,850	227,692	303,993	284,911
	34,082,947	36,976,464	47,934,315	47,035,065
Foreign Currency Loans				
Direct loans	1,073,436	1,208,178	2,305,283	2,065,688
	35,156,383	38,184,642	50,239,598	49,100,753
Less: Loan loss provision - Specific	923,690	703,244	1,314,207	861,635
- General	339,987	225,800	434,110	278,328
Balance net of loan loss provision	33,892,706	37,255,598	48,491,281	47,960,790

	BANK		GROUP	
	31.03.2009 Rs 000	31.03.2008 Rs 000	31.03.2009 Rs 000	31.03.2008 Rs 000
27.2 Movement in Loan loss Provision				
27.2.1 Specific Provision				
Balance on 31 March 2008	703,244		861,635	
Add: Provision for the year	350,013		706,372	
Transfer from interest in suspense	38,344		38,907	
Exchange rate difference on foreign currency provision	0		1,089	
Less: Reduction in the year	166,318		289,738	
Write-off of loans	1,593		4,058	
	923,690		1,314,207	
27.2.2 General Provision				
Balance on 31 March 2008	225,800		278,328	
Add: Provision for the year	114,187		155,782	
	339,987		434,110	

28. Finance Leases

	BANK		GROUP	
	31.03.2009 Rs 000	31.03.2008 Rs 000	31.03.2009 Rs 000	31.03.2008 Rs 000
28.1 Balance on 31 March				
Gross investment in leases:				
Lease rentals receivable				
- within one year from balance sheet date	3,318,564	3,214,106	3,318,564	3,214,106
- after one year from balance sheet date	3,145,097	5,230,762	3,145,097	5,230,762
	6,463,661	8,444,868	6,463,661	8,444,868
Less: Deposit of rentals	69,445	78,739	69,445	78,739
Specific provision for leases in default	309,715	206,253	309,715	206,253
General provision for leases	96,604	38,289	96,604	38,289
Income in suspense	79,352	61,927	79,352	61,927
Unearned income on rentals receivable				
- within one year from balance sheet date	647,680	820,367	647,680	820,367
- after one year from balance sheet date	456,435	758,175	456,435	758,175
Net investment in leases	4,804,430	6,481,118	4,804,430	6,481,118

	BANK		GROUP	
	31.03.2009 Rs 000	31.03.2008 Rs 000	31.03.2009 Rs 000	31.03.2008 Rs 000
28.2 Movement in Provision				
28.2.1 Specific Provision				
Balance on 31 March 2008	206,253		206,253	
Add: Provision for the year	208,564		208,564	
Less: Recoveries	59,151		59,151	
Transfers *	45,951		45,951	
	309,715		309,715	

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

	BANK		GROUP	
28.2.2 General Provision				
Balance on 31 March 2008	38,289		38,289	
Add: Provision for the year	58,315		58,315	
	96,604		96,604	
28.3 Movement in Income Suspense				
Balance on 31 March 2008	61,927		61,927	
Add: Transfer during the year	145,308		145,308	
Less: Recoveries	127,883		127,883	
	79,352		79,352	

29. Interest Receivable

	BANK		GROUP	
29.1 Balance on 31 March				
Amount due	1,466,995	977,707	1,466,995	1,248,323
Amount accrued and not due	469,516	607,487	895,645	606,752
Less: Interest in suspense	1,333,222	980,851	1,680,412	1,154,869
	603,289	604,343	682,228	700,206
29.2 Movement in Interest in Suspense				
Balance on 31 March 2008	980,851		1,154,869	
Add: Transfer during the year	817,799		1,457,901	
Less: Collections	408,407		862,668	
Transfer to loan provision	38,344		38,907	
Write-off	18,677		30,783	
	1,333,222		1,680,412	

30. Investment Securities

30.1 Composition of Investment Securities

30.1.1 Bank

	Ordinary Shares		Preference Shares		Debentures		Unit Trusts	Total	Total
	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted		31.03.2009	31.03.2008
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Performing investments	276,248	39,895	0	1,186,417	0	0	334,055	1,836,615	1,594,072
Non-performing investments	22,068	47,790	0	0	0	0	11,947	81,805	85,755
	298,316	87,685	0	1,186,417	0	0	346,002	1,918,420	1,679,827

30.1.2 Group

	Ordinary Shares Quoted Rs 000	Ordinary Shares Unquoted Rs 000	Preference Shares Quoted Rs 000	Preference Shares Unquoted Rs 000	Debentures Quoted Rs 000	Debentures Unquoted Rs 000	Unit Trusts Rs 000	Total 31.03.2009 Rs 000	Total 31.03.2008 Rs 000
Performing investments	300,552	140,350	0	1,324,773	0	163,500	384,055	2,313,230	2,092,683
Non-performing investments	22,068	47,790	0	55,000	0	0	11,947	136,805	129,505
Less: Provision for diminution	6,850	0	0	48,750	0	0	0	55,600	25,354
	315,770	188,140	0	1,331,023	0	163,500	396,002	2,394,435	2,196,834

30.2 Movement in Investment Securities

30.2.1 Bank

	Ordinary Shares Quoted Rs 000	Ordinary Shares Unquoted Rs 000	Preference Shares Quoted Rs 000	Preference Shares Unquoted Rs 000	Debentures Quoted Rs 000	Debentures Unquoted Rs 000	Unit Trusts Rs 000	Total 31.03.2009 Rs 000	Total 31.03.2008 Rs 000
Balance on 31 March	377,424	72,685	50,000	828,833	0	0	350,885	1,679,827	1,260,439
Additions for the year	8,000	15,000	0	575,000	0	0	320,117	918,117	562,469
Less: Disposals	75,789	0	0	0	0	0	325,000	400,789	14,683
Redemptions	0	0	50,000	217,416	0	0	0	267,416	128,398
Transfer to dealing securities	16	0	0	0	0	0	0	16	0
Write-offs	11,303	0	0	0	0	0	0	11,303	0
	298,316	87,685	0	1,186,417	0	0	346,002	1,918,420	1,679,827
Market value									
on 31.03.2009	**321,615**	**–**	**0**	**–**	**–**	**–**	**379,412**	**701,027**	
on 31.03.2008	559,543	–	45,000	–	–	–	399,943	1,004,486	

30.2.2 Group

	Ordinary Shares Quoted Rs 000	Ordinary Shares Unquoted Rs 000	Preference Shares Quoted Rs 000	Preference Shares Unquoted Rs 000	Debentures Quoted Rs 000	Debentures Unquoted Rs 000	Unit Trusts Rs 000	Total 31.03.2009 Rs 000	Total 31.03.2008 Rs 000
Balance on 31 March	397,295	149,140	50,000	1,050,939	30,000	143,929	400,885	2,222,188	1,790,331
Additions for the year	31,725	40,000	0	575,000	0	40,000	320,117	1,006,842	679,724
Additions through acquisition of a joint venture	580	0	0	0	0	0	0	580	0
Less: Disposals during the year	75,788	1,000	0	0	0	0	0	76,788	96,327
Redemptions during the year	0	0	50,00 0	246,166	30,000	20,429	325,000	671,595	151,540
Transfer to dealing securities	18,729	0	0	0	0	0	0	18,729	0
Write-offs	11,303	0	0	0	0	0	0	11,303	0
Disposal of a subsidiary	1,160	0	0	0	0	0	0	1,160	0
	322,620	188,140	0	1,379,773	0	163,500	396,002	2,450,035	2,222,188
Less: Provision for diminution	6,850	0	0	48,750	0	0	0	55,600	25,354
	315,770	188,140	0	1,331,023	0	163,500	396,002	2,394,435	2,196,834
Market value									
on 31.03.2009	**339,368**	**–**	**0**	**–**	**0**	**–**	**431,610**	**770,978**	
on 31.03.2008	574,507	–	45,000	–	30,200	–	449,948	1,099,655	

30.3 Provision for Diminution

30.3.1 Movement in Provision

	GROUP 31.03.2009 Rs 000	GROUP 31.03.2008 Rs 000
Balance on 31 March	25,354	18,750
Recognised in: Income Statement	30,000	6604
Retained earnings	143	0
Minority interest	103	0
	55,600	25,354

30.4 On 31 March 2009 the Bank held more than 20% and less than 50% of the voting control in Hydrotech Lanka Dickoya (Pvt) Limited. This investment is classified under investment securities and not as investments in associate companies since the Bank did not have a significant influence over the operating and financial policies of this company.

	31.03.2009 Number of ordinary shares	31.03.2009 Cost* Rs 000	31.03.2009 Market value Rs 000	31.03.2008 Number of ordinary shares	31.03.2008 Cost* Rs 000	31.03.2008 Market value Rs 000
30.5 Quoted Ordinary Shares						
Banks, Finance & Insurance						
Ceylinco Insurance PLC - voting	4,100	719	574	4,100	719	880
Ceylinco Insurance PLC - non-voting	28,571	5,000	2,171	0	0	0
Hatton National Bank PLC - non-voting	797,600	23,575	30,308	797,600	23,575	40,877
Housing Development Finance Corporation Bank of Sri Lanka	37,400	3,375	1,898	37,400	8,228	4,479
Janashakthi Insurance PLC	250,000	3,000	1,938	0	0	0
Lanka Orix Leasing Company PLC	17,828	780	1,235	17,828	780	2,099
Sampath Bank PLC	173,300	18,991	12,131	173,300	18,991	20,059
Seylan Bank PLC - non-voting	260,000	4,416	1,430	260,000	4,416	2,405
		59,856	51,685		56,709	70,799
Beverages, Food & Tobacco						
Ceylon Tobacco Company PLC	119,967	86	11,517	119,967	86	7,528
Distilleries Company of Sri Lanka PLC	117,200	4,752	7,618	117,200	4,752	11,486
		4,838	19,135		4,838	19,014
Chemicals & Pharmaceuticals						
Haycarb PLC	19,130	944	890	19,130	944	1,114
Construction & Engineering						
Colombo Dockyard PLC	88,725	5,442	5,080	84,500	5,442	5,091
Diversified Holdings						
Aitken Spence & Company PLC	63,200	21,522	19,908	63,200	21,522	27,176
Hayleys PLC	250,460	22,484	22,541	250,460	22,484	24,482
		44,006	42,449		44,006	51,658
Healthcare						
Ceylon Hospitals PLC - voting	100,000	2,500	5,300	100,000	2,500	5,800
Ceylon Hospitals PLC - non-voting	300,000	6,000	8,550	300,000	6,000	10,800
		8,500	13,850		8,500	16,600
Hotels & Travels						
Sigiriya Village Hotels PLC	55,000	1,284	1,375	55,000	1,284	1,815
Stafford Hotels PLC	5,909,825	56,990	67,963	5,909,825	56,990	65,008
		58,274	69,338		58,274	66,823
Information Technology						
E-Channelling PLC	877,100	8,771	6,798	877,100	8,771	13,595
Investment Trusts						
Ceylon Guardian Investment Trust PLC	36,884	1,298	3,841	36,844	1,298	6,079
Ceylon Investment Company PLC	94,520	2,564	5,482	94,520	2,564	7,373
		3,862	9,323		3,862	13,452

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

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

	31.03.2009 Number of ordinary shares	31.03.2009 Cost* Rs 000	31.03.2009 Market value Rs 000	31.03.2008 Number of ordinary shares	31.03.2008 Cost* Rs 000	31.03.2008 Market value Rs 000
30.5 Quoted Ordinary Shares (Contd.)						
Manufacturing						
ACL Cables PLC	51,000	3,070	1,237	51,000	3,070	2,346
Chevron Lubricants Lanka PLC	304,700	20,301	32,146	304,700	20,301	29,861
Piramal Glass PLC	12,981,852	25,000	16,876	12,981,852	25,000	25,964
Ceylon Grain Elevators PLC	48,997	1,297	392	48,997	1,297	576
Lanka Tiles PLC	296,219	5,809	8,442	211,587	5,809	13,436
Tokyo Cement (Lanka) PLC - non-voting	1,236,000	16,346	11,124	1,236,000	16,346	19,158
		71,823	70,217		71,823	91,341
Power & Energy						
Lanka Indian Oil Company PLC	600,000	12,000	9,600	600,000	18,450	13,200
Vallibel Power Erathna PLC	7,500,000	20,000	23,250	7,500,000	20,000	18,000
		32,000	32,850		38,450	31,200
Telecommunications						
Sri Lanka Telecom PLC	0	0	0	4,335,900	75,805	178,856
Total Quoted Shares - Bank		298,316	321,615		377,424	559,543
Investment in quoted shares by subsidiaries		24,304	17,753		19,871	14,964
Total Quoted Shares - Group		322,620	339,368		397,295	574,507
30.5.1 Investment in Quoted Ordinary Shares by Subsidiaries						
Banks, Finance & Insurance						
Central Finance PLC	3	0	0	6	0	1
		0	0		0	1
Beverage & Tobacco						
Coco Lanka PLC	937,500	23,725	16,875	0	0	0
		23,725	16,875		0	0
Power & Energy						
Lanka Indian Oil Company PLC	0	0	0	240,000	9,560	5,280
	0	0	0		9,560	5,280
Diversified Holdings						
Hayleys PLC	7,491	557	644	14,982	1,115	1,614
John Keells Holdings PLC	4,680	22	234	66,892	9,196	8,069
		579	878		10,311	9,683
		24,304	17,753		19,871	14,964

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

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

	31.03.2009 Number of ordinary shares	31.03.2009 Cost* Rs 000	31.03.2009 Directors' valuation Rs 000	31.03.2008 Number of ordinary shares	31.03.2008 Cost* Rs 000	31.03.2008 Directors' valuation Rs 000
30.6 Unquoted Ordinary Shares						
Beico Link Carbons (Pvt) Limited	328,500	2,190	2,190	328,500	2,190	2,190
Browns Dimo Industrial Products (Pvt) Limited	150,000	1,500	1,500	150,000	1,500	1,500
Ceylinco Developers Limited	250,000	2,500	2,500	250,000	2,500	2,673
Credit Information Bureau of Sri Lanka	8,884	888	888	8,884	888	888
Cyprea Lanka (Pvt) Limited	1,500,000	15,000	15,000	1,500,000	15,000	15,000
Durdans Medical & Surgical Hospital (Pvt) Limited	1,200,000	15,000	15,000	0	0	0
Fitch Ratings Lanka Limited	62,500	625	625	62,500	625	625
Hydrotech Lanka (Dickoya) (Pvt) Limited	1,834,500	4,500	4,500	1,834,500	4,500	4,500
Link Development (Pvt) Limited	150,000	750	750	150,000	750	750
Plastipak Lanka Limited	240,000	2,400	2,400	240,000	2,400	2,400
Ranweli Resorts Limited	1,616,193	10,748	10,748	1,616,193	10,748	12,733
Sampath Centre Limited	1,000,000	10,000	10,000	1,000,000	10,000	10,000
Samson Reclaim Rubbers (Pvt) Limited	116,700	2,334	2,752	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	9,750	9,750	2,750,000	9,750	9,750
Total unquoted ordinary shares - Bank		87,685	88,103		72,685	74,843
Investments in unquoted ordinary shares by subsidiaries		100,455			76,455	
Total unquoted ordinary shares - Group		188,140			149,140	

30.6.1 Investments in Unquoted Ordinary Shares by Subsidiaries	31.03.2009 Number of ordinary shares	31.03.2009 Cost* Rs 000	31.03.2008 Number of ordinary shares	31.03.2008 Cost* Rs 000
Credit Information Bureau of Sri Lanka	300	30	300	30
Durdans Heart Surgical Centre (Pvt) Limited	1,500,000	14,625	1,500,000	14,625
Durdans Medical & Surgical (Pvt) Limited	2,000,000	25,000	0	0
Hayleys Hydro Energy (Pvt) Limited	5,880,000	58,800	5,880,000	58,800
Lankaclear (Pvt) Limited	100,000	1,000	100,000	1,000
Lanka Financial Services Bureau Limited	100,000	1,000	200,000	2,000
		100,455		76,455

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

	31.03.2009		31.03.2008	
	Number of shares	Cost* Rs 000	Number of shares	Cost* Rs 000
30.7 Quoted Redeemable Cumulative Preference Shares				
Commercial Bank of Ceylon PLC - 11.25%	0	0	5,000,000	50,000
Investments in quoted preference shares - Bank	0	0		50,000
Investments in quoted preference shares - by subsidiaries	0	0		0
Total investments in quoted preference shares - Group		0		50,000
30.8 Unquoted Preference Shares				
30.8.1 Unquoted Redeemable Cumulative Preference Shares				
Carson Cumberbatch & Company PLC	40,625,000	406,250	17,500,000	175,000
Dialog Telekom PLC	423,000,000	423,000	470,000,000	470,000
Eden Hotels Lanka Limited	3,333,334	33,334	6,666,667	66,667
Heladanavi (Pvt) Limited	8,333,335	83,333	11,666,669	116,666
Sampath Centre Limited	24,000,000	240,000	0	0
		1,185,917		828,333
30.8.2 Unquoted Irredeemable Preference Shares				
Arpico Finance Company PLC	50,000	500	50,000	500
Total investments in unquoted preference shares - Bank		1,186,417		828,833
Investments in unquoted preference shares by subsidiaries		193,356		222,106
Total investments in unquoted preference shares - Group		1,379,773		1,050,939
30.8.3 Investments in Unquoted Preference Shares by Subsidiaries				
E Services Limited	2,500,000	25,000	2,500,000	25,000
LVS Energy (Pvt) Limited	5,000,000	50,250	5,000,000	50,250
Nividhu (Pvt) Limited	3,280,000	32,981	3,280,000	32,981
Renuka Agrifoods Limited	0	0	1,875,000	18,750
Royal Fernwood Porcelain Limited	2,500,000	30,000	2,500,000	30,000
Tudawe Brothers Limited	390,000	30,000	400,000	40,000
Unit Energy (Pvt) Limited	2,500,000	25,125	2,500,000	25,125
		193,356		222,106

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

	31.03.2009 Cost* Rs 000	31.03.2008 Cost* Rs 000
30.9 Quoted Debentures		
Total quoted debentures - Bank	0	0
Investments in quoted debentures by subsidiaries	0	30,000
Total investments in quoted debentures - Group		30,000
33.10.1 Investments in Quoted Debentures by Subsidiaries		
Commercial Bank of Ceylon PLC - 9.39%	0	20,000
Hatton National Bank PLC - 10%	0	10,000
	0	30,000
30.10 Unquoted Debentures		
Total investments in unquoted debentures - **Bank**	0	0
Investments in unquoted debentures by subsidiaries	163,500	143,929
Total investments in unquoted debentures - Group	163,500	143,929
30.10.1 Investments in Unquoted Debentures by Subsidiaries		
Ceylon Hospitals PLC	100,000	100,429
Hatton National Bank PLC	13,500	13,500
Renuka Agrifoods Limited	0	10,000
Neluwa Cascade Limited	40,000	0
Coco Lanka PLC	0	10,000
Unit Energy (Pvt) Limited	10,000	10,000
	163,500	143,929

	31.03.2009			31.03.2008		
	Number of units	Cost* Rs 000	Market value Rs 000	Number of units	Cost* Rs 000	Market value Rs 000
30.11 Investments in Unit Trusts						
NAMAL Flexi Income Fund	0	0	0	2,512,565	25,000	25,930
NAMAL Growth Fund	1,203,050	11,947	31,857	1,203,050	11,947	42,564
NAMAL Income Fund	16,712,129	170,624	178,987	16,712,129	170,624	171,466
NAMAL Money Market Fund	13,465,899	135,372	140,314	11,471,212	115,255	119,530
National Equity Fund	2,640,540	28,059	28,254	2,640,540	28,059	40,453
Total investments in unit trusts by Bank		346,002	379,412		350,885	399,943
Investments in unit trusts by subsidiaries		50,000	52,198		50,000	50,005
Total investments in unit trusts by Group		396,002	431,610		400,885	449,948
30.11.1 Investments in Unit Trusts by Subsidiaries						
NAMAL Income Fund	4,873,740	50,000	52,198	4,873,740	50,000	50,005
		50,000	52,198		50,000	50,005

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

	BANK		GROUP	
	31.03.2009 Rs 000	31.03.2008 Rs 000	31.03.2009 Rs 000	31.03.2008 Rs 000
31. Investments in Associate Companies				
Quoted				
Commercial Bank of Ceylon PLC				
(Ownership 26.9%-27.11% in 2008)				
Balance at beginning	3,151,959	1,549,418	6,353,709	4,076,063
Share of profit after tax	–	–	1,061,224	1,044,323
Dividend received - elimination on consolidation	–	–	(333,005)	(393,778)
Loss on deemed reduction in ownership	–	–	130	(4,814)
Investments in rights issue	–	1,602,541	–	1,602,541
Movement recognised in the statement of changes in equity	–	–	34,476	29,374
Balance on 31 March	3,151,959	3,151,959	7,116,534	6,353,709
Unquoted				
National Asset Management Limited				
(Ownership 30%)				
Balance at beginning	35,270	35,270	42,080	39,813
Share of profit after tax	–	–	4,877	4,293
Dividend received - elimination on consolidation	–	–	(2,820)	(2,026)
Balance on 31 March	35,270	35,270	44,137	42,080
Total	3,187,229	3,187,229	7,160,671	6,395,789
Market value of quoted investment in (Voting & non-voting ordinary shares)	5,049,111	9,225,702	5,049,111	9,225,702

There is ongoing litigation related to the Bank's maximum permissible shareholding and voting rights in Commercial Bank of Ceylon PLC (CBC). The Bank is defending actions filed against it relating to which an interim injunction is operative until the final determination of the action, restricting the aggregate voting rights of the Bank and certain other shareholders to 10%. The Bank has also filed actions seeking to invalidate the direction issued by the Monetary Board to reduce its shareholding in CBC to 15% or in the alternative seeking time until 2012 to reduce the shareholding. These actions are pending.

Investment in Commercial Bank of Ceylon PLC continues to be classified as an Associate Company on the basis that though the voting rights attached to this investment is restricted to 10% after 23 October 2008 in terms of applicable direction issued by the Central Bank, the Bank continues to have representation on the Board of CBC and thereby has the ability to participate in policy making process.

The market price of Commercial Bank of Ceylon PLC on 31 March 2009 is the ex-div. price. (i.e., excluding dividend included in the cum-div. price on 31 March 2009).

Based on value in use the Bank has determined that there is no impairment of the equity accounted carrying amount of the investment in the Commercial Bank of Ceylon PLC.

	BANK 31.03.2009 Rs 000	BANK 31.03.2008 Rs 000	GROUP 31.03.2009 Rs 000	GROUP 31.03.2008 Rs 000

32. Investment in Joint Venture

	BANK 31.03.2009 Rs 000	BANK 31.03.2008 Rs 000	GROUP 31.03.2009 Rs 000	GROUP 31.03.2008 Rs 000
Unquoted				
Acuity Partners (Pvt) Limited (Ownership 50%)				
Balance on 31 March	250,000	0	0	0

Bank's Interest in Acuity Partners (Pvt) Limited includes:	
Balance sheet	
Total assets	2,160,849
Elimination of gain attributable to parent - consolidation adjustment	(42,491)
	2,118,358
Less total liabilities	1,827,850
	290,508
Income statement	
Income	65,805
Less: Operating expenses	47,680
Tax expense	10,112
Profit for the period	8,013

Acuity Partners (Pvt) Limited became a joint venture company of Hatton National Bank PLC and DFCC Bank on 1 July 2008. The initial stated capital of joint venture company was Rs500 million contributed equally by DFCC Bank and Hatton National Bank PLC.

	Rs 000
DFCC Bank contribution:	
Fair value of shares transferred from DFCC Stockbrokers (Pvt) Limited re-named as Acuity Stockbrokers (Pvt) Limited	100,000
Cash Contribution	150,000
	250,000

33. Investments in Subsidiary Companies

	Acuity Stockbrokers (Pvt) Limited Ownership 100% Rs 000	DFCC Consulting (Pvt) Limited Ownership 100% Rs 000	DFCC Vardhana Bank Limited Ownership 96% Rs 000	Lanka Industrial Estates Limited Ownership 50% Rs 000	Lanka Ventures PLC Ownership 59% Rs 000	Synapsys Limited Ownership 100% Rs 000	Bank 31.03.2009 Rs 000	31.03.2008 Rs 000
Balance at beginning	15,019	5,000	2,286,261	78,283	237,600	20,000	2,642,163	1,764,888
Investment in rights issue	–	–	–	–	–	–	0	851,957
Investments in addtional shares	–	–	23	–	–	–	23	5,318
Cost of acquisition	–	–	–	–	–	–	0	20,000
Disposal	15,019	–	–	–	–	–	15,019	0
Balance on 31 March	0	5,000	2,286,284	78,283	237,600	20,000	2,627,167	2,642,163
Market value of quoted investments	–	–	–	–	167,439	–	167,439	327,597

The Bank increased the ownership of DFCC Vardhana Bank Limited by investing in 1707 additional shares. The ownership remained at 95.6%.

Shares in DFCC Stockbrokers (Pvt) Limited subsequently re-named as Acuity Stockbrokers (Pvt) Limited were transferred to Acuity Partners (Pvt) Limited on 1 July 2008.

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

Based on value in use Bank has determined that there is no impairment of the investment in the Lanka Ventures PLC.

	BANK		GROUP	
	31.03.2009 Rs 000	31.03.2008 Rs 000	31.03.2009 Rs 000	31.03.2008 Rs 000

34. Group Balances Receivable

	BANK 31.03.2009 Rs 000	BANK 31.03.2008 Rs 000	GROUP 31.03.2009 Rs 000	GROUP 31.03.2008 Rs 000
Acuity Partners (Pvt) Limited	7	0	0	0
Acuity Stockbrokers (Pvt) Limited	0	1,326	0	0
DFCC Consulting (Pvt) Limited	122	258	0	0
DFCC Vardhana Bank Limited	33,320	51,932	0	0
Synapsys Limited	2,876	16,774	0	0
	36,325	70,290	0	0

35. Income Tax Refund Receivable

	BANK 31.03.2009 Rs 000	BANK 31.03.2008 Rs 000	GROUP 31.03.2009 Rs 000	GROUP 31.03.2008 Rs 000
Balance on 31 March	1,980	0	14,396	4,040

36. Investment Property

36.1 Movement

	BANK 31.03.2009 Rs 000	BANK 31.03.2008 Rs 000	GROUP 31.03.2009 Rs 000	GROUP 31.03.2008 Rs 000
Balance at beginning	6,500	6,500	137,181	131,833
Additions during the year	0	0	10,388	12,372
Less: Depreciation	0	0	6,354	6,069
Disposals during the year	0	0	0	955
	6,500	6,500	141,215	137,181

36.2 List of Investment Property

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

* *The fair value of investment property as at 31.03.2009 was based on market valuations carried out in 2007 by Mr P B Kalugalagedara, FIV (Sri Lanka), Chartered Valuer.*

** *Cost net of cumulative impairment loss*

37. Goodwill on Consolidation

	GROUP 31.03.2009 Rs 000	GROUP 31.03.2008 Rs 000
Acuity Stockbrokers (Pvt) Limited	0	56
DFCC Vardhana Bank Limited	146,602	146,602
	146,602	146,658

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

38. Property, Plant and Equipment

38.1 Composition: Bank

	Land & building Rs 000	Office equipment Rs 000	Furniture & fittings Rs 000	Motor vehicles Rs 000	Total Rs 000
Cost as at 31.03.2008	260,697	473,662	147,702	151,802	1,033,863
Additions for the year	569	47,682	28,338	5,964	82,553
Less: Disposals during the year	0	1,172	1,415	0	2,587
Cost as at 31.03.2009	261,266	520,172	174,625	157,766	1,113,829
Accumulated depreciation as at 31.03.2008	111,745	332,912	51,606	98,990	595,253
Charge for the year	8,721	53,556	13,644	17,145	93,066
Less: Accumulated depreciation on disposal	0	1,172	1,015	0	2,187
Accumulated depreciation as at 31.03.2009	120,466	385,296	64,235	116,135	686,132
Net book value as at 31.03.2009	**140,800**	**134,876**	**110,390**	**41,631**	**427,697**
Net book value as at 31.03.2008	148,952	140,750	96,096	52,812	438,610

38.1.1 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	48,251	6,259
5, Deva Veediya, Kandy	4,600	12.54	12,699	4,301	8,398
259/30, Kandy Road, Bambarakelle, Nuwara-Eliya	0	28.72	7,279	0	7,279
73, W A D Ramanayake Mw., Colombo 2	21,400	45.00	184,178	67,914	116,264
4A, 4th Cross Lane, Borupana, Ratmalana	0	20.00	2,600	0	2,600
			261,266	120,466	140,800

Market Value of Properties

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

Valued by Mr P B Kalugalagedera - Chartered Valuer

38.2 Composition: Group

	Land & building Rs 000	Plant & machinery Rs 000	Office equipment Rs 000	Furniture & fittings Rs 000	Motor vehicles Rs 000	Total Rs 000
Cost as at 31.03.2008	313,918	64,850	692,717	319,373	201,284	1,592,142
Additions for the year	637	0	132,555	83,896	5,964	223,052
Additions through acquisition of a Joint venture	0	0	15,622	6,016	8,575	30,213
Less: Transferred to intangible assets	0	0	796	0	0	796
Disposals during the year	0	0	1,609	1,770	0	3,379
Disposal of a subsidiary	0	0	7,465	1,155	13,936	22,556
Cost as at 31.03.2009	314,555	64,850	831,024	406,360	201,887	1,818,676
Accumulated depreciation as at 31.03.2008	131,433	61,552	429,732	102,953	117,234	842,904
Charge for the year	11,005	560	98,235	32,108	24,016	165,924
Additions through acquisition of a joint venture	0	0	10,278	5,177	2,034	17,489
Less: Transferred to intangible assets	0	0	187	0	0	187
Accumulated depreciated on disposal	0	0	1,603	1,132	0	2,735
Disposal of a subsidiary	0	0	4,946	818	1,995	7,759
Accumulated depreciation as at 31.03.2009	142,438	62,112	531,509	138,288	141,289	1,015,636
Net book value as at 31.03.2009	**172,117**	**2,738**	**299,515**	**268,072**	**60,598**	**803,040**
Net book value as at 31.03.2008	182,485	3,298	262,985	216,420	84,050	749,238

	BANK		GROUP	
	31.03.2009 Rs 000	31.03.2008 Rs 000	31.03.2009 Rs 000	31.03.2008 Rs 000
39. Intangible Assets				
Cost at beginning	264,287	244,926	610,632	558,229
Transferred from property, plant and equipment	0	0	796	0
Additions for the year	22,529	19,361	65,510	52,403
Additions through acquisition of a joint venture	0	0	7,325	0
Cost	286,816	264,287	684,263	610,632
Accumulated amortisation at beginning	210,357	165,325	440,525	359,462
Transferred from property, plant and equipment	0	0	187	0
Amortisation for the year	30,517	45,032	70,230	81,063
Additions through acquisition of a joint venture	0	0	3,839	0
Accumulated amortisation	240,874	210,357	514,781	440,525
Net Book Value	45,942	53,930	169,482	170,107
40. Deferred Tax Asset				
Balance at beginning	1,557	1,371	109,047	153,668
Additions through acquisition of a joint venture - Acuity Partners (Pvt) Limited	0	0	367	0
Disposal of subsidiary - Acuity Stockbrokers (Pvt) Limited	0	0	(748)	0
Increase/(decrease)	371	186	(74,357)	(44,621)
Offset against deferred tax liability (Note 46)	1,928	1,557	34,309	109,047
41. Other Assets				
Refundable deposits and advances	70,958	44,388	188,242	68,213
Dividend due	41,742	33,909	41,742	35,472
Reimbursement of exchange loss due from Government of Sri Lanka	129,959	453,609	129,959	453,898
Debtors	451,494	433,846	963,451	1,113,086
	694,153	965,752	1,323,394	1,670,669
42. Deposits from Customers				
Demand deposits	0	0	707,640	594,987
Savings deposits	0	0	2,361,526	1,359,713
Fixed deposits	5,293,162	5,096,374	20,326,168	14,087,966
Certificates of deposits	15,278	15,143	100,071	48,683
Margin deposits	0	0	79,939	261,294
	5,308,440	5,111,517	23,575,344	16,352,643
Deposits from banks	8,088	356,425	1,256,181	1,181,485
Deposits from non-bank customers	4,450,352	4,633,558	21,414,257	14,975,204
Deposits from finance companies	850,000	121,534	904,906	195,954
	5,308,440	5,111,517	23,575,344	16,352,643

43. Borrowing - Medium and Long-Term

43.1 Borrowing

	BANK		GROUP	
	31.03.2009 Rs 000	31.03.2008 Rs 000	31.03.2009 Rs 000	31.03.2008 Rs 000
Repayable in foreign currency				
Exchange difference borne by the Bank				
European Investment Bank (EIB) (US$18 million)	2,039,370	1,991,773	2,039,370	1,991,773
Direct Loans (US$6 million)	735,450	973,050	735,450	973,050
(Accounting Policy Note 5.2.16)	2,774,820	2,964,823	2,774,820	2,964,823
Exchange rate difference reimbursed by GOSL				
(Accounting Policy Note 5.2.16.2)				
Floating rate notes (US$65 million)	0	4,339,732	0	4,339,732
Government of Sri Lanka/ADB Loans-credit lines				
(JPY605 million)	344,524	344,523	344,524	344,523
Repayable in rupees				
Government of Sri Lanka/IDA loans - credit lines	1,834,112	2,029,670	1,834,112	2,029,670
Government of Sri Lanka/ADB loans - credit lines	3,418,583	3,174,374	3,418,583	3,174,374
Government of Sri Lanka/KfW loans - credit lines	2,480,202	2,893,589	2,480,202	2,893,589
Government of Sri Lanka/JBIC loans - credit lines	2,817,407	2,811,906	2,817,407	2,811,906
Government of Sri Lanka/IFAD loans - credit lines	23,085	25,796	23,085	25,796
Government of Sri Lanka/GOI loans	0	34	0	34
European Investment Bank (EIB)	8,690,318	7,099,378	8,690,318	7,099,378
Central Bank of Sri Lanka re-finance loans (secured)	1,346,391	1,689,464	1,346,391	1,689,464
Local borrowing	5,250,000	6,250,000	5,250,000	6,250,000
	28,979,442	33,623,289	28,979,442	33,623,289

43.2 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 ADB.

No new guarantees have been issued during year ended 31 March 2009.

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.

43.3 Assets Pledged as Security

Nature	Amount Rs 000
Assignment in terms of Section 88A of the Monetary Law of loans refinanced by Central Bank	1,346,391

Acronyms:

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

	BANK		GROUP	
	31.03.2009 Rs 000	31.03.2008 Rs 000	31.03.2009 Rs 000	31.03.2008 Rs 000
44. Borrowing - Short-Term				
Borrowing under repurchase agreements (Repos)				
Government securities sold under repurchase	2,768,741	1,709,172	5,639,540	2,231,037
Other securities sold under repurchase	11,130	662,540	11,130	662,540
	2,779,871	2,371,712	5,650,670	2,893,577
Bank overdrafts	0	14,231	1,757	19,796
Inter-bank borrowing	250,000	1,771,000	1,084,669	2,187,255
	3,029,871	4,156,943	6,737,096	5,100,628
45. Debentures				
45.1 Movement in Debentures				
Balance at beginning	2,700,000	2,000,000	2,700,000	2,000,000
Issued during the year	0	700,000	0	700,000
	2,700,000	2,700,000	2,700,000	2,700,000
46. Deferred Tax Liability				
Balance at beginning	252,180	365,213	276,100	379,747
Additions through acquisition of a joint venture - Acuity Partners (Pvt) Limited	0	0	1,626	0
Increase/(decrease)	34,942	(113,033)	47,180	(103,647)
	287,122	252,180	324,906	276,100
Less: deferred tax asset (Note 40)	1,928	1,557	34,309	109,047
	285,194	250,623	290,597	167,053

47. Other Liabilities

	BANK 31.03.2009 Rs 000	BANK 31.03.2008 Rs 000	GROUP 31.03.2009 Rs 000	GROUP 31.03.2008 Rs 000
Accruals	36,282	53,564	136,473	143,416
Prior year dividends	16,680	14,093	18,973	16,969
Security deposit for leases	7,349	7,349	59,989	53,408
Prepaid loan and lease rentals	87,754	87,701	87,754	87,701
Account payables	172,682	158,179	629,683	852,169
	320,747	320,886	932,872	1,153,663
Provision for staff retirement benefits:				
Defined benefit funded pension	28,670	29,638	28,670	29,638
Defined benefit unfunded pension	28,934	20,974	28,934	20,974
Defined benefit unfunded end of service gratuity	5,510	7,727	26,171	20,896
	383,861	379,225	1,016,646	1,225,171
Other provisions	114,920	118,368	135,566	135,068
	498,781	497,593	1,152,212	1,360,239

47.1 Movement in Provision for Staff Retirement Benefits

47.1.1 Defined Benefit Funded Pension

	BANK 31.03.2009 Rs 000	GROUP 31.03.2009 Rs 000
Net accrued liability on 31 March 2008	26,148	26,148
Over provision	7	7
As reported previously	26,155	26,155
Increase on adoption of SLAS 16 (Revised)	3,483	3,483
Restated net accrued liability on 31 March 2008	29,638	29,638
Retirement benefit expense for the financial year	95,060	95,060
Employer contributions for the financial year	(96,028)	(96,028)
Net accrued liability on 31 March 2009	28,670	28,670

47.1.2 Defined Benefit Unfunded Pension

	BANK 31.03.2009 Rs 000	GROUP 31.03.2009 Rs 000
Net accrued liability on 31 March 2008	22,225	22,225
Decrease on adoption of SLAS 16 (Revised)	(1,251)	(1,251)
Restated net accrued liability on 31 March 2008	20,974	20,974
Retirement benefit expense for the financial year	7,960	7,960
Employer contributions for the financial year	–	–
Net accrued liability on 31 March 2009	28,934	28,934

47.1.3 Defined Benefit Unfunded End of Service Gratuity

	BANK 31.03.2009 Rs 000	GROUP 31.03.2009 Rs 000
Net accrued liability on 31 March 2008	4,449	17,619
Increase on adoption of SLAS 16 (Revised)	3,278	3,278
Restated net accrued liability on 31 March 2008	7,727	20,897
Retirement benefit expense for the financial year	2,861	10,691
Gratuity payments for the financial year	(5,078)	(5,417)
Net accrued liability on 31 March 2009	5,510	26,171

47.2 Movement in Other Provisions

	BANK 31.03.2009 Rs 000	GROUP 31.03.2009 Rs 000
Balance as at 31 March 2008	118,368	135,068
Provision for the financial year	123,916	144,562
Payments for the financial year	127,364	144,064
Balance as at 31 March 2009	114,920	135,566

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

	BANK 31.03.2009 Rs 000
47.3.1 Funded Pension Liability	
Present value of defined benefit obligations	1,194,916
Fair value of pension assets	(1,216,478)
Funded status	(21,562)
Unrecognised net loss from prior years (Note 13.2.1)	(104,459)
Unrecognised net gain during financial year (Note 13.2.1)	154,691
Accounting net liability recognised on 31 March	28,670
47.3.2 Unfunded Pension Liability	
Present value of defined benefit obligations	30,008
Fair value of pension assets	–
Funded status	30,008
Unrecognised net loss from prior years (Note 13.2.2)	(1,973)
Unrecognised net gain during financial year (Note 13.2.2)	899
Accounting net liability recognised on 31 March	28,934
47.3.3 Unfunded End of Service Gratuity	
Present value of defined benefit obligations	10,843
Fair value of pension assets	–
Funded status	10,843
Unrecognised net loss during year (Note 13.2.3)	(5,333)
Accounting net liability recognised on 31 March	5,510

47.3.4 Subsidiaries of the Bank, DFCC Consulting (Pvt) Limited, Synapsys Limited, Lanka Industrial Estates Limited and joint venture company Acuity Partners (Pvt) Limited, have opted to measure the post employment benefit obligation by using the gratuity formulate method while other subsidiaries used and qualified actuary. Therefore the Group reconciliation is not included.

	BANK 31.03.2009 Rs 000	GROUP 31.03.2009 Rs 000
47.3.5 Computation of Prior Year Adjustment		
Funded Pension Liability		
Net accrued liability on adoption of		
SLAS 16 (Revised) - transition liability	29,631	29,631
Net accrued liability under previous SLAS 16	(26,148)	(26,148)
Increase in transition liability	3,483	3,483
Unfunded Pension Liability		
Net accrued liability on adoption of		
SLAS 16 (Revised) - transition liability	20,974	20,974
Net accrued liability under previous SLAS 16	(22,225)	(22,225)
Decrease in transition liability	(1,251)	(1,251)
Unfunded End of Service Gratuity		
Net accrued liability on adoption of		
SLAS 16 (Revised) - transition liability	7,727	7,727
Net accrued liability under previous SLAS 16	(4,449)	(4,449)
Increase in transition liability	3,278	3,278
Total prior year adjustment	5,510	5,510
Adjusted in retained profits on 1st April 2007	4,888	
Adjusted to comparative year in provision for		
staff retirement benefits in 31 March 2008	622	
	5,510	

47.3.6 Fair Value of Pension Assets

This comprises monetary assets and does not include investment in bank's own financial instruments.

47.3.7 Discontinuance Valuation

The funded pension liability under discontinuance valuation was Rs1,020 million on 31 March 2009 compared to the fair value of pension assets of Rs1,216 million.

	BANK		GROUP	
	31.03.2009 Rs 000	31.03.2008 Rs 000	31.03.2009 Rs 000	31.03.2008 Rs 000
48. Subordinated Debentures				
Listed in the Colombo Stock Exchange	1,000,000	1,000,000	1,000,000	1,000,000
Private placement	1,000,000	1,000,000	1,000,000	1,000,000
	2,000,000	2,000,000	2,000,000	2,000,000
49. Share Capital				
49.1 Authorised Share Capital				
500,000,000 ordinary shares of Rs10/- each	5,000,000	5,000,000	5,000,000	5,000,000
49.2 Issued Share Capital				
130,732,470 ordinary shares of Rs10/- each	1,307,325	1,301,956	1,307,325	1,301,956
Alloted and fully paid:				
Balance at beginning 130,195,603 ordinary shares (86,556,537 shares in 2008)	1,301,956	865,565	1,301,956	865,565
Rights issue in May 2007, 1 for every 4 held, 21,639,134 ordinary shares	0	216,391	0	216,391
Bonus share issue in June 2007, 1 for every 5 held, 21,639,765 ordinary shares	0	216,398	0	216,398
Issue under share option - 536,867 ordinary shares (360,167 shares in 2008)	5,369	3,602	5,369	3,602
Balance on 31 March 130,732,470 ordinary shares (130,195,603 shares in 2008)	1,307,325	1,301,956	1,307,325	1,301,956

Ordinary shares held by associate Commercial Bank of Ceylon PLC - 20,588, on 31 March 2009.

The financial statements of the Bank has retained the concept of par value, authorised capital and share premium account instead of the Stated Capital introduced by the Companies Act No. 7 of 2007 in accordance with Section 7 of the DFCC Bank Act No. 35 of 1955 as amended.

49.3 Employee Share Option Plan

	31.03.2009 Numbers
49.3.1 Movement in Options Granted	
Options granted	2,215,540
Adjustment for bonus and rights	1,922,820
Options lapsed	(28,319)
Total granted	4,110,041
Less: Options exercised	
Prior years	1,521,313
During the year	536,867
	2,051,861

		31.03.2009 Exercise Price		31.03.2008 Exercise Price		
		Number	Rs	Number	Rs	Expiry date
49.3.2 Composition						
Options granted in year to	31.03.2003	0	0	527,369	53.08	30.06.2008
	31.03.2004	1,851,407	110.48	1,860,906	110.48	30.06.2009
	31.03.2006	200,454	117.46	200,454	117.46	02.07.2011
		2,051,861		2,588,729		

50. Stated Capital

	BANK 31.03.2009 Rs 000	BANK 31.03.2008 Rs 000	GROUP 31.03.2009 Rs 000	GROUP 31.03.2008 Rs 000
Share Capital	1,307,325	1,301,956	1,307,325	1,301,956
Share Premium - Bank	3,207,818	3,184,145	3,207,818	3,184,145
Group	0	0	52,193	52,193
Equivalent Stated Capital	4,515,143	4,486,101	4,567,336	4,538,294

51. Reserves

51.1 Reserve Fund

Five percentum of profits after tax is transferred to the reserve fund as per direction issued by Central Bank of Sri Lanka under section 76 (j) (1) of the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 33 of 1995.

51.2 Other Reserve

	Sinking fund Rs 000	General reserve Rs 000	Foreign currency reserve Rs 000	Primary dealer special risk reserve Rs 000	Total 31.03.2009 Rs 000	Total 31.03.2008 Rs 000
Bank						
Balance at beginning	4,028,459	3,953,584	–	–	7,982,043	6,606,248
Transfers from retained earnings brought forward	–	–	–	–	0	60,795
Transfers	(4,028,459)	4,684,255			655,796	1,315,000
Balance as at 31 March	0	8,637,839	–	–	8,637,839	7,982,043
Group						
Balance at beginning	4,028,459	6,627,882	(115,852)	6,374	10,546,863	8,515,995
Capital redemption reserve fund of associate company (CRRF)	–	–	–	–	0	245,725
Balance restated	4,028,459	6,627,882	(115,852)	6,374	10,546,863	8,761,720
Capitalisation of CRRF in associate company	–	–	–	–	0	(169,153)
Share issue expenses written-off	–	–	–	–	0	(22,179)
Deferred tax effect on revaluation surplus on property - associate company	–	1,337	–	–	1,337	(29,418)
Realised revaluation surplus on disposal of property - associate company	–	–	–	–	0	(399)
Surplus on revaluation property - associate company	–	10,574	–	–	10,574	84,051
Currency translation loss overseas operations- associate company	–	–	–	–	0	(3,081)
Net unrealised gains from translation of Bangladesh operations of - associate company	–	–	17,673	–	17,673	0
Transfers	(4,028,459)	5,287,033	–	6,767	1,265,341	1,864,527
Transfers from retained earnings brought forward	–	–	–	–	0	60,795
Balance as at 31 March	0	11,926,826	(98,179)	13,141	11,841,788	10,546,863

51.3 Other Reserves

51.3.1 Foreign Currency Translation Reserve

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

51.3.2 Primary Dealer Special Risk Reserve

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

51.4 Retained Earnings

This represents cumulative net earnings, inclusive of proposed dividend amounting to Rs654 million payable on approval by the shareholders at the Annual General Meeting on 30 June 2009. The balance is retained and reinvested in the business of the Bank.

52. Minority Interests

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

53. Contingent Liabilities and Commitments

	BANK		GROUP	
	31.03.2009 Rs 000	31.03.2008 Rs 000	**31.03.2009 Rs 000**	31.03.2008 Rs 000
53.1 Contingent Liabilities				
Guarantees issued to:				
DFCC Vardana Bank in respect of indebtedness of customers of the Bank	410,176	375,176	0	0
Other banks in respect of indebtedness of customers of the Bank	139,234	206,559	475,446	466,894
Companies in respect of indebtedness of customers of the Bank	447,975	614,955	1,614,654	1,983,535
Principal collector of customs (duty guarantees)	0	0	51,212	17,045
Shipping guarantees	0	0	382,103	990,485
Documentry credits	0	0	1,871,713	2,217,465
Bills for collection	0	0	661,923	872,454
Income tax (assessment under appeal)	77,406	0	77,406	235,549
Forward exchange contracts (net)	0	0	1,910,051	128,585
53.2 Commitments in Ordinary Course of Business				
Commitments for unutilised credit facilities	6,758,456	6,068,401	7,662,247	6,870,543
Capital expenditure approved by the Board of Directors				
Contracted	0	22,003	94,170	54,406
Not contracted	0	23,592	58,215	101,498
	7,833,247	7,310,686	14,859,140	13,938,459

54. Litigation

54.1 Litigations against the Bank

A client has filed action against five defendants including the Bank in the District Court of Kurunegala claiming that a property mortgaged by him to the Bank had been unlawfully transferred to a third party through procedure in Recovery of Loans by Banks (Special Provisions) Act No. 4 of 1990 seeking the sale of the property to be set aside. and claiming Rs.6 million as damages from the Bank. Since the Bank has transferred the property in terms of a settlement entered in the Magistrate's Court in another case the Bank is defending the action in the District Court

A client of the Bank has instituted legal action in the District Court of Matara against the Bank claiming a sum of Rs10 million for non-disbursement of the full loan approved to him. The Bank had suspended the disbursement of the facility approved to him as he has made a false statement in his application to the Bank. The Bank is defending this action.

A client of the Bank has filed action in the District Court of Kandy claiming Rs1 million as damages on the basis that the Bank has published an incorrect resolution in the newspaper under Recovery of Loans by Banks (Special Provisions) Act No.4 of 1990. The Bank is defending this action.

55. Maturity Profile of Assets and Liabilities

55.1 Definition of Maturity

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

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

55.2 Allocation of Amounts

Amounts are allocated to respective maturity groupings based on:

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

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

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

55.3 Profile

	31.03.2009 Total	Up to 3 months		3 to 12 months		1 to 3 years		3 to 5 years		> 5 years	
	Rs 000	Rs 000	%	Rs 000	%	Rs 000	%	Rs 000	%	Rs 000	%
55.3.1 Bank											
Assets with Contractual Maturity											
(Interest bearing assets)											
Short-term funds	1,841,473	1,552,098	84	289,375	16	–	–	–	–	–	–
Treasury Bills & other securities	5,905,209	961,953	16	1,996,767	34	2,946,489	50	–	–	–	–
Securities purchased under resale agreements	96,000	96,000	100	–	–	–	–	–	–	–	–
Placements with and loans to other banks and financial institutions	1,454,262	1,639	0	291,360	20	459,215	31	228,554	16	473,494	33
Loans	33,892,706	3,767,887	11	7,866,004	23	14,668,379	43	6,288,750	19	1,301,686	4
Finance leases	4,804,430	762,223	16	1,493,351	31	2,301,423	48	247,433	5	–	–
	47,994,080	7,141,800	15	11,936,857	25	20,375,506	42	6,764,737	14	1,775,180	4

	31.03.2009 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	%
Other Assets											
(Non-interest bearing assets)											
Cash and balance with banks	668,498	668,498	100	–	–	–	–	–	–	–	–
Dealing securities	9,607	9,607	100	–	–	–	–	–	–	–	–
Interest receivable	603,289	561,539	93	41,750	7	–	–	–	–	–	–
Investment securities:											
Ordinary shares/units	732,003	–	–	–	–	–	–	–	–	732,003	100
Preference shares	1,186,417	142,167	12	197,500	17	558,750	47	287,500	24	500	0
Investment in associate companies	3,187,229	–	–	–	–	–	–	–	–	3,187,229	100
Investment in joint venture	250,000	–	–	–	–	–	–	–	–	250,000	100
Investment in subsidiary companies	2,627,167	–	–	–	–	–	–	–	–	2,627,167	100
Group balances recievable	36,325	36,325	100	–	–	–	–	–	–	–	–
Prepayments	13,812	2,032	15	2,032	15	8,130	59	–	–	1,618	11
Income tax refund receivable	1,980	–	–	1,980	100	–	–	–	–	–	–
Investment property	6,500	–	–	–	–	–	–	–	–	6,500	100
Property, plant and equipment	427,697	–	–	–	–	–	–	–	–	427,697	100
Intangible assets	45,942	–	–	–	–	–	–	–	–	45,942	100
Other receivables	694,153	694,153	100	–	–	–	–	–	–	–	–
	10,490,619	2,114,321	21	243,262	2	566,880	5	287,500	2	7,278,656	70
Total assets	58,484,699	9,256,121	16	12,180,119	21	20,942,386	36	7,052,237	12	9,053,836	15
Liabilities with Contractual Maturity											
(Interest bearing liabilities)											
Deposits from customers	5,308,440	3,161,213	60	1,467,191	27	111,422	2	561,274	11	7,340	0
Borrowing: Medium and long-term	28,979,442	1,581,685	5	5,197,705	18	7,084,799	24	5,324,509	18	9,790,744	35
Short-term	3,029,871	2,562,855	85	352,016	12	115,000	3	–	–	–	–
Debentures	2,700,000	–	–	–	–	2,000,000	74	700,000	26	–	–
Subordinated debentures	2,000,000	–	–	–	–	1,410,000	70	–	–	590,000	30
	42,017,753	7,305,753	17	7,016,912	17	10,721,221	26	6,585,783	16	10,388,084	24
Other Liabilities											
(Non-interest bearing liabilities)											
Interest accrued	1,192,127	1,192,127	100	–	–	–	–	–	–	–	–
Deferred taxation	285,194	–	–	–	–	–	–	285,194	100	–	–
Other liabilities	498,781	498,781	100	–	–	–	–	-	-	–	–
	1,976,102	1,690,908	86	–	–	–	–	285,194	14	–	–
Total liabilities	43,993,855	8,996,661	20	7,016,912	16	10,721,221	24	6,870,977	16	10,388,084	24

55.3.2 Group

	31.03.2009 Total Rs 000	Up to 3 months Rs 000	%	3 to 12 months Rs 000	%	1 to 3 years Rs 000	%	3 to 5 years Rs 000	%	> 5 years Rs 000	%
Assets with Contractual Maturity											
(Interest bearing assets)											
Short-term funds	2,722,721	2,341,429	86	381,292	14	–	–	–	–	–	–
Treasury Bills & other securities	12,650,799	2,920,934	23	4,458,011	35	5,271,854	42	–	–	–	–
Securities purchased under resale agreements	1,523,823	481,914	32	1,041,909	68	–	–	–	–	–	–
Placements with and loans to other banks and financial institutions	1,352,262	1,639	0	189,360	13	459,215	34	228,554	17	473,494	36
Bills of exchange discounted	326,171	324,357	99	1,814	1	–	–	–	–	–	–
Loans	48,491,281	10,948,377	23	14,019,790	29	15,446,525	32	6,601,193	14	1,475,396	2
Finance leases	4,804,430	762,223	16	1,493,351	31	2,301,423	48	247,433	5	–	–
	71,871,487	17,780,873	24	21,585,527	30	23,479,017	33	7,077,180	10	1,948,890	3

	31.03.2009 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	%
Other Assets											
(Non-interest bearing assets)											
Cash and balance with Banks	1,491,263	1,491,263	100	–	–	–	–	–	–	–	–
Balances with Central Bank	768,383	768,383	100	–	–	–	–	–	–	–	–
Dealing securities	17,033	9,607	56	7,426	44	–	–	–	–	–	–
Interest receivable	682,228	569,658	84	93,783	14	12,019	2	4,095	0	2,673	0
Investment securities:											
Ordinary shares/units	899,912	–	–	–	–	580	1	–	–	899,332	99
Preference shares	1,331,023	142,167	10	197,500	15	558,750	42	287,500	22	145,106	11
Debentures	163,500	–	–	–	–	–	–	13,500	8	150,000	92
Investment in associate companies	7,160,671	–	–	–	–	–	–	–	–	7,160,671	100
Prepayments	13,812	2,032	15	2,032	15	8,130	58	–	–	1,618	12
Income tax refund receivable	14,396	620	4	13,776	96	–	–	–	–	–	–
Investment property	141,215	–	–	–	–	–	–	–	–	141,215	100
Goodwill on consolidation	146,602	–	–	–	–	–	–	–	–	146,602	100
Property, plant and equipment	803,040	–	–	–	–	–	–	–	–	803,040	100
Intangible assets	169,482	–	–	–	–	–	–	–	–	169,482	100
Other assets	1,323,394	1,285,977	97	35,225	3	2,192	0	–	–	–	–
	15,125,954	4,269,707	28	349,742	2	581,671	4	305,095	2	9,619,739	64
Total assets	86,997,441	22,050,580	25	21,935,269	25	24,060,688	28	7,382,275	9	11,568,629	13
Liabilities with Contractual Maturity											
(Interest bearing liabilities)											
Deposits from customers	23,575,344	15,251,934	65	7,493,764	32	198,225	0	624,081	3	7,340	0
Borrowing: Medium and long-term	28,979,442	1,581,685	5	5,197,705	18	7,084,798	24	5,324,509	18	9,790,745	35
Short-term	6,737,096	4,322,353	64	2,299,743	34	115,000	2	–	–	–	–
Debentures	2,700,000	–	–	–	–	2,000,000	74	700,000	26	–	–
Subordinated debentures	2,000,000	–	–	–	–	1,410,000	70	–	–	590,000	30
	63,991,882	21,155,972	33	14,991,212	23	10,808,023	17	6,648,590	10	10,388,085	17
Other Liabilities											
(Non-interest bearing liabilities)											
Interest accrued	1,648,996	1,648,996	100	–	–	–	–	–	–	–	–
Taxation	220,576	185,306	84	35,270	16	–	–	–	–	–	–
Deferred taxation	290,597	2,445	1	2,445	1	494	0	285,194	98	19	0
Other liabilities	1,152,212	951,422	83	134,688	12	7,514	0	1,465	0	57,123	5
	3,312,381	2,788,169	84	172,403	5	8,008	0	286,659	9	57,142	2
Total liabilities	67,304,263	23,944,141	35	15,163,615	23	10,816,031	16	6,935,249	10	10,445,227	16

56. Concentration of Assets and Liabilities

56.1 Concentration in the Distribution of Assets

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

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

Industry Sector	31.03.2009 2009 %	31.03.2008 2008 %
Agriculture, forestry and fishing	7.5	7.7
Mining and quarrying	0.9	1.1
Manufacture of food, beverages and tobacco	11.0	9.7
Manufacture of textiles	0.8	0.9
Manufacture of wearing apparel excluding footwear	2.0	1.3
Manufacture of leather and leather products including footwear	0.3	0.3
Wood and manufacture of wood products	1.5	1.3
Manufacture of paper products, printing, publishing and packaging	3.7	3.6
Manufacture of chemical and chemical products	1.0	1.1
Manufacture of rubber products	3.4	3.0
Manufacture of plastic products	3.0	2.0
Manufacture of non-metallic mineral products	5.3	5.7
Basic metal products	0.5	0.5
Manufacture of fabricated metal products, machinery and equipment	1.6	1.6
Electricity, gas and water industries	4.7	5.2
Construction industries	4.7	4.5
Trade	14.3	14.9
Hotels and restaurants	3.2	3.2
Transport, storage and communications	8.8	10.6
Financing, insurance, real estate and business services	14.3	15.7
Community, social and personal services	7.5	6.1
	100.0	100.0

Composition of Assets	Rs m	Rs m
Loans*	35,106	38,606
Leases	4,804	6,481
Investment securities	1,918	1,679
Dealing securities	10	18
	41,838	46,784

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

56.2 Composition of Liabilities is given in Note 43.

57. Non-Performing Loans, Leases and Bills

	BANK				GROUP			
	31.03.2009 Rs 000	%	31.03.2008 Rs 000	%	31.03.2009 Rs 000	%	31.03.2008 Rs 000	%
Loans and advances	3,096,950		2,202,457		4,428,391		2,935,892	
Finance leases	685,669		682,877		685,669		682,877	
Bills of exchange discounted	0		5,640		35,485		62,375	
Gross exposure	3,782,619	9.0	2,890,974	6.2	5,149,545	8.7	3,681,144	6.4
Less: Interest in suspense included in overdrafts	0		0		166,397		74,254	
Net non-performing loans, advances, leases and bills	3,782,619	9.0	2,890,974	6.2	4,983,148	8.7	3,606,890	6.2
Less: Provision for bad and doubtful debts	1,124,603		702,118		1,525,418		834,198	
Net exposure	2,658,016	6.4	2,188,856	4.7	3,457,730	6.1	2,772,692	4.8
Net of tangible securities	302,215		312,653		1,148,823		661,246	

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

	BANK		GROUP	
	31.03.2009 Rs 000	31.03.2008 Rs 000	**31.03.2009 Rs 000**	31.03.2008 Rs 000
57.1 Provision for Bad and Doubtful Debts				
Loans and advances	923,690	703,244	1,314,207	861,635
Finance leases	309,715	206,253	309,715	206,253
Bills of exchange discounted	0	5,640	13,947	10,000
	1,233,405	915,137	1,637,869	1,077,888
Less: Provisions relating to facilities				
Currently performing				
Loans and advances	94,609	204,142	98,255	234,813
Finance leases	14,193	8,877	14,196	8,877
Bills of exchange discounted	0	0	0	0
	108,802	213,019	112,451	243,690
Provision relating to non-perfoming facilities	1,124,603	702,118	1,525,418	834,198

57.2 The realisable value of tangible security is computed based on the progressive discounts on the forced sale value (FSV) stipulated in the direction issued by Central Bank of Sri Lanka is given below:

Item	**Discount on FSV, %**	
	Freehold Property	**Leasehold Property**
At the first time of provisioning	25	40
Period in the loss section		
Less than 12 months	25	40
More than 12 but less than 24 months	40	50
More than 24 but less than 36 months	50	60
More than 36 but less than 48 months	60	70
More than 48 months	At the discretion of the Management	100

58. Related Party Transactions

58.1 The Group's related parties include Associates Trust established by the Bank for post-employment retirement benefit plan, Joint ventures, Key Management Personnel, close family members of key management personnel and entities which are controlled, jointly controlled or significantly influenced for which significant voting power is held by key management personnel or their close family members.

Where appropriate additional information on Related Party transactions are disclosed in compliance with Rule No. 3 (8) (ii) (e) of the Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka on Corporate Governance.

58.2 Transactions with Subsidiaries of the Bank

58.2.1 Balance Sheet

	31.03.2009 Rs 000	31.03.2008 Rs 000	Average Balance 31.03.2009 Rs 000	Average Balance 31.03.2008 Rs 000
Assets				
Cash and short-term funds	1,758,641	1,697,877	1,728,259	1,682,746
Loans and advances	122,000	122,000	122,000	122,000
Securities purchased under repurchase agreements	96,000	105,431	100,716	52,716
Interest receivable	7,985	2,187	5,086	2,757
Total	1,984,626	1,927,495	1,956,061	1,860,219
Liabilities				
Deposits	42,110	123,911	83,010	136,871
Securities sold under repurchase agreement	800,000	58,525	429,262	29,263
Interest payable	3,270	17,613	10,441	10,699
Total	845,380	200,049	522,713	176,833
Undisbursed credit facilities	878,000	878,000	878,000	878,000

58.2.2 Income Statement

for the year ended	31.03.2009 Rs 000	31.03.2008 Rs 000
Interest income	88,966	149,479
Interest expense	15,198	34,341
Other income	106,454	79,502
Other expenses	42,098	25,275

58.3 Transaction with Associates

58.3.1 Balance Sheet

	31.03.2009 Rs 000	31.03.2008 Rs 000	Average Balance 31.03.2009 Rs 000	Average Balance 31.03.2008 Rs 000
Assets				
Lease	0	209	104	438
Total	0	209	104	438
Liabilities				
Deposits	0	21,534	10,767	10,767
Subordinated debentures	10,000	10,000	10,000	10,000
Interest payable	507	1,068	787	716
Total	10,507	32,602	21,554	21,483

58.3.2 Income Statement

For the year ended	31.03.2009 Rs 000	31.03.2008 Rs 000
Interest income	6	56
Interest expenses	2,564	4,082
Other income	339,128	402,209
Other expenses	6,243	633

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

58.4.1 Balance Sheet

			Average Balance	
	31.03.2009 Rs 000	31.03.2008 Rs 000	**31.03.2009 Rs 000**	31.03.2008 Rs 000
Assets				
Loans and advances	838,990	685,270	762,130	791,735
Total	838,990	685,270	762,130	791,735

58.4.2 Off-Balance Sheet Items

Commitments and contingencies		
Undrawn facilities	12,650	5,340
Guarantees	59,750	59,750
Total	72,400	65,090

58.4.3 Income Statement

For the year ended	**31.03.2009 Rs 000**	31.03.2008 Rs 000
Interest income	95,405	106,658
Other income	654	1,869

58.5 Transactions with Key Management Personnel

58.5.1 Key Management Personnel

Key management personnel are the Board of Directors of the Bank, Chief Executive Officer, Executive Vice-Presidents, Senior Vice-President - Treasury, Senior Vice-President - Operations, Senior Vice-President - Group, Chief Information Officer and the Secretary to the Board for the purpose of Sri Lanka Accounting Standard on Related Party Disclosures.

Chief Information Officer concurrently serves as the Managing Director of Synapsys Limited during the year ended 31 March 2009. During the year ended 31 March 2009 received emoluments from Synapsys Limited.

58.5.2 Compensation of Directors and Other Key Management Personnel

	BANK		GROUP	
For the year ended 31 March	**31.03.2009 Rs 000**	31.03.2008 Rs 000	**31.03.2009 Rs 000**	31.03.2008 Rs 000
Number of persons	16	17	33	37
Short-term employment benefits	74,634	64,259	116,801	96,216
Post-employment benefits - pension	15,054	12,852	15,054	12,852
- others	7,083	6,127	11,746	10,024
	96,771	83,238	143,601	119,092

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

58.5.3 *Share Based Payments to Key Management Personnel - Bank*

Key management personnel together with other eligible employees participated in a share option plan approved by the shareholders in 2002. The final grant under this plan was made during the year ended 31 March 2006.

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

For the year ended 31 March	**31.03.2009 Rs 000**	31.03.2008 Rs 000
Unexercised options balance at the beginning of financial year	647,404	464,605
Adjustment to the unexercised options on the date of bonus issue 30 June 2007	–	246,460
Awarded during the year	–	28,339*
Exercised during the year	(140,912)	(92,000)
Unexercised options balance end of financial year	506,492	647,404
Weighted average price of unexercised options end of the year	111.07	98.44
Weighted average price of exercised options	53.08	53.08
Weighted average price of Bank's share during the period in which options were excercised	125.33	141.89

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

58.5.4 *Loans to Key Management Personnel - Bank*

	31.03.2009 Rs 000	31.03.2008 Rs 000
Number of KMPs	2	3
Amount outstanding on 31 March	2,949	3,907

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

58.6 Transactions with DFCC Pension Fund - Trust

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

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

58.6.2 *Transactions with DFCC Bank Pension Fund*

	31.03.2009 Rs 000	31.03.2008 Rs 000
Contributions due at the beginning of financial year	29,638	25,206
Contribution due for the financial year (Note 13.1.1)	95,060	91,547
Contribution paid	(96,028)	(87,115)
Contribution due at the end of the financial year (Note 47.1.1)	28,670	29,638

58.6.3 *Transactions between DFCC Bank Pension Fund and Associate*

There were no transactions during the year ended 31 March 2009 and 31 March 2008. Details of investments made by the Pension Fund in Commercial Bank of Ceylon PLC in the year ended 31 March 2007 and outstanding on 31 March 2009 are given below:

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

58.7 Pricing Policy and Terms for Transactions with Related Parties

Bank enters into transactions with related parties in the ordinary course of business on terms similar to comparable transactions with an unrelated comparable counter party. The terms include pricing for loans, deposits and services, collateral obtained for loans where appropriate.

58.8 Net Accommodation Granted to Related Parties

(Disclosure under Rule 3 (8) (ii) (e) of the Corporate Governance Direction of No. 11 of 2007 issued by the Central Bank of Sri Lanka.)

	31.03.2009 Rs '000	%
Subsidiaries		
Loans and advances	122,000	1.17
Securities purchased under resale agreements	96,000	0.92
Undisbursed credit facility	878,000	8.41
	1,096,000	10.50
Key Management Personnel		
Loans to 2 employees	2,949	0.03
Total net accommodation	1,098,949	10.53
Regulatory Capital - solo basis	10,432,945	

The total net accommodation was 10.53% of the Bank's regulatory capital on solo basis.

The undisbursed credit facility is a standby facility and was not used by the subsidiary DFCC Vardhana Bank Limited throughout the year ended 31 March 2009.

The definition of Related Parties for the purpose of this disclosure is based in Rule 7 (1) of Corporate Governance Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka. This definition is slightly different from the definition of Related Parties under the Sri Lanka Accounting Standard 30 (Revised 2005) on Related Party Disclosures.

59. Business Segment Information

For the year ended 31 March 2009	Lending Rs '000	Financial Leasing Rs '000	Investing in Equity Rs '000	Venture Capital Rs '000	Commercial Banking Rs '000	Other Rs '000	Unallocated Rs '000	Eliminations Rs '000	Total Rs '000
Revenue									
Interest income	7,536,486	992,373	–	78,169	3,212,690	235,486	–	(56,271)	11,998,933
Other income	215,430	–	910,789	45,005	285,583	258,362	221,532	(519,441)	1,417,260
Income from external customers	7,751,916	992,373	910,789	123,174	3,498,273	493,848	221,532	(575,712)	13,416,193
Inter segment income				–	–		111,159	(111,159)	–
Total income	**7,751,916**	**992,373**	**910,789**	**123,174**	**3,498,273**	**493,848**	**332,691**	**(686,871)**	**13,416,193**
Percentage *	58	7	7	1	26	4	6	–	100
Expense									
Segment losses	308,117	190,827	11,303	30,000	287,213	–			827,460
Depreciation	–	–	–	714	101,479	16,732			118,925
Other operating & interest expenses	968,675	98,524	–	31,124	2,666,872	298,971		(56,271)	4,007,895
Inter segment expense					3,950	46,034		(49,984)	–
	1,276,792	289,351	11,303	61,838	3,059,514	361,737		(106,255)	4,954,280
Result	**6,475,124**	**703,022**	**899,486**	**61,336**	**438,759**	**132,111**			**8,461,913**
Unallocated expenses									5,747,541
Value added tax on financial services									658,058
									2,056,314
Associate companies profit before tax									1,066,101
Profit before tax									3,122,415
Income tax expense									1,054,844
Profit after tax									2,067,571
Minority interests									22,865
Profit for the year									2,044,706
Assets	37,887,730	4,804,430	2,168,420	828,166	24,804,733	2,624,287	6,755,382	(36,378)	79,836,770
Percentage	48	6	3	1	31	3	8	–	100
Investments in associate companies									7,160,671
									86,997,441
Liabilities	30,291,925	4,323,987	–	145,326	22,176,796	1,834,922	8,567,685	(36,378)	67,304,263
Capital expenditure - additions				198	176,383	6,899	105,082		288,562
For the year ended 31 March 2008									
Revenue									
Interest income	7,301,859	1,189,185	–	72,320	1,937,732	41,517	–	(45,235)	10,497,378
Negative goodwill	–	–	–	–	–	–	1,119	–	1,119
Other income	353,420	–	691,799	42,727	310,359	255,716	37,630	(465,776)	1,225,875
Income from external customers	7,655,279	1,189,185	691,799	115,047	2,248,091	297,233	38,749	(511,011)	11,724,372
Inter segment income	–	–	–	–	–	–	57,708	(57,708)	–
Total income	7,655,279	1,189,185	691,799	115,047	2,248,091	297,233	96,457	(568,719)	11,724,372
Percentage *	65	10	6	1	19	3	4	–	100
Expense									
Segment losses	199,035	58,626	–	6,604	101,047	–	–	–	365,312
Depreciation	–	–	–	727	76,834	15,686	–	–	93,247
Other operating & interest expenses	5,139,295	847,184	–	26,752	1,709,508	87,938	–	(45,235)	7,765,442
Inter segment expense	–	–	–	–	20,045	37,663	–	(57,708)	–
	5,338,330	905,810	–	34,083	1,907,434	141,287	–	(102,943)	8,224,001
Result	2,316,949	283,375	691,799	80,964	340,657	155,946			3,500,371
Unallocated expenses									974,258
Value added tax on financial services									484,632
									2,041,481
Associate companies profit before tax									1,048,616
Profit before tax									3,090,097
Income tax expense									843,457
Profit after tax									2,246,640
Minority interests									79,095
Profit for the year									2,167,545
Assets	41,170,656	6,519,407	1,679,828	861,272	16,893,775	599,791	7,135,508	(70,069)	74,790,168
Percentage	55	9	2	1	23	1	10	(1)	100
Investments in associate companies									6,395,789
									81,185,957
Liabilities	33,298,930	5,867,466	–	12,658	14,365,951	152,253	9,270,587	(70,069)	62,897,776
Capital expenditure - additions				282	153,157	28,896	134,135		316,470

**Net of eliminations*

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

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

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

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

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

60. Post Balance Sheet Events

60.1 Proposed Dividend

Directors have recommended the payment of a final dividend of Rs5 per share for the year ended 31 March 2009, which require the approval of the shareholders at the Annual General Meeting to be held on 30 June 2009. The Board of Directors confirm that the Bank has satisfied the solvency test in accordance with Section 57 of the Companies Act No. 7 of 2007 and have obtained the certificate from the auditors.

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

60.2 Market Price of Voting Ordinary Share of Commercial Bank of Ceylon PLC.

This increased from Rs79.25 per share (ex-div) to Rs120.50 per share and consequently the market value of investment increased to Rs8.08 million.

61. Comparative Amounts

61.1 Reclassification

Material Changes are:

	Note	Rs 000
Bank		
Provision for staff retirement benefit - increase	13.1.4	51,557
Personal expenses - decrease		51,557
Group		
Investment securities - increase	20	13,500
Cash and short-term funds - decrease	30	13,500
Compensation of Directors and Key Management Personnel due to change in the composition - increase	58.5.2	15,477

61.2 Restatement due to change in Accounting Policy

Bank		
Provision for retirement benefit - increase	13	622
Other liabilities - increase	47	622

62. Certification Required by Companies Act No. 7 of 2007

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

Capital Adequacy

Introduction

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

Capital to Risk Weighted Assets Ratio

(Based on audited consolidated financial statements)

		Actual	
	Minimum Requirement	31.03.2009	31.03.2008
Tier I (%)	5.0	27.3	25.4
Deductions - Tier I (%)		5.4	5.0
		21.9	20.4
Tier II (%)		2.9	3.1
Deductions - Tier II (%)		4.9	4.5
		-2.0	-1.4
Capital base (%)	10.0	19.9	19.0

Details of Computation

Capital Base	31.03.2009 Rs 000	31.03.2008 Rs 000
Tier I: Core Capital		
Paid-up ordinary shares	1,307,325	1,301,956
Share premium	3,260,011	3,236,338
Statutory reserve fund	801,539	674,120
Published retained profits	1,841,264	1,928,719
General & other reserves	11,528,042	10,233,117
Minority interests	641,251	605,691
	19,379,432	17,979,941
Less: Deductions		
Goodwill	146,602	146,658
Net deferred tax assets	0	83,571
Other intangible assets	169,482	170,107
50% Investments in the capital of other banks and financial institutions	3,510,044	3,157,811
Total Tier I Capital	15,553,304	14,421,794
Tier II: Supplementary Capital		
Revaluation reserve (as approved by the Central Bank of Sri Lanka)	134,129	134,129
Approved subordinated term debt	1,436,000	1,718,000
General provision	533,481	319,011
	2,103,610	2,171,140
Less: Deductions		
50% Investments in the capital of other banks and financial institutions	3,510,044	3,157,811
Eligible Tier II Capital	(1,406,434)	(986,671)
Capital base	14,146,870	13,435,123

Risk Weighted Assets and Off-Balance Sheet Exposure

Assets Exposures	Balance 31.03.2009 Rs000	Balance 31.03.2008 Rs000	Risk Weights %	Risk-Weighted Balance 31.03.2009 Rs000	Risk-Weighted Balance 31.03.2008 Rs000
To Central Government and CBSL	14,995,547	8,930,872	0	0	0
To Banks	4,938,159	4,360,777	20-150	1,233,642	1,304,498
To Financial Institutions	678,895	519,704	20-150	392,612	260,853
To Corporates	45,803,897	52,901,515	20-150	44,410,504	50,245,511
Secured by Residential Property	157,451	67,485	50-100	87,563	43,786
Secured by Commercial Real Estate	4,074,071	1,544,346	100	4,074,071	1,544,346
Classified as Non-performing Advances	3,123,697	2,298,183	50-150	4,273,422	3,157,009
Cash Items	628,087	508,359	0-20	2,293	3,699
Other Assets	2,154,642	2,469,301	100	2,154,642	2,469,301
Total assets	76,554,446	73,600,542		56,628,749	59,029,003

Off Balance Sheet Exposure	Credit Conversion Factor %	31.03.2009 Rs000	31.03.2008 Rs000	Risk Weights %	Risk-Weighted Credit Equivalent 31.03.2009 Rs000	Risk-Weighted Credit Equivalent 31.03.2008 Rs000
General guarantee of indebtedness	100	1,341,338	1,126,874	20-100	1,239,506	1,126,873
Performance bonds, bid bonds and warranties	50	538,778	1,134,706	100	269,389	567,353
Shipping guarantees	20	356,684	967,998	20-100	68,404	193,600
Documentary letters of credit	20	815,049	1,528,310	20-100	150,287	305,662
Trade related acceptances	20	1,056,664	688,178	20-100	198,933	137,636
Undrawn overdraft facilities & others	0	903,791	802,142	100	0	0
Others - Bills on collection	20	0	872,454	100	0	174,491
Undrawn term loans	50	6,736,776	6,075,158	100	3,368,388	3,037,579
Others - undrawn lease facilities	50	63,168	149,150	100	31,584	74,575
Forward foreign exchange contracts	2	4,246,271	728,340	100	84,925	14,567
Total off-balance sheet exposure		16,058,519	14,073,310		5,411,416	5,632,336
Total risk weighted assets and off-balance sheet exposure for credit risk					62,040,165	64,661,339
Total risk weighted assets equivalent for market risk (Note 1)					1,977,830	119,560
Total risk weighted assets equivalent for operational risk (Note 2)					7,056,680	6,003,029
Total risk weighted assets					71,074,675	70,783,928

Market Risk (Note 1)

	Capital charge 31.03.2009 Rs000	Capital charge 31.03.2008 Rs000	Risk -Weighted assets Equivalent 31.03.2009 Rs000	Risk -Weighted assets Equivalent 31.03.2008 Rs000
Interest rate	13,256	2,941	132,560	29,410
Equity	2,554	2,639	25,540	26,390
Foreign Exchange & Gold	181,973	6,376	1,819,730	63,760
	197,783	11,956	1,977,830	119,560

Operational Risk (Note 2)

	Capital charge 31.03.2009 Rs000	Capital charge 31.03.2008 Rs000	Risk -Weighted assets Equivalent 31.03.2009 Rs000	Risk -Weighted assets Equivalent 31.03.2008 Rs000
Average Gross income	4,704,453	4,002,019		
15% of Average Gross income	705,668	600,303		
	705,668	600,303	7,056,680	6,003,029

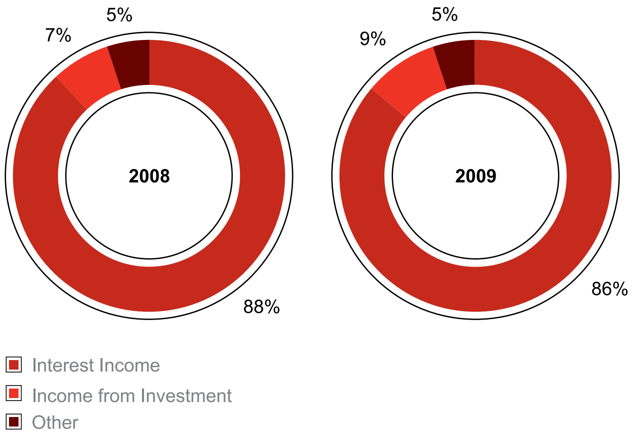
Statement of Value Added - Bank

For the year ended 31 March		2009 Rs million	%		2008 Rs million	%
Value Added						
Gross income		9,888			9,636	
Cost of borrowing and support services		(5,983)			(6,155)	
Provision for bad debts and investments		(510)			(258)	
		3,395			3,223	
Value Allocated						
To employees						
Salaries, wages and other benefits		708	21		672	21
To providers of capital						
Dividends to shareholders		654	19		654	20
To Government						
Income tax on profit	646			665		
Value added tax on financial services	557	1,203	35	435	1,100	34
To expansion and growth						
Retained income	706			664		
Depreciation	124	830	25	133	797	25
		3,395	100		3,223	100

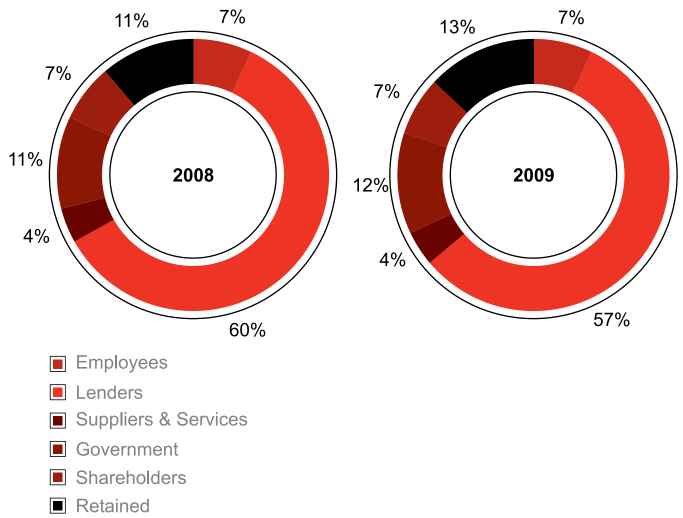
Sources and Distribution of Income - Bank

For the year ended 31 March	2005	2006 Rupees million	2007	2008	2009
Sources of Income					
Interest income	3,645	4,508	6,018	8,491	8,529
Income from investments	521	436	436	687	913
Other	475	443	433	458	446
	4,641	5,387	6,887	9,636	9,888
Distribution of Income					
To employees as emoluments	438	523	612	672	708
To lenders as interest	1,873	2,376	3,537	5,815	5,624
To providers of supplies and services	230	257	335	340	359
To Government as taxation	629	742	1,113	1,100	1,203
To shareholders as dividends	316	346	454	654	654
Retained in the business:					
Depreciation set aside	107	119	128	133	124
Provision for losses	256	190	37	258	510
Reserves	792	834	671	664	706
	4,641	5,387	6,887	9,636	9,888

Sources of Income



Distribution of Income

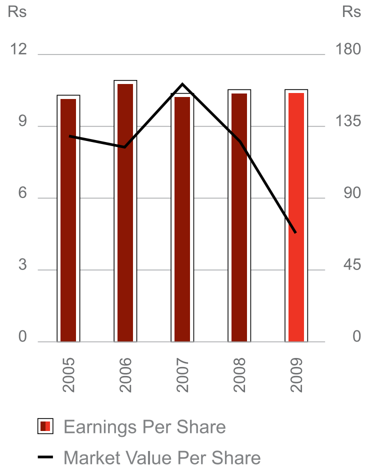


Ten Year Summary

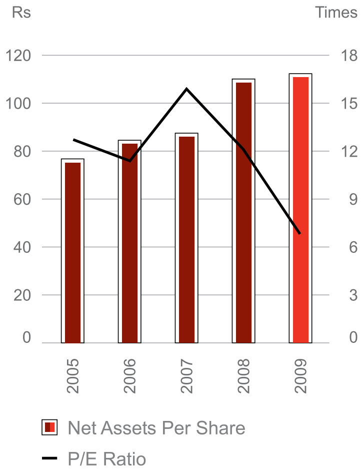
Bank *Year ended 31 March*	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
					Rupees million					
Operating Results										
Total income (net of TT & NSL)	3,446	3,452	4,037	4,113	4,444	4,641	5,387	6,887	9,636	9,888
Profit before tax	476	507	883	1,036	1,490	1,512	1,652	1,865	1,983	2,006
Income tax	133	132	252	181	385	404	472	740	665	646
Profit after tax	343	375	631	855	1,105	1,108	1,180	1,125	1,318	1,360
Balance Sheet										
Assets										
Cash, short-term funds and securities	1,631	1,394	2,359	2,398	2,675	2,778	4,928	7,935	8,124	8,415
Dealing securities	0	3	4	3	1	0	14	26	18	10
Other receivables	508	533	666	914	909	1,641	946	1,611	1,684	1,348
Placements with and loans to banks and financial institutions	651	325	0	0	500	302	738	1,024	1,579	1,454
Securities purchased under resale agreement	23	288	569	48	26	1,051	520	240	208	96
Bills of exchange discounted	23	23	23	23	18	13	6	6	6	0
Loans	15,989	17,878	17,982	19,515	22,386	25,270	30,963	38,200	38,185	35,156
Finance leases	2,009	1,932	1,859	2,445	3,742	4,348	5,545	7,756	6,726	5,211
Provisions	(374)	(633)	(757)	(949)	(1,077)	(995)	(937)	(946)	(1,179)	(1,670)
Net of provisions	17,647	19,200	19,107	21,034	25,069	28,636	35,577	45,016	43,737	38,697
Investment securities	1,474	1,784	2,102	1,802	1,704	1,731	1,340	1,260	1,680	1,918
Investment in associate, joint venture and subsidiary companies	1,371	1,386	1,392	1,407	2,514	2,636	3,057	3,350	5,829	6,064
Income tax refund due	0	0	0	0	0	0	0	0	0	2
Investment property	0	0	187	187	12	12	12	7	7	7
Property, plant, equipment and intangibles	285	277	265	378	516	475	481	472	493	474
	23,590	25,190	26,651	28,171	33,926	39,262	47,613	60,941	63,359	58,485
Liabilities										
Equity	4,973	5,054	5,723	6,382	7,383	8,207	9,091	9,494	13,761	14,491
Medium/long-term borrowings and debentures	17,279	17,841	17,892	16,775	19,570	24,120	30,384	34,357	38,323	33,679
Customer deposits	314	558	1,562	2,868	4,944	3,780	4,017	13,573	5,112	5,308
Short-term borrowings	0	796	398	1,143	577	1,387	2,453	1,540	4,157	3,030
	17,593	19,195	19,852	20,786	25,091	29,287	36,854	49,470	47,592	42,018
Other liabilities	1,024	941	1,076	1,003	1,451	1,768	1,668	1,977	2,006	1,976
	23,590	25,190	26,651	28,171	33,926	39,262	47,613	60,941	63,359	58,485
Return on equity, %	7.1	7.5	11.7	14.1	16.1	14.2	13.6	12.1	11.3	9.6
Return on total assets, %	1.4	1.5	2.4	3.1	3.6	3.0	2.7	2.1	2.1	2.2
Earnings per share, Rs	3.18	3.47	5.84	7.91	10.14	10.14	10.77	10.20	10.41	10.41
Market value per share, Rs	32.98	26.04	46.67	59.17	121.94	128.75	122.36	161.67	126.00	68.25
Price earnings ratio	10.4	7.5	8.0	7.5	12.0	12.7	11.4	15.9	12.1	6.56
Rate of dividend, %	40.0	45.0	50.0	55.0	55.0	55.0	60.0	50.0	50.0	50.0
Dividend cover, times	2.4	2.4	3.0	3.7	3.5	3.5	3.4	2.5	2.0	2.1
Gross dividend, Rsm	141.0	159.0	212.0	233.0	314.3	315.8	345.5	454.4	653.7	653.7
Liquid assets to liabilities *(as specified in the Banking Act. No. 30 of 1998)*	–	–	–	–	28	38	48	79	31	145
No. of employees	277	276	289	305	305	340	374	422	419	419

Performance of the Share

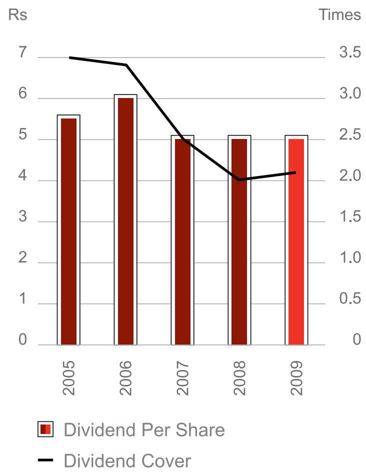
Earnings and Market Value



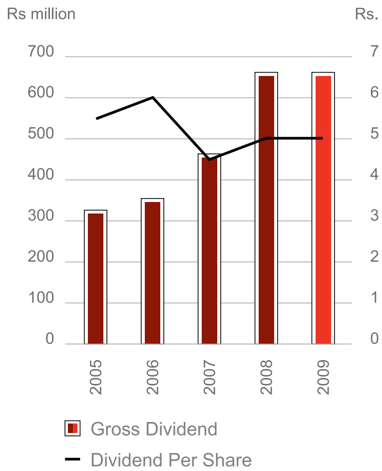
Share Value



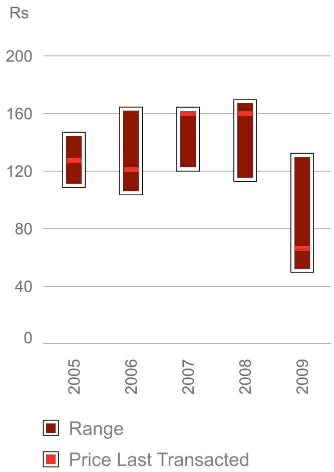
Dividends



Dividends Paid



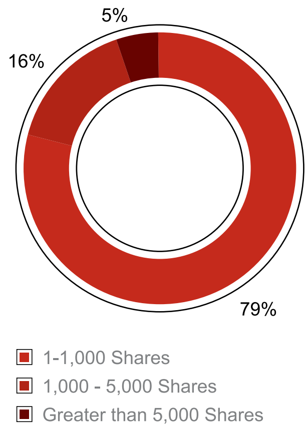
Share Price



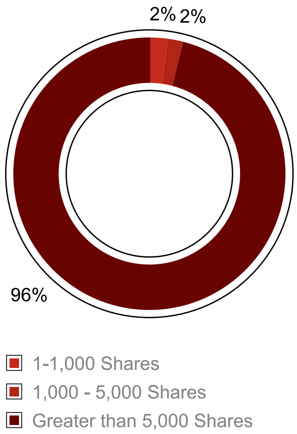
Share Information

Year ended 31 March	2009	2008
Earnings		
Earnings per share, Rs.	10.41	10.41
Price Earnings Ratio, times	6.56	12.10
Dividends		
Final Dividend Paid (proposed paid)	653.66	653.66
Dividend per share, Rs	5.00	5.00
Book Value		
Net assets per share on 31 March, Rs	110.90	108.62
Price Indices		
CSE All Share Price Index	1,638.06	2,550.47
Milanka Price Index	1,736.20	3,181.30
Share Prices		
Lowest, Rs	52.00(30.12.08)	115.50(23.01.08)
Highest, Rs	130.00(30.05.08)	200.00(27.04.08)
Last transaction, Rs	68.25(31.03.09)	126.00(31.03.08)
Market Capitalisation		
Value, Rs million	8,890	16,401
% of total trade	1.67	1.97
Rank	11	8
Value of Shares Traded		
Value, Rs million	1,364	1,036
% of total trade	1.28	1.20
Rank	10	12
Days Traded		
Number of days traded	222	224
Total number of market days	239	239
% of market days traded	92	94
Frequency of Shares Traded		
Number of transactions	2,381	2,501
% of total frequency	0.35	0.29
Rank	100	107

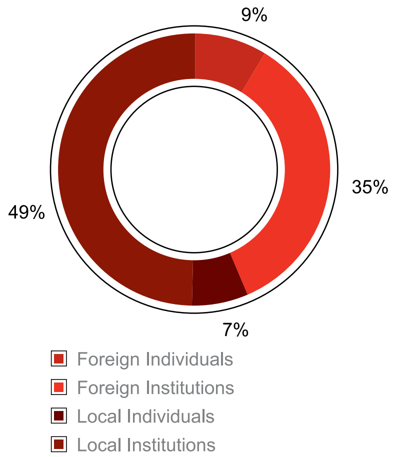
■ Shareholders



■ Shareholding



■ Ownership



Size-wise Distribution of Shareholding

Number of Shares			As at 31 March 2009			As at 31 March 2008		
			No. of Holders	**Total Holding**	**%**	No. of Holders	Total Holding	%
01	-	1,000	**6,117**	**2,054,968**	**1.57**	6,043	2,062,091	1.58
1,001	-	5,000	**1,216**	**2,476,991**	**1.90**	1,215	2,450,335	1.88
5,001	-	10,000	**156**	**1,090,946**	**0.83**	147	1,041,783	0.80
10,001	-	50,000	**141**	**2,749,647**	**2.10**	132	2,495,210	1.92
50,001	-	100,000	**28**	**1,947,198**	**1.49**	22	1,560,977	1.20
100,001	-	500,000	**16**	**3,071,409**	**2.35**	18	3,568,222	2.74
500,001	-	1,000,000	**09**	**6,262,453**	**4.79**	09	5,855,253	4.50
Greater than		1,000,000	**16**	**111,078,858**	**84.97**	19	111,161,732	85.38
Total			**7,699**	**130,732,470**	**100.00**	7,605	130,195,603	100.00

Ownership

Shareholding %	As at 31 March 2009			As at 31 March 2008		
	Foreign	**Sri Lankan**	**Total**	Foreign	Sri Lankan	Total
Individuals	**8.71**	**6.69**	**15.40**	4.20	7.24	11.44
Institutions	**34.83**	**49.77**	**84.60**	35.09	53.47	88.56
Total	**43.54**	**56.46**	**100.00**	39.29	60.71	100.00

As per the Rule No. 7.6 (iv) of the Colombo Stock Exchange, percentage of public holding as at 31.03.2009 was 38.12% (38.25% as at 31.03.2008).

Twenty Major Shareholders

Twenty Major Shareholders of the DFCC Bank as at 31 March 2009 are given below:

Name of Shareholder/Company Name as at 31 March 2009	2009 No. of Shares	2009 %	2009 Cumu-lative %	2008 No. of Shares	2008 %
Bank of Ceylon	19,019,997	14.55	14.55	19,019,997	14.61
Hatton National Bank Limited A/c No. 1	16,054,570	12.28	26.83	16,054,570	12.33
Sri Lanka Insurance Corporation Limited - Life Fund	14,676,966	11.23	38.06	14,676,966	11.27
Galleon Diversified Fund Limited	12,979,400	9.93	47.99	–	–
Mr M A Yasen	11,262,250	8.62	56.61	5,337,500	4.10
Distilleries Company of Sri Lanka Limited	8,407,628	6.43	63.04	8,407,628	6.46
Seafeld International Limited	7,643,397	5.85	68.89	7,643,397	5.87
HSBC Intl Nominees Limited - BPSS Lux - Aberdeen Global Asia Pacific Fund	6,108,073	4.67	73.56	6,108,073	4.69
HSBC Intl Nominees Limited - BPSS LDN - Aberdeen Asia Pacific Fund	3,375,000	2.58	76.14	3,375,000	2.59
EC Global Limited	2,677,797	2.05	78.19	2,677,797	2.05
HSBC Intl Nominees Limited/DEG - Deutsche Investitions - und Entwicklungsgesellschaft mbH	2,250,162	1.72	79.91	2,250,162	1.73
RBC Dexia Investor Services Trust S/A Edinburgh Dragon Trust PLC	2,224,400	1.70	81.61	2,250,000	1.73
Northern Trust Co S/A Murray Johnstone International Delaware Business Trust	1,271,250	0.97	82.58	1,271,250	0.98
Employees' Trust Fund Board	1,065,133	0.81	83.39	1,013,733	0.78
Renuka City Hotels Limited	1,050,335	0.80	84.19	1,000,235	0.77
HSBC Intl Nominees Limited - SSBT-Russel Invesment Company PLC - JY61 Account No. 01	1,012,500	0.77	84.96	1,012,500	0.78
Bank of New York-Bear Stearns Securities Corporation	929,200	0.71	85.67	522,000	0.40
HSBC Intl Nominees Limited-SSBTL - Aberdeen Asia Smaller Companies Investment Trust XCB9	900,000	0.69	86.36	900,000	0.69
HSBC Intl Nominees Limited-SSBTL-Aberdeen New Dawn Investment Trust XCC6	900,000	0.69	87.05	900,000	0.69
HSBC Inti Nominees Limited-BPSS LDN-Aberdeen Investment Fund ICVC Aberdeen Emerging Mkts F	749,998	0.57	87.62	749,998	0.58
Total of the 20 Major Shareholders	114,558,056	–	–	95,170,806	–
Other Shareholders	16,174,414	12.38	100.00	35,024,797	26.90
Total	**130,732,470**	**100.00**		130,195,603	100.00

Debenture Information

DFCC Listed Debentures

Debenture Categories	Interest Payable Frequency	Coupon Rate	Interest Rate of Comparable Government Security
Fixed Rate			
2006/2016 - 14.00% p.a.	Annually	14.00%	18.00%
2006/2011 - 13.75% p.a.	Annually	13.75%	18.25%
Floating Rate			
2006/2011 - 6 months TB rate (Net) + 2.00% p.a.	Semi-Annually	20.57%	18.25%
2006/2011 - 6 months TB rate (Gross) + 1.00% p.a.	Semi-Annually	21.63%	18.25%

None of these debentures have been traded during the year.

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

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

Other Ratios	**2009**	2008
Debt Equity Ratio	2.32	2.78
Interest Cover (Times)	1.00	1.29
Quick Assets Ratio (%)	145	31
(Same as liquid asset ratio.)		

DFCC Bank's Other Offices

ANURADHAPURA
249, Maithripala Senanayake Mawatha
Anuradhapura
Telephone: 025-2223417
Fax: 025-2223418

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

BANDARAWELA
126, Main Street
Bandarawela
Telephone: 057- 2224849-52
Fax: 057- 2224851

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

GALLE
93, Wakwella Road
Galle
Telephone: 091-2227372-6
Fax: 091-2227374

GAMPAHA
123, Bauddhaloka Mawatha
Gampaha
Telephone: 033-2226104
Fax: 033-2227941

KADURUWELA
626, Main Street
Kaduruwela
Telephone: 027 - 2223333
Fax: 027- 2225858

KALUTARA
282, Main Street
Kalutara South
Telephone: 034-2236363
Fax: 034-2236364

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

KURUNEGALA
25, Rajapihilla Road
Kurunegala
Telephone: 037- 2224142,
037- 2224461-2
Fax: 037-2224142

MALABE
9, Athurugiriya Road
Malabe
Telephone: 011-2442714
Fax: 011-5552868

MATARA
5, Hakmana Road
Matara
Telephone: 041-2225500-1
Fax: 041-2222585

NAWALA
540, Nawala Road
Rajagiriya
Telephone: 011-2880880
Fax: 011-2880889

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

DFCC Pioneer's Journey

1955
OCTOBER
DFCC Founded by Act No. 35 of 1955

1956
MAY
Commenced Operations with Share Capital of Rs8 million

1958
FEBRUARY
Act Amended No. 8 of 1958

1967
MARCH
Act Amended No. 1 of 1967

1974
APRIL
Act Amended Law No. 12 of 1974

1977
JANUARY
Paid Up Share Capital Rs16 million

MARCH
ADFIAP Formed DFCC Founder Member

1979
NOVEMBER
Paid Up Share Capital Rs24 million

1982
DECEMBER
Act Amended No. 42 of 1982

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

FEBRUARY
Paid Up Share Capital Rs60 million

MARCH
Paid Up Share Capital Rs100 million

1984
SEPTEMBER
Finance Leasing Introduced

1985
JANUARY
Medium-Term Working Capital Financing

SEPTEMBER
Insurance Agency Business

1986
MAY
Head Office Building Opened

1988
AUGUST
Kandy Branch Opened

1989
NOVEMBER
Short-Term Working Capital Financing

1990
NOVEMBER
Matara Branch Opened

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

OCTOBER
Paid Up Share Capital Rs170 million Public Issue at 5 Times Par Increased Number of Shareholders from 826 to 12,320

DECEMBER
Namal Founded

1992
FEBRUARY
LVL Founded

MARCH
Achieved Highest PAT Among all Listed Companies

MARCH
Lindel Founded

1993
APRIL
ADFIAP Annual Sessions Hosted

JUNE
Act Amended No. 25 of 1993 Share Split

AUGUST
Reached No. 1 Position in Market Capitalisation

OCTOBER
Rights Issue 1 for 3 at 18 Times Par Paid Up Share Capital Rs226.7 million

1994
NOVEMBER
Kurunegala Branch Opened

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

JULY
Asia Money Ranks DFCC as the Best Managed Company in Sri Lanka

1996
APRIL
DMG and DFCC Sign Telecom Mandate with GOSL

APRIL
Fixed Deposit Mobilization

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

DECEMBER
Anuradhapura Branch Opened

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

AUGUST
Act Amended No. 23 of 1997

AUGUST
Gampaha Branch Opened

SEPTEMBER
Acquired 29.8% Stake in Commercial Bank of Ceylon PLC

OCTOBER
Badulla Branch Opened

DECEMBER
Ratnapura Branch Opened

1998

FEBRUARY
5 New Projects Launched Under Small & Medium Enterprises Development Programme

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

DECEMBER
FRN of US $ 65 million Guranteed by ADB

DECEMBER
Lead Arranged the Largest Sri Lanka Rupee Syndicated Loan for Sri Lanka Telecom

1999

OCTOBER
Asia Money Ranks DFCC as the Best Managed Company of the Decade

DECEMBER
Colombo Office Opened

2000

MARCH
Structured & Managed Sri Lanka's First Rated Debenture Issue for Sri Lanka Telecom

2001

JANUARY
DFCC Acquired ABN AMRO Securities (Pvt) Limited Renamed DFCC Stock Brokers (Pvt) Limited

APRIL
Bonus Issue of 1 for 5 Increased Paid Up Share Capital to Rs423.1 million

2002

NOVEMBER
Managed the IPO of Sri Lanka Telecom; the Largest Offering on CSE

DECEMBER
Fitch Rating Lanka Limited Assigned "SL AA" National Rating for Implied Long-Term Unsecured Senior Debt of DFCC Bank

2003

AUGUST
Acquired 94.16% of MERC Bank

OCTOBER
MERC bank Renamed DFCC Vardhana Bank

2004

FEBRUARY
Bonus Issue of 1 for 3 Increased Paid Up Share Capital to Rs565.9 million

SEPTEMBER
AA Rating Affirmed

NOVEMBER
Malabe Branch Opened

2005

MARCH
DFCC Consulting Founded

2006

MAY
ADFIAP Annual Sessions Hosted

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

SEPTEMBER
Bandarawela office opened

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

2007

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

SEPTEMBER
AA(lka) Fitch Rating affirmed

2008

JULY
Acuity Partners (Pvt) Limited commenced commercial operations

OCTOBER
AA(lka) Fitch Rating affirmed

DECEMBER
Galle Branch opened

Notes

The Annual General Meeting,
will be held at the Cinnamon Grand, Colombo 3, on 30 June 2009.
Details of the business of the meeting and other information are contained in the booklet enclosed with this Annual Report.

Name of Company

DFCC Bank

Legal Form

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

Credit Rating

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

Board Secretary

T Wijemanna

Lawyers

F J & G De Saram
Attorneys-at-Law

Auditors

KPMG Ford, Rhodes, Thornton & Co.
Chartered Accountants

Bankers

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

Vat Registration No.

409000088 7000

Head Office

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

For any Clarifications on this Report please write to:

The Board Secretary
DFCC Bank
No. 73/5, Galle Road, Colombo 3, Sri Lanka.
or E-mail to: info@dfccbank.com

Minimise waste by informing the DFCC Bank Board Secretary to update the mailing list if you are receiving more than one copy of the Annual Report.

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Website: http://www.dfccbank.com