WELL PLACED TO DELIVER

SEAMLESS

BANKING SERVICES

THE PIONEER DEVELOPMENT BANK

THE DYNAMIC COMMERCIAL BANK

DFCC BANK | ANNUAL REPORT 2010/11

OUR VISION:

To be Sri Lanka's premier financial services group.

OUR MISSION:

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

OUR VALUES:

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

The incandescent light bulb shown in the cover page is a symbol of powerful ideas. Yet like the advances in technology that provides today's CFLs and tomorrow's LEDs, DFCC too continues to reinvent itself with the changing landscape.

ENERGISING

PEOPLE AND ENTERPRISE

Creating synergies through integrated banking

DFCC offers a seamless gamut of financial solutions by integrating the expertise of a pioneer development bank and the energy of a dynamic commercial bank.

The breadth and scope of DFCC's Banking Business empowers and energises enterprises and people throughout the country to pursue their expectations for a prosperous tomorrow.

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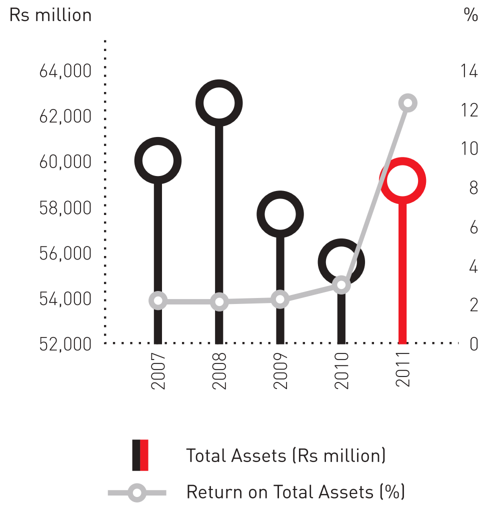
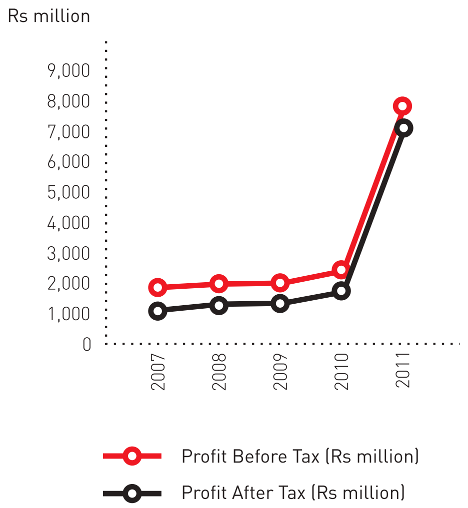
PERFORMANCE HIGHLIGHTS – DFCC BANK

For the year ended 31 March	2011	2010	% Change
Income - Rs million	14,191	8,843	60
Profit before tax	7,876	2,403	228
Profit after tax	7,137	1,713	317
Earnings per share - Basic - Rs	26.95	6.48	
- Diluted - Rs	26.93	6.48	
Interim dividend paid Rs million	1,855	Nil	
Final dividend (Proposed) - Rs million	794	794	
Dividend payout %	37	46	
Shareholders' funds (capital & reserves) - Rs million	20,219	15,723	30
Medium/long-term borrowing, deposits & debentures - Rs million	31,017	38,539	20
Total assets - Rs million	59,926	56,416	6
Return on average total assets - %	12.27	3	
Return on average shareholders' funds	39.7	11.3	

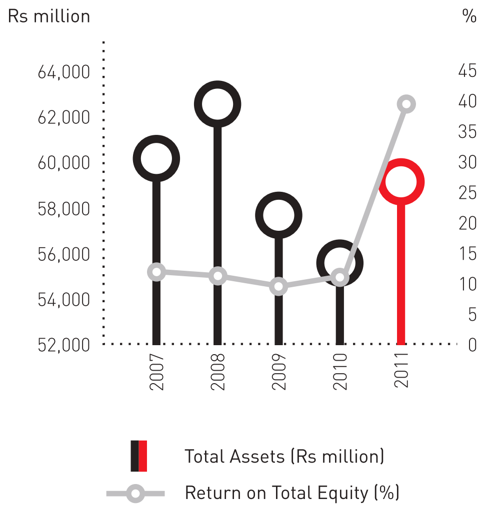
TOTAL ASSETS & RETURN



PROFITS



SHAREHOLDERS FUNDS & RETURN



CHAIRMAN'S MESSAGE

MANAGEMENT INFORMATION

It is my privilege and pleasure to present the Annual Report for the financial year ended 31 March 2011.

While two years have passed since the end of Sri Lanka's tortuously long conflict, 2010 represented an economic watershed for Sri Lanka as well as the world. For Sri Lanka it was the first full year of peace since the end of the conflict; for the world it was a period of recovery, albeit regionally uneven, from its deepest recession since the 1930s. Just as 2009 was adversely impacted by several negative developments, in 2010, the new found peace coincided with other positive factors, both internal and external, to create an environment conducive to realising Sri Lanka's true potential. The economy recorded an impressive growth rate of 8%, the highest for the past three decades and surpassing by far the 3.5% recorded in 2009. What is also encouraging is that the recovery took place across the board with all key sectors - Agriculture, Industry and Services - at least doubling their respective rate of growth. Another significant development was the recognition by the international financial community of Sri Lanka's consistent past economic performance and future potential as reflected by the country's elevation to the status of a Middle Income Economy by the International Monetary Fund. This has had a salutary impact on Sri Lanka's global image and supported in no small measure the improvement in investor confidence, as demonstrated by the successful placement of the country's first 10-year sovereign bond last October amounting to US Dollars 1 billion.

The dawn of 2011 was full of promise. This was underpinned by moderate inflation, a low interest rate regime, foreign exchange stability, positive Government initiatives to reduce taxation and liberalise exchange control and a booming stock market. But as the early part of the year has witnessed, nothing can be taken for granted. The political unrest in the Middle East and the natural calamities in Japan, indicate that new situations can emerge virtually overnight with direct and indirect implications for Sri Lanka. Therefore, the challenge for Sri Lanka is twofold; to maintain the growth momentum achieved in 2010 while at the same time being prepared to face the impact of adverse internal or external shocks.

Diversification is a common strategy for managing risk. The Government's aim to transform Sri Lanka into an economic centre by developing five focused activity hubs is in harmony with such a strategy. While avoiding concentration risk, it also focuses on inherent strengths based on the country's geographic location, resources and needs. Nevertheless, it would be impractical for this strategy to be a stand-alone endeavour of the Government. The effort must be shared with the private sector with due engagement and partnership.

Public-private partnerships, on whatever scale, require an equitable risk-reward structure. It also requires that the outcome must represent value addition for all stakeholders, particularly the public. At the same time, such partnerships must not come to be regarded as the domain of a 'cartel' where opaqueness is the order of the day.

As such, openness and transparency are basic considerations, particularly when it comes to foreign direct investment. In this, the administration's efforts to ensure best practices and due process must continue with greater vigour.

I would like to move on to the financial sector. While the previous two years were periods of stress, 2010 witnessed an improved performance by the sector with strong balance sheet growth and increased profitability. Alongside this was the expansion of the delivery channels with a concerted effort in increasing the branch network in the Northern and Eastern provinces. During the year, the Central Bank of Sri Lanka, mindful of the events that took place in 2008 and 2009, reinforced its supervisory and regulatory framework. Some of its objectives were to strengthen the balance sheets and improve the robustness of risk management systems of financial institutions.

Key measures included the increase in the minimum capital requirement in stages by 2015 and a requirement for unlisted, locally incorporated, regulated financial institutions to obtain a listing on the Colombo Stock Exchange. These measures, laudable in their own right, have also opened the door for a consolidation of the industry. At the same time, the ongoing investment drive has increased the demands on the banking industry. Moreover, this demand has spilled over to the equity capital markets, which is a positive and long overdue development. On the other hand, cognisance must be taken of the fact that investment financing is essentially long-term in nature and that the domestic set up is still very much skewed to the shorter term in terms of funding. Addressing this structural deficiency will require a paradigm shift in the scale of domestic financial institutions and the depth of the local capital market. These are factors that

"The economy recorded an impressive growth rate of 8%, the highest for the past three decades and surpassing by far the 3.5% recorded in 2009"

would encourage the Regulators to look favourably towards the consolidation of the industry.

I now turn to the DFCC Group. Shareholders would know that a part of the voting shareholding of DFCC Bank (DFCC) in the former associate company - Commercial Bank of Ceylon PLC - was divested during the year reducing the total holding to 14% as directed by the Central Bank of Sri Lanka. DFCC will now drive its commercial banking business through its subsidiary, DFCC Vardhana Bank Limited (DVB) with even greater focus. DFCC recently increased its ownership in DVB to almost 98.9% from 95.6% as part of this strategy. In the current economic context, development banking and project financing has become even more relevant. But at the same time, the market dictates that these activities be complemented with commercial banking. Therefore the business model for the Banking Business of the DFCC Group will comprise these two core activities carried out by two legal entities. DFCC will continue to concentrate on development finance while DVB will focus on commercial banking. This structure will retain the respective core skills and competencies under the two banks without any dilution. At the same time, both institutions will compete in the market as a fully integrated entity offering a full range of development banking and commercial banking products and services seamlessly through an integrated distribution channel.

As regards performance, I am pleased to report that the DFCC Group posted a consolidated profit after tax of Rs5,171 million. This is the highest ever in the history of the Group. Contributing to this profit was the one-off capital gain from the disposal of part of DFCC's shareholding in Commercial Bank of Ceylon PLC. Further details of the performance of the main business segments of the Group comprising of Banking Business delivered through DFCC and DVB and Investment Banking provided by Acuity Group, the equally owned joint venture with Hatton National Bank PLC, are given in the Chief Executive's Report and Management Discussion and Analysis.

I must also comment on the expansion of the distribution network of the DFCC Banking Business, where the focus was outside the Western Province. I am happy that headway has been made through the newly established branches in the North and East and that support to SMEs and entrepreneurs in these regions is gathering pace reflecting DFCC's role as Sri Lanka's premier development financial institution. The fact that our Banking Business has granted significantly more credit than raised deposits through the branches in the North and East is testimony to our continued commitment to support capital formation in all parts of the country.

The DFCC Group is on a sound launching pad for the next wave of growth. The financial resources are in place to be deployed in seizing gainful opportunities. The corporate structure encompassing DFCC and DVB in an operational merger is also in place and the unmatched capital market expertise and resources of the Acuity Group are at hand. We must therefore now look beyond the horizon.

What are the prospects? It was hinted in the mid 1990s that development banking the world over could soon be a sunset activity. Moreover, project financing was swallowed up or consigned as a peripheral business within universal banking operations, which often led to the dissipation of long-learned skills. However, DFCC remained steadfastly committed to its mission as Sri Lanka's pioneering and premier development bank and the opportunities are now there for this commitment to pay off. The project pipeline continues to strengthen and DFCC is not only a preferred financier, but is also regarded as a leading reference for project financing by the banking industry. At the same time, there is the symbiosis with DVB's commercial banking business. Besides operational and cost synergies, it is evident that a significant portion of future growth will be generated from cross selling development and commercial banking including the expansion of personal financial services. I am happy to report that approval of the Central Bank has been obtained for this business model to be continued and strengthened.

I thank my fellow Directors for their unstinted support and co-operation, and will continue to rely on their good counsel in meeting the challenges that lie ahead. I also wish to make reference to those Directors who left the Board; Mr A M De S Jayaratne retired in April 2010 on reaching the mandatory retirement age while Mr T Caglayan retired in June 2010. Mr D S Weerakkody and Mrs Damitha de Zoysa (Government Director) resigned in July 2010. I thank them all for their valuable contributions. I welcome to the Board Mr R B Thambiayah and Mr C R Jansz, both of who joined in July and Mrs H M N S Gunawardana (Government Director) and Ms. S R Thambiayah (Alternate Director for Mr Thambiayah) who joined in August and October respectively. I also welcome Mr T K Bandaranayake (the former Alternate Director to Mr T Caglayan), who was appointed a Director in June 2010.

Mr C P R Perera, who is retiring from the Board by rotation has decided not to seek re-election at the Annual General Meeting. The Board will miss his valuable input. I thank him for the contribution he has made since 2005 and wish him well in his future endeavours.

Mr Nihal Fonseka, the Chief Executive Officer, has demonstrated yet again a high degree of leadership that continues to bring out the best in the DFCC team to deliver another successful year. Employees at all levels showed great commitment and I remain confident of their continued efforts in taking DFCC forward.

We regard all our clients as valued partners. Their success underpins the success of DFCC and we value each relationship. I thank them for their patronage and look forward to a long-term partnership of mutual support and benefit.

Officials of the Ministry of Finance and the Central Bank of Sri Lanka have long been supportive of DFCC's endeavours, The fact that our Banking Business has granted significantly more credit than raised deposits through the branches in the North and East is testimony to our continued commitment to support capital formation in all parts of the country

both in its development banking role and in its transition into a financial services group. I thank them and look forward to their continued support and co-operation in the future.

I, together with my colleagues on the DFCC Board, value the trust and confidence that you, our shareholders, have placed in our abilities to guide and direct DFCC. We thank you for giving us this privilege. In recognition of the good performance of the DFCC Group during the year, the Board has decided to recommend a final dividend of Rs3 per share. This, together with the interim dividend of Rs7 per share declared earlier, represents a payout of Rs10.00 per share, or Rs20.00 per share prior to the dilution arising from the 1 for 1 bonus issue in November 2010.
The total dividend pay out amounts to Rs2,649 million and is a measure of the Bank's commitment to its shareholders.
Going forward, we wish to assure you that we will continue to remain committed to increasing the value of your equity.

JMS Brito

J M S Brito
Chairman

30 May 2011

Renewable Energy will power Sri Lanka into the future and DFCC is playing a leading role in setting this path...

Commissioned in 2010, Sri Lanka's first privately-owned wind power generation project in Kalpitiya added 10MW of clean energy to the national grid.

Our involvement since the mid 1990s in pioneering the promotion, development and financing of renewable energy projects has ensured that DFCC Bank is at the forefront of the changing energy landscape of Sri Lanka.

DFCC BANK


RENEWABLE
ENERGY

CHIEF EXECUTIVE'S REPORT

MANAGEMENT INFORMATION

The financial year that commenced on 1 April 2010 held out great promise, while also posing some challenges that had to be faced. Good progress was made overall that positioned DFCC Group to reap the benefits of the post-war resurgence that gathered momentum during the year. A key event during the year under review was the disposal of part of the equity stake in a former associate company, Commercial Bank of Ceylon PLC (CBC), in which the ownership was reduced from 27% to 14%. With this change of ownership status, DFCC Bank (DFCC) will now focus on its subsidiary, DFCC Vardhana Bank Limited (DVB), to expand its commercial banking business. The successful TV reality quiz show "MindStar" and the larger foot print created with the help of our 75 post office outlets are effectively delivering this message.

DFCC will continue to concentrate on project lending and development financing activities, while DVB will further leverage the DFCC customer base and develop new relationships to provide working capital finance while also implementing strategies to increase its penetration of personal financial services, financing of international trade and payment services that are not catered to by DFCC. The necessary regulatory approval has been received for DFCC and DVB to go forward on the basis of a single economic entity and to reinforce this concept the combined operations of DFCC and DVB will be referred to as the DFCC Banking Business (DBB) in this Report. Further, consistent with our accounting policy, the 'year under review' for DVB is the financial year ended 31 December 2010, while the corresponding period for DFCC is financial year ended 31 March 2011.

RECORD PROFIT BOOSTED BY A ONE-OFF GAIN

The DFCC Group recorded its best ever consolidated profit after tax of Rs5,171 million in the year under review, boosted by the capital gain derived by divesting part of the equity stake in CBC. This contributed an exceptional profit after tax of Rs5,361 million to DFCC, and a reduced amount of Rs3,001 million to the DFCC Group due to consolidation adjustments.

After eliminating gains from disposals of subsidiaries and associates, DFCC recorded a profit after tax of Rs1,776 million, an increase of 19.6% over the comparable profit of the previous year. Likewise, the combined profit after tax of DBB after normalising for one-off gains was Rs1,990 million, an increase of 15% over the previous year.

The key drivers of profitability of a banking business are credit growth, leverage, interest spread, credit quality, non-funds based income, cost/income management and taxation. These components are examined below in relation to the performance of DBB, DFCC and DVB.

HIGH CREDIT APPROVALS... WITH SIGNIFICANT DISBURSEMENTS YET TO COME

On-balance sheet credit facilities granted by the DBB recorded a modest increase of 16%, driven mainly by the credit growth in DVB which recorded an

increase of 30% that came largely from working capital and trade financing. Although the approval of new medium and long-term credit facilities by DFCC increased by 117% to Rs33,484 million, disbursements, especially those relating to larger projects, tended to lag and began to pick up only in the last quarter. This lag is normal due to the time taken for various preliminary steps that have to be completed before loans are drawn down. However, in the Small and Medium Enterprises (SME) sector that is catered to by our branch network, approvals and disbursements recorded increases of 113% and 98% respectively. The SME sector constitutes a significant proportion of total credit exposure of DBB. We continued to support this sector to promote equitable regional development, particularly the acceleration of economic growth outside the Western Province through employment creation and poverty reduction. A noteworthy feature is that our newly established business units in the Northern and Eastern Provinces have provided credit facilities to local entrepreneurs well in excess of the deposits raised from those areas. This is at variance with the norm where banks generally use less developed areas for deposit mobilisation.

LOW LEVERAGE PROVIDES OPPORTUNITY FOR AGGRESSIVE GROWTH

From the perspective of generating an adequate return on capital, the large increase in regulatory capital following the reduction in our ownership of CBC proved to be challenging in the short-term. DFCC distributed part of the exceptional profit component as an interim dividend. The availability of some surplus capital at this juncture is an opportunity and DBB is embarking on strategies to increase leverage and grow the loan book more aggressively to the corporate and personal sectors.

"The DFCC Group recorded its best ever consolidated profit after tax of Rs5,171 million in the year under review"

INTEREST SPREAD UNDER PRESSURE BUT CREDIT GROWTH WILL HELP

The progressive reduction in the Rupee interest rates during the financial year coupled with the high level of liquidity that prevailed in the banking system put significant pressure on lending rates since there was a time lag in re-pricing time deposits. Surplus funds of DFCC were deployed in relatively low yielding short-term Government Securities. The expected switching of these funds to customer loans & advances and the planned increase in leverage are expected to have a favourable impact on net interest income. DFCC also took steps to shed high priced customer and wholesale liabilities, while DVB was successful in increasing the share of lower costing savings accounts in its interest bearing deposits mix. Strategies to further increase this ratio are being implemented, which will help DVB to progressively reduce its funding cost over the next few years.

CREDIT QUALITY IMPROVED, BUT IT IS STILL WORK-IN-PROGRESS

I am happy to report that concerted action taken during the year to improve credit quality have been successful. Non-performing credit exposure of DBB reduced from Rs5,682 million to Rs4,474 million during the year and the ratio improved from 10% to 6.6%. Although the ratio is somewhat higher than the average for commercial banks, it should be seen in the context of the dominant component of the DBB credit portfolio being the higher risk project finance related to development banking activities of DFCC. Further, a conscious decision was taken by DBB to continue to support the SME sector, where the non-performing loan ratio exceeded 20% at its peak in 2009. The approach has been to restructure these loans and assist the affected enterprises to return to financial viability. While this strategy continues to have a temporary adverse impact on the ratio, it is our belief that with the improving economic conditions, it will be more beneficial to DBB and its customers, as opposed to aggressively pursuing asset recovery. The non-performing loan ratio in the corporate banking portfolio was less than 1%. Provision cover ratio for DBB improved to 57% and the unprovided exposure as a percentage of equity improved to less than 4% from 13%. The Integrated Risk Management department has collected and analysed a significant amount of information relating to the performance of our credit portfolio in recent years and are in the process of refining the DBB risk appraisal models as part of the effort to continuously improve the management of credit risk.

GROWING FEE-BASED INCOME FROM CORE BANKING ACTIVITIES A PRIORITY

At DFCC and at the consolidated Group level the contribution made by 'Other Income' (excluding gains from disposals of subsidiaries and associates) improved significantly. DVB's trade finance and treasury operations benefited from Government's economic stimulus delivered through the reduction of duties and levies on imports, especially passenger cars. Finance of foreign trade has been identified as a key growth area for DVB. Fee income from personal financial services and payment services are still low but strategies to progressively grow the contribution by leveraging the recent investments made by DVB in expanding the branch network and technology are being implemented.

The DFCC Group is a significant player in the domestic investment banking space. Investment banking services are offered through an equally-owned joint venture, Acuity Partners (Pvt) Limited and its subsidiaries. It is a full spectrum investment bank with corporate finance, fund management, stock broking, primary dealership in Government Securities and private equity capabilities. The Acuity Partners Group returned an excellent performance in its financial year ended 31 December 2010, with a profit of Rs301 million compared to Rs84 million in the previous year, half of which is included in the consolidated income of DFCC Group.

COST MANAGEMENT LEADERSHIP

DFCC has always been the best in class in managing its cost to income ratio. This has been extended to the DBB, which posted a cost/income ratio of 37.5%, the lowest among domestic private banks operating in Sri Lanka. This was achieved through reaping synergies and shared services between DFCC and DVB. In fact, it is the first domestic banking business to hive off the entire spectrum of managing its Information Technology to a separate group entity. This arrangement has allowed DBB to focus better on IT costs and optimise the return on IT investments.

REDUCED TAXES WILL IMPROVE FUTURE PROFITABILITY

The national budget proposals presented in November 2010 proposed far reaching steps to reform the tax structure in the country. The measures included a reduction in the standard corporate tax rate from a regionally high level of 35% to 28% and more importantly for banks, the reduction of the financial services value added tax rate from 20% to 12%. The latter was effectively an additional income tax, about which banks had made repeated representations over several years. These measures did not have a significant impact on the year under review but will benefit DBB going forward.

CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

Of particular significance to banks is the impending adoption of Financial Instruments Standards and full convergence with International Financial Reporting Standards (IFRS) and International Accounting Standards effective from the financial year commencing 1 April 2012 in the case of DFCC. Further information is given in Notes to financial statements.

As regards fair value accounting, the concept of 'marking to market' certain financial instruments and all derivatives assumes the existence of deep and liquid markets which is not the case in Sri Lanka. According to some analysts the failure of markets to determine prices for instruments even in well developed markets exacerbated the global financial crisis. It is therefore important that adequate safeguards are adopted to reduce the risks and unintended consequences in the implementation of these global standards in Sri Lanka.

The policy of full convergence with IFRS by Sri Lanka may not necessarily be suitable for an emerging economy of our size. For instance it is understood that India, one of the largest emerging economies, has announced specific carve-outs with IFRS in the national interest. Appropriate amendments to tax legislation will also need to be undertaken as an integral part of the proposed convergence.

However, in view of the approaching deadline, DFCC Group is working with input from external consultants on this initiative and is on target to make the transition.

COST AND COMPLEXITY OF REGULATION CONTINUE TO INCREASE

A consequence of the global financial crisis of 2008 was the tightening up of regulations governing banking and capital markets and Sri Lanka is no exception in this regard. A mandatory deposit insurance scheme for banks and deposit takers became effective in October 2010. Although an added cost, it is encouraging that the premium payable was linked to the level of capital adequacy. It is hoped that a more refined differential cost structure based on financial strength will be progressively introduced to reduce moral hazard.

Although there is a fair amount of dialogue between the regulator and regulated, the hidden cost of regulations does not appear to be getting sufficient attention. These arise, for instance, from the same entity coming within the purview of multiple regulators requiring duplication and overlap of compliance and disclosure requirements. The Inter Regulatory Institutions Council can be a useful forum for greater interaction among regulators to reduce such overlap. The dispensation given to banks by the Colombo Stock Exchange from complying with its own corporate governance rules and disclosures taking into account the mandatory Directions on Corporate Governance applicable to banks, is an example of the benefit arising from dialogue.

There is an increasing trend in recent times to shift from principles based to rules based regulations and the latter do appear to be more effective in Sri Lanka. Although prudential requirements have to be specified by rules, consideration should be given to formulating regulatory frameworks in respect of operational and oversight aspects in a manner that provides flexibility depending on the risks associated with business models, scale of operations and the capital cushion.

THE WAY FORWARD

The development plans for the country are ambitious but achievable if there is a concerted effort and a unity of purpose. The financial services sector too has an important role to play here, as credit disbursed by the banking sector will need to more than double in the next 5 years. This will require banks to significantly increase their capital and risk management capabilities. The DFCC Group is well placed on both counts. Capital formation in the private sector will also be an essential ingredient to undertake this development journey. DFCC has over the past 55 years played an integral role in this aspect and remains committed to do so in the next wave of development as well, through a sustainable business model serving the interests of all its stakeholders.

THE TEAM EFFORT

The Chairman and Directors including those who relinquished office during the year were very supportive and looked after the interests of stakeholders.
My colleagues in the Management Team and employees worked tirelessly and I express my sincere gratitude to them.
I also acknowledge with appreciation the support provided by the Government and the Central Bank of Sri Lanka for our various initiatives.

Nihal Fonseka
Chief Executive

30 May 2011

Empowering SMEs to reach new heights

Support for Small and Medium Enterprises (SMEs) has been a key priority for DFCC since it's inception. Today nearly half of our credit portfolio consists of this vital sector. The Bank leads the way in developing the internal capabilities of SMEs while helping build sustainable businesses with a competitive advantage.

DFCC BANK


SME
DEVELOPMENT

BOARD OF DIRECTORS

MANAGEMENT INFORMATION

MR J M S BRITO
CHAIRMAN

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

Deputy Chairman and Managing Director of Aitken Spence PLC. Chairman of DFCC Vardhana Bank Limited and Chairman of the Employers' Federation of Ceylon. Formerly, Chairman of SriLankan Airlines and Director of Sri Lanka Insurance Corporation. A former Member of the Strategic Enterprise Management Agency (SEMA), the Post-Tsunami Presidential Task Force for Rebuilding the Nation (TAFREN) and the Public Enterprises Reform Commission (PERC).

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

MR A S ABEYEWARDENE
DIRECTOR

Appointed to the Board of DFCC Bank in August 2009.

Director of Continental Insurance Lanka Limited, a wholly-owned subsidiary of Distilleries Company of Sri lanka PLC. Was a former Partner of KPMG Ford, Rhodes, Thornton & Co., Sri lanka. Currently serves on the Boards of Ceylon Hospitals PLC, J L Morrison Son & Jones PLC and Durdans Medical and Surgical Hospital (Pvt) Limited.

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

MR T K BANDARANAYAKE
DIRECTOR

Appointed a Director of DFCC Bank in June 2010.

Mr Bandaranayake has served on the DFCC Board since October 2009 as alternate Director to Mr T Caglayan. Currently serving on the Boards of Central Finance Co. PLC, Nawaloka Hospitals PLC, Laugfs Gas PLC, Samson International PLC, Coco Lanka PLC and Renuka Holdings PLC. Former Chairman of the Audit Faculty and current Chairman of the Quality Assurance Board established by the Institute of Charted Accountants of Sri Lanka. Former Senior Audit Partner of Ernst & Young and former Director of DFCC Vardhana Bank.

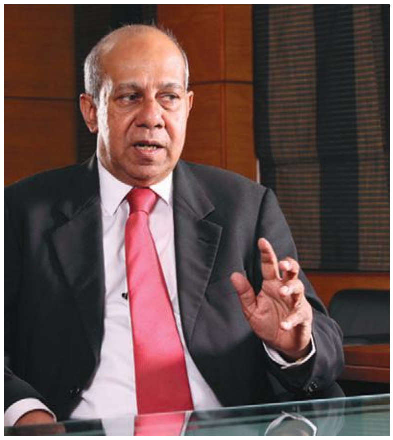
Mr Bandaranayake is a Graduate of the University of Ceylon and a Fellow of the Institute of Chartered Accountants of Sri Lanka.

MR G K DAYASRI
DIRECTOR

Appointed to the Board of DFCC Bank in March 2010.

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

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



MR A N FONSEKA
CHIEF EXECUTIVE OFFICER
EX-OFFICIO DIRECTOR

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

Mr Fonseka is a career banker. Current positions include Chairman of the Colombo Stock Exchange, Chairman of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), the first President of the Sri Lanka Committee of the Chartered Institute for Securities & Investment - UK, member of the National Payments Council and member of the Inter Regulatory Institutions Council. Recently served as a member of the Presidential Commission on Taxation.

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

MRS SHARMALIE GUNAWARDANA

GOVERNMENT DIRECTOR

Joined the Board of DFCC Bank in August 2010.

Presently Director General of the Legal Affairs Department of the Ministry of Finance and Planning. Spearheads the Government's fiscal reforms program as Project Director. Has more than two decades of experience holding senior public office. Formerly Senior Assistant Secretary of the General Treasury and Secretary to the Commission/Director Legal of the Public Enterprises Reforms Commission (PERC).

Board member of the Superior Courts Complex Board of Management and the Postgraduate Institute of English. A Trustee of the Judicial Infrastructure Maintenance Trust Fund – Judicial Services Commission.

Mrs Gunawardana is an Attorney-at-Law of the Supreme Court of Sri Lanka, a Notary Public and a Commissioner for Oaths. She holds a Masters Degree in International Commercial law - UK and has been trained at Harvard University, Amsterdam Institute of Finance and the World Bank.

MR C R JANSZ

DIRECTOR

Appointed to the Board of DFCC Bank in July 2010.

Over 35 years experience in logistics in the Import/Export field and in Documentation, Insurance, Banking and Finance relating to international trade.

Serves on the Board of Distilleries Company of Sri Lanka PLC, Balangoda Plantations PLC, Lanka Milk Foods (CWE) PLC and several other companies of the Distilleries Group.

Former Chairman of Sri Lanka Shippers Council and a former member of the National Trade Facilitation Committee of Sri Lanka.

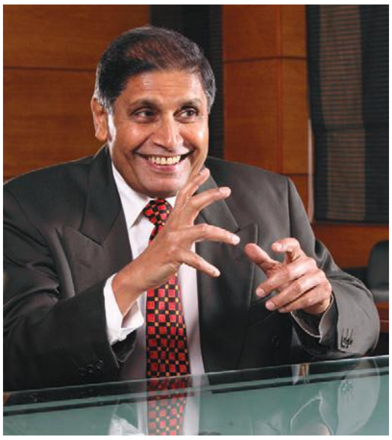
Mr Jansz holds a Diploma in Banking and Finance from the London Guildhall University - UK. He is also a Chevening Scholar and a UN-ESCAP Certified Training Manager on Maritime Transport for Shippers.

MR S N P PALIHENA
DIRECTOR

Appointed to the Board of DFCC Bank in October 2002.

A former General Manager of Bank of Ceylon, with a distinguished banking career spanning almost 40 years. Presently serves as a Director of several companies in the private sector.

Mr Palihena is a Fellow of the Chartered Institute of Bankers - UK and a Fellow of the Institute of Bankers, Sri Lanka. He holds a Postgraduate Diploma in Business and Financial Administration from The Institute of Chartered Accountants of Sri Lanka.

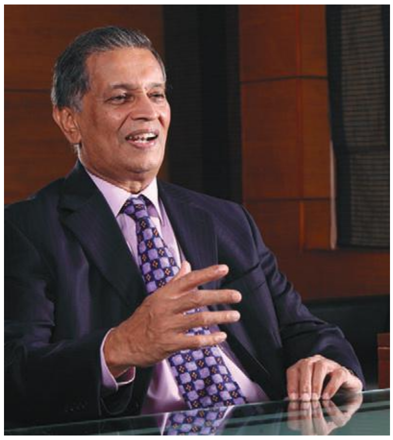


MR C P R PERERA
DIRECTOR

Appointed to the Board of DFCC Bank in July 2005.

Presently Chairman of Ceylon Tea Brokers PLC, Avondale Tea Factories (Pvt) Limited, Insite Holdings (Pvt) Limited and Insite Factories (Pvt) Limited. Committee member of the Ceylon Chamber of Commerce and a Director of the Sri Lanka Business Development Centre. Serves on the Boards of two plantation companies and their respective holding companies and three hotel companies within The Colombo Fort Land and Building Company PLC Group. Also a Director of an insurance broking company and an off shore trading company.

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



MR R B THAMBIAYAH
DIRECTOR

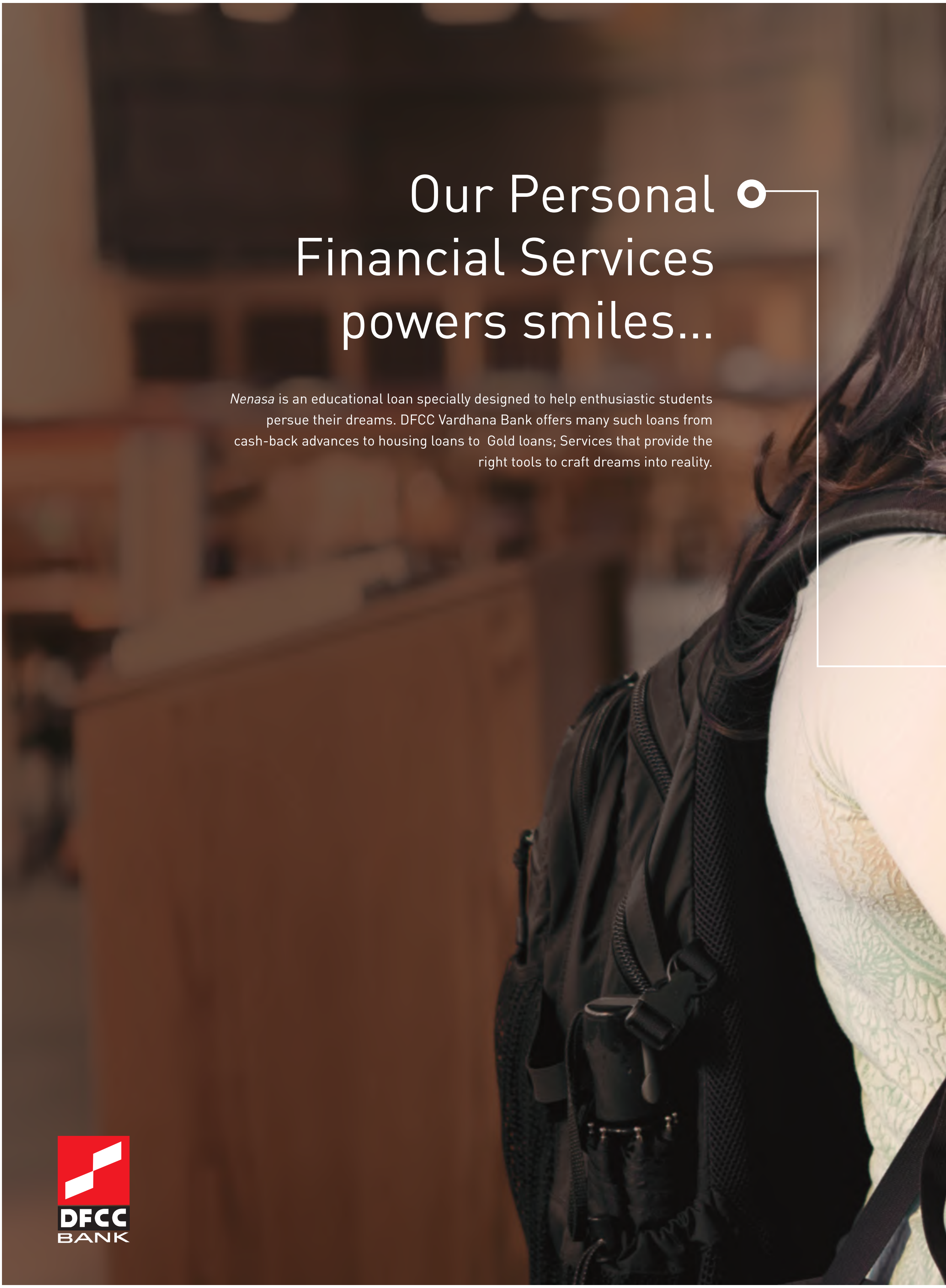
Appointed to the Board of DFCC Bank in July 2010.

Former President of Colombo City Tourist Hotels Association and Vice President of the Tourist Hotels Association of Sri Lanka. Presently Chairman of several companies in the Renuka Hotels Group and Chairman of Cargo Boat Development Company PLC. Serves on the Boards of Rocell Bathware Limited, Royal Porcelain (Pvt) Limited and Royal Ceramics Lanka PLC.

Mr Thambiayah holds a Degree in Economics from the University of Madras and is a Fellow of the Chartered Management Institute - UK.

Our Personal Financial Services powers smiles...

Nenasa is an educational loan specially designed to help enthusiastic students persue their dreams. DFCC Vardhana Bank offers many such loans from cash-back advances to housing loans to Gold loans; Services that provide the right tools to craft dreams into reality.



PERSONAL FINANCIAL SERVICES

MANAGEMENT TEAM

MANAGEMENT INFORMATION

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

EXECUTIVE VICE-PRESIDENTS

H A Ariyaratne
Lending
BSc

S Nagarajah
Finance
FCMA (UK) FCA FCCA

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

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

SENIOR VICE-PRESIDENTS

Suraj De Silva
Integrated Risk Management
BCom MBA FCMA (UK)

Tyrone De Silva
Corporate & Investment Banking
CEI MBA

Dinesh Fernandopulle
Group Chief Information Officer
BSc MSc

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

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

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

Thusantha Wijemanna
General Counsel
LLB LLM Attorney-at-Law

VICE-PRESIDENTS

Bhathiya Alahakoon
Regional Manager
BSc (Eng)

Chinthika Amarasekara
Accounting & Reporting
ACA

Renuka Amarasinghe
Corporate Banking
LLB Attorney-at-Law

Jayani Amarasiri
Human Resources
BA (Econ) MA

Nandasiri Bandara
Internal Audit
BSc (Bs. Admn) FCA

Prasad Dharmaratne
Gampaha Branch
BSc (Eng)

Chandana Dharmawardana
Corporate Banking
BSc (Eng) MIESL

Errol Fernando
Credit Administration
CIB - UK (Part 1)

Neville Fernando
Business Systems
BSc ACMA (UK) PMP

Samarakodi Godakanda
Manager - Kurunegala Branch
BSc (Agri)

Chaminda Gunawardana
Special Loan Administration
BSc AIB MBA

Roshan Jayasekara
Business Banking
ACMA (UK)

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

ASSISTANT VICE-PRESIDENTS

Ruwangani Jayasundera
Manager - Nawala Branch
ACMA (UK) MBA

Chanaka Kalansuriya
Procurement & Services
MBA

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

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

Jayangani Perera
Credit Risk Appraisal
BCom

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

Sriyani Ranatunga
Business Development
FCMA (UK) MBA MA (Econ)

Kusumsiri Sathkumara
BA (Econ) MBA

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

Visaka Sriskantha
Legal
BA Attorney-at-Law

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

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

Rosheeni Madanayake Wijesekera
Corporate Communications
BA PGD in Bs. Admn

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

Shantha Atapattu
Manager - Kaduruwela Branch
BSc (Agri)

Amanthi Balasuriya Dahanayake
Risk Processes & Controls
BA (Econ)

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

Subhashi Cooray
Credit Administration
BSc (Bs. Admin) ACA

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

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

Terrence Etugala
Manager - Kandy Branch
BSc (Acct)

Sanjeewa Fernando
Integrated Risk Management
BBMgt (Acct) CFA

Bandula Gamarachchi
Credit Administration
ACMA (UK) AIB FCMA MBA

Channa Jasenthuliyana
IT/Application Systems
DCSD (NIBM) MSc (IT) MBCS

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

Jayanath Liyanage
Manager - Ampara Branch
BSc (Agri) MBA

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

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

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

Nimali Ranaraja
Transaction Processing
LLB Attorney-at-Law ACMA (UK)

Sepali Ranawana
Legal
LLB Attorney-at-Law

Stanislaus Rayen
Business Banking
BSc (Eng) MBA MIESL

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

Mangala Senaratne
Manager - Kalutara Branch
BSc (Eng)

Nishan Weerasooriya
IT Operations
BSc (Comp. Sc) MBA

Chandrin Wimaladarma
Nawala Branch
BA Attorney-at-Law MBA

GROUP STRUCTURE

MANAGEMENT INFORMATION

	SUBSIDIARY COMPANIES	
Company	**DFCC Consulting (Pvt) Limited** No. 73/5, Galle Road, Colombo 03 Tel: 94 11 2442442 rohantha.seneviratne@dfccbank.com	**DFCC Vardhana Bank Limited** 73, W A D Ramanayake Mawatha, Colombo 02 Tel : 94 11 2371371 info@dfccvardhanabank.com
Incorporated	September 2004	August 1995
DFCC's Interest	100%	95.6%
Principal Activity	Consultancy services in Sri Lanka and abroad	Commercial banking
Financial Year End	December 31	December 31
Directors	1. A N Fonseka *(Chairman)* 2. T W de Silva 3. S E de Silva 4. C Dharmawardana	1. J M S Brito *(Chairman)* 2. L H A L Silva *(CEO)* 3. J A R E M Machado 4. K Balasundaram 5. T Dharmarajah 6. R S Jayawardena 7. A N Fonseka 8. S Nagarajah 9. L N de S Wijeyeratne 10. Ms R A P Withana
Profit after Tax 2010/11	Rs2.1 million	Rs276 million
Profit after Tax 2009/10	Rs(1) million	Rs268 million
Dividend per Share 2010/11	–	Rs0.30
Dividend per Share 2009/10	Rs3.00	Rs0.10
ROE 2010/11	9%	9%

		JOINT VENTURE	ASSOCIATE COMPANIES
Lanka Industrial Estates Limited (LINDEL) Pattiwila Road, Sapugaskanda, Makola Tel: 94 11 2400318 lindel@itmin.net	**Synapsys Limited** No. 540, Nawala Road, Rajagiriya Tel : 94 11 2880770 contactus@synapsys.sg	**Acuity Partners (Pvt) Limited** No. 53, Dharmapala Mawatha, Colombo 03 Tel: 94 11 2206206 info@acuity.lk	**National Asset Management Limited** 3rd Floor, Tower 1, Aitken Spence Building, Vauxhall Street, Colombo 02 Tel: 94 11 2445911 info@namal.lk
March 1992	October 2006	February 2008	September 1990
51.16%	100%	50%	30%
Owning and managing industrial estate	Information technology and IT enabled services	Investment banking and related financial services	Fund management
March 31	December 31	December 31	March 31
1. A N Fonseka *(Chairman)* 2. H A Samarakoon *(CEO)* 3. Mrs W H A Wimalajeewa 4. T W de Silva 5. Dr R M K Ratnayake 6. A D Tudawe	1. A N Fonseka *(Chairman)* 2. D Fernandopulle *(CEO)* 3. S Nagarajah 4. T W de Silva	1. R Theagarajah *(Chairman)* 2. M R Abeywardena *(CEO/MD)* 3. A N Fonseka 4. J M J Perera 5. T W De Silva 6. D Ellepola 7. J R P M Paiva 8. Ms M Gunawardhena	1. A de Zoysa *(Chairman)* 2. A Amarasuriya *(Group CEO)* 3. A Heart *(Executive Director)* 4. A Lovell 5. J Warnakulasuriya 6. Yiu Joe Toh 7. Ms Khoo Siew Bee 8. A N Fonseka 9. T W de Silva
Rs98 million	Rs7 million	Rs301 million	Rs22 million
Rs103 million	Rs(9) million	Rs84 million	Rs21 million
–	–	Rs0.15	Rs1.25
Rs4.00	–	–	Rs1.00
22%	43%	24%	13.5%

Connecting continents and bridging businesses through Trade Finance

Although a relatively new entrant in the sphere of international trade financing, DBB has made positive strides in Trade Finance Services with strong growth and a continuously expanding international network of partnerships.


TRADE FINANCE
SERVICES

OPERATIONS REVIEW

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

This Review of Operations of the DFCC Group will deal with the core businesses of development and commercial banking that are delivered seamlessly through DFCC Bank (DFCC) and DFCC Vardhana Bank Limited (DVB) that will be collectively referred to as the DFCC Banking Business (DBB). This is followed by investment banking, which is largely channelled through our joint venture company, Acuity Partners (Pvt) Limited and its subsidiaries. The Review ends with a brief discussion on the activities of other companies within the DFCC Group. Consistent with the information presented elsewhere in the Annual Report, the year under review ('the year' or 'current year') for DFCC Vardhana Bank and Acuity Partners (Pvt) Limited is the financial year ended 31 December 2010, while the corresponding period for DFCC Bank and all other companies is the financial year ended 31 March 2011. Likewise, 'previous year' refers to the preceding financial year of the said entities.

DEVELOPMENT BANKING

PROJECT FINANCING FOR CORPORATE CLIENTS

A total of Rs18,071 million in credit and investment facilities, which was more than double the amount in the previous year, was approved by DFCC to finance investment projects of corporate clients. This was driven by favourable market factors, including a low interest rate regime and the continuing improvement in post-war investor confidence. Direct project loans accounted for the bulk of approvals, followed by indirect project loans to holding companies and financial intermediaries. Although there was a lag in disbursements, which is normal for large project loans, acceleration was seen in the fourth quarter. This helped to arrest the contraction of the project loan portfolio, which unlike revolving working capital loans, gets amortised. The total portfolio closed at Rs18,053 million as at 31 March 2011, around 5% below the Rs18,950 million at the beginning of the year.

An encouraging trend in the project financing pipeline was its increased diversity. Along with renewable energy, credit demand was also experienced from the manufacturing, construction, telecommunications, trade and financial services sectors. The year was also notable for the culmination of three landmark projects that demonstrated some aspects of DFCC's core competencies. In June 2010, the first private grid-connected wind power project in Sri Lanka was commissioned; DFCC's involvement with the project was not only as financier but also as a facilitator in the process of formulating the feed-in tariff for wind power plants. In February 2011, a Sri Lanka-led international consortium completed construction of the largest grid-connected small hydro power project to be developed in Uganda; DFCC carried out the initial financial feasibility study and planning for the project and facilitated its financing. In March 2011, the second Sri Lankan - developed grid-connected small hydro power project in Uganda was completed; while the project was evaluated by DFCC, the funding was channelled through DVB due to exchange control related limitations applicable to DFCC, thereby highlighting the symbiotic relationship between development and commercial banking delivered seamlessly by DBB.

Asset quality of the corporate lending portfolio was maintained throughout, not only through diligent project appraisal and formulation at inception, but also by adopting a proactive strategy that included anticipatory and preventive action. This is borne out by a relatively low non-performing asset ratio of under 1% for corporate project loans as at 31 March 2011. Further, as shown below, the portfolio of project finance loans is well diversified, with four industry sectors, which include 12 manufacturing sub-sectors, accounting for about 75% of the credit exposure.

Sector	Exposure
Manufacturing	29%
Finance, Insurance & Real Estate	20%
Electricity, Gas & Water	13%
Community, Social, Education & Healthcare	12%

Looking ahead, project investment is gathering momentum with new demand for long-term funding as evidenced by the level of credit approved during the year. This also means a demand spill over for working capital and other short-term funding. In this context, DBB will look to capitalise on its unique identity as a strong development cum commercial banking operation.

FINANCING SMALL AND MEDIUM ENTERPRISES

The Small and Medium Enterprises (SME) sector was the one that was most adversely affected by the difficult global and local economic environment that prevailed in 2008 and 2009. The year commenced with positive signs of recovery of the SME sector following the restoration of peace, gradual recovery of regional economies and the low interest rate and stable exchange rate environments. Project loan approvals to SME sector by DBB recorded a 95% growth to reach Rs35,167 million, compared to Rs18,060 million in the previous year. This included approvals of finance lease facilities that shot up four-fold following the reduction of import duty on vehicles and machinery in June 2010. SME approvals were mainly for the agriculture, food & beverage, healthcare, commercial transport, construction and trade sectors. Unlike in the corporate sector, the time lag between approval and drawdown of finance is relatively short in the case of SMEs. The total SME portfolio of DBB grew by 29% from Rs27,064 million to Rs34,991 million, with loans and leases accounting for about 80% of the portfolio, balance being financial leases.

A major portion of term loan facilities approved during the year were financed under credit schemes at concessionary rates of interest. Eight such credit schemes were utilised, namely Small & Medium Enterprises Regional Development Project (SMERDP), Southern Province Rural Economic Advancement Project, Agro Livestock Development Project, New Comprehensive Rural Credit Scheme, Awakening the North Credit Scheme, Resumption of Economic Activities in the Eastern Province Credit Scheme, KfW-DFCC Credit Scheme for SMEs in the Northern and Eastern Provinces and EIB Post-Tsunami Reconstruction Scheme. The ADB-funded SMERDP Credit Scheme was heavily utilised to finance 334 enterprises located outside the Western Province. Under this credit line DBB was the leading funder of such enterprises.

Although the non-performing advances ratio relating to SME finance provided by DBB was high at 11.8% at the beginning of the year, painstaking rehabilitation coupled at times with the orderly disposal of assets enabled the situation to be improved significantly by the end of the financial year. The non-performing loans advances and leases ratio relating to SME finance, excluding legacy loans under legal action for recovery, was reduced to 6.5% with a significant reduction in the amount of such assets also being achieved.

DBB provides a comprehensive package of services to the SME sector. This included an ongoing programme of training and education of SME customers on important topics such as business management, entrepreneurship development, marketing and taxation. Several workshops were held during the year, in Colombo as well as the provinces, all of which were well attended.

SECTOR DEVELOPMENT AND CREDIT LINE MANAGEMENT

RENEWABLE ENERGY DEVELOPMENT

The World Bank and Global Environment Facility assisted Renewable Energy for Rural Economic Development (RERED) Project - Additional Financing credit line of USD40 million administered by DFCC was fully committed during the year, with 54% of the funds being disbursed by year end.

Since 1997, the three consecutive renewable energy credit lines administered by DFCC (namely: Energy Services Delivery Project, RERED Project and RERED Project-Additional Financing) have played a pivotal role in the private sector development of Non-Conventional Renewable Energy (NCRE) resources. By end-2010, the 168 MW of installed capacity funded by the three credit lines constituted 78% of the installed NCRE capacity in Sri Lanka.

An exciting development during the year was the commissioning of Sri Lanka's first privately owned on-grid wind power project. This 10 MW capacity project was implemented with financial and technical assistance from the RERED Project. Considering the potential for wind power in Sri Lanka's energy mix, DFCC, through the RERED Project, undertook a number of initiatives to facilitate its further development. The ongoing 'Sri Lanka Wind Integration Study' will determine the extent to which wind power could be integrated to the national grid.
A working meeting on 'Advancing lender understanding of Wind Power Project Appraisal' was organised in association

with USAID - SARI Project for credit officers of RERED Participating Credit Institutions (PCIs). A study tour to China for PCIs to understand wind power and low head hydro power technologies and to Denmark for officials of the Ceylon Electricity Board and Ministry of Power and Energy to study wind projects and their integration to the grid were also organised as part of the capacity building initiatives.

The three renewable energy projects have also assisted in the electrification of over 138,200 off-grid households in rural Sri Lanka through solar home systems (SHS) and community-based village hydro schemes. Technical assistance activities carried out during the year included sustainability aspects, particularly in view of the rapidly expanding national grid. A study was launched to develop a mechanism for integrating existing village hydro schemes into the national grid. To assist the SHS industry, an independent study was undertaken to evaluate and improve loan recovery mechanisms employed by PCIs. Further, an eminent overseas consultant was engaged to formulate a future strategy for Sri Lankan SHS industry.

During the year, two separate teams from Ghana and Nepal visited Sri Lanka to study the RERED project, which is recognised internationally as a model renewable energy initiative.

Using RERED funds DFCC helped provide electricity to this community in Panamura Ella and also equipped Them with a village computer center.

PLANTATION DEVELOPMENT

The DFCC-managed credit component of the Plantation Development Project funded by the Asian Development Bank (which included a revolving fund set up by the Government of Sri Lanka) was successfully concluded in November 2010 with 100% disbursement of the JPY513 million and Rs2,000 million in loans. The Project assisted 14 regional plantation companies through 7 participating financial institutions in accessing long-term financing for their capital investment requirements.

SME DEVELOPMENT IN THE NORTH AND EAST

The EUR5 million KfW-assisted Small and Medium Enterprise Development Project in the North and the East is aimed at improving access to financial services through the banking sector for entrepreneurs in the two provinces, thereby increasing income and employment opportunities. As at 31 March 2011, refinance commitments and disbursements from five participating banks amounted to Rs242 million and Rs130 million, respectively. Most of the loans are small in value, typically less than Rs2 million each. The sectors funded were mainly agriculture, trading, construction and transport in the North and the East.

POST-TSUNAMI RECONSTRUCTION

The European Investment Bank-assisted Post-Tsunami Reconstruction Project provided assistance to revive the economies of 11 affected districts. At the close of the Project in December 2010, the total credit line of EUR60 million under the DFCC-administered scheme A (for directly and indirectly affected projects) was fully allocated and the 7 participating financial institutions had collectively disbursed Rs9,058 million (99.8% of the credit line). In addition to the economic development in tsunami affected areas, the assisted projects are estimated to provide over 3,000 employment opportunities in the leisure, health, manufacturing and service sectors.

LONG-TERM FUNDING

DFCC Bank's long-term funding base consists of credit lines obtained from multilateral and bilateral lending agencies as well as local long-term fund providers such as pension funds and savings banks. We continued to have access to drawdown on the European Investment Bank (EIB) Global II credit line. The objective is to borrow foreign currency denominated long-term financing for on-lending in either Sri Lankan Rupees or foreign currency to eligible borrowers who wish to avail of the benefits of the increased liberalisation of exchange control regulations in the country. The existing pool of funds consisted of foreign currency denominated borrowings, which when swapped into LKR contributed to managing the cost of funds. The exchange risk on swaps is managed within the risk limits framework of DBB.

The strong domestic credit ratings enjoyed by DFCC Bank and DVB stand them in good stead to access the local capital market to raise medium-term funding as well as attract customer deposits in the future. The management of cost of funds was a challenging exercise given declining rates and up to six months lag effect on benchmark indicators on borrowings and customer deposits.

COMMERCIAL BANKING

CORPORATE BANKING

The corporate banking credit divisions of DFCC and DVB were operationally merged during the year. This has resulted in DBB delivering a wide range of development and commercial banking products and services through a dedicated distribution channel. In the integration process, the challenge of blending the development banking and commercial banking relationships without any deterioration in service quality or dilution of core competencies, was achieved successfully.

Surplus liquidity continued to be a feature of the market during the financial year. While credit demand remained skewed towards the short-term, the corporate portfolio utilisation (excluding Project Finance discussed earlier) grew by 80% to reach Rs5,490 million by the end of the year. The synergy realised from the merged operation was evident as this growth was achieved with virtually no change in DFCC's corporate banking organisation structure. Moreover, a considerable portion of this business was originated by cross selling commercial banking products to the corporate client base of DFCC.

Although a relatively new entrant in the sphere of international trade financing, DBB has made positive strides in this segment with strong growth recorded in both import and export related businesses. DBB is also continuing to expand its international correspondent banking relationships in regions with potential for more trade finance and remittance business.

BUSINESS BANKING

A new unit named Business Banking was set up within DBB during the year to serve the specific needs of the semi corporate end of the SME sector. This was identified as an under-served business segment. The Business Banking hub office is in Colombo, with other designated offices and branches of DBB providing the required outreach. Credit facilities extended to Business Banking customers include asset financing loans and finance leases, working capital loans and advances, all types of trade finance and documentary collection services, construction finance, guarantee facilities, foreign exchange and payment services.

PERSONAL FINANCIAL SERVICES

PFS ASSETS

Personal Financial Services (PFS) and products are offered through the DVB network. These include overdrafts, personal loans, cash-backed advances, gold-pledged loans, housing loans and finance leases designed to cater to the diverse financial needs of individual customers. DBB's exposure to the PFS segment is still small, but it has been identified as a future growth sector. As a first step, positioning DVB as a PFS-oriented bank was undertaken by increasing the visibility among individuals through the 'DFCC Mindstar' quiz reality TV programme which has been a success in terms of viewer ratings. Considerable investment has been made in expanding the DVB footprint and developing a suite of products catering to various PFS segments.

Gold-pledged loans are a popular PFS product. The service standards hinge on providing a high level of privacy and speedy service to customers. Other popular PFS products include a cash-backed lending scheme branded Vardhana Cash-for-Cash for obtaining advances against fixed or savings deposits held with the Bank; a loan scheme designed for financing higher education named *Vardhana Nenasa*; and a housing loan scheme branded *Vardhana Sandella*.

An increasing number of customers avail of DVB's remittance services through the expanding domestic network. Steps are being taken to strengthen links with overseas money transfer companies, particularly in the Middle East, Europe, Far East and Australia mainly to cater to the needs of expatriate Sri Lankans.

RETAIL DEPOSIT MOBILISATION

The total customer deposit base of DBB stood at Rs27.2 billion. The deposit growth was static as DFCC's fund composition changed from deposits to other less costly sources of borrowings, which resulted in a decline in the deposit base, while DVB increased its deposit base by 6.6%. Retail deposits of DVB increased by 10.9% compared to the previous financial year. This growth rate is consistent with the average deposit growth rate in the banking sector during 2010. Given the high liquidity that prevailed throughout the year, DBB did not embark on mobilising wholesale deposits or aggressively seeking time deposits but focussed on increasing the proportion of low cost demand and savings deposits, which increased from 21% to 26% of total deposits, duly supported by an expanding branch network.

DELIVERY CHANNELS

Six branches were opened in Trincomalee, Jaffna, Vavuniya, Moratuwa, Embilipitiya and Pettah. In addition, 46 extension offices were opened at Post Office premises, many in rural areas, under an agreement with Sri Lanka Postal Department. With this expansion, DBB delivery channels increased to 49 branches and 75 extension offices, giving a total of 124 outlets by 31 March 2010. Priority was given to developing the footprint in the North and the East to support post-conflict economic revival of these Provinces, while the Uva and Southern Provinces will also be included in the coming year.

Channel management was streamlined across DBB and a regional management structure was introduced. Regional offices were established in Colombo, Kurunegala, Galle, Kandy and Kaduruwela.

TREASURY

DBB enjoyed comfortable liquidity through customer deposits, access to wholesale funding and internally generated funds. As such, there was no need to tap new wholesale funding during the year.

Customer related transactions of DVB generated significant income from both fixed income and foreign exchange related activities. Together with increased trade finance activity, Treasury was also able to profitably use the arbitrage opportunities that arose mainly in the US Dollar/LKR market.

The net interest income of Treasury arises out of investments in Treasury Bills & Bonds and money market operations. The Treasury continued to benefit by mismatches in maturities in assets and liabilities through higher yielding Treasury Bills and Bonds funded by money market borrowings and swaps. Treasury contributed a total gross interest income of Rs2,536 million, 26% of total gross interest income of DBB.

An integrated automated system to better manage and control DBB's trading activities in foreign exchange and fixed income securities was implemented during the year, thereby enhancing trading capacity with greater control over market and operational risks.

CAPITAL MARKETS AND INVESTMENT BANKING

The Colombo stock market continued with the previous year's bull-run and achieved new milestones in the process. The All Share Price Index crossed the 7,000 mark and reached a record high of 7,812 points in February 2011. The index gained 94% from 3,725 points to 7,226 points during the year ended 31 March 2011 compared to 125% the previous year. Liquidity levels increased significantly with average daily turnover rising from Rs892 million to Rs2,809 million during this period. Market valuations as measured by the Price Earnings Ratio increased from 18.4 times to 25.7 times. While this was driven by expectations of strong growth in corporate earnings and surplus liquidity, there was also an element of speculation.

Given the buoyant market conditions, DFCC adopted an active buy strategy based on fundamentals during the year. DFCC's investment portfolio, comprising quoted and unquoted equity and unit trusts, was increased from Rs818 million to Rs1,595 million (excluding the residual holding in Commercial Bank of Ceylon PLC). As at 31 March 2011, the market value of the quoted investment portfolio and unit trust holdings was Rs2,901 million, of which the unrealised capital gain was Rs1,379 million. Capital gains of Rs53 million were realised from sales of mature quoted and unquoted equity holdings. DFCC also has a small 'trading portfolio', that is a regulation-based, rather than an intentional classification, which recorded a marked to market gain of Rs29 million.

DFCC's Investment banking businesses are clustered as an investment banking group under Acuity Partners (Pvt) Limited, the equally owned Joint Venture with Hatton National Bank PLC. The favourable market conditions enabled all members of the Acuity Group and especially Acuity Stockbrokers (Pvt) Limited to turn in strong performances. The Acuity Group also executed several notable transactions and stands out among investment banks as offering the broadest range of financial services.

Acuity Group was involved in raising over Rs11,500 million in private and public equity, which included the largest private placement and the most successful Initial Public Offering, in terms of over-subscription on the Colombo Stock Exchange. It was also active in the debt capital market and was involved in several loan syndications.

OTHER GROUP BUSINESSES

Commercial Bank of Ceylon PLC ceased to be an associate company in June 2010 when DFCC reduced its equity holding. With this divestment, DFCC complied with a Direction issued by the Central Bank of Sri Lanka and the long drawn out litigation involving many parties relating to this shareholding was concluded.

Lanka Industrial Estates Limited, which owns and operates the industrial park at Sapugaskanda, recorded a steady performance with a profit after tax of Rs98 million. The Company is now exploring ways and means of diversifying its revenue base.

Synapsys Limited, the information and communication technology subsidiary, which provides all IT related services to DBB, reported a turnaround with a profit after tax of Rs7 million. A key product developed and launched by Synapsys was M-BANX. This is a mobile transaction platform that delivers asset and liability products to the customer's doorstep, as well as processing routine transactions. The platform has been successfully deployed in DVB and in a financial institution in the Maldive Islands. DFCC invested a further Rs33 million in new capital in the Company. Several business models are under consideration to facilitate Synapsys to expand its reach overseas.

DFCC Consulting (Pvt) Limited undertook assignments that were mainly in the area of evaluating and financing of projects in the renewable energy sector. While the Company posted a small profit, it is now poised to take on some challenging overseas assignments.

National Asset Management Limited (NAMAL), the fund management associate, recorded an improved performance with a profit after tax of Rs22 million. The Company's ownership changed when a consortium led by Union Bank PLC acquired the 70% stake held by Milford Holdings (Pvt) Limited.

FINANCIAL REVIEW

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

The profit after tax of DFCC Group in the financial year under review (referred to in this Review as 'current year') was Rs5,171 million, an increase of 193% over Rs2,684 million in the previous financial year (referred to as 'previous year'). This includes an exceptional profit of Rs3,001 million arising from the reduction of voting ordinary shares in Commercial Bank of Ceylon PLC (CBC) to 15% from 26.8% during the period June to August 2010. Since investment in CBC is carried at cost in the balance sheet of DFCC Bank, the profit on sale is the difference between the net sale price and the cost of acquisition of shares sold. In the consolidated balance sheet of the Group however, the investment is equity accounted and consequently the consolidated profit is the excess of net sale price over the equity accounted cost, i.e., although DFCC Bank's income statements report a higher profit on which financial services VAT is paid, the consolidated profit of the Group is lower.

The Income statements of the DFCC Group on page 85 include consolidated profit arising from the sale of CBC in the current year as well as the sale of Lanka Ventures PLC (LVL) to Acuity Partners (Pvt) Limited, a joint venture company of DFCC Bank, in the previous year.

Furthermore, it also includes the equity accounted profit of CBC for April and May 2010 in the current year and the full year in the previous year. These financial statements, while providing information in accordance with statutory requirements, makes year on year review of the performance difficult.

Therefore, for purposes of review we have provided supplementary financial information of the consolidated banking business comprising DFCC Bank and DFCC Vardhana Bank Limited (DVB) with adjustments. This supplementary financial information is on pages 76 to 80 and has been audited by KPMG Ford, Rhodes, Thornton & Co. The adjustments for purposes of review segregate the exceptional profit on sale of CBC in the current year and sale of LVL in the previous year and treats the investment in CBC as if it ceased to be an associate company on 1 April 2009 instead of 2 June 2010 with consequential adjustments to the current and previous years.

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

PROFITABILITY OF DBB

This Review based on the supplementary financial information referred to therefore firstly deals with DBB and thereafter contributions to group profit attributable to equity holders of DFCC Bank made by other members of the Group.

DBB INCOME STATEMENT

The adjusted profit after tax of DBB in the current year was Rs1,996 million, a 15.1% increase over Rs1,734 million in the previous year. DBB's profit drivers are net interest income of the credit portfolio derived from portfolio growth and interest margin, dividend income, gains from sale of non-affiliated share investments, fee and foreign exchange income and management of non-interest cost. Maintenance of credit portfolio quality is imperative to preserve the profit contribution from these profit drivers.

NET INTEREST INCOME (NII) OF DBB

NII was Rs5,031 million in the current year, a 6% increase over Rs4,745 million in the previous year. The current financial year was characterised by a low interest rate regime and intense competition for supply of credit in the context of the very high level of liquidity in the banking system. Thus the interest income of DBB was 18% lower in the current year despite the credit portfolio growth of 15% that was complemented by the improvement to the portfolio quality. Part of the reason for the relatively low growth in NII was that these positive developments were in the latter part of the current year and therefore the full benefit was not available in the current year.

The interest expense of DBB was 34% lower in the current year reflecting the lower interest paid on liabilities. Some of the higher-cost customer deposit liabilities were paid off without renewal with the sale proceeds of CBC shares. The pressure on interest margin was greater on DVB since it pursued a strategy of expanding its customer base by attracting several high quality corporate customers, thus sacrificing short-term interest margin for long-term benefit that arise from such relationships. Expected benefits include greater trade finance opportunities that contribute to non-interest income from fees and foreign exchange transactions, and providing access to their employees to expand personal financial services.

OTHER INCOME

Other income of DBB was Rs1,720 million in the current year, an increase of 13% over Rs1,518 million in the previous year excluding the exceptional gains on part disposal of CBC shares in the current year and disposal of LVL in the previous year. Dividend income received by DFCC Bank made a significant contribution to the other income of the combined banking business (DBB) while the contribution from DVB also increased in the current year due to the success of strategies to increase trade finance business.

Due to the weakening of the US Dollar, there was a significant drop in the foreign exchange income in the current year. This was Rs28 million in the current year compared to Rs159 million in the previous year after adjusting for the US Dollar/LKR funding swap cost which is treated as an interest expense for the purposes of this review. The potential to benefit from foreign exchange fluctuation is limited for DVB due to its relatively small size restricting proprietory trading.

OPERATING EXPENSES

Non-interest expense in relation to operating income was 37.5% in the current year, an increase over the 34.1% recorded in the previous year. The increase is largely attributable to investments in expanding the distribution network with concomitant head count increase in DVB and investments in technology to achieve a higher degree of automation. The pay back from these initiatives will be realised in the medium term.

SPECIFIC PROVISIONS

The gross specific provision of Rs1,225 million in the current year is 11% higher than Rs1,100 million in the previous year. However, due to concerted recovery action, the reduction in provisions through recoveries was Rs772 million in the current year, a 43% increase over the Rs541 million reduction achieved in the previous year.

TAXES

The financial services tax reduction from 20% to 12% was effective from 1 January 2011. It benefited only DFCC Bank in the current year, as a financial year ended 31 December 2010 is used for DVB for the consolidation.

LOAN QUALITY

The gross non-performing credit portfolio (NPL) comprising loans & advances, finance lease & Bills of Exchange of DBB was Rs4,475 million on 31 March 2011, a decrease of 21% from Rs5,683 million an year ago. As explained in Note No. 61 on page 142 the basis of classification of NPL on 31 March 2011 is more stringent compared to the basis on 31 March 2010. This was a significant achievement in reduction of NPL, particularly in the latter part of the financial year and augurs well for the future profitability of an expanded credit portfolio. The NPL ratio was 6.6% on 31 March 2011 reduced from 10.2% one year ago. While paying attention to recoveries of impaired credit portfolio, the specific provision coverage on NPL increased to 56.5% on 31 March 2011 from 37.7% one year ago.

CONTRIBUTION TO PROFIT BY ACUITY PARTNERS (PVT) LIMITED

Acuity Partners (Pvt) Limited, an equally owned joint venture between DFCC Bank and Hatton National Bank PLC, together with its subsidiaries constitutes a Group (APG) that provides a full range of investment banking services. During the current year, it made a significant contribution of Rs129 million to the profit after tax (PAT) of the DFCC Group, a four-fold increase over the Rs31 million in the previous year. Amount included in the Group PAT is the share of total PAT of APG attributable to equity holders of DFCC Bank.

CONTRIBUTIONS TO PROFIT BY OTHER MEMBERS OF THE GROUP

This comprises the profit contribution from Lanka Industrial Estates Limited, Synapsys Limited, DFCC Consulting (Pvt) Limited and National Asset Management Limited. The collective contribution to Group profit after tax by these entities was Rs65 million in the current year.

DIVIDEND DISTRIBUTION

In addition to an interim dividend of Rs7 per share, the Directors have recommended a final dividend of Rs3 per share, which will amount to an aggregate payment of Rs2,649 million. The total dividend payout as a percentage of DFCC Bank's own profit after tax for year to 31 March 2011 is 37%. The total payout represents a 233% increase over the previous year due to the exceptional one-off gain during the current year.

REGULATORY CAPITAL

This was significantly boosted by the part sale of the investment in CBC. While affording a sizeable equity cushion to the depositors and lenders, this tends to dampen the rate of return to equity shareholders until asset growth is financed through gearing.

IMPENDING CHANGES TO ACCOUNTING STANDARDS

These have been explained in Note No. 9 on page 103. The key component is the Standards on Financial Instruments regarding Recognition, Measurement and Disclosures.

RISK MANAGEMENT

MANAGEMENT DISCUSSION AND ANALYSIS

GOVERNANCE STRUCTURE FOR RISK MANAGEMENT

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

The First Line of Defence involves the supervision and monitoring of risk management practices by the business managers, corporate management and executive committees while discharging their responsibilities and accountability for day-to-day management of business operations. Independent risk monitoring, validation, policy review and compliance by the Integrated Risk Management Department (IRMD), the Compliance Function and periodic monitoring and oversight by the Board Integrated Risk Management Committee (BIRMC) and the Board of Directors constitute the Second Line of Defence. The Third Line of Defence is provided by the independent check and quality assurance by the Internal Audit and External Audit functions.

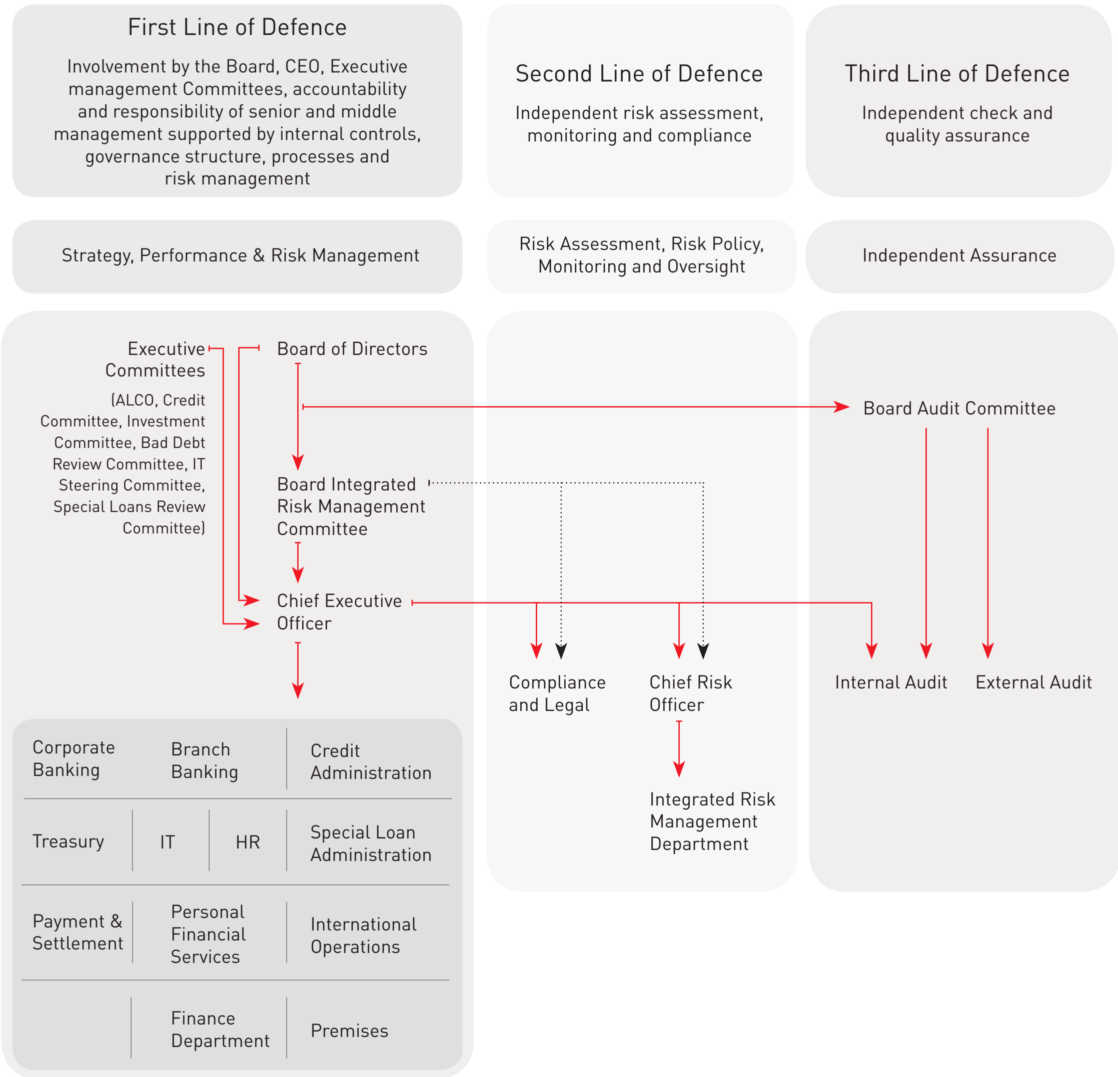
The Chief Risk Officer, who is a Senior Vice-President, has been designated a Key Management Personnel and administratively reports to the Chief Executive but with functional reporting and access to the BIRMC. The BIRMC functions under the responsibilities set out in the Board-approved Charter for the BIRMC, which incorporates corporate governance requirements for Licensed Specialised Banks issued by the Central Bank of Sri Lanka (CBSL). The executive committees such as the Asset Liability Management Committee (ALCO), Credit Committee, Investment Committee, Bad Debt Review Committee and Special Loans Review Committee are guided and operated within risk frameworks and limits set out by the Board and the Board Committees.

BIRMC reviews the adequacy and effectiveness of the executive committees. IRM representatives serve in these committees. Design or redesign of asset and liability products of the DBB involves a structured process set out in the new product development policy, in which the overall risk exposure of the product forms a part of the assessment prior to the product launch. IRMD is responsible for measuring and monitoring risk at operational level on an on-going basis to ensure compliance with the parameters set out by the Board/BIRMC and other executive committees. The structure for the Integrated Risk Management Function is evolving to be in line with the Basel II recommendations.

DEVELOPMENTS

The DBB continued to review its overall risk management and the business functions in line with internal developments, regulatory requirements, industry factors and international best practices. During the year, several new policy frameworks, manuals, guidelines and limits were introduced while amendments were made to the existing

GOVERNANCE STRUCTURE FOR RISK MANAGEMENT IN DFCC BANKING BUSINESS



policies and guidelines. Quantitative measures for risk management were improved and an effective blend of quantitative evidence and expert knowledge was built to facilitate the DBB's operations. The DBB's risk-based pricing and business strategies were re-evaluated more frequently at the relevant executive committees with inputs from the business and IRMD. Key industry sectors were studied to recognise vulnerabilities and opportunities in the light of local and global sources of risk. These studies were communicated across the DBB and were taken into account in strategy formulation and business planning.

The establishment of an independent credit rating review process within the IRMD was a key improvement during the year to DFCC's credit appraisal process. Credit proposals which are submitted to the Credit Committee go through this rating review process. Independent credit rating review, which had already been adopted by DVB, is in line with the Basel II recommendations for credit risk management. Credit audit activity, which was initiated during the year as a part of Internal Audit, would provide a risk-based post-sanctioning evaluation for credit proposals.

Use of internally developed credit rating models, as a credit risk quantification tool, has been a part of DFCC's risk management practices for nearly a decade. These models warrant periodic reviews and adjustments to improve the discriminatory power in line with the changes in the Bank's business focus and external factors. Such reviews are a pre-requisite when implementing Advanced Approaches of the Basel II. DFCC's credit rating models were back-tested during the year with an extended data sample. Back-testing results were used to bring about necessary improvements to the credit rating models and the credit appraisal process. Equipped with the study findings, and DFCC's historical borrower data, DFCC commenced realigning its existing credit rating models. Model realignment in DFCC was carried out in two parallel exercises involving support from external experts and mobilising internal expertise. Historical borrower data and expert knowledge from business functions were utilised with particular attention paid to the Basel II recommendations for model development and usage. DFCC built up a database for historical borrower data, which were used for the model realignment process.

Probability of Default (PD) and Loss Given Default (LGD) were computed for the DFCC's credit portfolio covering an extended data sample. The PD - a credit risk component-based on the borrower rating, was separately assessed for corporate borrowers and the SME borrowers. LGD assessment during the year separately covered the DFCC's lease facility data and the loan portfolio. The resultant LGD values were evaluated in the dimensions of collateral type, region, branch, exposure at default, etc. Findings of this credit risk quantification will be used by the DBB in its future business decisions and risk management practices. Historical loss database constructed through LGD computation will facilitate the impairment loss assessment under the IFRS implementation.

The DBB has now successfully completed the initial phase of capacity building in the risk management and Basel II awareness through local and foreign training, knowledge sharing and increased cadre positions to cater to the scope of the Integrated Risk Management function and organisational needs.

THE DFCC GROUP'S RISK- BASED CAPITAL ADEQUACY

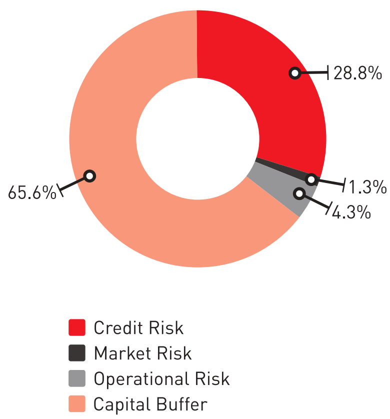
The DBB continued to maintain a healthy risk capital position on a solo and group basis computed under the simplest approaches of Basel II. During the year, the Group's total regulatory capital base grew by 37% to reach Rs20,403 million as at end March 2011 while total risk weighted assets grew to Rs78,897 million by 22.5%. The part divestment of DFCC's investment in Commercial Bank of Ceylon PLC was the main cause for the growth in the capital base. Increase in on-balance sheet commercial lending, off-balance sheet credit exposure and risk-weighted assets for market risk were the main causes for the growth in total risk-weighted assets of the DBB. The risk capital base of the Group indicated a high level of risk absorption capacity and will enable DBB to increase leverage and exploit the anticipated growth in credit in the medium-term.

DFCC GROUP REGULATORY CAPITAL RATIOS

under the simplest approaches of Basel II as at 31 March

	2011	2010
Core capital	26.7%	26.2%
Total capital base	25.8%	23.1%

THE GROUP'S REGULATORY CAPITAL ALLOCATION AND AVAILABLE CAPITAL BUFFER AS AT MARCH 2011



Stress-testing carried out during the year for DFCC and DVB on a solo basis indicated a healthy capital cushion above regulatory minimum capital requirement even if the worse case scenarios, as per the specification of the CBSL, for all key risk categories crystallised at the same time.

THE DBB'S PROCESSES FOR RISK MANAGEMENT

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 DBB, and accounted for 83.7% of risk-weighted assets as at end of the financial year.

The use of internal rating models and the periodic review of assigned ratings by the DBB form the basis for risk profiling of borrowers for the purpose of managing credit risk through structuring, pricing, monitoring, restructuring and recovery action. A well-structured approval process is in place, guided by the Delegation of Lending and Related Authority limits based on risk categories. No single person can originate and approve the granting of credit. Approval of large value credit exposures is undertaken by the Executive Credit Committee or on its recommendation by the Board of Directors. Concentration risk is currently managed and monitored in terms of single borrower limits, group limits and sector limits. Herfindahl-Hirschman Index (HHI) - an internationally accepted technical measure, indicated a satisfactory granularity of the DBB's credit portfolio among different industry sectors. Of the DBB's portfolio, within the project financing segment and the commercial banking segment, the HHI indicies were 0.085 and 0.047, respectively, as at March 2011. DFCC has recognised in its credit policy some sectors as 'Special Clearance' which are considered for lending only after a special assessment process and 'Negative List' which are not considered for lending. Such sectors or credit products have been categorised based on the country's laws and regulations, DFCC's corporate policies and values and the levels of risk exposure. Information on key sector exposures is given in the section on Operations Review.

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 DBB's exposure to market risk is primarily governed by a Market Risk Management Framework, provisions in the ALCO Charter and risk limits. The ALCO and Investment Committee oversee the management of both the traded and the non-traded market risk. The DBB treasury manages the foreign exchange risk arising in the banking book with permitted hedging mechanisms. Tools such as supervisory monitoring, exposure limits, stop-loss limits, simulation, scenario analysis, stress-testing and marking-to-market are used to manage the market risk exposures. The DBB's foreign exchange assets comprising less than 5% of total assets and liabilities are substantially matched or hedged through various mechanisms. The market risk exposure arising from exchange rate movements is insignificant.

INTEREST RATE RISK

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

As a general rule, medium-term fixed rate advances are funded by fixed rate liabilities. Foreign currency assets and liabilities are re-priced periodically linked to a benchmark rate. Statistical methods such as scenario analysis, simulation and stress-testing are used by the DBB in managing interest rate risk.

EQUITY PRICES RISK

Equity prices risk is the risk of losses in the equity trading book, which is marked-to-market due to the decline in the market prices. The Investment Committee of DFCC is responsible for making investment decisions and monitoring the DFCC's 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. DFCC's long-term investment horizon for equity investments smoothens out the adverse implications of short-term market volatility. Further, the DVB assumes equity price risk indirectly through its margin lending in the event of crystallisation of credit risk of margin borrowers. This indirect equity exposure of DVB is managed through the specific margin trading guidelines under the supervision of the Credit Committee. The DBB's total direct exposure to equity prices risk through the equity trading portfolio and the investment portfolios accounted for 6% of the Group's total assets, inclusive of DFCC's residual investment in Commercial Bank of Ceylon PLC. However, this equity portfolio marked an unrealised capital gain equivalent to several times of its carrying value as at 31 March 2011. DFCC does not engage in active trading of equities; however, Directions issued by the Central Bank of Sri Lanka necessitate the transfer to a trading portfolio and marking to market of certain residual equity holdings.

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 DBB has a well-set out Framework for Liquidity Risk Management and a Contingency Funding Plan. The liquidity risk management process includes regular analysis and monitoring of the liquidity position and maintenance of market accessibility. Regular cash flow forecasts, liquidity ratio and maturity gap analysis are used as analytical tools by the ALCO. The DBB introduced a scenario-based approach for liquidity risk management in which scenarios are recognised in the light of internal liquidity conditions under the different market liquidity conditions for applicable liquidity risk limits. Whilst comfortably meeting the regulatory requirements relating to liquidity, for internal monitoring purposes, the DBB takes into consideration the liquidity of each eligible instrument relating to the market at a given point in time as well as undrawn commitments to borrowers when stress-testing its liquidity position. The maintenance of a strong credit rating [AA(lka)] assigned by Fitch Ratings Lanka, unchanged since January 2003 and reputation in the market enables the DBB to access domestic wholesale funds when needed to supplement its traditional funding sources from multilateral and bilateral sources. For short-term liquidity support, the DBB has access to the money market at competitive rates. The diversification of the liability structure is also a key focus of the DBB and access to retail deposits is being effected through expanding the reach of DVB as well as sourcing foreign currency denominated funding to complement the base. A substantial proportion of DFCC's funding is from medium to long-term sources. This reduces its liquidity risk in the short-term. If the necessity arises, DFCC's finance lease portfolio can be securitised to generate liquidity. DFCC's risk-based pricing mechanism ensures that residual liquidity risk is duly priced when pricing assets.

OPERATIONAL RISK

Operational risk arises from human activities, technology and natural incidents. The sources of operational risks include fraud, staff negligence, management systems failure, technology failure, model failure, technology obsolescence and inadequate internal controls. Segregation of duties with demarcated authority limits, internal and external audit, strict monitoring facilitated by the technology platform and back-up facilities for information are the fundamental tools of operational risk management. Audit findings and management responses are forwarded to the Board's Audit sub-committee for their examination. Effective internal control systems, supervision by the Board, senior management and the line managers form a part of 'First Line of Defence' for operational risk management at DBB. The DBB 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 DBB's business recovery plan deals with natural or other catastrophes. The loss of physical assets is mitigated through insurance.

REPUTATION RISK

Reputation risk is the risk of losing public trust or the tarnishing of the DBB's image in the public eye. It could arise from environmental, social, regulatory or operational risk factors. Events that could lead to reputation risk events are closely monitored, utilising an early warning system that includes inputs from frontline staff, media reports and internal and external market survey results. A Communication Policy that addresses aspects of reputation risk is in place. Policies and standards relating to the conduct of the DBB's business have been promulgated through internal communication and training. A culture of compliance permeates all levels of the DBB, 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 DBB's medium-term strategic plan and annual business plan form a strategy road map for sustainable growth. Diversification into related financial services through subsidiaries, associates and joint ventures, continuous competitor and customer analysis, and monitoring of the macroeconomic environment enable the DBB to formulate its strategies for growth and business risk management. The DBB's Planning & Plan Implementation Department oversees this process and information technology is used to support the budgeting, planning and variance analysis. Business risk relating to customers is assessed in the credit rating process and is priced accordingly.

LEGAL RISK

Legal risk arises from unenforceable transactions in a court of law or the failure to successfully defend legal action instituted against the DBB. Legal risk management commences from prior analysis, and a thorough understanding of, and adherence to, related legislation by the staff. Necessary precautions are taken at the design stage of transactions to minimise legal risk exposure. In the event of a legal risk factor, the Legal Department of the DBB 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 claims on the DFCC.

SUSTAINABILITY REPORT

MANAGEMENT DISCUSSION AND ANALYSIS

CHIEF EXECUTIVE'S MESSAGE

This is our third report on sustainability, included as part of our Annual Report. As the principles and practice of sustainability are very much an integral part of our business strategy and day-to-day operations, additional and complementary aspects are discussed elsewhere in the Annual Report under the relevant sections. We are thus avoiding undue repetition.

The relevance of sustainability to DFCC Bank and its business strategy continues to remain as strong as ever and even more so, as the Nation's premier development bank that continues to retain its focus. However, to be sustainable, we have been responsive and proactive in the fast-changing economic, social and technological environments in which we operate. Our business models and strategies have evolved and changed helping DFCC withstand the test of time. Fifty-five years since its founding and presently operating as a Financial Services Group, we have successfully charted a course to serve our broad spectrum customers - from SMEs to conglomerates, from small savers to entrepreneurs seeking project finance - with a full range of financial products and services delivered seamlessly through subsidiary, joint venture and associate companies.

We have consistently created value for our shareholders, while conducting our business in a socially and environmentally responsible manner. Our Corporate Responsibility Programmes are largely based on education, entrepreneurship and self-reliance, primarily targeting school children. The benefits are long-term and sustainable, unlike short-lived dole out philanthropy. Likewise, we invest generously in developing and motivating our staff, who are key stakeholders of our institution.

As a principled and responsible investor, our precepts on sustainability have also influenced our customers. Our formal adoption of the Environmental & Social Management System (EMS) as part of our credit policy ensures the promotion of sustainable business ventures. To refrain from undesirable investments, we maintain a negative sector list. We have been and continue to be, the pioneer and leader among financial institutions in the country for promoting, developing and financing renewable energy projects, both on-grid and off-grid.

Our discussion on sustainability broadly covers the DFCC Banking Business (DBB), comprising DFCC Bank (DFCC) and DFCC Vardhana Bank (DVB). However, due to practical reasons pertaining to data verification and analysis some economic and environmental aspects are disclosed separately for the two entities. In time to come we plan to move towards greater consolidation when reporting, with both institutions adopting a common framework based on the Global Reporting Initiative.

Nihal Fonseka
Chief Executive

30 May 2011

ECONOMIC PERFORMANCE

MANAGEMENT APPROACH TO ECONOMIC PERFORMANCE

With a vision of being Sri Lanka's premier financial services group, we strive to provide superior financial solutions and nurture business enterprises, thereby adding value to our customers, shareholders, employees and the country at large. We are driven by a mandate that has sustainable development residing at the very core of our corporate philosophy.

The Group is led by DFCC Bank, one of the oldest and most successful development finance institutions in the Asia-Pacific region. Post World War II in vintage, yet modern in outlook. DFCC Bank today also provides the whole gamut of commercial banking services through an operationally integrated subsidiary, DFCC Vardhana Bank - resulting in a unique Banking Business that delivers the best of both worlds.

Other complementary businesses, including investment banking, venture capital financing, consulting, IT services, asset management and industrial estate management through subsidiary, joint venture and associate companies.

DFCC has been at the forefront in the development of several economic sectors identified for investment by the private sector. Noteworthy among them are tourism agriculture, healthcare, energy and telecommunications.

Providing financing and nurturing the growth of Small and Medium Enterprises (SMEs) has always been an important component of DFCC's business model - now brought under the umbrella of the DFCC Banking Business. Our contribution to the SME sector is discussed elsewhere in the Annual Report.

As a private sector institution, DFCC places the utmost priority on the interests of its investors and hence, continuously strives to increase the value of its shareholders' equity. Statements giving the Value Added by the two entities that comprise the DFCC Banking Business are given below.

ECONOMIC PERFORMANCE INDICATORS

STATEMENT OF VALUE ADDED - DFCC BANK

For the year ended 31 March		2011 million	%		2010 Rs million	%
Value Added						
Gross income		14,191			8,843	
Cost of borrowing and support services		(3,273)			(4,607)	
Provision for bad debts and investments		(244)			(356)	
		10,674			3,880	
Value Allocated						
To employees						
Salaries, wages and other benefits		791	7		715	18
To providers of capital						
Dividends to shareholders		2,649	25		794	20
To Government						
Income tax on profit	739			689		
Value added tax on financial services	1,890	2,629	25	659	1,348	35
To expansion and growth						
Retained income	4,488			919		
Depreciation	117	4,605	43	104	1,023	27
		10,674	100		3,880	100

STATEMENT OF VALUE ADDED - DFCC VARDHANA BANK

For the year ended 31 December		2010 Rs million	%		2009 Rs million	%
Value Added						
Gross income		3,787			4,447	
Cost of borrowing and support services		(2,276)			(2,952)	
Provision for bad debts and investments		(235)			(234)	
		1,276			1,261	
Value Allocated						
To employees						
Salaries, wages and other benefits		405	32		358	28
To providers of capital						
Dividends to shareholders		55	4		55	4
To Government						
Income tax on profit	263			330		
Value added tax on financial services	190	453	35	182	511	41
To expansion and growth						
Retained income	221			213		
Depreciation	144	363	28	125	337	27
		1,276	100		1,261	100

ENVIRONMENTAL PERFORMANCE

MANAGEMENT APPROACH TO ENVIRONMENTAL PERFORMANCE

Consumer behaviour, investment decisions and regulations are changing for the better in an increasingly connected world. Stakeholders today demand information on environmental and social issues relating to the products or services they purchase. Likewise, the safeguard standards that we adopt in our banking operations comply with national requirements, as well as international standards when projects are refinanced through credit lines from multilateral financial institutions. Going further, we have developed our own Environmental & Social Management System (EMS) that is benchmarked against best international practices to supplement our project appraisal and follow up functions. The focus is on prevention, rather than cure.

Internally, we are mindful of our own carbon footprint. We minimise waste, use technology to conserve resources and practise the 3R Concept - Reduce, Reuse, Recycle. It also makes business sense.

ENVIRONMENTAL PERFORMANCE INDICATORS

FINANCING ENVIRONMENTALLY FRIENDLY PROJECTS

As the leader and pioneer in development banking, DFCC considers the promotion of sustainable development an important business and social responsibility. DFCC offers concessionary loans under special programmes such as the E-Friends scheme to prevent industrial pollution and promote waste minimisation and resource conservation. Since 2006, DFCC has disbursed over Rs1.6 billion under this initiative to 126 projects that envisaged the improvement of business processes leading to a reduced carbon footprint.

Loans granted through DFCC Banking Business are subject to prior review to ensure that they finance activities which are compliant with the requirements of the Environmental Protection Act, the Rules and Regulations issued by the Central Environmental Authority of Sri Lanka as well as our own EMS. Qualified and trained in-house staff ensure compliance at loan approval stage and where warranted, also carry out post-disbursement reviews and investigations. Depending on the nature of the project, appropriate environmental safeguards are included in the terms and conditions of the loan facility, which are legally binding.

GOOD HOUSEKEEPING

DFCC Banking Business adopts environmentally friendly operational procedures that are benchmarked on best practices. These include aspects such as energy efficiency, recycling, waste reduction, and proper disposal of waste. The following table indicates the main parameters that are presently monitored for DFCC Bank.

Electricity and Water figures relate to consumption from DFCC Bank Branches islandwide.

	2010/11	2009/10	2008/09
Electricity (kWh) - Avg. per branch	117,109	117,569	134,932
Water (m^3) - Avg. per branch	1,144	1,121	1,032
Fuel (litres) - DFCC Head Office	38,668	42,499	44,803
Number of km - DFCC Head Office	293,874	326,793	330,851
Hired Vehicles - Number of km	12,983	5,848	5,603
White Paper - Packets - Head Office	2,400	1,776	2,470
Average No. of km per Executive	2,894	3,138	3,823
Average No. of km per Litre	7.60	7.69	7.38

During the year, DFCC stepped up its efforts to promote environmentally friendly practices amongst its staff. On average, electricity and water usage remained static due to continuous efforts to minimise wastage. Similarly, travel undertaken at Head Office has also been regulated. While the material contribution from these savings may not be vast, the effort sends a message about DFCC's environmental commitment to its customers, staff and the community at large.

CLEAN ENERGY DEVELOPMENT

In the mid-1990s DFCC financed Sri Lanka's first ever private sector grid-connected mini hydro project. Since then, DFCC's role in the promotion, development and financing of renewable energy projects has grown, particularly through the implementation of three successful national projects. The World Bank and Global Environment Facility-assisted Energy Services Delivery Project, the Renewable Energy for Rural Economic Development Project (RERED) and the follow on RERED additional finance project. These Projects support both commercial electricity generation for the grid, as well as off-grid solutions for rural electrification, typically through Solar Photovoltaics (PV) and micro hydro projects.

By end 2010, these projects contributed nearly 80% of the Non-Conventional Renewable Energy (NCRE) capacity in Sri Lanka and had added 168 MW of capacity to the national grid. The Government has taken a policy decision to generate 10% of total electricity generated in the country through NCRE sources by 2015. DFCC is well-positioned and committed to support this effort by guiding promoters on key issues and structuring finance requirements.

SOCIAL PERFORMANCE

OUR HUMAN CAPITAL

We manage our human capital as one would a partnership, driven by the premise of give and take. While employees are expected to perform at the highest level of capability, they are provided with an environment characterised by open channels of communication, transparency, equity and inclusiveness. We adhere to the highest standards of ethics and compliance in our internal as well as external dealings, while striving to create a dynamic and exciting work environment.

RESOURCING

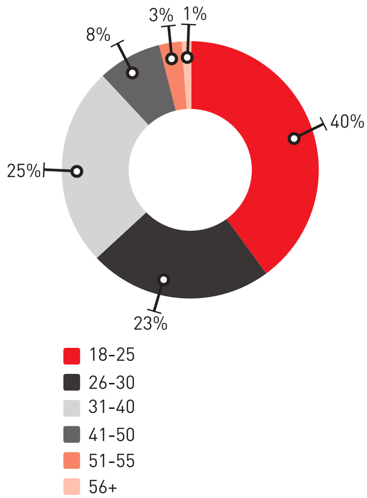
Recruitment activities during the year continued unabated, primarily driven by the enhanced geographic penetration by our commercial banking arm. The year ended with a staff strength of 1,116 persons at the combined DFCC Banking Business, an increase of 21.4% over the previous year. Most of the new entrants were for entry level positions, which required the implementation of comprehensive induction programmes on a year round basis. Our induction programmes are used not only to impart operational knowledge, but also to help the new recruits to integrate effectively with our culture and value system.

To make the best use of available talent and build the capacity of our human capital, formalised processes were refined to offer career paths to employees with high potential. With a significant number of the operational areas of the two banks being merged, we have witnessed the gradual expansion in the scope of some jobs, enrichment in others and numerous opportunities for rotations and secondments. This has provided our staff with enhanced avenues not only to upgrade their own knowledge and skill levels but also opened up paths for career advancement.

ANALYSIS BY GENDER AND AGE

The gender ratio was balanced, with males accounting for 51%, and females the balance 49%. Age-wise, 40% were in the 18-25 year range, while 48% were in the 26-40 year band, reflecting a reasonable balance between youth and experience.

AGE-WISE ANALYSIS



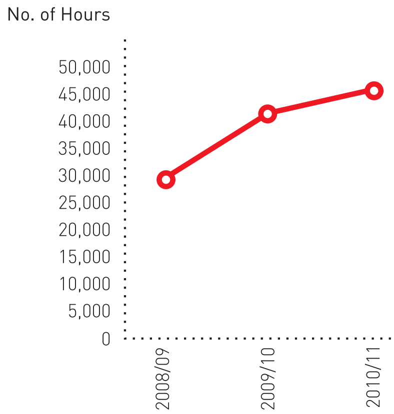
ANALYSIS BY GRADE

	DFCC Bank	DFCC Vardhana Bank	Total	Total %
Senior Management	10	3	13	1
Middle Management	45	22	67	6
Executives	183	130	313	28
Non-Executives	192	333	525	47
Other	22	176	198	18
Total	452	664	1,116	100

STAFF DISTRIBUTION BY PROVINCE

	DFCC Bank	DFCC Vardhana Bank	Total	Total %
Central	31	54	85	8
East	14	19	33	3
North	10	13	23	2
North Central	26	51	77	7
North Western	19	46	65	6
Sabaragamuwa	18	40	58	5
South	28	77	105	9
Uva	17	28	45	4
Western	289	336	625	56
Total	452	664	1,116	100

TOTAL TRAINING HOURS



NURTURING ORGANIC GROWTH

We are committed to nurturing inherent talents and maximising individual potential of our employees. Even in the recent past when the financial sector was facing numerous challenges we continued to invest in staff training and development, as we firmly believe that trained staff provides the competitive edge and the impetus to our continued success. In addition to certain core programmes based on specific jobs and employment grades, staff members are provided with specific needs-based training to address individual skill gaps identified during the annual training needs assessments and performance reviews.

During the year, we provided 46,236 man-hours of training to DFCC Banking Business staff, which translates to over 45 hours per employee on the average. Most of the training on technical skill enhancement was targeted at junior level employees, while those at relatively senior levels were provided with focused needs-based interventions. We continued to build capacity in core areas such as project evaluation, short-term credit evaluation, problem loan management, commercial banking operations, exchange control regulations, risk assessment and treasury operations.

We introduced an e-learning platform in 2009 and as at end March 2011 a total of 30 training modules were available on the system. With increased geographical dispersion of staff, the e-learning system has become a vital and cost effective tool to impart essential technical knowledge especially to entry level staff. It is mandatory for our Banking Business staff to successfully complete identified core modules and related assessments prior to being confirmed in service. Usage levels have shown consistent improvement and a survey conducted in December 2010 confirmed that respondents were satisfied with the quality and usefulness of the modules offered.

We continued to rely on the vast knowledge and experience of the in-house resource pool to develop most business related e-learning modules as well as to structure and conduct technical programmes for junior staff. We appreciate their generosity in devoting personal time and effort towards ensuring the transfer of knowledge and skills that are essential for the continuity of the Group's competitive edge.

BUILDING LEADERSHIP CAPABILITIES

Building a strong leadership pipeline is vital for the growth of the DFCC Banking Business. As part of our succession planning initiative, focused attention was given to building leadership capabilities within the Banking Business. The main thrust being a multi-phased programme initiated with the assistance of international consultants. The initial phase of the programme involved critically reviewing and updating the existing leadership competency framework to ensure more relevance to future strategic business objectives of the DFCC Banking Business. Subsequently, 15 selected members of the management team were assessed against the new leadership competency model. Detailed development plans were formulated indicating priorities, targeted interventions, milestones and timelines. Stemming from the assessment and as one of the development interventions, each participant will be provided with individual coaching by external experts spanning several months in 2011.

As part of our drive to build leadership capacity at middle management, 33 managers were selected to participate in a customised programme modelled on the new leadership competency framework. A five-day programme, conducted by the Malaysian Institute of Management in Kuala Lumpur in early 2011, was very well received by the participants. The programme focused on situational and practical aspects and incorporated many group-based and individual assignments. A post-training assessment will be conducted in 2011 to ascertain the impact of this initiative.

In a further effort to inculcate leadership competencies among junior executives, shortlisted candidates were put through a medium-term management development initiative which commenced in mid-2010. It is scheduled to conclude in mid-2011.

ENGAGING OUR PEOPLE

We have consistently made an effort to initiate and continuously improve on activities that help to create a culture of commitment, foster a sense of ownership and improve productivity within the workplace. We believe that an optimistic and constructive work environment fostered by adherence to our core values such as team work, respect for the individual and ethical conduct helps enhance workforce commitment and allegiance, both from an emotional and intellectual perspective.

Staff are encouraged to treat each other with professionalism, courtesy and respect. Victimisation or abusive behaviour of any kind or form is not tolerated. We pride ourselves on being an equal opportunity employer; proactively driving gender inclusivity, encouraging diversity in ethnic, religious and other affiliations and welcoming multiplicity of thought and opinion.

We strive to be as transparent as possible in our processes and ensure equitability and fairness in addressing employee needs. Employees are encouraged to express suggestions, opinions and grievances in a constructive manner. The Group has adopted a grievance policy, whereby a structured process is in place to communicate perceived injustice and seek necessary redress. Exit interviews are conducted regularly and action taken as appropriate. Staff of the Human Resources Department and members of the senior management visit branches to interact with employees and give them an opportunity to communicate their views and concerns, if any.

The performance management framework is regularly reviewed and required changes are effected in an effort to improve alignment of individual performance to Group performance. At the beginning of each year, the business objectives are cascaded down to relevant units and subsequently to staff members. Performance against assigned goals is regularly reviewed and measured and supervisors are encouraged to give their direct reports clear and constructive feedback and on-the-job coaching as necessary to help them maximise their potential and contribution. Reward and recognition frameworks are directly related to performance both from an organisational and individual perspective. From time to time remuneration structures are benchmarked against selected comparator institutions and adjustments are made as necessary to ensure that our compensation package is fair and in line with the market. However, we never subscribe to getting involved in bidding wars to either recruit or retain staff as it does not coincide with our value proposition. As part of this same value proposition we encourage staff joining us from other institutions to serve their requisite notice period and ensure proper transition of work.

We appreciate that opportunities for career progression give an impetus to improving performance levels. While in the banking sector advancement may usually be at a slower pace than in other industry sectors, the rapid growth of the branch network though DFCC Vardhana Bank has opened up new avenues for career advancement within the DFCC Banking Business. As such the number of staff in the management grade has increased from 68 in the previous year to 80 during the year under review. Promotions are based on organisational requirements as well as individual performance and capabilities.

It is commonly accepted that levels of employee satisfaction at the workplace improve significantly when strong relationships with superiors and co-workers are developed. Towards this end, we sponsor many team sports such as basketball, cricket and badminton and encourage the active participation of staff in these endeavours. The DFCC Group Toastmasters Club, affiliated to Toastmasters International, helps individuals to improve their confidence and skills in public speaking and frequently organises contests and interactions with other such clubs. The Welfare and Recreation Club organises a host of events throughout the year such as the sports day, cricket tournament, annual dance, year-end party etc. for staff members and their families.

With productive contributions from teachers and students, Kuliyapitiya St. Joseph Maha Vidyalaya won the award for the best 5S quality circle in 2010.

GIVING BACK TO OUR COMMUNITY, WITH A DIFFERENT KIND OF EDUCATION

TRAINING YOUNG MINDS

In collaboration with the Ministry of Education, we launched a community development project in 2009 targeting primary school students spread across the country. The objective was to empower young minds with knowledge that enable them to increase efficiency and productivity.

In September 2010, the project was duly recognised as a Distinguished Honoree at the Stevie Awards organised by the International Business Awards, USA. It was also recognised as the best CSR project in the 'Education and Training' category at the Best Corporate Citizens Awards 2010 organised by the Ceylon Chamber of Commerce. The schools which took part in the project have also won awards at different local competitions for their performance.

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

Learning from experience, the project was further improved and extended to a new set of schools during year 2010, which for the first time included, two schools from the Eastern Province. It was a great experience for the schools as well as the teams that drove the project, as they had different cultural roots but worked harmoniously towards a common goal.

Another striking feature of the project was the enthusiasm of staff, who contributed their time and effort voluntarily. In total, over 131 staff members participated, contributing over 1,300 volunteer hours in guiding the schools and monitoring their progress during the year.

DEVELOPING ENTREPRENEURSHIP AMONGST STUDENTS

The attempt made to encourage schools to raise their own funds to carry out the project initiatives in 2009 proved to be successful. It was thus continued in 2010 as well, with improvements. In addition to the general means of raising funds through organising market fairs and concerts or selling small handmade items, in 2010 the schools took on more challenging initiatives. These included activities such as producing cakes of soap, cultivating cinnamon and fruit trees and producing recycled paper. The amount of funds raised by the participating schools exceeded Rs2.6 million. As matching grants, a maximum of Rs25,000 per school was disbursed to encourage continued participation.

Even though the immediate visible change is in the physical environment of the participating school, the hidden value and sustainability of the project lies in the change that occurs in the mindsets of the students, parents and teachers.

A Primary section classroom at Mawathagama Roman Catholic Vidyalaya, which has successfully implemented 6S principles

A major change is in attitude - from a typical welfare culture rooted in dependency on the State to a culture of empowerment and self improvement - which will become more visible as the project progresses. To further strengthen sustainability, a number of workshops and seminars were conducted by different resource persons, targeting not only the school principals and teachers, but also the Zonal and Provincial Educational Directors who administer these schools.

IMPROVING ENVIRONMENTAL CONSCIOUSNESS

It is an aim of our project to educate the students on the need for conserving the natural environment and minimising the negative impacts resulting from human behaviour. Tree planting campaigns were organised in all the participating schools in celebration of the World Environment day. Plants were donated to schools, and with the participation of teachers, students and our volunteer staff, the tree planting campaign turned out to be a success. In addition, students were invited to build Vesak lanterns using environmentally friendly materials.

The project has benefitted over 33,000 students and 1,470 teachers directly. Siridhamma Vidyalaya, Galle won the first place in the final evaluation, and have even taken the initiative to obtain an ISO certification for their school. The second place was won by Kirimetiyana Buddhist Ladies College, Chilaw with Al Juffria Vidyalaya, Batticaloa coming third. All participating schools were awarded cash prizes. Given the success of the project new schools have been identified for 2011 including ones from the Nothern Province.

REALITY TV QUIZ WITH A DIFFERENCE

DFCC MindStar is a unique reality TV quiz that is telecast on the Independent Television Network. Nine contestants, each representing a Sri Lankan province are given the opportunity to answer 10 questions for a chance of winning a million rupees. The questions are drawn from areas as diverse as Geography, History, Politics, Science, Religion, Sports and Current Affairs.

Deran Hewawitharana was a Million Rupee Prize winner and a finalist at the first season of DFCC MindStar.

Launched in May 2010, DFCC MindStar quickly garnered a keen following from viewers country-wide due to its unique presentation style and world class production standards.

The DFCC Banking Business entered the realm of Reality TV with two main objectives. Firstly, the show is intended to promote our products and services while raising brand awareness among the general public. Secondly, DFCC MindStar is a corporate social responsibility initiative to provide individuals and students a chance to identify positive role-models and work towards gaining new and useful insights about their world. The ultimate objective is to provide inspiration to citizens to move towards a knowledge-based society.

The initiative has been well received by the public as nearly 10,000 applicants took part in our initial aptitude tests whilst millions more tuned in every week to catch their favourite weekend reality TV show. The first season of the show featured 180 contestants from all 9 provinces of Sri Lanka. A total of 76 contestants won prizes while four won the grand prize of One Million Rupees.

DFCC MindStar was awarded the Best Reality TV Show by the Mass Media Foundation at the Asian Mass Media Awards in December 2010 and it continues to receive high viewer ratings.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

REPORTS 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 2011.

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

GENERAL

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

PRINCIPAL ACTIVITIES

BANK

The principal activity of DFCC Bank includes the business of development financing. There has been no significant change in the nature of DFCC Bank's principal activities during the year except that investment banking services were provided mainly through a 50% owned joint venture.

SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES

The subsidiaries of the Bank are DFCC Consulting (Pvt) Limited, DFCC Vardhana Bank Limited (DVB), Lanka Industrial Estates Limited (LINDEL) and Synapsys Limited. Acuity Partners (Pvt) Limited is an equally-owned joint venture and National Asset Management Limited (NAMAL) is an associate company. The nature of business and the Bank's interest in these entities are set out in Page 28 and 29 of the Annual Report.

The Bank reduced its voting and non-voting shareholding in Commercial Bank of Ceylon PLC from 26.9% to 14% during the year. It ceased to be an associate company on 2 June 2010.

GOING CONCERN

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

FINANCIAL STATEMENTS

The Financial Statements of the Bank and the Group of Companies are given on pages 85 to 90 of the Annual Report. They have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, the Banking Act and other applicable statutory and regulatory requirements.

REVIEW OF BUSINESS OF THE YEAR

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

PROFIT AND APPROPRIATION

Year ended 31 March 2011	(Rs '000)
Retained profit on 31 March 2010	992,321
Previous year dividend approved on 30 June 2010	794,452
Unappropriated profit on 31 March 2010	197,869
Profit after tax of the Bank	7,137,451
Total available for appropriations	7,335,320
Appropriations:	
Transfer to:	
Reserve Fund (statutory requirement)	360,000
Investment Fund (statutory requirement)	53,600
General Reserve	2,000,000
Interim dividend declared on 31 March 2011	1,854,682
Final dividend recommended for financial year ended 31 March 2011	794,651
Unappropriated profit on 31 March 2011	2,272,387

ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the financial statements of the Bank and the Group are stated on pages 91 to 104 of the Annual Report. There were no significant changes to the Accounting Policies of the Bank in the year under review.

AUDITOR'S REPORT

The Auditor's Report on the financial statements, which is unqualified, is given on page 84.

REAPPOINTMENT OF AUDITORS

The present Auditors, Messrs KPMG Ford, Rhodes, Thornton & Co. have expressed their willingness to continue as Auditors of DFCC Bank for the next financial year ending 31 March 2012. The Audit Committee has reviewed the effectiveness and the relationship with the Bank including the fees paid to the Auditors and have concluded that they are suitable to continue in office. The Directors are satisfied that based on the written representation made by the Auditors, they have no relationship or interest with the Bank or with any of its subsidiaries which would impair the Auditor's independence. A Resolution pertaining to their reappointment and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting for adoption.

THE BOARD OF DIRECTORS

The Board of Directors of the Bank consist of ten Directors with wide knowledge and experience in the fields of banking and finance, trade, commerce, manufacturing, services and law. Profiles of the Directors are given in pages 20 to 23 The following are the present Directors of the Bank categorised in accordance with criteria specified in Direction No. 12 of 2007 issued by the Central Bank of Sri Lanka.

NON-EXECUTIVE DIRECTORS

Mr J M S Brito (Chairman)
Ms H M N S Gunawardana - Government Director

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr S N P Palihena - Senior Director
Mr A S Abeyewardene
Mr T K Bandaranayake
Mr G K Dayasri
Mr C R Jansz
Mr C P R Perera
Mr R B Thambiayah
Ms S R Thambiayah - Alternate to Mr R B Thambiayah

EXECUTIVE DIRECTOR

Mr A N Fonseka - CEO and Ex-Officio Director

Mr Brito does not meet the criteria set out in the Direction to be designated an Independent Director by virtue of his being a director of the subsidiary, DFCC Vardhana Bank Limited. Mrs Gunawardana represents a specific stakeholder. Mr Abeyewardene qualified as an Independent Director on 25 February 2011 on his relinquishing office as a Director in an associate company.

RESIGNATION AND APPOINTMENT OF DIRECTORS

The following Directors resigned from the Board during the year on the dates shown:
Mr A M de S Jayaratne - 30 April 2010
Mr D S Weerakkody - 2 June 2010
Mr T Caglayan - 30 June 2010
Dr (Mrs) Damitha de Zoysa -12 July 2010

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

Mr T K Bandaranayake (who was an Alternate Director) was appointed as a Director with effect from 30 June 2010. Mr R B Thambiayah and Mr C R Jansz were appointed as Directors on 28 July 2010. Mrs H M N S Gunawardana was appointed as the Government Director on 4 August 2010. Messrs T K Bandaranayake, R B Thambiayah and C R Jansz will retire in terms of Regulation No. 90 of the DFCC Regulations and are offering themselves for re-election at the Annual General Meeting. The Nomination Committee has recommended their re-election and the Board having concluded that they are fit and proper persons to be Directors in terms of the provisions of the Banking Act, unanimously endorse the recommendation of the Nomination Committee.

SECRETARY TO THE BOARD

Ms A Withana was appointed as the Secretary to the Board with effect from 25 May 2011 to succeed Mr T Wijemanna who is due to retire from the Bank shortly. The Directors thank Mr Wijemanna for the services rendered during the past 17 years.

RETIREMENT OF DIRECTORS

The Director retiring by rotation in Terms of Regulation No. 87 of the DFCC Regulations is Mr C P R Perera. He is not offering himself for re-election. The Directors thank him for the valuable contribution made by him during his tenure as a Director since 2005.

DIRECTORS' REMUNERATION

The Director's remuneration for the financial year ended 31 March 2011 is given in Note 18 of the financial statements. Mr G K Dayasri has opted not to receive any remuneration as a Director. The directors record their appreciation for the honorary services provided by Mr Dayasri.

DIRECTORS' MEETINGS

The Bank held 14 Board Meetings during the financial year. The attendance of Directors is shown in the Table on page 60 of the Annual Report.

DIRECTORS' INTEREST IN SHARES AND DEBENTURES

Mr A N Fonseka, in his capacity as Chief Executive held 34,008 options as at 31 March 2011 (17,004 as at 31 March 2010). The increase in the number was due to the adjustment made in accordance with the approved scheme arising from the bonus issue of shares during the year. Mr Fonseka has not exercised options on any shares during the financial year 2010/11.

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

Directors' interest in shares are given in Table 1.

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.

Table 1
Directors' Interest in Shares

	No. of Shares[1] as at 31 March 2011	No. of Shares[1] as at 31 March 2010
Abeyewardene, A S	10,380	1,190
Bandaranayake, T K	1,478	739
Brito, J M S	18,760	9,380
Caglayan, T[2]	–	Nil
Dayasri, G K	1,036	518
De Zoysa, Dr Mrs A D N[2]	–	Nil
Fonseka, A N	107,998	66,499
Gunawardana, Ms H M N S	Nil	Nil
Jansz C R	1,000	Nil
Jayaratne, A M de S[2]	–	750
Palihena, S N P	10,000	5,000
Perera, C P R	20,000	13,000
Thambiayah R B	211,200	49,900
Thambiayah Ms S R	Nil	Nil
Weerakkody, D S[2]	–	12,844

[1] *Directors' shareholding includes shares held by the spouse and children under 18 years of age*
[2] *Not Directors as at 31 March 2011*

The Directors' interest in transactions with entities/persons (other than subsidiaries, joint ventures and associates) are listed under each Director for the year ended 31 March 2011 are given in Table 2:

Table 2
Directors' Interest in Transactions

	Rs '000
Mr J M S Brito	
Aitken Spence PLC	
Aitken Spence Printing (Pvt) Limited	
Browns Beach Hotels PLC	
Elevators (Pvt) Limited	
Aggregate amount of credit facilities approved	700,000
Aggregate amount of payments made for services	819
Mr A N Fonseka	
Lanka Ventures PLC	
Colombo Stock Exchange	
Central Depository Systems Limited	
Mrs R D Fonseka	
Aggregate amount of credit facilities approved	200,000
Aggregate amount of payments made for services/rent	3,462
Mr C R Jansz	
Lanka Bell (Pvt) Limited	
Aggregate amount of payments made for services	38
Mr R B Thambiayah	
Royal Porcelain (Pvt) Limited	
Aggregate amount of credit facilities approved	150,000

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

BOARD COMMITTEES

The following are the members of the committees of the Board. Changes to the composition during the year are noted in the respective Committee Reports in the Annual Report.

AUDIT COMMITTEE

Mr T K Bandaranayake (Chairman)
Mr S N P Palihena
Mr. A S Abeyewardene

CREDIT COMMITTEE

Mr S N P Palihena (Chairman)
Mr A N Fonseka (Chief Executive)
Mrs H M N S Gunawardana

HUMAN RESOURCES & REMUNERATION COMMITTEE

Mr J M S Brito (Chairman)
Mr C P R Perera
Mr G K Dayasri

NOMINATION COMMITTEE

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

INTEGRATED RISK MANAGEMENT COMMITTEE

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

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

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

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

DIVIDEND

The Bank paid an interim dividend of Rs7 per share on 27 April 2011. In addition the Directors have recommended for approval by shareholders at the Annual General Meeting the payment of a final dividend of Rs3 per share, being the same as the final dividend paid in the previous year after adjusting for the one for one bonus issue of shares during the year under review. The total dividend for the year will amount to approximately Rs 2,650 million (Rs794 million in the previous year), which amounts to 38% 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 final dividend payment is made and have obtained a certificate of solvency from its Auditor.

PROPERTY, PLANT & EQUIPMENT AND LEASEHOLD PROPERTY

The total expenditure on acquisition of property, plant & equipment during the year amounted to Rs218 million. Acquisition of intangible assets amounted to Rs13 million. Details of these are given in the Notes 40 and 41 to the financial statements.

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

RESERVES

Total revenue reserves augmented by the annual appropriation and retained profit amounted to Rs2,068 million.

SHARE CAPITAL AND SUBORDINATED DEBENTURES

The Bank issued bonus shares in the proportion of 1 new share for each existing share on 1 November 2010 by capitalising reserves. Consequent to this issue and the options exercised by the employees during this financial year, the total share capital as at 31 March 2011 was Rs2,649 million consisting of 264,883,768 shares of Rs10 each. Further information is given on page 135. 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 Rs4,703 million.

SHARE INFORMATION

Information relating to earnings, net asset and market value per share are given in page 156 of the Annual Report and also contains information pertaining to the share trading during that period.

SHAREHOLDERS

As at 31 March 2011 there were 9,810 registered shareholders and the distribution is indicated on page 157. The 20 largest shareholders as at 31 March 2011 are listed on page 158.

EMPLOYMENT & REMUNERATION POLICIES

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

EMPLOYEE SHARE OPTION PLAN (ESOP)

The last grant under the ESOP approved by shareholders was made in 2006. The exercise period of these grant expires on 2 July 2011. As at 31 March 2011, there were 228,086 unexercised options at an exercise price of Rs58.73 per share after adjusting for the bonus issue of shares during the financial year.

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, REGULATIONS AND PRUDENTIAL REQUIREMENTS

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

POST BALANCE SHEET EVENTS

Subsequent to the date of the Balance Sheet no circumstances have arisen which would require adjustments to the accounts. Significant post Balance Sheet events which in the opinion of Directors require disclosure are described in Note 64 to the financial statements.

The Bank has been granted approval by the Monetary Board to acquire up to 100% and to functionally manage DVB. This will help the Bank and DVB to further enhance synergy and operate as a single economic entity in the future.

CORPORATE GOVERNANCE

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

The Directors' have obtained External Auditor's assurance on effectiveness of the internal control mechanism and compliance with the Direction 12 of 2007 of the Central Bank of Sri Lanka on Corporate Governance.

Details of governance practices and the required disclosure are given in pages 59 to 65.

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

The Table below provides cross references to facilitate easy reference.

Reference to Rule	Requirement	Reference to Annual Report
3 (8) (i)	Financial statements on prescribed format	Financial statements on pages 91 to 104
3 (8) (ii) (a)	Affirmative assurance of compliance with accounting standards and requirements	Directors' Responsibility Statement on page 82
3 (8) (ii) (b)	Affirmative assurance of the integrity of financial reporting system	Directors' Statement of Internal Control on pages 73 to 75
3 (8) (ii) (c)	External Auditors certification on the effectiveness of internal control	Corporate Governance report on page 59
3 (8) (ii) (d)	Information on Directors	Page 20
3 (8) (ii) (d)	Remuneration of Directors	Notes on the financial statements 18
3 (8) (ii) (e)	Net accommodation granted to each category of related party	Corporate Governance Report on page 59
3 (8) (ii) (f)	Compensation and other transactions with key management personnel	Notes on the financial statements 62.6.2
3 (8) (ii) (g)	External Auditors certification on Corporate Governance	Corporate Governance report on page 59
3 (8) (ii) (h)	Compliance with prudential requirements and regulations	This report

For and on behalf of the Board of Directors,

J M S Brito
Chairman

A N Fonseka
Ex-Officio Director &
Chief Executive

Ms A Withana
Secretary to the Board

30 May 2011

CORPORATE GOVERNANCE

REPORTS OF DIRECTORS

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

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

SHAREHOLDER RIGHTS

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

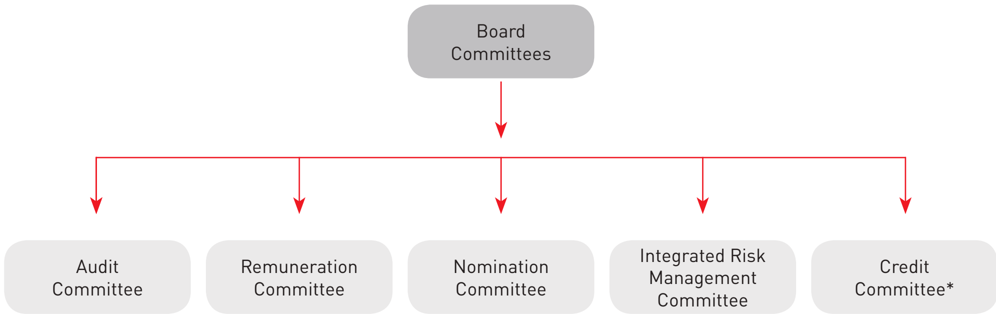
The Board approved Corporate Communications Policy ensures that information relating to the financial performance and the progress of DFCC Bank is made available to shareholders through timely disclosure made to the Colombo Stock Exchange (CSE). The Annual Report contains a comprehensive review of performance as well as other information of relevance to the other stakeholders apart from reporting on the financial condition of DFCC Bank and the Group. All important information is given publicity through the press and electronic media and posted on DFCC Bank's website.

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

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

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

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



ATTENDANCE OF DIRECTORS AT MEETINGS

Committee	Main Board		Audit Committee		Human Resources & Remuneration Committee		Nomination Committee		Integrated Risk Management Committee	
Name of Director	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Mr J M S Brito	14	14			2	2	2	2	4	4
Mr A N Fonseka	14	14							4	4
Mr S N P Palihena	14	13	9	9					4	4
Mr C P R Perera	14	14			2	2	1	1		
Mr D S Weerakkody (resigned in June 2010)	2	1	2	1	2	1	1	1		
Mr A S Abeyewardene	14	13	6	5					4	4
Mr T K Bandaranayake	14	13	9	9						
Dr Mrs A D N de Zoysa (resigned in July 2010)	4	4								
Mr G K Dayasri	14	13								
Mr R B Thambiayah	10	10					1	1		
Mr C R Jansz	10	10					1	1		
Mrs H M N S Gunawardana	9	9								

** The Credit Committee approves papers by circulation.*

ANNUAL CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 31 MARCH 2011 PUBLISHED IN TERMS OF SECTION 3 (1) (XVI) OF THE BANKING ACT DIRECTION NO. 12 OF 2007

Rule	Governance Principle	Compliance	Remarks
3.1 Responsibilities of the Board			
3.1 (i)	The responsibility of the Board to strengthen the safety and soundness of the Bank	Compliant	The Board engages in the strategic planning and control of DFCC Bank by overseeing the formulation of business objectives and targets, assessing risks, evaluating the effectiveness of the internal controls by engaging qualified and experienced personnel and delegating them with the authority for conducting operational activities and monitor the performance through a formal reporting process.
3.1 (ii)	Appointment and segregation of the roles of the Chairman and CEO	Compliant	The Board elects the Chairman and appoints the Chief Executive Officer while the Chairman provides leadership to the direction, oversight and control process exercised by the Board. The CEO is responsible for management of the Bank as per DFCC Act.
3.1 (iii)	Board Meetings	Compliant	The Board conducted 14 monthly Board meetings during the year. The Directors actively participated in the Board decision making process as evident from the Board minutes. Seeking approval of the Board by circulation of written circulars is done only in exceptional circumstances due to urgency.
3.1 (iv)	The Board to ensure that arrangements are in place for Directors to include items and proposals in the Agenda of Board Meetings	Compliant	Whenever the Directors provide suggestions of topics for consideration at the Board meetings, they are included in the Agenda under 'open forum' and other supporting data, reports, documents etc., relevant for the subject matter are circulated among the Directors for information.
3.1 (v)	Notice of Board Meetings - At least 7 days notice of regular meetings and reasonable notice of other meetings to be given	Compliant	Dates for the regular monthly Board meetings are agreed by the Directors at the commencement of each year and any changes to dates of scheduled meetings are decided well in advance. The Board circulars and other documents pertaining to meetings are dispatched in advance to enable the Directors to participate in deliberations.
3.1 (vi)	Attendance at Board Meetings	Compliant	All Directors attended more than two thirds of Board meetings and no Director was absent for three or more consecutive meetings. Attendance details are given on page 60.
3.1 (vii)	Duties and qualifications of the Company Secretary	Compliant	The Company Secretary possesses the qualifications specified in the Section 43 of the Banking Act and performs the secretariat services to the Board and shareholders' meetings and other relevant statutory and regulatory functions.
3.1 (viii)	The Directors' access to the Company Secretary	Compliant	All Directors have access to the advice and services of the Company Secretary directly.
3.1 (ix)	The Company Secretary's duty to maintain minutes of Board meeting and ensure the Directors' access to them	Compliant	The Company Secretary compiles the minutes of the Board Meetings which are subject to approval of the Board and signed by the Chairman. Copies of minutes are provided and Directors have access to the original minutes at all reasonable times.
3.1 (x)	The form and contents of the minutes of Board meetings	Compliant	The Board minutes are drawn with reference to Board Circulars with sufficient details to indicate the decisions made by the Board of Directors. The information used in making such decisions, the reasons and rationale of making them and each Director's contribution is included in the minutes.
3.1 (xi)	Independent professional advice on request to Directors to perform their duties	Compliant	The Board has put in place a procedure where the Directors can obtain independent professional advice, at DFCC Bank's expense, to perform their duties.
3.1 (xii)	The Directors' avoidance of conflict of interest	Compliant	Section 9(6) of DFCC Act requires the Directors who are directly or indirectly interested in contracts or a proposed contract with DFCC Bank to declare the nature of such interest and not to participate in the decision making. All decisions pertaining to such matters require to be unanimous according to the Act.

Rule	Governance Principle	Compliance	Remarks
3.1 (xiii)	Schedule of matters reserved for the decisions of the Board	Compliant	Schedule of matters reserved for the Board have been decided on.
3.1 (xiv)	Reporting insolvency to the Director of Bank Supervision	Compliant	Solvency is a matter constantly monitored by the Treasury Department, Integrated Risk Management Committee and the Board of Directors. During the year DFCC Bank remained solvent and no event has or is likely to occur that would make the bank not able to meet its obligations.
3.1 (xv)	Adequacy of capital	Compliant	DFCC Bank is capitalised well above the minimum levels required by the Monetary Board in terms of the capital adequacy and minimum required capital.
3.1 (xvi)	Corporate governance report	Compliant	The annual Corporate Governance Report forms an integral part of the Directors' Report of DFCC Bank's Annual Report.
3.1 (xvii)	Self-assessment of the Board of Directors	Compliant	The Board has a structured scheme of self assessment which is carried out annually and the findings are discussed at the Board Meetings and action is taken on areas identified for improvement. This process is being continuously improved.
3.2 Composition of the Board			
3.2 (i)	Number of Directors	Compliant	The Board of Directors comprises ten Directors.
3.2 (ii)	Period of service of a Director	Compliant	No Director has held the position of a Director of DFCC Bank for more than nine years.
3.2 (iii)	Number of Executive Directors	Compliant	The Chief Executive is the only Executive Director of the Board. He is an Ex-Officio Non-Voting Director.
3.2 (iv)	Number of Independent Directors	Compliant	There were seven Independent Directors at the end of the period under review.
3.2 (v)	Alternate Directors	Compliant	All persons appointed as Alternate Directors to an existing Director of the Board have been subject to the same criteria applicable to Directors.
3.2 (vi)	The skills, experience and track records of Non-Executive Directors	Compliant	All Non-Executive Directors have professional backgrounds, strong track records and high level managerial experience in banking, plantations, industry, law and service sectors.
3.2 (vii)	Number of Non-Executive Directors required to form a quorum of Board meetings	Compliant	DFCC Bank has been constantly compliant with this rule at all times as monitored by the Company Secretary. Although according to the DFCC Regulations, the required quorum is only 4 Non-Executive Directors.
3.2 (viii)	Disclosure of Details of Directors	Compliant	The names and the composition of the Directors by category are disclosed in the Annual Report of the Board of Directors.
3.2 (ix)	Appointment of new Directors	Compliant	Appointment of all new Directors is formally evaluated by the Nomination Committee and recommended to the Board of Directors for approval in terms of the Regulations.
3.2 (x)	Appointment of a Director to fill a casual vacancy	Compliant	The Regulations of DFCC Bank provide that the Directors appointed by the Board of Directors hold office until the following AGM at which they have to be elected by the shareholders.
3.2 (xi)	Resignation or removal of a Director	Compliant	The resignations of Directors from office during the period under review are given in the Directors Report. No Director was removed.
3.2 (xii)	Appointment of a Director or an employee to another bank	Compliant	No Director or employee of DFCC Bank is a Director of another bank except the subsidiary company, DFCC Vardhana Bank, which is a permitted exception.

Rule	Governance Principle	Compliance	Remarks
3.3 Fitness and Propriety of Directors			
3.3 (i)	Maximum age of Directors	Compliant	All Directors who reached the age of seventy have relinquished office.
3.3 (ii)	Holding of Director's position in more than 20 companies	Noted for compliance	As per the amended Section 3.3 (ii) A, in terms of Direction No. 6 of 2008, this provision will become only effective from 1 January 2012.
3.4 Management Functions Delegated by the Board			
3.4 (i)	Delegation arrangements	Compliant	The Board of Directors has delegated authority to the management subject to specific criteria, limitations, safeguards and monitoring mechanisms.
3.4 (ii)	Extent of Delegation	Compliant	The delegation of authority made by the Board is designed to facilitate efficient management of the affairs of DFCC Bank and to aid the oversight role exercised by the Board. It is not of an extent to hinder the ability of the Board to discharge its functions. The Board retains the authority to expand, curtail, limit or revoke such delegated authority.
3.4 (iii)	Review of delegation process	Compliant	The delegation process is subject to periodic review by the Board in order to ensure that necessary amendments are approved to meet the requirements of DFCC Bank.
3.5 The Chairman and Chief Executive Officer			
3.5 (i)	Separation of the roles of the Chairman and CEO	Compliant	The Chairman and the Chief Executive Officer are two separate individuals.
3.5 (ii)	The Chairman to be a Non-Executive Director	Compliant	The Chairman is a Non-Executive Director. The Board has appointed an Independent Director as the Senior Director as disclosed in the Annual Report.
3.5 (iii)	Disclosure of Relationship between the Chairman, CEO and other Directors	Compliant	No relationships exist between the Chairman, CEO and the other Directors according to the declarations made by them except being Directors of subsidiaries.
3.5 (iv)	Role of the Chairman	Compliant	The Chairman provides leadership to the Board and ensures that the Board discharges its responsibilities effectively and stimulates discussions on all key and appropriate issues in a timely manner.
3.5 (v)	Agenda of Board Meetings	Compliant	The Agenda of each Board Meeting is drawn by the Company Secretary under the direction of CEO and Chairman and any matters proposed by other Directors are included in the agenda.
3.5 (vi)	Providing information to the Directors	Compliant	The Chairman ensures that all Directors are properly briefed on issues which arise at the Board Meetings and ensures that they receive adequate information in a timely manner.
3.5 (vii)	The Board to act in the best interest of the Bank	Compliant	The Chairman encourages exercise of independent judgement by the Directors on matters under consideration by the Board in order that the best interests of the Bank can be assured.
3.5 (viii)	Effective contribution of Non-Executive Directors	Compliant	The Chairman facilitates contributions by the Non-Executive Directors in making decisions.
3.5 (ix)	The Chairman not to engage in executive functions	Compliant	The Chairman is non-executive and does not supervise any management personnel of DFCC Bank directly.
3.5 (x)	Communication with shareholders	Compliant	The Chairman maintains effective communication with shareholders and conveys their views to the Board.
3.5 (xi)	CEO to be in charge of the management of operations and business	Compliant	The Chief Executive is the Head of the management team and is in charge of the day-to-day management of DFCC Bank's operations and business.

Rule	Governance Principle	Compliance	Remarks
3.6 Board Appointed Committees			
3.6 (i)	Four Board appointed committees	Compliant	The Board has appointed the four committees stated in the Direction. The reports on their duties, performance and roles are published in the Annual Report.
3.6 (ii)	Board Audit Committee - Composition and duties	Compliant	Please refer page 67.
3.6 (iii)	Board Human Resources and Remuneration Committee - Composition and duties	Compliant	Please refer page 69.
3.6 (iv)	Board Nomination Committee - Composition and duties	Compliant	Please refer page 70.
3.6 (v)	Board Integrated Risk Management Committee – Composition and duties	Compliant	Please refer page 71.
3.7 Related Party Transactions			
3.7 (i) to (iii)	Avoidance of conflicts of interest and favourable treatment in transactions with related parties	Compliant	DFCC Bank has adhered to the law as specified in the Banking Act and the Directions issued thereunder with regard to transactions with related parties. The process for recording and collating related party transactions is being continuously strengthened.
3.7 (iv)	Accommodation to Directors or their close relations	Compliant	DFCC Bank complies with the law as specified in the Banking Act and the Directions issued thereunder in granting accommodation to the Directors and/or their close relations.
3.7 (v)	Accommodation granted to Directors prior to appointment	Compliant	The provisions of the Banking Act will be followed if such situations arise and public will be informed if not compliant by the specified date as he/she will cease to hold office. This situation did not arise.
3.7 (vi)	Avoidance of favourable treatment in accommodation to employees, close relations of employees and/ or entities in which any employee or close relation of such employee hold substantial interest	Compliant	The accommodation to employees, close relations of employees and/ or entities in which any employee or close relation of such employee hold substantial interest are subject to normal commercial terms applicable to such transactions except in case of accommodation under approved schemes uniformly applicable to all or specific categories of employees.
3.7 (vii)	Not to remit part of accommodation or interest without prior approval of Monetary Board	Compliant	No such situation has arisen.

DISCLOSURE ON CORPORATE GOVERNANCE MADE IN TERMS OF SECTION 3 (8) OF THE BANKING ACT DIRECTION NO. 12 OF 2007 OF THE CENTRAL BANK OF SRI LANKA

(i)	**The Board shall ensure that:**	
	The Annual audited financial statements and quarterly financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards and such statements are published in the newspapers in an abridged form in Sinhala, Tamil and English.	Complied with.
(ii)	**The Board shall ensure that the following minimum disclosures are made in the Annual Report:**	
(a)	A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with. Please refer the Statement of Directors' Responsibility on page 82.

	Requirement	Compliance
(b)	A report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied with. Please refer to the Directors' Statement of Internal Control on page 73.
(c)	The External Auditor's Certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after 31 December 2008.	The Board has obtained an Assurance Report from the External Auditor.
(d)	Details of Directors, including names, fitness and propriety, transactions with the Bank and the total fees/remuneration paid by the Bank	Complied with. Please refer Notes 18 and 62 to the financial statements.
(e)	Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital	Complied with.

Category of related party and type of transactions	31 March 2011 Rs 000	%
Key management personnel - loans	7,171	0.04
Subsidiaries - Reverse repos	166,000	0.97
Total net accommodation	173,171	1.01
Regulatory capital - solo basis	17,087,452	

The total net accommodation was 1.01% of the Bank's regulatory capital on solo basis. Maximum limit determined by Directors is 25% of Bank's regulatory capital on solo basis.

	Requirement	Compliance
(f)	The aggregate values of remuneration paid by the Bank to its key management personnel and the aggregate values of the transactions of the Bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank.	Complied with. Please refer Note 62 to the financial statements.
(g)	The External Auditor's Certification of the compliance with these Directions in the Annual Corporate Governance Reports published after 1 January 2010.	Complied with. A report of factual findings has been provided by the External Auditors to the Board.
(h)	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance.	Complied with. See Annual Report of the Directors.
(i)	A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	The Monetary Board has not required any disclosure to be made.

REPORT OF THE AUDIT COMMITTEE

REPORTS OF DIRECTORS

COMMITTEE REPORTS

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

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

COMPOSITION

All members of this Committee are independent Non-Executive Directors. The Chairman is a Chartered Accountant with considerable experience in the field of Finance and Audit. The profiles of the members are given elsewhere in the Annual Report.

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

- Mr T K Bandaranayake (Chairman)
- Mr S N P Palihena
- Mr A S Abeywardene

Mr Abeywardene was appointed a member in place of Mr D S Weerkkody during the year. The Head of Group Internal Audit holds the management rank of Vice-President and serves as the Secretary of the Committee. He has direct access to the members of the Audit Committee.

MEETINGS

During the financial year ended 31 March 2011, nine Audit Committee meetings were held. Proceedings of the Audit Committee meetings are reported regularly to the Board.

Attendance by the Committee members at the meetings is given in the table on page 60 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 & Co. on two occasions, without any executive being present so as to provide the External Auditor an opportunity to have a frank dialogue with the Committee.

MANDATE AND ROLE

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

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

FINANCIAL REPORTING

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

The Committee reviewed all quarterly non-audited interim financial statements and financial statements for the year ended 31 March 2011 together with supporting information that included significant assumptions and judgments made in the preparation of financial statements. The Committee also took into consideration the internal audit reports, management letter issued by the External Auditor, compliance reports and the responsibility statements in relation to the financial statements issued by the Chief Finance Officer and Chief Executive Officer in making an overall assessment on the integrity of the Financial Reporting system.

The Annual Report of the Directors for this financial year to 31 March 2011 includes a separate report on internal controls on page 73. This report is issued pursuant to Rule 3 (8) (ii) (b) of the Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks and includes inter alia an affirmative assurance on the integrity of Financial Reporting System to produce reliable financial statements that are true and fair.

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

INTERNAL AUDIT AND INSPECTION

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

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

RISKS AND CONTROLS

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

EXTERNAL AUDIT

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

In the context of determining the independence of the Auditor, the Committee reviewed the statements issued by the External Auditor pursuant to Section 163 (3) of the Companies Act No. 7

of 2007. As per this declaratory statement the Auditor has confirmed that they do not have any relationship that would impair their independence and disclosed the total remuneration for the financial year ended 31 March 2011 for both audit and permitted non-audit services.

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

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

REGULATORY COMPLIANCE

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

EVALUATION

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

REAPPOINTMENT OF AUDITOR

The Audit Committee having evaluated the quality of audit service provided by the current auditor has recommended to the Board of Directors that Messrs KPMG Ford, Rhodes, Thornton & Co. be reappointed as Auditors for the year ending 31 March 2012, subject to the approval of shareholders at the Annual General Meeting.

T K Bandaranayake
Chairman - Audit Committee

30 May 2011

REPORT OF THE HUMAN RESOURCES AND REMUNERATION COMMITTEE

COMPOSITION

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

MANDATE

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

PROCEDURE

In keeping with this 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 based on the pre-agreed targets and desired skills and reviewed his remuneration

In addition, the Committee considers and recommends to the Board of Directors from time to time, the requirements of additional/new expertise/skills and also salary revisions. The Committee periodically assesses the succession plan for key management positions.

MEETINGS

The Committee held two meetings during the financial year to carry out its task. The attendance by members is given in page 60 of the Annual Report.

JMS Brito

J M S Brito
Chairman - Human Resources and Remuneration Committee

30 May 2011

REPORT OF THE NOMINATION COMMITTEE

REPORTS OF DIRECTORS

COMMITTEE REPORTS

COMPOSITION

The Nomination Sub-Committee of the Board of Directors consist of three Non-Executive Directors.
Mr R B Thambiayah, an Independent Director is the Chairman with Messrs J M S Brito and C R Jansz serving as members currently. The Committee was reconstituted and Messrs Thambiayah and Jansz were appointed in place of Messrs C P R Perera and D S Weerakkody during the year. The General Manager, Mr A N Fonseka attends the meeting by invitation, while the Secretary to the Board functions as the Secretary of the Committee.

MANDATE

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

PROCEDURE

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

MEETINGS

Two meetings were held during the financial year to identify possible candidates to fill Board vacancies and to assess the fitness and propriety of Directors. Individual Committee Members do not participate in discussions in matters relating to them. The attendance by Directors at meetings is given in page 60 of the Annual Report. All appointments made to the Board during the year were recommended by the Committee and the Committee has recommended the re-election of Directors offering themselves for re-election at the Annual General Meeting.

R B Thambiayah
Chairman - Nomination Committee

23 May 2011

REPORT OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

REPORTS OF DIRECTORS

COMMITTEE REPORTS

COMPOSITION

The Board Integrated Risk Management Committee (BIRMC) of DFCC consisted of the three Non-Executive Directors and five Non-Voting Members. The Head of Internal Audit, Mr A G N Bandara, attends meetings by invitation while the Chief Risk Officer, Mr S de Silva, functions as the Secretary to the Committee. The following were the Members of the Committee as at 31 March 2011:

Voting Members

Mr J M S Brito - *Chairman*

Mr S N P Palihena - *Non-Executive Director*

Mr A S Abeyewardene - *Non-Executive Director*

Non-Voting Members

Mr A N Fonseka - *Chief Executive Officer/ Ex-Officio Director*

Mr H A Ariyaratne - *Executive Vice-President/Lending*

Mr S Nagarajah - *Executive Vice-President/Finance*

Ms R A P Withana - *Executive Vice-President/Operations*

Mrs M Gunawardhena - Senior Vice-President/Treasury & Resource Development

There were no changes to the composition during the year.

CHARTER AND RESPONSIBILITIES

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

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

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

MEETINGS

BIRMC meets on a quarterly basis. During the year, four Committee meetings were held. The attendance of members is listed on page 60 of the Annual Report. The Committee reviewed policy frameworks, risk management strategies and key risk indicators at these meetings and was satisfied that the risk exposures of the bank were being appropriately managed. During the year, certain risk limits were introduced and existing risk limits were reviewed in the areas of liquidity risk, market risk, operational risk and counter-party credit risk. The Committee reviewed the potential impact of assumed hypothetical stress conditions on the Bank and concluded that the available capital cushion was more than adequate to meet the assumed stress conditions.

REPORTING

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

JMS Brito

J M S Brito
Chairman

30 May 2011

STATEMENT OF INTERNAL CONTROL

REPORTS OF DIRECTORS

INTRODUCTION

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

(a) The control environment;
(b) The entity's risk assessment process;
(c) The information system, including the related business processes, relevant to financial reporting and communication;
(d) Control activities; and
(e) Monitoring of controls.

The subset of this wider internal control system is the internal controls designed and implemented to provide reasonable assurance on the integrity of the financial reporting system to prepare true and fair financial statements for external use.

RESPONSIBILITY

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

FRAMEWORK FOR MANAGING MATERIAL RISKS OF THE BANK

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

KEY INTERNAL CONTROL PROCESSES

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

- The Board has established Sub-Committees to assist the Board in exercising an oversight on the effectiveness of the Bank's daily operations and ensuring that they are in accordance with the corporate objectives, strategies and the budgetary targets as well as the policies and business directions that have been approved.
- The internal audit division of the Bank verifies compliance of operations with policies and procedures and the effectiveness of the internal control systems and highlights significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report on operational and management activities of these units and branches. The annual audit plan is reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review at their periodic meetings.
- The Audit Committee of the Bank reviews internal control issues identified by the internal audit, the External Auditors, regulatory authorities and management and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit function focussing on the scope of audits and the quality of reporting. The minutes of the Audit Committee meetings are tabled for the information of the Board on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report on page 66.
- The Board Integrated Risk Management Committee (BIRMC) is established by the Board to assist the Board to oversee the overall management of principal areas of risk of the Bank. The BIRMC includes representation from all key business and operations areas of the Bank and assists the Board in the implementation of policies, procedures and controls identified by the BIRMC.
- Operational committees have also been established with appropriate mandates to ensure effective management and supervision of the Bank's core areas of business operations. These committees include the Management Committee, the Credit Committee, the Asset/ Liability Committee, the Bad Debt Review Committee and the Information Technology Steering Committee.

ASSESSMENT OF THE ADEQUACY AND EFFECTIVENESS OF INTERNAL CONTROL

Although this process is carried out every year on a continuing basis consequent to a new requirement of the regulator to provide a separate Report on Internal Control by the Board of Directors on the effectiveness of the internal control mechanism to prepare reliable financial statements for external use supplemented with independent certification by the Auditor, in 2010 The Institute of Chartered Accountants of Sri Lanka issued a new Auditing Standard 3050.

This required documentation of all processes with audit evidence of checks performed by the Bank on an on-going basis. In order to facilitate the independent certification by the External Auditor, this financial year within a relatively short period of time identified officers of the Bank documented internal controls associated with key processes that are related to significant items in the Income Statement and the Balance Sheet that are issued for external use.

Additionally they were tested by Internal Audit specifically for this purpose which is in addition to the Internal Audit checks performed on on-going basis throughout the year.

This process may be described as a journey to be undertaken by the Bank with progressive improvements to ensure that not only a robust internal control system is designed and effectively used by the Bank but it is also formally documented in sufficient details demonstrating the internal control framework within the Bank with evidence. Such a process cannot be completed in one year. In this context, therefore there were certain sub processes of Human Resources, Deposits and Related party transactions that were not subjected to detailed testing specifically for this purpose. The Directors are of the opinion that these exceptions do not in any way detract from the conclusion that the financial reporting system is reliable to provide reasonable assurance that the financial statements for external use are true and fair and complies with Sri Lanka Accounting Standards (SLAS) and the regulatory requirements of the Central Bank of Sri Lanka (CBSL).

The Auditor, Messrs KPMG Ford, Rhodes, Thornton & Co. has also acknowledged that the financial statements for the year ended 31 March 2011 are true and fair, prepared in accordance with SLAS and regulatory requirements of CBSL.

This assessment of internal control process is confined only to the Bank and did not include its subsidiaries. However, the Board of Directors of 99% owned commercial banking subsidiary, DFCC Vardhana Bank Limited (DVB) issued an affirmative assurance in their Statement on Internal Control, on the adequacy and the effectiveness of the internal control system which was included in the DVB's Annual Report for the year ended 31 December 2010. The said Statement by the Directors was independently reviewed by KPMG Ford, Rhodes, Thornton & Co. who is also the Auditor of the Bank.

CONFIRMATION

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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have reviewed the above Directors' Statement on internal control for the year ended 31 March 2011 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system over the financial reporting of the Bank.

By Order of the Board,

T K Bandaranayake
Chairman
Audit Committee

J M S Brito
Chairman
Board of Directors

Nihal Fonseka
Chief Executive Officer/Director

30 May 2011

SUPPLEMENTARY FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT OF DFCC & DVB (DBB)

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

Reconciliation with Group financial statements in page 80. These statements have been audited by KPMG Ford, Rhodes, Thornton & Co.

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

			Adjustment		Audited	
For the year ended 31 March	2011 Rs 000	2010 Rs 000	2011 Rs 000	2010 Rs 000	2011 Rs 000	2010 Rs 000
Interest income	9,512,191	11,570,758			9,512,191	11,570,758
Interest expense	(4,391,291)	(6,617,204)	(90,138)[1]	(208,591)[1]	(4,481,429)	(6,825,795)
Net interest income	5,120,900	4,953,554	(90,138)	(208,591)	5,030,762	4,744,963
Other income:						
Dividends from CBC (as investment security)	330,276	0	246,349[2]	422,804[2]	576,625	422,804
Dividend received from unconsolidated - Subsidiaries	32,677	1,350			32,677	1,350
- Joint venture	9,825	0			9,825	0
Dividends from non-affiliated entities	131,005	221,581			131,005	221,581
Gains from CBC Shares	4,341,089	0	(4,341,089)[3]			
Gains from sale of non-affiliated quoted shares	52,506	145,274			52,506	145,274
Foreign exchange income	(61,946)	(49,627)	90,138[1]	208,591[1]	28,192	158,964
Fees and commission income	384,781	257,581			384,781	257,581
Others	509,758	595,507	(6,119)[2]	(285,167)[3]	503,639	310,340
Operating income	10,850,871	6,125,220	(4,100,859)	137,637	6,750,012	6,262,857
Personnel costs	1,014,566	932,555			1,014,566	932,555
Provision for staff retirement benefits	180,717	139,961			180,717	139,961
Premises, equipment & establishment expenses	621,511	537,966			621,511	537,966
Other overhead expenses	711,970	524,569			711,970	524,569
Operating expenses	2,528,764	2,135,051	0	0	2,528,764	2,135,051
Operating profit before provisions	8,322,107	3,990,169	(4,100,859)	137,637	4,221,248	4,127,806
Allowances for credit losses						
- Specific Provision charge	1,224,992	1,100,397			1,224,992	1,100,397
- Specific Provison - recoveries	(772,493)	(540,753)			(772,493)	(540,753)
- General Provision	25,953	29,652			25,953	29,652
Operating profit before value added tax	7,843,655	3,400,873	(4,100,859)	137,637	3,742,796	3,538,510
Value added tax on financial services	(2,080,063)	(840,415)	1,340,269[3]	56,879[3]	(739,794)	(783,536)
Operating profit before income tax	5,763,592	2,560,458	(2,760,590)	194,516	3,003,002	2,754,974
Income tax expense	(1,006,913)	(1,020,815)			(1,006,913)	(1,020,815)
Profit after tax	4,756,679	1,539,643	(2,760,590)	194,516	1,996,089	1,734,159
Minority Interest DVB	(12,199)	(11,860)			(12,199)	(11,860)
Profit after tax attributable to shareholders of DFCC	4,744,480	1,527,783	(2,760,590)	194,516	1,983,890	1,722,299
Share of profits of National Asset Management Limited and CBC Associate (CBC ceased to be an associate on 2 June 2010)	199,767	1,085,261	(193,354)	(1,079,128)	6,413	6,133
	4,944,247	2,613,044	(2,953,944)	(884,612)	1,990,303	1,728,432
Segregated exceptional profit on sale of CBC/LVL - post tax reduced by minority interest					3,000,820	227,514
Adjusted profit after tax attributable to shareholders of parent company - DFCC Bank					4,991,123	1,955,946

Adjustments explained by footnotes

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

CONSOLIDATED BALANCE SHEET OF DFCC & DVB (DBB)

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

Reconciliation with Group financial statements in page 80. These statements have been audited by KPMG Ford, Rhodes, thornton & Co.

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

			Adjustemnt		Audited	
As at 31 March	2011 Rs 000	2010 Rs 000	2011 Rs 000	2010 Rs 000	2011 Rs 000	2010 Rs 000
Assets						
Cash and short-term funds	1,466,293	2,112,903			1,466,293	2,112,903
Balances with Central Bank regulatory deposits (DVB only)	894,235	802,076			894,235	802,076
Treasury bills and Bonds:						
Trading book	17,556,471	22,028,307			17,556,471	22,028,307
Investment book						
Securities purchased under resale agreements	699,881	913,611			699,881	913,611
Dealing securities	85,242	56,355			85,242	56,355
Placements with and loans to other banks and financial institutions	2,254,778	2,205,049			2,254,778	2,205,049
Bills of exchange discounted - Performing	282,761	313,155			282,761	313,155
Loans and advances - Performing	47,705,660	41,041,141			47,705,660	41,041,141
Finance leases - Performing	6,053,014	3,391,209			6,053,014	3,391,209
Total performing - Gross	56,296,213	46,950,554			56,296,213	46,950,554
Bills of exchange discounted - Non-performing	35,102	30,592			35,102	30,592
Loans and advances - Non-performing	4,132,025	5,077,791			4,132,025	5,077,791
Finance leases - Non-performing	307,458	574,559			307,458	574,559
Total non-performing - Gross	4,474,585	5,682,942			4,474,585	5,682,942
Total credit portfolio - Gross	60,770,798	52,633,496			60,770,798	52,633,496
Specific provisions on credit portfolio	(2,528,249)	(2,143,643)			(2,528,249)	(2,143,643)
General provisions on credit portfolio	(588,607)	(563,122)			(588,607)	(563,122)
Interest in suspense relating to ODS	(481,032)	(328,428)			(481,032)	(328,428)
Interest receivable	379,346	538,213			379,346	538,213
Investment securities:						
Investment in Commercial Bank of Ceylon PLC	4,174,148	0	(895,039)[2]	7,116,534[2]	3,279,109	7,116,534
Others	2,358,766	2,000,557			2,358,766	2,000,557
Investment in associate companies	50,931	7,818,997		(7,771,020)[2]	50,931	47,977
Investment in subsidiaries	155,036	122,036			155,036	122,036
Investment in joint ventures	655,000	250,000			655,000	250,000
Group balances receivable	3,276	5,344			3,276	5,344
Prepayments	17,331	23,853			17,331	23,853
Other receivables	1,208,013	1,351,568			1,208,013	1,351,568
Investment property	109,198	6,500			109,198	6,500
Goodwill on consolidation with DVB	146,602	146,602			146,602	146,602
Property and equipment - Net book value	855,503	706,624			855,503	706,624
Intangible assets - Application software	170,791	157,018			170,791	157,018
Total assets	88,158,973	88,638,867	(895,039)	(654,486)	87,263,934	87,984,381

CONSOLIDATED BALANCE SHEET OF DFCC & DVB (DBB)

			Adjustemnt		Audited	
As at 31 March	2011 Rs 000	2010 Rs 000	2011 Rs 000	2010 Rs 000	2011 Rs 000	2010 Rs 000
Liabilities						
Deposits from customers:	25,707,555	25,625,769			25,707,555	25,625,769
Demand and savings deposits (DVB only)	6,845,007	5,611,089			6,845,007	5,611,089
Time deposits	18,862,548	20,014,680			18,862,548	20,014,680
Borrowing - medium and long term	24,128,704	28,715,376			24,128,704	28,715,376
Borrowing - short term - Repos	6,437,513	5,175,104			6,437,513	5,175,104
Debentures (DFCC only)	1,200,000	2,700,000			1,200,000	2,700,000
Group balances payable	0	151			0	151
Interest accrued	1,218,192	1,579,692			1,218,192	1,579,692
Taxation	297,998	256,918			297,998	256,918
Deferred tax liability	315,313	319,368			315,313	319,368
Other liabilities	3,160,915	1,173,728			3,160,915	1,173,728
Subordinated Debenture (DFCC only)	2,000,000	2,000,000			2,000,000	2,000,000
Total Liabilities	64,466,190	67,546,106			64,466,190	67,546,106
Net assets (Total assets - Total liabilities)	23,692,783	21,092,761	(895,039)	(654,486)	22,797,744	20,438,275
Equity						
Share capital	2,648,838	1,323,753			2,648,838	1,323,753
Share premium	2,054,546	3,371,911			2,054,546	3,371,911
Stated Capital	4,703,384	4,695,664			4,703,384	4,695,664
Reserves						
Reserve fund	1,015,000	677,156			1,015,000	655,000
Other reserves	11,433,439	9,379,839			11,433,439	9,379,839
Retained earnings	6,404,001	6,212,900	(895,039)	(654,486)	5,508,962	5,580,570
Shareholders' Equity	23,555,824	20,965,559	(895,039)	(654,486)	22,660,785	20,311,073
Minority interests	136,959	127,202			136,959	127,202
Total equity	23,692,783	21,092,761	(895,039)	(654,486)	22,797,744	20,438,275

SUPPLEMENTARY FINANCIAL INFORMATION

KEY PERFORMANCE INDICATORS OF CONSOLIDATED BANKING BUSINESS (DBB)

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

		2011	2010
1.	Net interest income/interest income, %	52.9%	41.0%
	Non interest expenses/operating income, % (Adjusted for CBC)	37.5%	34.1%
2.	Non performing loans and advances ratio - Gross	6.6%	10.2%
	- Net	2.7%	6.3%
3.	Cumulative specific provision/non-performing loans and advances, % (provision coverage)	56.5%	37.7%
4.	Interest margin - Net interest income/total assets, %	5.7%	5.4%
5.	Common branches as at 31 March (DFCC), 31 December (DVB)	18	16
	Additional branches, DVB only as at 31 December	31	28
6.	Employees - 31 March	1,109	919

SUPPLEMENTARY FINANCIAL INFORMATION

RECONCILIATION WITH ENTIRE GROUP FINANCIAL STATEMENTS

1. CONSOLIDATED INCOME STATEMENT OF DBB

Year ended 31 March	2011 Rs 000	2010 Rs 000
Consolidated profit of DBB attributable to equity holders of DFCC Bank page No. 76 (before adjustments)	4,944,247	2,613,044
Add: Profit from other Subsidiaries and Joint Venture attributable to equity holders of DFCC Bank		
Subsidiaries	25,981	81,016
Joint Venture	120,085	31,365
Elimination of 50% of the profit on sale of subsidiaries to joint venture company 50% owned by DFCC Bank	0	(145,453)
Profit attributable to equity holders of the bank - entire group page No. 85	5,090,313	2,579,972

2. CONSOLIDATED EQUITY OF DBB

As at 31 March	2011 Rs 000	2010 Rs 000
Consolidated Equity of DBB page No. 78 (before adjustments)	23,555,824	20,965,559
Equity of other Subsidiaries	157,315	131,333
Proportionate Equity of Acuity Partners (Pvt) Limited - Joint Venture	154,237	34,155
Elimination of 50% of the profit on sale of subsidiaries to joint venture company 50% owned by DFCC Bank	(184,688)	(184,688)
Total Equity attributable to DFCC Bank's equity holders page No. 86	23,682,688	20,946,359

Financial Calendar - 2011

Rs 6.00 per share Final Dividend for 2010 paid on	07 July 2010
Rs 7.00 per share Interim Dividend for 2011 paid on	27 April 2011
Audited financial statements signed on	30 May 2011
55th Annual General Meeting to be held on	30 June 2011
Rs 3.00 per share Final Dividend for 2011 payable on*	11 July 2011
1st Quarter Interim Results released on	13 August 2010
2nd Quarter Interim Results released on	08 November 2010
3rd Quarter Interim Results released on	10 February 2011

Proposed Financial Calendar - 2012

56th Annual General Meeting to be held on	June 2012
1st Quarter Interim Results to be released in	August 2011
2nd Quarter Interim Results to be released in	November 2011
3rd Quarter Interim Results to be released in	February 2012

** Subject to confirmation by Shareholders*

Financial Report

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

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

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

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

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

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

The Board appointed Audit Committee chaired by an independent non-executive director who possesses qualifications and experience in accountancy and audit assists the Directors to discharge their responsibility on the integrity of financial reporting system and monitoring the effectiveness and adequacy of internal control system. This Committee has made an independent assessment of the financial reporting system of the Bank and confirmed "that to the best of its knowledge and belief the financial statements issued for external purposes by the Bank complied with generally accepted principles of accounting as enunciated in Sri Lanka Accounting Standards and complies with the statutory provisions of DFCC Bank Act No. 35 of 1955, Banking Act No. 30 of 1988 and to the extent, applicable, the Companies Act No. 07 of 2007. The report of this Committee is in pages 66 to 68.

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 83.

By Order of the Board

Ms A Withana
Secretary to the Board

30 May 2011

CHIEF EXECUTIVE OFFICER'S AND CHIEF FINANCIAL OFFICER'S STATEMENT OF RESPONSIBILITY

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

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

The financial statements of the Group and joint venture company were audited by KPMG Ford, Rhodes, Thornton & Co. (KPMG FRT). National Asset Management Limited an associate company is also audited by KPMG FRT.

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

S. Nagarajah

S Nagarajah
Executive Vice-President (Finance)

A N Fonseka
Ex-Officio Director & Chief Executive

Colombo
30 May 2011

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, 2011, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and other explanatory notes as set out on pages 85 to 150 of this Annual Report.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

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

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

Opinion

In our opinion, so far as appears from our examination, the Bank maintained proper accounting records for the year ended March 31, 2011 and the financial statements give a true and fair view of the Bank's state of affairs as at March 31, 2011 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, 2011 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Bank and its subsidiaries dealt with thereby, so far as concerns the members of the Bank.

Report on Other Legal and Regulatory Requirements

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

Ford Rhodes Thornton & Co

Chartered Accountants
30th May 2011
Colombo.

For the year ended 31 March	Notes	Page No.	BANK 2011 Rs 000	BANK 2010 Rs 000	GROUP 2011 Rs 000	GROUP 2010 Rs 000	* Variance Rs 000
Income	10	105	14,191,300	8,843,452	15,830,285	13,085,852	2,744,433
Interest income	11	105	6,206,458	7,416,335	9,658,167	11,793,481	(2,135,314)
Interest expense	12	105	2,786,098	4,224,044	4,394,201	6,595,929	(2,201,728)
Net interest income			3,420,360	3,192,291	5,263,966	5,197,552	66,414
Amortisation of negative goodwill			0	0	7,313	0	7,313
Other income	13	106	7,984,842	1,427,117	6,172,118	1,292,371	4,879,747
Operating income			11,405,202	4,619,408	11,443,397	6,489,923	4,953,474
Personnel expenses			649,118	574,896	1,206,838	1,024,916	181,922
Provision for staff retirement benefits	14	107	141,512	139,961	198,919	186,857	12,062
Premises, equipment and establishment expenses			282,161	246,758	705,997	613,880	92,117
Other overhead expenses			322,171	240,718	718,386	568,818	149,568
Bad and doubtful debts - specific	15	111	243,540	332,729	452,499	559,644	(107,145)
- general	16	111	153	22,996	25,953	29,652	(3,699)
Investment - impairment losses	17	111	0	0	3,125	0	3,125
Operating expenses	18	112	1,638,655	1,558,058	3,311,717	2,983,767	327,950
Operating profit before value added tax			9,766,547	3,061,350	8,131,680	3,506,156	4,625,524
Value added tax on financial services	19	112	1,890,229	658,673	2,080,063	840,415	1,239,648
Operating profit before income tax			7,876,318	2,402,677	6,051,617	2,665,741	3,385,876
Share of profits of associates**					217,758	1,085,261	(867,503)
Profit before tax			7,876,318	2,402,677	6,269,375	3,751,002	2,518,373
Income tax expense	20	113	738,867	689,441	1,098,302	1,067,232	31,070
Profit for the year			7,137,451	1,713,236	5,171,073	2,683,770	2,487,303
Attributable to:							
Equity holders of the parent					5,090,313	2,579,972	2,510,341
Minority interest					80,760	103,798	(23,038)
Profit for the year					5,171,073	2,683,770	2,487,303
Earnings per share - Basic, Rs	21	114	26.95	6.48	19.22	9.75	9.47
- Diluted, Rs			26.93	6.48	19.21	9.75	9.46
Dividend per share Rs			10.00	6.00	10.00	6.00	4.00

Notes from pages 91 to 150 form part of these financial statements.

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

*** After tax.*

BALANCE SHEET

FINANCIAL REPORT

As at 31 March	Notes	Page No.	BANK 2011 Rs 000	BANK 2010 Rs 000	GROUP 2011 Rs 000	GROUP 2010 Rs 000
Assets						
Cash and short-term funds	22	114	1,490,629	2,822,033	1,548,193	2,343,650
Balances with Central Bank	23	114	0	0	894,235	802,076
Treasury bills and other securities eligible for rediscounting with Central Bank	24	115	10,500,575	7,651,073	18,429,116	23,740,835
Securities purchased under resale agreements	25	115	166,000	913,611	1,996,168	1,004,055
Placements with and loans to other banks and financial institutions	26	115	2,254,778	2,205,049	2,254,778	2,205,049
Dealing securities	27	115	85,242	56,355	85,242	56,355
Non-current assets held for sale	28	116	0	0	2,875	2,875
Bills of exchange	29	116	0	0	288,932	325,886
Loans and advances	30	117	30,964,127	30,095,887	48,706,217	43,605,664
Finance leases	31	118	5,960,055	3,465,730	5,960,055	3,465,730
Interest receivable	32	118	257,299	411,389	415,225	566,651
Investment securities	33	119	4,031,527	1,998,527	6,685,547	2,001,137
Investment in associate companies	34	126	35,270	3,187,229	177,291	7,818,997
Investment in joint venture	35	126	655,000	250,000	0	0
Investment in subsidiary companies	36	127	2,441,320	2,408,320	16,000	0
Group balances receivable	37	127	15,950	36,121	0	150
Prepayments			17,331	23,853	17,331	23,853
Income tax refund due	38	127	0	0	1,471	1,682
Investment properties	39	127	0	6,500	233,579	132,641
Goodwill on consolidation	40	128	0	0	226,411	156,225
Property, plant and equipment	41	128	493,465	375,558	939,415	784,219
Intangible assets	42	129	45,491	49,979	173,042	160,034
Deferred tax asset	43	129	0	0	1,781	806
Other assets	44	130	512,060	458,871	1,342,781	1,335,525
Total assets			59,926,119	56,416,085	90,395,685	90,534,095
Liabilities						
Deposits from customers	45	130	3,688,183	5,123,657	25,416,397	25,503,685
Borrowing - Medium and long-term	46	130	24,128,704	28,715,376	24,128,704	28,715,376
- Short-term	47	131	4,931,819	115,000	8,048,189	6,646,231
Debentures	48	131	1,200,000	2,700,000	1,200,000	2,700,000
Group balances payable	49	131	0	151	0	0
Interest accrued			842,137	1,081,782	1,224,362	1,590,653
Current tax liability			230,858	199,786	401,254	307,836
Deferred taxation	50	132	275,121	271,144	315,313	319,412
Other liabilities	51	132	2,410,436	486,365	3,492,112	1,377,116
Subordinated debentures	52	134	2,000,000	2,000,000	2,000,000	2,000,000
			39,707,258	40,693,261	66,226,331	69,160,309
Equity						
Share capital	53	135	2,648,838	1,323,753	2,648,838	1,323,753
Share premium			2,054,546	3,371,911	2,054,546	3,371,911
Stated capital	54	136	4,703,384	4,695,664	4,703,384	4,695,664
Reserves	55	136				
Reserve fund			1,015,000	655,000	1,015,000	655,000
Other reserves			11,433,439	9,379,839	11,433,439	9,379,839
Retained earnings			3,067,038	992,321	6,530,865	6,215,856
Shareholders' Equity			20,218,861	15,722,824	23,682,688	20,946,359
Minority interest	56	137			486,666	427,427
Total equity			20,218,861	15,722,824	24,169,354	21,373,786
Total equity and liabilities			59,926,119	56,416,085	90,395,685	90,534,095
Contingent liabilities and commitments	57	137	15,979,729	9,520,695	26,512,785	18,953,920
Net asset value per share, Rs			76.33	59.37	89.41	79.10

Notes from pages 91 to 150 form part of these financial statements.

I confirm that to the best of my knowledge and belief these financial statements comply with the requirements in the Companies Act No. 07 of 2007 relating to group financial statements that are applicable to DFCC Bank.

S. Nagarajah

S Nagarajah
Executive Vice-President (Finance)

For and on behalf of the Board of Directors,

J M S Brito
Chairman

A N Fonseka
Ex-Officio Director & Chief Executive

Colombo
30 May 2011

STATEMENT OF CHANGES IN EQUITY

For the years ended 31 March

	Share capital Rs 000	Share premium Rs 000	Reserve fund Rs 000	Other reserves Rs 000	Retained earnings Rs 000	Total equity Rs 000
Bank						
Balance as at 31.03.2009	1,307,325	3,207,818	565,000	8,637,839	772,862	14,490,844
Profit for the year	–	–	–	–	1,713,236	1,713,236
Transfers from current earnings	–	–	90,000	742,000	(832,000)	–
Final dividend approved on 30.06.2009	–	–	–	–	(661,777)	(661,777)
Issue of shares under share option scheme	16,428	165,210	–	–	–	181,638
Share issue expenses written off	–	(1,117)	–	–	–	(1,117)
Balance as at 31.03.2010	**1,323,753**	**3,371,911**	**655,000**	**9,379,839**	**992,321**	**15,722,824**
Profit for the year	–	–	–	–	7,137,451	7,137,451
Transfers from current earnings	–	–	360,000	2,053,600	(2,413,600)	–
Final dividend approved on 30.06.2010	–	–	–	–	(794,452)	(794,452)
Interim dividend approved on 31.03.2011	–	–	–	–	(1,854,682)	(1,854,682)
Bonus issue of shares	1,324,320	(1,324,320)	–	–	–	–
Issue of shares under share option scheme	765	7,055	–	–	–	7,820
Share issue expenses written off	–	(100)	–	–	–	(100)
Balance as at 31.03.2011	**2,648,838**	**2,054,546**	**1,015,000**	**11,433,439**	**3,067,038**	**20,218,861**

	Attributable to the equity holders of the Bank							
	Share capital Rs 000	**Share premium Rs 000**	**Reserve fund Rs 000**	**Other reserves Rs 000**	**Retained earnings* Rs 000**	**Total Rs 000**	**Minority interest Rs 000**	**Total equity Rs 000**
Group								
Balance as at 31.03.2009	1,307,325	3,207,818	565,000	8,637,839	5,333,945	19,051,927	641,251	19,693,178
Reversal of temporary diminution in value of investments - Lanka Ventures PLC	–	–	–	–	3,996	3,996	2,854	6,850
Net unrealised losses from Bangladesh translation - associate company	–	–	–	–	(2,612)	(2,612)	–	(2,612)
Net income recognised directly in equity	–	–	–	–	1,384	1,384	2,854	4,238
Profit for the year	–	–	–	–	2,579,972	2,579,972	103,798	2,683,770
Total recognised income and expenses for the period	–	–	–	–	2,581,356	2,581,356	106,652	2,688,008
Transfers from current earnings	–	–	90,000	742,000	(832,000)	–	–	–
Final dividend approved on 30.06.2009	–	–	–	–	(661,777)	(661,777)	–	(661,777)
Dividend distributed to minority interest by subsidiaries	–	–	–	–	–	–	(814)	(814)
Issue of shares under share option scheme	16,428	165,210	–	–	–	181,638	–	181,638
Share issue expenses written off	–	(1,117)	–	–	–	(1,117)	–	(1,117)
Disposal of subsidiary - joint venture company	–	–	–	–	313	313	–	313
Disposal of subsidiary - Lanka Ventures PLC	–	–	–	–	(205,981)	(205,981)	(319,662)	(525,643)
Balance as at 31.03.2010	**1,323,753**	**3,371,911**	**655,000**	**9,379,839**	**6,215,856**	**20,946,359**	**427,427**	**21,373,786**
Net unrealised losses from Bangladesh translation - associate company	–	–	–	–	(9,286)	(9,286)	–	(9,286)
Net loss recognised directly in equity	–	–	–	–	(9,286)	(9,286)	–	(9,286)
Profits of associate company - Commercial Bank of Ceylon PLC from January-March 2010	–	–	–	–	296,716	296,716	–	296,716
Profit for the year	–	–	–	–	5,090,313	5,090,313	80,760	5,171,073
Total recognised income and expenses for the period	–	–	–	–	5,377,743	5,377,743	80,760	5,458,503
Transfers from current earnings	–	–	360,000	2,053,600	(2,413,600)	–	–	–
Final dividend approved on 30.06.2010	–	–	–	–	(794,452)	(794,452)	–	(794,452)
Interim dividend approved on 31.03.2011	–	–	–	–	(1,854,682)	(1,854,682)	–	(1,854,682)
Dividend distributed to minority interest by subsidiaries	–	–	–	–	–	–	(45,874)	(45,874)
Bonus issue of shares	1,324,320	(1,324,320)	–	–	–	–	–	–
Issue of shares under share option scheme	765	7,055	–	–	–	7,820	–	7,820
Share issue expenses written off	–	(100)	–	–		(100)	–	(100)
Acquisition of subsidiaries by joint venture company								
Lanka Ventures PLC	–	–	–	–	–	–	120,013	120,013
Acuity Securities Limited	–	–	–	–	–	–	(95,660)	(95,660)
Balance as at 31.03.2011	**2,648,838**	**2,054,546**	**1,015,000**	**11,433,439**	**6,530,865**	**23,682,688**	**486,666**	**24,169,354**

* Includes statutory reserve fund of DFCC Vardhana Bank Limited.

Notes from pages 91 to 150 form part of these financial statements.

CASH FLOW STATEMENT

For the year ended 31 March	BANK 2011 Rs 000	BANK 2010 Rs 000	GROUP 2011 Rs 000	GROUP 2010 Rs 000
Cash flow from operating activities				
Interest receipts	4,832,311	6,308,028	7,248,631	8,953,245
Interest payments	(3,025,744)	(4,334,101)	(4,884,391)	(6,828,902)
Recoveries on loans previously written-off	133,215	147,588	133,215	147,588
Receipts from other operating activities	47,014	140,004	911,547	432,050
Cash payments to employees and suppliers	(1,241,320)	(1,061,502)	(2,427,026)	(1,980,934)
Value added tax	(1,910,630)	(662,361)	(2,103,256)	(855,811)
Operating profit before changes in operating assets and liabilities	(1,165,154)	537,656	(1,121,280)	(132,764)
(Increase)/decrease in operating assets:				
Deposits held for regulatory or monetary control purposes	0	0	(92,159)	(33,693)
Funds advanced to customers	(3,252,629)	3,230,210	(7,135,585)	4,846,374
Others	163,470	156,183	(53,013)	466,549
Increase/(decrease) in operating liabilities:				
Security deposits from customers	(2,080)	(254)	(12,516)	369
Deposits from customers	(1,433,937)	(172,478)	(122,641)	1,963,177
Negotiable certificates of deposit	(1,537)	(12,305)	35,355	(34,837)
Others	52,798	0	136,439	0
Net cash flow from operating activities before income tax	(5,639,069)	3,739,012	(8,365,400)	7,075,175
Income tax paid	(571,141)	(387,353)	(761,686)	(663,344)
Net cash (used in)/from operating activities (Note a)	(6,210,210)	3,351,659	(9,127,086)	6,411,831
Cash flow from investing activities				
Dividends received	660,407	685,108	594,586	708,889
Interest received	1,379,176	1,169,251	2,385,708	2,741,157
Treasury bills eligible for rediscounting with Central Bank	(2,849,168)	(1,745,864)	2,700,552	(8,277,803)
Proceeds from sale and redemption of securities	2,849,809	613,758	2,849,809	649,877
Purchase of securities	(810,705)	(552,743)	(838,977)	(603,743)
Investment in joint venture - Acuity Partners (Pvt) Limited	(55,000)	0	0	0
Disposal of subsidiary shares - Lanka Ventures PLC	0	521,993	0	0
Disposal of subsidiary shares by joint venture company	0	0	0	42,337
Disposal of associate shares - Commercial Bank of Ceylon PLC	5,833,708	0	5,833,708	0
Investment in additional shares of subsidiaries - Lanka Industrial Estates Limited	0	(18,753)	0	(18,753)
Investment in additional shares of a subsidiary by joint venture company (Note b)	0	0	(88,348)	0
Investment in additional shares of a subsidiary - (Synapsys Limited)	(33,000)	0	(16,000)	0
Purchase of property, equipment, intangibles and investment property	(231,036)	(56,524)	(568,385)	(219,687)
Proceeds from sale of equipment and investment property	55,792	1,678	61,605	2,593
Net cash effect on disposal of a subsidiary - Lanka Ventures PLC	0	0	0	456,215
Net cash from/(used in) investing activities	6,799,983	617,904	12,914,258	(4,518,918)
Cash flow from financing activities				
Redemption of debentures	(1,500,000)	0	(1,500,000)	0
Issue of new shares under option	7,820	181,638	7,820	181,638
Share issue expenses	(100)	(1,117)	(100)	(1,117)
Borrowing, medium and long-term	1,511,150	5,435,214	(617,350)	6,660,929
Other borrowings	4,697,000	(2,914,872)	3,223,874	(1,537,859)
Repayment of borrowing, medium-and long-term	(5,965,488)	(5,699,281)	(5,965,488)	(5,699,281)
Dividends paid	(791,378)	(659,083)	(829,594)	(659,795)
Net cash flow used in financing activities	(2,040,996)	(3,657,501)	(5,680,838)	(1,055,485)
Net increase/(decrease) in cash & cash equivalents	(1,451,223)	312,062	(1,893,666)	837,428
Cash & cash equivalents/(overdraft - net) at the beginning of period as previously stated	2,822,033	2,509,971	6,999,735	6,162,307
Consolidation adjustment - Acquisition of Lanka Ventures PLC by joint venture (Note c)	0	0	(328,093)	0
Cash & cash equivalents/(overdraft - net) at the beginning of period restated	2,822,033	2,509,971	6,671,642	6,162,307
Cash & cash equivalents at the end of period	1,370,810	2,822,033	4,777,976	6,999,735
Reconciliation of cash & cash equivalents				
Cash & short-term funds - Note 22	1,490,629	2,822,033	1,548,193	2,343,650
Treasury bills and other securities eligible for rediscounting with Central Bank - Note 24	0	0	2,605,283	4,678,191
Securities purchased under resale agreements - Note 25	0	0	758,135	0
Borrowings short-term - Bank overdrafts - Note 47	(119,819)	0	(133,635)	(22,106)
	1,370,810	2,822,033	4,777,976	6,999,735

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

Comparative figures have been restated to confirm to the period ended 31 March 2011 classification.

Notes from pages 91 to 150 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 2011 Rs 000	BANK 2010 Rs 000	GROUP 2011 Rs 000	GROUP 2010 Rs 000
Profit for the year	7,137,451	1,713,236	5,090,313	2,579,972
Add/(deduct) items not using (providing) cash:	194,792	303,220	347,059	(454,823)
Depreciation - Property,equipment and investment property	99,826	90,230	213,959	192,258
Amortisation - Intangible assets	17,527	14,233	76,018	61,643
Unrealised Gains from marked to market on dealing securities	(33,577)	(42,596)	(31,226)	(42,596)
Bad and doubtful debts	243,693	355,725	478,452	589,296
Notional tax credit on Treasury Bills and Bonds	(132,677)	(114,372)	(242,839)	(275,872)
Provision for fall in value of dealing & investment securities losses	0	0	3,125	0
Amortisation of negative goodwill	0	0	(7,313)	0
(Gain)/Loss on deemed disposal of associate companies' shares	0	0	(6,119)	1,911
Share of profits of associates	0	0	(217,758)	(1,085,261)
Minority interest	0	0	80,760	103,798
Deduct items reported gross under investing activities:	(7,637,689)	(1,096,995)	(4,976,365)	(583,937)
Dividend income	(840,391)	(665,814)	(524,762)	(264,037)
Gains on sale of investment securities	(355,731)	(145,274)	(268,645)	(150,242)
Gain on sale of equipment and investment property	(47,802)	(1,514)	(49,878)	(1,152)
Realised gains from marked to market on dealing securities	(1,660,792)	0	(1,135,478)	0
Gain on disposal of associate company shares	(4,732,973)	0	(2,997,602)	0
Subsidiary disposal profit	0	(284,393)	0	(142,197)
Gain on disposal of subsidiary by joint venture company	0	0	0	(26,309)
Add/(deduct) changes in operating assets & liabilities:	(5,904,764)	2,432,198	(9,588,093)	4,870,619
Increase in accounts receivables	(1,374,825)	(993,870)	(2,280,343)	(2,652,475)
Decrease in accounts payables	(223,749)	(77,376)	(400,243)	(88,735)
Increase in income tax payable	163,749	316,138	341,691	375,879
Increase/(decrease) in deferred tax	3,977	(14,050)	(5,074)	28,009
(Increase)/decrease in operating assets	(3,089,159)	3,386,394	(7,280,758)	5,279,234
Increase/(decrease) in operating liabilities	(1,384,757)	(185,038)	36,634	1,928,707
Net cash (used in)/from operating activities	(6,210,210)	3,351,659	(9,127,086)	6,411,831

Note (b) Increase in Percentage held in Acuity Securities Limited by Joint Venture

	Rs 000
Property, plant and equipment	1,124
Intangible assets	266
Reverse repurchase agreements	288,748
Cash and cash equivalents	355
Government Securities	739,981
Loans and advances	2,246
Other receivable	14,842
Repurchase agreements	(922,344)
Current tax liability	(21,308)
Deferred tax liability	(71)
Other liabilities	(8,211)
Net identifiable assets and liabilities	95,628
Negative goodwill on acquisition	(7,280)
Consideration paid in cash	(88,348)

Notes from pages 91 to 150 form part of these financial statements.

Note (c) Consolidation adjustment - Acquisition of Lanka Ventures PLC by Joint Venture

	Rs 000
Property, plant and equipment	247
Reverse repurchase agreements	5,043
Investment securities	139,890
Investment in associates	47,645
Cash and cash equivalents	31,504
Commercial papers	10,961
Government Securities	61,716
Other receivable	13,363
Other liabilities	(2,260)
Retirement benefit obligations	(571)
Minority Interest	(18,128)
Net identifiable assets and liabilities	289,410
Goodwill on acquisition	70,187
Consideration paid in cash	(359,597)
Cash acquired	31,504
Net cash outflow	(328,093)

Lanka Ventures PLC was disposed by DFCC Bank on 18 January 2010 to Acuity Partners (Pvt) Limited (AP) and net cash effect on disposal was taken to DFCC Group Cash Flow Statement for the year ended 31 March 2010. The net cash outflow on the acquisition of Lanka Ventures PLC by AP is adjusted in the current year cash flow statement as a consolidation adjustment since AP is consolidated by DFCC Group with three-month time gap.

Notes from pages 91 to 150 form part of these financial statements.

1. Reporting Entity

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

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

Section 487 (2) of the Companies Act No. 07 of 2007 requiring existing companies to re-register and to obtain a new company number does not apply to DFCC Bank.

Section 6 (c) of the Companies Act No. 07 of 2007 requiring a limited 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 of subsidiary companies viz., DFCC Consulting (Pvt) Limited, DFCC Vardhana Bank Limited, Lanka Industrial Estates Limited, Synapsys Limited. Acuity Partners (Pvt) Limited a joint venture company equally owned by the Bank and Hatton National Bank PLC. Lanka Ventures PLC ceased to be a subsidiary of the Bank from 18 January 2010 consequent to transfer of its voting shares held by the Bank to Acuity Partners (Pvt) Limited.

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

Total employee population of the Bank and the Group on 31 March 2011 was 451 and 1,186 respectively. (31 March 2010 - 427 and 1,047 respectively)

1.1 Principal Activities

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

DFCC Bank

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

DFCC Consulting (Pvt) Limited

Technical, financial and other professional consultancy services in Sri Lanka and abroad.

DFCC Vardhana Bank Limited

Commercial banking.

Lanka Industrial Estates Limited

Leasing of land and buildings for industrial enterprises.

Synapsys Limited

Information technology services and information technology enabled services.

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

2.2 Approval of Financial Statements by Directors

The financial statements are authorised for issue by the Board of Directors on 30 May 2011.

2.3 Consolidated and Separate Financial Statements

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

2.4 Basis of Measurement

The consolidated and separate financial statements of DFCC Bank are presented in Sri Lankan Rupees, the functional and presentation currency, rounded to the nearest thousand and, unless otherwise stated herein, have been prepared under the historical cost convention. Exceptions to the historical cost convention of accounting relate to dealing securities and investment securities. Investment securities are carried in the Balance Sheet at lower of aggregate cost and market value on a portfolio basis while dealing securities are marked to market and carried in the Balance Sheet at the market price of each security. In the separate financial statements of the DFCC Bank, the investments in associates, subsidiaries and joint venture company are accounted on the basis of direct equity interest rather than on the basis of the reported results and net assets of the investees.

2.5 Accrual Basis of Accounting

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

2.6 Materiality and Aggregation

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

2.7 Critical Accounting Estimates and Judgments

2.7.1 General

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

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

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

2.7.2 Judgments and the Financial Impact

The classification of investment securities is based on the positive intention of the management and the financial capacity to hold certain investments to maturity.

In the event of a change of intention evidenced by management action of active trading, such investments are transferred to dealing securities, which represents financial assets held for trading.

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

2.7.3 Accounting Estimates

2.7.3.1 Loan Losses

The assessment of loan loss as set out in Notes 15 and 16 involves considerable judgment and estimation. Judgment is required firstly to determine whether there are indications that a loss may already have been incurred in individually significant loans and secondly to determine the recoverable amount.

2.7.3.2 Pension Liability

The estimation of this liability determined by an independent, qualified actuary, necessarily involves long-term assumptions on future changes to salaries, future income derived from pension assets, life expectancy of covered employees, etc. Key assumptions are disclosed in Note 14.6.

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

2.7.3.3 End of Service Statutory Gratuity Liability

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

2.7.3.4 Current Tax

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

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

2.7.3.5 Impairment of Tangible and Intangible Assets

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

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

3. Basis of Consolidation

3.1 General

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

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

3.2 Transactions Eliminated on Consolidation

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

Investment in Commercial Bank of Ceylon PLC (CBC) as an associate company up to 2 June 2011 was equity accounted in the group while this investment in the Bank's books was accounted at cost. The gains on part sale of sale of ordinary (voting) shares held in CBC on 2 June 2011 was reduced as a consolidation adjustment such that only the sale proceeds in excess of net asset value of shares sold on 2 June 2011 was recognised.

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

Audited financial statements are used. Financial statements of DFCC Consulting (Pvt) Limited, Lanka Industrial Estates Limited and National Asset Management Limited included in the consolidation have financial year to 31 March in common with the Bank. The financial statements of Acuity Partners (Pvt) Limited, DFCC Vardhana Bank Limited, Synapsys Limited included in the consolidation have financial year ending on 31 December 2010.

The Group financial statements for the year ended 31 March 2010 include income of Lanka Ventures PLC for the period ended 18 January 2010.

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

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

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

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

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

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

4. Scope of Consolidation

All subsidiaries have been consolidated.

4.1 Subsidiaries

Subsidiaries are those entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of entities so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Note 36 contains the financial information relating to subsidiaries.

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

4.2 Associate Companies

Associate companies are those enterprises in which the Bank has significant influence but not control over the financial and operating policies. The consolidated financial statements include the Bank's share of the total recognised gains and losses of the associate companies, on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. Note 34 contains financial information relating to associate companies.

4.3 Joint Venture Company

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

5. Principal Accounting Policies

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

5.1 Revenue and Expense Recognition

5.1.1 Interest Income

Interest 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 No. 10 of 2008 dated 30 December 2008, Direction No. 7 of 2009 dated 30 December 2009 and Direction No. 2 of 2010 dated 20 May 2010 issued by Central Bank of Sri Lanka on 'Classification of Loans and Advances, Income Recognition and Provisioning' as amended.

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

The criteria for classification of loans and advances as non-performing are explained in Note 5.2.6.

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

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

5.1.3 Discount or Premium on Purchase of Dated Debt Securities

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

5.1.4 Finance Lease Income

Gross earnings from leases comprising the excess of aggregate rentals receivable over the cost of leased asset are allocated over the term of the lease commencing with the month in which the lease is granted, in proportion to the declining receivable balances. Income of finance leases included in lease rentals is recognised on an accrual basis except for finance leases classified as non-performing, based on criteria set out in Direction No. 4 of 2008 dated 8 May 2008 as amended by Direction 10 of 2008 dated 30 December 2008, Direction No. 7 of 2009 dated 30 December 2009 and Direction No. 2 of 2010 dated 20 May 2010 issued by Central Bank of Sri Lanka on 'Classification of Loans and Advances, Income Recognition and Provisioning' as amended.

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

5.1.5 Dividend Income

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

5.1.6 Discount on Bills of Exchange

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

5.1.7 Front-end Fee Income

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

5.1.8 Consultancy and Other Professional Service Income

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

5.1.9 Underwriting Commission

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

5.1.10 Guarantee Fee

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

5.1.11 Gains on Sale of Property, Plant and Equipment

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

5.1.12 Gains on Sale of Investment Property

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

5.1.13 Gains on Disposal of Dated Debt Securities

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

5.1.14 Sale and Repurchase Agreements

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

5.1.15 Premises Rental Income

Rental income is recognised on accrual basis.

5.1.16 Marked to Market Gains on Dealing Securities

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

5.1.17 Marked to Market Gains on Forward Exchange Contracts

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

5.1.18 Foreign Exchange Income

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

5.1.19 Gains on Sale of Subsidiary to Joint Venture Company

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

5.1.20 Gains on Part Sale of Investment in Commercial Bank of Ceylon PLC (CBC)

Approximately 10.7% of the issued voting shares of CBC on 2 June 2010 were sold. The gains in the books of the Bank were the excess of the net sale proceeds over the cost of shares sold. The investment in CBC was equity accounted up to 2 June 2010 in the consolidated financial statements and consequently the consolidated gains on sale on 2 June 2010 was only the excess of net sale proceeds over the equity accounted cost or the proportionate net assets of CBC attributable to the shares sold.

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 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 is made to recognise significant impairment of the debt service capacity of the customer giving rise to a constructive obligation prior to enforcement of guarantee.

The specific provision has two elements:

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

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

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

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

5.1.22.2 General Provision

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

Commencing from 1 October 2010 this mandatory minimum general provision is reduced progressively at the rate of 0.1% per calendar quarter only up to 31 December 2011 (i.e., five calendar quarters). Thus, the mandatory general provision on 31 March 2011 was 0.8%.

In addition, the Bank continued with a general provision of 3% on finance leases granted up to end June 2010. Consequent to reassessment of the quality of the new finance leases, the general provision for the new finance leases was reduced to 2% from 1 July 2010.

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.

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.

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

5.1.24.3 Social Responsibility Levy

This is 1.5% of the income tax.

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. The Value Added Tax rate is reduced from 20% to 12% with effect from 1 January 2011.

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 to known amounts of cash and which are subject to an insignificant risk of changes in value.

5.2.2 Balances with Central Bank

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

5.2.3 Securities

5.2.3.1 Dealing Debt Securities

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

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

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

5.2.3.2 Investment Debt Securities

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

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

5.2.3.3 Securities Purchased under Resale Agreements (Reverse Repurchase Transactions)

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

5.2.3.4 Securities Sold under Repurchase Agreements ('Repos')

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

5.2.3.5 Dealing Securities - Ordinary Shares

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

5.2.3.6 Investment Securities - Shares and Units Purchased from Unit Trusts

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

i. Aggregate cost reduced by, where appropriate, the diminution in value which is other than temporary of each security; and

ii. Market value determined on an aggregate portfolio basis.

Other shares are stated in the balance sheet at cost reduced by, where appropriate, the diminution in value, which is other than temporary of each security.

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

5.2.4 Assets held for Sale

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

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

5.2.5 Loans and Advances

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

5.2.6 Non-Performing Loans and Finance Leases

The classification on 31 March 2011 is based on the Direction No. 4 of 2008 dated 8 May 2008 as amended by Direction No. 7 of 2009 dated 30 December 2009 and Direction No. 2 of 2010 dated 20 May 2010. The loans are classified as non-performing based on the following criteria:

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

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

Prior to the issue of Direction No. 4 of 2008 dated 8 May 2008 issued by the Central Bank, as per the previous Direction on this subject, the non-performing classification criteria applied to each credit facility extended to a borrower. As per the Direction No. 4 of 2008, where multiple credit facilities have been granted to a single borrower, in the event the aggregate outstanding amount of non-performing credit facilities exceed 30% of the total credit facilities extended to the borrower, the balance facilities also have to be classified as non-performing. The implementation of this new basis of classification originally effective from 1 January 2009 was deferred until 1 January 2011 by subsequent amendments. Thus, with effect from 1 January 2011, all facilities to a borrower are classified as non-performing if 30% of the credit facilities are non-performing.

5.2.7 Categorisation of Non-Performing Loans and Finance Leases

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

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

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

Clause 4 (7) of the Direction No. 04 of 2008 issued on 8 May 2008 required reclassification of a non-performing facility as performing only when interest and principal in arrears are paid. Subsequent amendment Direction No. 7 of 2009 dated 30 December 2009 relaxed this criterion up to 31 December 2010 by permitting reclassification of credit facilities repayable monthly when the unpaid principal and interest arrears are less than three instead of reclassification only when all arrears of principal and interest are paid up.

Thus with effect from 1 January 2011 the criteria for reclassification from non-performing to performing stipulated by Clause 4 (7) of the Direction No. 4 of 2008 is restored.

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

5.2.9 Finance Leases

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

5.2.10 Investment Property

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

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

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

The rates of depreciation are as follows:

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

5.2.11 Investment in Subsidiaries and Associate Companies

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

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

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

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

5.2.12 Investment in Joint Venture Company

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

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

5.2.13 Property, Plant & Equipment

5.2.13.1 Basis of Recognition

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

5.2.13.2 Measurement at Recognition

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

5.2.13.3 Subsequent Measurement

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

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

The rates of depreciation are as follows:

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

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

Land is not depreciated.

5.2.13.4 Derecognition

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

5.2.14 Goodwill or Negative Goodwill on Consolidation

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

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

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

5.2.15 Intangible Assets - Computer Application Software

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

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

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

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

5.2.16 Impairment of Assets

5.2.16.1 Tangible and Financial Assets

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

5.2.16.2 Intangible Assets - Computer Application Software and Goodwill on Consolidation

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

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

5.2.17 Foreign Currency Translation

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

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

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

5.2.18 Deferred Tax Asset

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

5.2.19 Unrecognised Deferred Tax Assets

	31 March 2011 Rs 000	Tax effect 28% Rs 000
Bank		
Disallowed specific provision for bad and doubtful loans	428,100	119,868
Group		
Taxable Losses		
DFCC Consulting (Pvt) Limited - Subsidiary	2,568	719
Acquity Partners Limited - Joint Venture	49,809*	13,946
Disallowed specific provision for bad and doubtful loans		
DFCC Vardhana Bank Limited - Subsidiary	307,677	86,150
Unused withholding tax credit		
DFCC Consulting (Pvt) Limited - Subsidiary	302	85
Unrecognised loss/deferred tax asset	360,356	100,900

** 50% of Loss, proportionate consolidation.*

Comparative Information

Where items are regrouped, comparative information is also adjusted.

5.3 Liabilities and Provisions

5.3.1 Provision for Pension Liability under a Defined Benefit Plan

5.3.1.1 Description of the Plan and Employee Groups Covered

The Bank established a Trust Fund in May 1989, which operates the pension scheme for payment of pension approved by the Commissioner General of Inland Revenue. The fund of the scheme is managed by trustees appointed by the Bank and is separate from the Bank. The scheme provides for payment of pension to retirees, spouse and minor children of deceased retirees based on pre-retirement salary. All members of the permanent staff who joined prior to 1 May 2004 except one are covered by this funded pension scheme subject to fulfilment of eligibility conditions prescribed by the Bank.

The scheme was amended on 31 August 1998 and the amended plan will apply to all members of the permanent staff who joined the Bank on or after this date and prior to 1 May 2004. The amendment reduced the scope of the benefit in the interest of long-term sustainability of the pension plan as advised by the independent actuary.

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

5.3.1.2 Funding Arrangement

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

5.3.1.3 Recognition of Actuarial Gains and Losses

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

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

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

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

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

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

5.3.1.4 Recognition of Past Service Cost

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

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

5.3.2.1 Description of the Plan and Employee Groups Covered

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

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

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

5.3.2.2 Funding Arrangement

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

5.3.2.3 Recognition of Actuarial Gains and Losses

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

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

5.3.2.4 Recognition of Past Service Cost

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

5.3.3 Defined Contribution Plans

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

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

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

5.3.4 Debentures Issues by the Bank and Deposit from Customers

These liabilities are recognised when the Bank enters into contracts with counter parties and initially measured at the consideration received. The debentures are issued at par and are redeemable at par on the repayment dates. Except for customer deposits of DFCC Vardhana Bank 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 Offsetting

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

5.3.8 Commitments and Contingencies

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

5.3.9 Events after 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 64.

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 82.

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

9.1 General

The Institute of Chartered Accountants of Sri Lanka, entrusted with the task of setting Sri Lanka Accounting Standards by Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 have decided to converge fully with International Financial Reporting Standards (IFRS) with effect from 1 January 2012. In accordance with this decision, new accounting standards and existing Sri Lanka Accounting Standards renumbered with corresponding International Accounting Standards and IFRS have been issued.

9.2 Title of the New Standards

i. LKAS 32 (previously issued as Sri Lanka Accounting Standard 44 - 'Financial Instruments Presentation')

ii. LKAS 39 (previously issued as Sri Lanka Accounting Standard 45 - 'Financial Instrument Recognition and Measurement')

iii. IFRS 7 (previously issued as Sri Lanka Accounting Standard 46 - 'Financial Instrument Disclosure')

iv. IFRS 1 - First time adoption of International Financial Reporting Standards

9.3 Effective Date for Mandatory Application

Financial year to 31 March 2013.

9.4 Nature of Significant Impending Changes

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

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

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

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

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

vi. All derivatives will be recognised as on-balance sheet asset or liability and carried at the fair value. Currently, they are recognised off-balance sheet.

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

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

ix. The first time adoption of IFRS in full could result in variations in the recognition and measurement of assets and liabilities between the previous Sri Lanka Accounting Standards applicable up to 31 March 2012 and IFRS applicable from 1 April 2012. The new Standard requires changes to be reflected in the 'opening SLFRS statement of financial position' on 1 April 2012 with specific additional disclosures and changes to the representation and titles of financial statements.

9.5 Financial Impact on the Application of these Standards in the Financial Year to 31 March 2013

The impact is not currently known or reasonably estimated.

For the year ended 31 March	BANK		GROUP	
	2011	2010	**2011**	2010
	Rs 000	Rs 000	**Rs 000**	Rs 000
10. Income				
Gross income	14,191,300	8,843,452	15,830,285	13,085,852
Interest income	6,206,458	7,416,335	9,658,167	11,793,481
Other income	7,984,842	1,427,117	6,172,118	1,292,371
	14,191,300	8,843,452	15,830,285	13,085,852
11. Interest Income				
Loans	3,947,846	5,333,174	6,192,886	7,987,556
Treasury bills, bonds and placements with other banks	1,405,707	1,281,444	2,612,357	2,985,492
Gross earnings under finance leases	755,972	720,221	755,972	720,221
Default interest on lease rentals	96,933	81,496	96,952	81,496
Interest and discount arising from debt securities	0	0	0	18,716
	6,206,458	7,416,335	9,658,167	11,793,481

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

	BANK		GROUP	
	2011	2010	**2011**	2010
	Rs 000	Rs 000	**Rs 000**	Rs 000
12. Interest Expense				
Medium and long-term borrowing	1,514,036	1,983,881	1,514,036	1,983,881
Short-term borrowing:				
Interest on overdrafts and revolving facilities	268,402	778,156	370,099	960,815
Debentures	497,997	670,488	497,997	670,488
Time deposits from customers	505,663	791,519	2,012,069	2,980,745
	2,786,098	4,224,044	4,394,201	6,595,929

For the year ended 31 March	BANK 2011 Rs 000	BANK 2010 Rs 000	GROUP 2011 Rs 000	GROUP 2010 Rs 000
13. Other Income				
Dividend income from securities				
Quoted ordinary shares	366,613	23,253	387,385	23,273
Unquoted ordinary shares	3,689	2,099	3,896	9,921
Unquoted preference shares	90,592	148,487	90,592	176,877
Units in unit trusts	42,889	49,092	42,889	53,966
Dividend income from investments in associates, subsidiaries, joint venture				
Quoted ordinary shares	249,808	422,804	0	0
Unquoted ordinary shares	86,800	20,079	0	0
	840,391	665,814	524,762	264,037
Gain on sale of investment securities				
Quoted ordinary shares	34,956	93,187	34,956	98,155
Others	17,549	52,087	30,035	52,087
Gain on disposal of shares of Commercial Bank of Ceylon PLC (CBC)				
As an Associate	4,732,973	0	2,997,602	0
As Investment Securities	303,226	0	203,654	0
As Dealing Securities up to 30 September 2010	1,660,792	0	1,135,478	0
	6,696,991	0	4,336,734	0
Gain on disposal of Subsidiary	0	284,393	0	142,197
Gain on disposal of subsidiary - by joint venture company	0	0	0	26,309
Recovery of bad debts	133,215	147,588	133,215	147,588
Foreign exchange (loss)/income	(12,352)	(10,806)	57,457	70,931
Funding swap cost	(49,594)	(38,821)	(90,138)	(210,412)
Net gain on repurchase transactions	39,620	29,310	74,531	6,890
Marked to market gains/(losses) - unrealised				
CBC ordinary shares*	4,355	0	4,355	0
Other quoted ordinary shares	28,888	42,596	28,888	42,596
Treasury Bills and Bonds - held for trading	334	0	(2,017)	285
Gain on sale of Treasury Bills and Bonds - held for trading	20,500	2,659	47,683	29,526
Fee and commission income	81,946	59,769	384,781	257,551
Net gain on sale of equipment and investment property	47,802	1,514	49,878	1,152
Other operating income	100,241	97,827	556,998	363,479
	7,984,842	1,427,117	6,172,118	1,292,371

** Transferred to investment securities on 1 October 2010 at the market price on 30 September 2010.*

For the year ended 31 March	BANK 2011 Rs 000	BANK 2010 Rs 000	GROUP 2011 Rs 000	GROUP 2010 Rs 000

14. Provision for Staff Retirement Benefits

14.1 Amount Recognised as Expense

14.1.1 Funded Liability

	BANK 2011 Rs 000	BANK 2010 Rs 000	GROUP 2011 Rs 000	GROUP 2010 Rs 000
Current service cost	58,626	59,556	58,626	59,556
Interest on obligation	123,859	112,903	123,859	112,903
Expected return on pension assets	(123,537)	(107,063)	(123,537)	(107,063)
	58,948	65,396	58,948	65,396

14.1.2 Unfunded Pension Liability

	BANK 2011 Rs 000	BANK 2010 Rs 000	GROUP 2011 Rs 000	GROUP 2010 Rs 000
Current service cost	4,258	4,024	4,258	4,024
Interest on obligation	4,094	3,063	4,094	3,063
Amortisation of unrecognised actuarial loss	1,090	0	1,090	0
	9,442	7,087	9,442	7,087

14.1.3 Unfunded End of Service Gratuity Liability

	BANK 2011 Rs 000	BANK 2010 Rs 000	GROUP 2011 Rs 000	GROUP 2010 Rs 000
Current service cost	3,139	2,524		
Interest on obligation	2,078	1,537		
Amortisation of unrecognised actuarial loss	497	425		
	5,714	4,486	17,440	12,824
Total defined benefit plans	74,104	76,969	85,830	85,307

14.1.4 Defined Contribution Plan

	BANK 2011 Rs 000	BANK 2010 Rs 000	GROUP 2011 Rs 000	GROUP 2010 Rs 000
Employer's contribution to Employees' Provident Fund	56,173	52,492	93,914	84,597
Employer's contribution to Employees' Trust Fund	11,235	10,500	19,175	16,953
Total defined contribution plans	67,408	62,992	113,089	101,550
Total expense recognised in the income statement	141,512	139,961	198,919	186,857

14.2 Movement in Unrecognised Actuarial Gain

14.2.1 Funded Liability

	BANK 2011 Rs 000	BANK 2010 Rs 000
Unrecognised actuarial gain on 1 April	(83,126)	(50,231)
Adjustments	0	(10)
Restated unrecognised actuarial gain on 1 April	(83,126)	(50,241)
Actuarial (gain)/loss during the financial year		
Due to experience of pension assets	2,958	(32,885)
Due to actuarial experience	(11,034)	0
Due to change in plan assumption	(49,624)	0
Unrecognised actuarial (gain) on 31 March	(140,826)	(83,126)

For the year ended 31 March	BANK 2011 Rs 000	2010 Rs 000
14.2.2 Unfunded Pension Liability		
Unrecognised actuarial loss on 1 April	5,213	1,074
Amortised in the financial year	(1,090)	0
Actuarial loss/(gain) during the financial year	(1,698)	4,139
Unrecognised actuarial loss on 31 March	2,425	5,213

14.2.3 Unfunded End of Service Gratuity Liability		
Unrecognised actuarial loss on 1 April	6,463	5,333
Amortised in the financial year	(497)	(425)
Actuarial loss during the financial year	1,180	1,555
Unrecognised actuarial loss on 31 March	7,146	6,463

14.2.4 Amortisation of Unrecognised (Gain)/Loss

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

For the year ended 31 March	BANK 2011 Rs 000
Funded Pension Liability	
Unrecognised Actuarial gain on 1 April 2010	83,126
Limits of Corridor on 1 April 2010	
(i) 10% of present value of pension obligation on 1 April 2010 (before deducting pension assets)	131,759
(ii) 10% of pension assets on 1 April 2010	140,837
(iii) Greater of (i and ii)	140,837
No amortisation since unrecognised actuarial loss is within the limits of corridor.	
Unfunded Pension Liability	
Unrecognised actuarial loss on 1 April 2010	5,213
Limits of Corridor on 1 April 2010	
(i) 10% of present value of pension obligation on 1 April 2010	4,123
Excess over the limit	1,090
Expected average remaining working life	1 year
Unrecognised actuarial loss amortised and recognised in the income statement	1,090

For the year ended 31 March	BANK 2011 Rs 000
Unfunded End of Service Gratuity Liability	
Unrecognised actuarial loss on 1 April 2010	6,463
Limits of Corridor on 1 April 2010	
(i) 10% of present value of pension obligation on 1 April 2010	1,493
Excess unrecognised actuarial loss to be amortised, over the remaining working life of employees eligible for gratuity	4,970
Expected average remaining working lives of employees eligible for gratuity	10 years
Unrecognised actuarial loss amortised and recognised in the income statement	497

Bank chose to recognise by amortisation unrecognised loss/(gain) over the corridor on first time adoption of Sri Lanka Accounting Standard 16 (Revised) 2006 on Employee Benefits, commencing from the financial year ended 31 March 2009.

14.3 Unfunded Pension Liability

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

14.4 Actuarial Valuation

Actuarial valuation was carried out by Mr Piyal S Gunathilake, Fellow of the Society of Actuaries USA of Piyal S Gunathilake & Associates, on 31 March 2011.

14.5 Actuarial Valuation Method

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

14.6 Principal Actuarial Assumptions

	Pension benefit (%)	End of service gratuity (%)
Discount rate as at 31 March 2011, per annum		
Pre-retirement (for End of service gratuity previous year 11.5%)	9.0	10.0
Post-retirement	9.0	not applicable
Future salary increases per annum (Previous year 11.5% per annum for pension and 11% for End of service gratuity)	10.5	10.0
Expected rate of return on pension assets - post tax (Previous year 9% per annum)	7.0	–
Actual rate of return on pension assets	8.9	–
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) (for new entrants recovery period is 15 years)	
End of service gratuity		lump sum
Turnover rate -		
Age		
20	10.0	10.0
25	10.0	10.0
30	10.0	10.0
35	7.5	7.5
40	5.0	5.0
45	2.5	2.5
50/55	1.0	1.0

The discount rate is the yield rate on 31 March 2011 with a term equalling the estimated period for which all benefit payments will continue. This period is approximately 23 years for pension and 10 years for end of service gratuity.
The differences in the discount rates for pension and end of service gratuity reflect the differences in the estimated period for benefit payments.

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

For the year ended 31 March	BANK		GROUP	
	2011	2010	2011	2010
	Rs 000	Rs 000	Rs 000	Rs 000

15. Bad and Doubtful Debts - Specific

Provision for the year				
Loans and advances	733,525	480,468	1,103,431	893,720
Leases	75,902	161,318	75,902	161,318
Dues on terminated leases	2,180	10,124	2,180	10,124
Bills of exchange	0	0	15,462	9,632
Others	16,965	18,599	16,965	18,599
Loan/lease losses	9,024	4,031	11,052	7,004
	837,596	674,540	1,224,992	1,100,397
Less: Recoveries in the year				
Loans and advances	443,801	243,262	618,876	433,093
Leases	126,354	73,244	126,354	73,244
Dues on terminated leases	2,081	24,170	2,081	24,170
Bills of exchange	0	0	3,362	9,111
Others	21,820	1,135	21,820	1,135
	243,540	332,729	452,499	559,644

16. Bad and Doubtful Debts - General

Provision for the year				
Loans and advances	0	10,990	26,344	17,357
Leases	51,777	92,824	51,777	92,824
Bills of exchange	0	0	499	289
	51,777	103,814	78,620	110,470
Less: Reduction in the year				
Loans and advances	45,273	45,794	45,273	45,794
Leases	6,351	35,024	6,351	35,024
Bills of exchange	0	0	1,043	0
	153	22,996	25,953	29,652

17. Investments - Impairment Losses

Investment securities	0	0	3,125	0

For the year ended 31 March	BANK 2011 Rs 000	BANK 2010 Rs 000	GROUP 2011 Rs 000	GROUP 2010 Rs 000
18. Operating Expenses				
Operating expenses include the following:				
Directors' remuneration	41,833	31,727	67,774	64,485
Employer's contribution to Employees' Provident Fund	56,173	52,492	93,914	84,597
Employer's contribution to Employees' Trust Fund	11,235	10,500	19,175	16,953
Gratuity provision	5,714	4,486	17,440	12,824
Auditors' remuneration				
Audit fees and expenses	2,603	2,294	4,714	4,364
Audit related fees and expenses	2,620	789	2,489	789
Fees for non-audit services	1,167	246	2,468	457
Fees for other auditors	0	0	0	481
Depreciation - Investment property	0	0	8,030	7,257
- Property, plant and equipment	99,826	90,230	205,929	185,001
Amortisation - Intangible assets	17,527	14,233	76,018	61,643
Expenses on litigation	9,332	13,920	9,433	14,233
19. Value Added Tax on Financial Services				
Relating to divestment of shares in CBC*	1,340,269	0	1,340,269	0
Others	549,960	658,673	739,794	840,415
	1,890,229	658,673	2,080,063	840,415

** Commercial Bank of Ceylon PLC*

20. Income Tax Expense

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

20.2 Relationship between Tax Expense and Accounting Income

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

For the year ended 31 March	BANK 2011 Rs 000	BANK 2010 Rs 000	GROUP 2011 Rs 000	GROUP 2010 Rs 000
Profit before tax as per the income statement	7,876,318	2,402,677	6,269,375	3,751,002
Disallowed expenses and provisions	2,355,235	1,003,815	2,773,143	1,524,538
Lease rentals net of capital allowances	488,794	737,336	488,794	737,336
Interest Income	0	0	2,931	38,915
Reported earnings under finance lease net of provision for bad and doubtful debts	(811,763)	(646,193)	(811,763)	(646,193)
Capital allowances on property, plant and equipment	(86,584)	(109,852)	(250,058)	(277,970)
Dividend income	(840,391)	(665,814)	(524,762)	(666,136)
Gain on sale of investment securities*	(6,749,496)	(429,667)	(4,401,725)	(429,667)
Other exemptions	(149,761)	(264,078)	(282,765)	(298,230)
Assessable Income	2,082,352	2,028,224	3,263,170	3,733,595
Offset of brought forward tax losses (limited to 35% of assessable income)	0	0	558	93,244
Taxable Income	2,082,352	2,028,224	3,262,612	3,640,351
Income tax expense reported in the income statement at the applicable income tax rate	728,824	709,878	1,110,857	1,055,920
Effective tax rate, %	9.25	30		

** This includes realised gains from sale of Commercial Bank of Ceylon PLC shares not liable to income tax.*

Companies/income taxed at rates lower than 35%

	2011 %	2010 %
Lanka Industrial Estates Limited		
(BOI approved company) - On business turnover	2	2
Synapsys Limited		
(BOI approved company) - Income other than investment income	Exempt	Exempt

For the year ended 31 March	2011 Rs 000	2010 Rs 000
20.3 Tax on Profit on Ordinary Activities		
Taxation based on profits for the year	728,824	709,878
Tax under/(over) provision	6,066	(6,387)
Increase in deferred tax asset	(406)	(1,035)
Increase/(decrease) in deferred tax Liability	4,383	(13,015)
Total Bank	738,867	689,441
Acuity Partners (Pvt) Limited	74,501	26,125
DFCC Consulting (Pvt) Limited	279	820
DFCC Vardhana Bank Limited	268,044	331,373
Lanka Industrial Estates Limited	16,243	14,484
Lanka Ventures PLC	0	4,774
Synapsys Limited	368	215
Subsidiaries and joint-venture	359,435	377,791
Total Group	1,098,302	1,067,232

20.4 Summary

Bank	738,867	689,441
Subsidiaries and joint-venture		
- current tax	368,486	335,732
- deferred tax - asset	(62)	29,959
- liability	(8,989)	12,100
Total Group	1,098,302	1,067,232

21. Earnings per Share

21.1 Basic Earnings per Share

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

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

21.2 Diluted Earnings per Share

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

21.3 Adjustment for Bonus Issue

Comparative EPS (basic and diluted) is adjusted for one for one bonus issue in year ended 31 March 2011.

For the year ended 31 March	BANK		GROUP	
	2011 Rs 000	2010 Rs 000	**2011 Rs 000**	2010 Rs 000
21.4 Computation of Basic and Diluted Earnings per Share				
Profit for the year (Rs000)	7,137,451	1,713,236	5,090,313	2,579,972
Weighted average number of shares	264,854,825	264,521,330	264,854,825	264,521,330
Basic earnings per share, Rs	26.95	6.48	19.22	9.75
Weighted average number of shares that would have been issued at average market price	(44,284)	(146,497)	(44,284)	(146,497)
Weighted average number of shares under option	260,746	180,622	260,746	180,622
Weighted average number of shares	265,071,287	264,555,455	265,071,287	264,555,455
Diluted earnings per share, Rs	26.93	6.48	19.21	9.75

	BANK		GROUP	
	31.03.2011 Rs 000	31.03.2010 Rs 000	**31.03.2011 Rs 000**	31.03.2010 Rs 000
22. Cash and Short-Term Funds				
Cash and balances with banks	16,553	328,820	1,520,592	1,182,950
Call deposits				
DFCC Vardhana Bank Limited	1,474,076	1,643,213	0	948,379
Others	0	850,000	27,435	0
Time deposits				
DFCC Vardhana Bank Limited	0	0	0	102,791
Others	0	0	166	109,530
	1,490,629	2,822,033	1,548,193	2,343,650

23. Balances with Central Bank

Statutory deposit with Central Bank of Sri Lanka	0	0	894,235	802,076

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, a minimum cash balance is maintained with the Central Bank of Sri Lanka, as explained in Note 5.2.2. The minimum cash reserve requirement on rupee deposit liabilities is prescribed as a percentage of Rupee deposit liabilities. The percentage is varied from time to time.

Applicable minimum rates were 7% in 2010 (2009 - 7.75% up to 27 February 2009, and 7% thereafter).

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

	BANK		GROUP	
	31.03.2011 Rs 000	31.03.2010 Rs 000	31.03.2011 Rs 000	31.03.2010 Rs 000
24. Treasury Bills and Other Securities Eligible for Rediscounting with Central Bank				
Treasury bills and bonds held for trading				
Held for repurchase transactions	392,447	0	392,447	464,492
Others	0	0	305,434	1,314,683
	392,447	0	697,881	1,779,175
Treasury bills and bonds held to maturity				
Held for repurchase transactions	10,108,128	7,651,073	11,875,195	10,932,156
Others	0	0	5,856,040	11,029,504
	10,500,575	7,651,073	18,429,116	23,740,835
25. Securities Purchased under Resale Agreements				
Loans at cost	166,000	913,611	1,996,168	1,004,055

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

		BANK		GROUP	
		31.03.2011 Rs 000	31.03.2010 Rs 000	31.03.2011 Rs 000	31.03.2010 Rs 000
26. Placements with and Loans to Other Banks and Financial Institutions					
26.1 Loans to Banks and Financial Institutions					
Refinanced loans	- Plantation development project	1,985,378	1,830,757	1,985,378	1,830,757
	- KFW DFCC (V) SME in the North and East	99,400	39,292	99,400	39,292
Other loans		170,000	335,000	170,000	335,000
		2,254,778	2,205,049	2,254,778	2,205,049

	BANK				GROUP			
	31.03.2011		31.03.2010		31.03.2011		31.03.2010	
	Number of ordinary shares	Market Value Rs 000	Number of ordinary shares	Market Value Rs 000	Number of ordinary shares	Market Value Rs 000	Number of ordinary shares	Market Value Rs 000
27. Dealing Securities								
Quoted Ordinary Shares								
Dialog Axiata PLC	54,890	576	54,890	370	54,890	576	54,890	370
Dolphin Hotels PLC	818,800	42,250	818,800	28,658	818,800	42,250	818,800	28,658
John Keells Holdings PLC	148,335	42,365	148,335	27,294	148,335	42,365	148,335	27,294
Sri Lanka Telecom PLC	900	51	900	33	900	51	900	33
		85,242		56,355		85,242		56,355

	BANK		GROUP	
	31.03.2011 Rs 000	31.03.2010 Rs 000	**31.03.2011 Rs 000**	31.03.2010 Rs 000

28. Non-Current Assets Held for Sale

Land acquired by Acuity Partners (Pvt) Limited	0	0	2,875	2,875

Details of the Land

	Extent perches	**31.03.2011 Market Value Rs 000**
Freehold Land		
Lot - x, Survey Plan - 6448, Off Edirisinghe Road, Mirihana	10	2,875

Value of the land amounted to Rs5.75 million as at November 2009. As this land is held by Acuity Partners (Pvt) Limited, the joint venture, only 50% of the value is taken into the consolidated financial statements.

		BANK		GROUP	
		31.03.2011 Rs 000	31.03.2010 Rs 000	**31.03.2011 Rs 000**	31.03.2010 Rs 000

29. Bills of Exchange

Balance on 31 March					
Export bills		0	0	301,057	278,270
Import bills		0	0	16,806	65,477
Less: Provision for overdue bills	- Specific	0	0	26,462	14,805
	- General	0	0	2,469	3,056
		0	0	288,932	325,886

29.1 Movement in Provision

29.1.1 Movement in Specific Provision

Balance on 31 March	0	14,805
Add: Provision for the year	0	15,462
Less: Recoveries in the year	0	3,362
Exchange rate difference on foreign currency provision	0	443
	0	26,462

29.1.2 Movement in General Provision

Balance on 31 March	0	3,056
Add: Provision for the year	0	499
Less: Recoveries in the year	0	1,043
Exchange rate difference on foreign currency provision	0	43
	0	2,469

	BANK		GROUP	
	31.03.2011 Rs 000	31.03.2010 Rs 000	31.03.2011 Rs 000	31.03.2010 Rs 000

30. Loans and Advances

30.1 Balance on 31 March

	BANK 31.03.2011 Rs 000	BANK 31.03.2010 Rs 000	GROUP 31.03.2011 Rs 000	GROUP 31.03.2010 Rs 000
Sri Lanka Rupee Loans				
Direct loans	28,994,362	29,086,089	37,906,311	35,309,155
Commercial papers and asset back notes	740,300	343,616	755,543	343,616
Debenture loans	1,109,674	398,178	1,109,674	398,178
Overdrafts	0	0	7,928,430	6,613,716
Staff loans for miscellaneous purposes	265,410	259,661	396,801	335,458
	31,109,746	30,087,544	48,096,759	43,000,123
Foreign Currency Loans				
Direct loans	1,621,532	1,486,985	3,777,999	3,122,835
	32,731,278	31,574,529	51,874,758	46,122,958
Less: Loan loss provision - Specific	1,507,241	1,173,459	2,301,200	1,783,204
- General	259,910	305,183	386,309	405,662
Interest in suspense relating to overdrafts	0	0	481,032	328,428
Balance net of loan loss provision	30,964,127	30,095,887	48,706,217	43,605,664

30.2 Movement in Provision

30.2.1 Movement in Specific Provision

	BANK 31.03.2011 Rs 000	GROUP 31.03.2011 Rs 000
Balance on 31 March	1,173,459	1,783,204
Add: Provision for the year	733,525	1,103,431
Transfer from interest in suspense	44,058	44,058
Less: Recoveries in the year	443,801	618,876
Write-off of loans	0	9,005
Exchange rate difference in foreign currency provision	0	1,612
	1,507,241	2,301,200

30.2.2 Movement in General Provision

	BANK 31.03.2011 Rs 000	GROUP 31.03.2011 Rs 000
Balance on 31 March	305,183	405,662
Add: Provision for the year	0	26,344
Less: Reduction in the year	45,273	45,273
Exchange rate difference on foreign currency provision	0	424
	259,910	386,309

	BANK		GROUP	
	31.03.2011	31.03.2010	31.03.2011	31.03.2010
	Rs 000	Rs 000	Rs 000	Rs 000

31. Finance Leases

31.1 Balance on 31 March

Gross investment in leases:				
Lease rentals receivable				
- within one year from balance sheet date	2,991,608	2,678,279	2,991,608	2,678,279
- after one year from balance sheet date	4,928,633	2,232,106	4,928,633	2,232,106
	7,920,241	4,910,385	7,920,241	4,910,385
Less: Deposit of rentals	35,934	57,153	35,934	57,153
Specific provision for leases in default	200,587	345,634	200,587	345,634
General provision for leases in default	199,830	154,404	199,830	154,404
Income in suspense	48,874	79,892	48,874	79,892
Unearned income on rentals receivable				
- within one year from balance sheet date	699,796	470,907	699,796	470,907
- after one year from balance sheet date	775,165	336,665	775,165	336,665
Net investment in leases	5,960,055	3,465,730	5,960,055	3,465,730

31.2 Movement in Provision

31.2.1 Movement in Specific Provision

Balance on 31 March	345,634		345,634	
Add: Provision for the year	75,902		75,902	
Less: Recoveries in the year	126,354		126,354	
Transfers*	94,595		94,595	
	200,587		200,587	

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

31.2.2 Movement in General Provision

Balance on 31 March	154,404		154,404	
Add: Provision for the year	51,777		51,777	
Less: Reduction in the year	6,351		6,351	
	199,830		199,830	

31.3 Movement in Income Suspense

Balance on 31 March	79,892		79,892	
Add: Transfer during the year	46,193		46,193	
Less: Recoveries in the year	77,211		77,211	
	48,874		48,874	

32. Interest Receivable

32.1 Balance on 31 March

Amount due	1,266,784	1,718,066	1,912,368	2,217,723
Amount accrued and not due	207,504	348,953	207,504	348,954
Less: Interest in suspense	1,216,989	1,655,630	1,704,647	2,000,026
	257,299	411,389	415,225	566,651

	BANK		GROUP	
	31.03.2011 Rs 000	31.03.2010 Rs 000	31.03.2011 Rs 000	31.03.2010 Rs 000
32.2 Movement in Interest in Suspense				
Balance on March 31	1,655,630		2,000,026	
Add: Transfer during the year	572,452		911,473	
Less: Collections	536,007		719,570	
Transfer to loan provision	44,058		44,058	
Write-offs	431,028		442,570	
Exchange rate difference in foreign currency	0		654	
	1,216,989		1,704,647	

	Ordinary Shares Quoted Rs 000	Ordinary Shares Unquoted Rs 000	Preference Shares Unquoted Rs 000	Debentures Quoted Rs 000	Debentures Unquoted Rs 000	Unit Trusts Quoted Rs 000	Unit Trusts Unquoted Rs 000	Total 31.03.2011 Rs 000	Total 31.03.2010 Rs 000
33. Investment Securities									
33.1 Composition of Investment Securities									
33.1.1 Bank									
Performing investments	2,688,611	34,095	777,167	0	0	151,528	262,503	3,913,904	1,898,576
Non-performing investments	73,424	38,906	0	0	0	0	5,293	117,623	99,951
	2,762,035	73,001	777,167	0	0	151,528	267,796	4,031,527	1,998,527
Market value									
on 31.03.2011	16,347,547					257,159	350,782	16,955,488	
on 31.03.2010	810,317					159,000	314,996	1,284,313	
33.1.2 Group									
Performing investments	5,188,548	55,938	803,657	4,000	76,750	151,528	287,503	6,567,924	1,901,186
Non-performing investments	73,424	38,906	12,500	0	0	0	5,293	130,123	99,951
Less: Provision for diminution	0		12,500	0	0	0		12,500	0
	5,261,972	94,844	803,657	4,000	76,750	151,528	292,796	6,685,547	2,001,137
Market value									
on 31.03.2011	16,351,528					257,159	377,831	16,986,518	
on 31.03.2010	812,402					159,000	314,996	1,286,398	
33.2 Movement in Investment Securities									
33.2.1 Bank									
Balance on 31 March	318,940	87,685	1,180,083	0	0	150,000	261,819	1,998,527	1,918,420
Additions for the year	801,384	1,816	0	0	0	1,528	5,977	810,705	552,744
Transfer from									
investments in associate companies	2,051,225	0	0	0	0	0	0	2,051,225	0
dealing securities	4,896	0	0	0	0	0	0	4,896	0
Less: Disposals	81,293	16,500	0	0	0	0	0	97,793	156,496
Redemptions	0	0	402,916	0	0	0	0	402,916	306,334
Transfer to dealing securities	333,117	0	0	0	0	0	0	333,117	9,807
	2,762,035	73,001	777,167	0	0	151,528	267,796	4,031,527	1,998,527

	Ordinary Shares		Preference Shares	Debentures		Unit Trusts		Total	Total
	Quoted Rs 000	Unquoted Rs 000	Unquoted Rs 000	Quoted Rs 000	Unquoted Rs 000	Quoted Rs 000	Unquoted Rs 000	31.03.2011 Rs 000	31.03.2010 Rs 000
33.2.2 Group									
Balance on 31 March	319,520	89,715	1,180,083	0	0	150,000	261,819	2,001,137	2,450,035
Additions for the year	801,384	1,816	0	0	0	1,528	5,977	810,705	552,744
Transfer from									
investments in associate companies	4,550,582	0	0	0	0	0	0	4,550,582	0
dealing securities	4,896	0	0	0	0	0	0	4,896	0
Acquisition of subsidiary by joint venture company	0	19,813	38,990	4,000	76,750	0	25,000	164,553	0
Less: Disposals	81,293	16,500	0	0	0	0	0	97,793	156,496
Redemptions	0	0	402,916	0	0	0	0	402,916	306,334
Transfer to dealing securities	333,117	0	0	0	0	0	0	333,117	9,807
Disposal of a subsidiary	0	0	0	0	0	0	0	0	529,005
	5,261,972	94,844	816,157	4,000	76,750	151,528	292,796	6,698,047	2,001,137
Less: Provision for diminution	0	0	12,500	0	0	0	0	12,500	0
	5,261,972	94,844	803,657	4,000	76,750	151,528	292,796	6,685,547	2,001,137

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

33.4 Transfers to/from Dealing Securities

In general transfer of securities between dealing securities (trading account) and investment securities (investment account) are made when circumstances justify such transfers. Primary cause for these transfers as explained below was Bank's intention to reduce its ownership in voting ordinary shares in CBC to 15% and maintain the ownership at 15%.

	No. of Shares
Transfer to dealing securities on 30 June 2010	10,636,670
Disposals for the quarter ended 30 September 2010	(10,619,400)
Transfer back to investment securities on 1 October 2010	(17,270)

The retransfer to dealing securities was due to the increase in the total number of shares issued by CBC resulting in Bank's ownership falling marginally below 15%.

33.5 On 31 March 2011 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 investment in associate companies since the Bank did not have a significant influence over the operating and financial policies of this company.

	31.03.2011 Number of ordinary shares	Cost* Rs 000	Market value Rs 000	31.03.2010 Number of ordinary shares	Cost* Rs 000	Market value Rs 000
33.6 Quoted Ordinary Shares						
Banks, Finance & Insurance						
Aviva NDB Insurance PLC	12,000	2,013	3,589	12,000	2,013	2,472
Ceylinco Insurance PLC - voting	24,100	10,807	17,593	4,100	719	947
Ceylinco Insurance PLC - non-voting	43,971	11,118	12,703	28,571	5,000	4,657
Commercial Bank of Ceylon PLC - voting	52,853,674	1,659,617	14,048,507	0	0	0
Commercial Bank of Ceylon PLC - non-voting	97,519	15,174	16,149	0	0	0
Hatton National Bank PLC - non-voting	797,600	23,575	170,128	797,600	23,575	111,664
HNB Assurance PLC	29,500	1,013	2,360	29,500	1013	1,637
Housing Development Finance Corporation Bank of Sri Lanka	0	0	0	37,400	3,375	5,348
Janashakthi Insurance PLC	250,000	3,000	4,125	250,000	3,000	3,500
NDB Bank PLC	1,000,000	352,369	340,400	83,200	14,893	17,472
Sampath Bank PLC	425,982	28,879	122,811	190,630	18,990	42,320
Seylan Bank PLC - non-voting	0	0	0	260,000	4,416	6,760
Union Assurance PLC	100	7	17	100	7	10
		2,107,572	14,738,382		77,001	196,787
Beverages, Food & Tobacco						
Ceylon Tobacco Company PLC	150,967	8,520	54,046	136,467	3,092	34,117
Distilleries Company of Sri Lanka PLC	1,087,200	181,846	195,696	117,200	4,752	13,830
		190,366	249,742		7,844	47,947
Chemicals & Pharmaceuticals						
Chemical Industries (Col) PLC - voting	247,900	17,674	38,425	184,000	10,189	12,512
Chemical Industries (Col) PLC - non-voting	389,400	23,135	42,055	218,300	8,064	9,496
Haycarb PLC	38,330	4,139	5,956	38,330	4,139	6,133
		44,948	86,436		22,392	28,141
Construction & Engineering						
Colombo Dockyard PLC	234,125	34,793	59,725	194,125	23,883	54,695
Diversified Holdings						
Aitken Spence & Company PLC	948,000	21,522	153,860	63,200	21,522	86,821
Carson Cumberbatch PLC	97,512	28,308	61,901	28,000	10,062	15,302
Hayleys PLC	348,060	56,907	132,994	250,460	22,484	56,354
Hemas Holdings PLC	620,700	30,705	28,552	0	0	0
		137,442	377,307		54,068	158,477
Healthcare						
Ceylon Hospitals PLC - voting	130,908	3,018	13,091	109,090	3,018	13,091
Ceylon Hospitals PLC - non-voting	392,726	6,818	31,457	327,272	6,818	22,254
		9,836	44,548		9,836	35,345
Hotels & Travels						
Aitken Spence Hotel Holdings PLC	91,875	3,233	9,004	10,500	2,551	4,043
Asian Hotels & Properties PLC	91,800	3,956	17,249	91,800	3,956	12,072
		7,189	26,253		6,507	16,115

	31.03.2011 Number of ordinary shares	Cost* Rs 000	Market value Rs 000	31.03.2010 Number of ordinary shares	Cost* Rs 000	Market value Rs 000
33.6 Quoted Ordinary Shares (Contd.)						
Information Technology						
E-Channelling PLC	0	0	0	857,100	8,571	8,785
Investment Trusts						
Ceylon Guardian Investment Trust PLC	246,931	5,190	91,241	48,318	5,061	24,231
Ceylon Investment PLC	676,953	17,359	102,220	113,336	5,763	30,714
		22,549	193,461		10,824	54,945
Footwear & Textiles						
Odel PLC	7,400	111	283	0	0	0
Telecommunications						
Dialog Axiata PLC	2,050,000	27,296	21,525	0	0	0
Manufacturing						
ACL Cables PLC	51,000	3,070	4,794	51,000	3,070	3,825
Chevron Lubricants Lanka PLC	609,400	20,301	97,504	609,400	20,301	103,598
Ceylon Grain Elevators PLC	48,997	1,297	8,236	48,997	1,297	833
Piramal Glass Ceylon PLC	22,076,852	61,921	245,053	12,981,852	25,000	28,560
Royal Ceramics Lanka PLC	139,800	16,996	21,949	0	0	0
Tokyo Cement Company (Lanka) PLC - non-voting	2,247,000	46,142	98,868	1,236,000	16,346	21,939
		149,727	476,404		66,014	158,755
Power & Energy						
Lanka IOC PLC	510,300	10,206	8,981	600,000	12,000	10,950
Vallibel Power Erathna PLC	7,500,000	20,000	64,500	7,500,000	20,000	39,375
		30,206	73,481		32,000	50,325
Total Quoted Shares - Bank		2,762,035	16,347,547		318,940	810,317
Investment in quoted shares by subsidiaries		580	3,981		580	2,085
Commercial Bank of Ceylon PLC - equity adjustment		2,499,357	0		0	0
Total Quoted Shares - Group		5,261,972	16,351,528		319,520	812,402
33.6.1 Investment in Quoted Ordinary Shares by Subsidiaries						
Banks, Finance & Insurance						
Central Finance Company PLC	3	0	2	3	0	1
		0	2		0	1
Diversified Holdings						
Hayleys PLC	7,491	558	2,584	7,491	558	1,281
John Keells Holdings PLC	4,680	22	1,395	4,680	22	803
		580	3,979		580	2,084
		580	3,981		580	2,085

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

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

	31.03.2011 Number of ordinary shares	31.03.2011 Cost* Rs 000	31.03.2011 Directors valuation Rs 000	31.03.2010 Number of ordinary shares	31.03.2010 Cost* Rs 000	31.03.2010 Directors valuation Rs 000
33.7 Unquoted Ordinary Shares						
Beico Link Carbons (Pvt) Limited	328,500	2,190	2,190	328,500	2,190	2,190
Browns Dimo Industrial Products (Pvt) Limited	0	0	0	150,000	1,500	8,556
Ceylinco Developers Limited	250,000	2,500	2,500	250,000	2,500	2,500
Credit Information Bureau of Sri Lanka	8,884	888	888	8,884	888	888
Cyprea Lanka (Pvt) Limited	0	0	0	1,500,000	15,000	15,000
Durdans Medical & Surgical Hospital (Pvt) Limited	1,200,000	15,000	15,000	1,200,000	15,000	15,000
Fitch Ratings Lanka Limited	62,500	625	625	62,500	625	625
Hydrotech Lanka (Dickoya) (Pvt) Limited	1,834,500	4,500	4,500	1,834,500	4,500	4,500
Link Development (Pvt) Limited	150,000	750	750	150,000	750	750
Plastipak Lanka Limited	240,000	2,400	2,400	240,000	2,400	2,400
Ranweli Holiday Village Limited	1,616,193	10,748	40,599	1,616,193	10,748	10,748
Sampath Centre Limited	1,000,000	10,000	30,000	1,000,000	10,000	16,000
Samson Reclaim Rubbers (Pvt) Limited	116,700	2,334	15,006	116,700	2,334	4,978
Sinwa Holdings Limited	460,000	9,200	23,172	460,000	9,200	9,200
Sun Tan Beach Resorts (Pvt) Limited	197,309	1,816	1,816	0	0	0
The Video Team (Pvt) Limited	30,000	300	375	30,000	300	300
Wayamba Plantations (Pvt) Limited	2,750,000	9,750	30,459	2,750,000	9,750	9,750
Total unquoted ordinary shares - Bank		73,001	170,280		87,685	103,385
Investments in unquoted ordinary shares by subsidiaries		2,030			2,030	
Investments in unquoted ordinary shares by joint venture		19,813			0	
Total unquoted ordinary shares - Group		94,844			89,715	

	31.03.2011 Number of ordinary shares	31.03.2011 Cost* Rs 000	31.03.2010 Number of ordinary shares	31.03.2010 Cost* Rs 000
33.7.1 Investments in Unquoted Ordinary Shares by Subsidiaries				
Credit Information Bureau of Sri Lanka	300	30	300	30
Lankaclear (Pvt) Limited	100,000	1,000	100,000	1,000
Lanka Financial Services Bureau Limited	100,000	1,000	100,000	1,000
		2,030		2,030
33.7.2 Investments in Unquoted Ordinary Shares by Joint Venture				
Durdans Heart Surgical Centre (Pvt) Limited	750,000	7,313	0	0
Durdans Medical and Surgical Hospital (Pvt) Limited	1,000,000	12,500	0	0
		19,813		0

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

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

	31.03.2011 Number of ordinary shares	31.03.2011 Cost* Rs 000	31.03.2010 Number of ordinary shares	31.03.2010 Cost* Rs 000
33.8 Unquoted Preference Shares				
33.8.1 Unquoted Redeemable Cumulative Preference Shares				
Carson Cumberbatch & Company PLC	16,500,000	165,000	30,750,000	263,750
Dialog Axiata PLC	235,000,000	235,000	352,500,000	352,500
Eden Hotels Lanka PLC	0	0	3,333,334	33,333
Heladanavi Limited	1,666,669	16,667	5,000,002	50,000
Phoenix Industries Limited	36,000	360,000	54,000,000	480,000
		776,667		1,179,583
33.8.2 Unquoted Irredeemable Preference Shares				
Arpico Finance Company PLC	50,000	500	50,000	500
Total investments in unquoted preference shares - Bank		777,167		1,180,083
Investments in unquoted preference shares by joint venture		38,990		0
Total investments in unquoted preference shares - Group		816,157		1,180,083
33.8.3 Investments in Unquoted Preference Shares by Joint Venture				
E Services Lanka Limited	1,250,000	12,500	0	0
Nividhu (Pvt) Limited	1,640,000	16,490	0	0
Tudawe Brothers Limited	100,000	10,000	0	0
		38,990		0

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

	31.03.2011 Cost Rs 000	31.03.2010 Cost Rs 000
33.9 Quoted Debentures		
Total investments in quoted debentures - **Bank**	0	0
Investments in quoted debentures by joint venture	4,000	0
Total investments in quoted debentures - Group	4,000	0
33.9.1 Investments in Quoted Debentures by Joint Venture		
Bank of Ceylon - 11.50%	4,000	0
	4,000	0

	31.03.2011 Cost Rs 000	31.03.2010 Cost Rs 000
33.10 Unquoted Debentures		
Total investments in unquoted debentures - **Bank**	0	0
Investments in unquoted debentures by joint venture	76,750	0
Total investments in unquoted debentures - Group	76,750	0
33.10.1 Investments in Unquoted Debentures by Joint Venture		
Ceylon Hospitals PLC	50,000	0
Hatton National Bank PLC	6,750	0
Neluwa Cascade Hydro Power (Pvt) Limited	20,000	0
	76,750	0

	31.03.2011 Number of units	31.03.2011 Cost Rs 000	31.03.2011 Market value Rs 000	31.03.2010 Number of units	31.03.2010 Cost Rs 000	31.03.2010 Market value Rs 000
33.11 Quoted Units in Unit Trusts						
NAMAL Acuity Value Fund	3,018,300	151,528	257,159	3,000,000	150,000	159,000
Total quoted units - Bank		151,528	257,159		150,000	159,000
Investments in unit trusts by subsidiaries		0	0		0	0
Total investments in quoted unit trusts - Group		151,528	257,159		150,000	159,000

	31.03.2011 Number of units	31.03.2011 Cost Rs 000	31.03.2011 Managers Buying Price Rs 000	31.03.2010 Number of units	31.03.2010 Cost Rs 000	31.03.2010 Managers Buying Price Rs 000
33.12 Unquoted Units in Unit Trusts						
NAMAL Growth Fund	533,050	5,293	55,469	533,050	5,293	33,673
NAMAL Income Fund	16,712,129	170,625	181,661	16,712,129	170,625	184,168
NAMAL Money Market Fund	8,037,604	80,821	82,144	7,444,611	74,844	76,084
National Equity Fund	1,040,540	11,057	31,508	1,040,540	11,057	21,071
Total investments in unqouted unit trusts - Bank		267,796	350,782		261,819	314,996
Investments in unit trusts by joint venture		25,000	27,049		0	0
Total investments in unquoted unit trusts - Group		292,796	377,831		261,819	314,996
33.12.1 Investments in Unit Trusts by Joint Venture						
NAMAL Income Fund	2,436,870	25,000	27,049	0	0	0
		25,000	27,049		0	0

	BANK		GROUP	
	31.03.2011 Rs 000	31.03.2010 Rs 000	31.03.2011 Rs 000	31.03.2010 Rs 000

34. Investments in Associate Companies

34.1 Quoted

Commercial Bank of Ceylon PLC (CBC)				
Balance at beginning	3,151,959	3,151,959	7,771,020	7,116,534
Share of profit after tax	0	0	490,070	1,079,128
Dividend received - elimination on consolidation	0	0	(246,349)	(422,804)
Gain on deemed reduction in ownership	0	0	6,118	774
Movement recognised in the statement of changes in equity	0	0	(9,286)	(2,612)
Disposal	(1,100,734)	0	(3,460,991)	0
Transfer to investment securities	(2,051,225)	0	(4,550,582)	0
Balance on 31 March	0	3,151,959	0	7,771,020

34.2 Unquoted

National Asset Management Limited (Ownership 30%)				
Balance at beginning	35,270	35,270	47,977	44,137
Share of profit after tax	0	0	6,413	6,132
Dividend received - elimination on consolidation	0	0	(3,459)	(2,863)
Disposal of subsidiary - LVL deemed disposal	0	0	0	571
Balance on 31 March	35,270	35,270	50,931	47,977

34.3 Investment in Associate Company by Acuity Partners (Pvt) Limited	0	0	126,360	0
Total	35,270	3,187,229	177,291	7,818,997

Consequent to sale of 10% of voting ordinary shares of Commercial Bank of Ceylon PLC on 2 June 2010 this investment ceased to be an investment in an associate company and the balance shares both voting and non voting was transferred to investment securities at cost in the Bank and at net assets value in the Group.

35. Investment in Joint Venture

Unquoted

Acuity Partners (Pvt) Limited (ownership 50%)				
Balance on 31 March	655,000	250,000	0	0

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

	GROUP	
	31.03.2011 Rs 000	31.03.2010 Rs 000
Assets	2,945,092	2,081,424
Elimination of gain attributable to parent - consolidation adjustment	0	(142,197)
Total Assets	2,945,092	1,939,227
Liabilities	2,011,553	1,705,928
Income	466,130	182,201
Expenses	258,874	113,892
Income tax	74,501	26,124

	DFCC Consulting (Pvt) Limited Ownership 100% Rs 000	DFCC Vardhana Bank Limited Ownership 96% Rs 000	Lanka Industrial Estates Limited Ownership 51% Rs 000	Synapsys Limited Ownership 100% Rs 000	Bank 31.03.2011 Rs 000	Bank 31.03.2010 Rs 000
36. Investments in Subsidiary Companies						
Balance at beginning	5,000	2,286,284	97,036	20,000	2,408,320	2,627,167
Investments in additional shares	0	0	0	33,000	33,000	18,753
Less: Disposal	0	0	0	0	0	237,600
Balance on 31 March	5,000	2,286,284	97,036	53,000	2,441,320	2,408,320

Bank made further investments in Synapsys Limited on 30 June 2010 (Rs17 million) and 29 March 2011 (Rs16 million).

Investment in Synapsys Limited is classified as non-performing (no dividend for three consecutive years) with no impairment.

	BANK		GROUP	
	31.03.2011 Rs 000	31.03.2010 Rs 000	31.03.2011 Rs 000	31.03.2010 Rs 000
37. Group Balances Receivable				
Acuity Partners (Pvt) Limited	0	302	0	150
DFCC Consulting (Pvt) Limited	36	0	0	0
DFCC Vardhana Bank Limited	12,674	30,777	0	0
Synapsys Limited	3,240	5,042	0	0
	15,950	36,121	0	150
38. Income Tax Refund Due				
Income tax overpayment	0	0	1,471	1,682
39. Investment Properties				
39.1 Composition				
Balance as at 31 March	6,500	6,500	132,641	141,215
Additions during the year	0	0	118,073	0
Less: Depreciation	0	0	8,030	7,257
Disposals during the year	6,500	0	9,105	1,317
	0	6,500	233,579	132,641

	Buildings sq. ft.	Extent of Land Perches	Cost Rs 000	Accumulated Depreciation/ Impairment Rs 000	Net Book Value Rs 000	Market Value* Rs 000
39.2 List of Investment Property						
Pattiwila Road, Sapugaskanda, Makola	280,000	20,000	198,755	74,374	124,381	755,750
44/7, School Lane, Nawala	0	105.5	109,198	0	109,198	0
			307,953	74,374	233,579	

** The fair value of investment property as at 31.03.2011 was based on market valuations carried out in April 2011 by Mr P B Kalugalagedara, FIV (Sri Lanka), Chartered Valuer.*

Rental income from investment property in Group for 2011, Rs115 million (2010 - Rs133 million).

	GROUP 31.03.2011 Rs 000	31.03.2010 Rs 000
40. Goodwill on Consolidation		
DFCC Vardhana Bank Limited	146,602	146,602
Acquisition of Lanka Ventures PLC by joint venture	70,186	0
Lanka Industrial Estates Limited	9,623	9,623
	226,411	156,225

41. Property, Plant and Equipment

41.1 Composition: Bank

	Land & building Rs 000	Office equipment Rs 000	Furniture & fittings Rs 000	Motor vehicles Rs 000	Total Rs 000
Cost as at 31.03.2010	261,266	541,494	191,376	153,928	1,148,064
Additions for the year	4,284	52,853	30,669	130,464	218,270
Less: Disposals during the year	0	13,798	717	70,456	84,971
Cost as at 31.03.2011	265,550	580,549	221,328	213,936	1,281,363
Accumulated depreciation as at 31.03.2010	128,651	435,019	80,080	128,756	772,506
Charge for the year	7,725	50,429	17,819	23,853	99,826
Less: Accumulated depreciation on disposal	0	13,269	709	70,456	84,434
Accumulated depreciation as at 31.03.2011	136,376	472,179	97,190	82,153	787,898
Net book value as at 31.03.2011	129,174	108,370	124,138	131,783	493,465
Net book value as at 31.03.2010	132,615	106,475	111,296	25,172	375,558

41.1.2 List of Freehold Land and Building

	Building sq. ft.	Extent of land perches	Cost Rs 000	Accumulated depreciation Rs 000	Net book value Rs 000
73/5, Galle Road, Colombo 3	57,200	104.45	55,297	49,965	5,332
5, Deva Veediya, Kandy	4,600	12.54	16,196	4,950	11,246
259/30, Kandy Road, Bambarakelle, Nuwara-Eliya	0	28.72	7,279	0	7,279
73, W A D Ramanayake Mawatha, Colombo 2	21,400	45.00	184,178	81,461	102,717
4A, 4th Cross Lane, Borupana, Ratmalana	0	20.00	2,600	0	2,600
			265,550	136,376	129,174

Market Value of Properties

	Rs million	Date of valuation
73/5, Galle Road, Colombo 3	605	31.03.2011
5, Deva Veediya, Kandy	50	31.03.2011
73, W A D Ramanayake Mawatha, Colombo 2	350	31.03.2011

(Valued by Mr P B Kalugalagedera - Chartered Valuer)

	Land & building Rs 000	Plant & machinery Rs 000	Office equipment Rs 000	Furniture & fittings Rs 000	Motor vehicles lease Rs 000	Total Rs 000
41.2 Composition: Group						
Cost as at 31.03.2010	323,341	64,850	898,879	486,468	194,923	1,968,461
Additions for the year	10,518	0	115,054	82,008	157,444	365,024
Acquisition of a subsidiary by joint venture company	0	0	1,395	1,993	1,562	4,950
Less: Disposals during the year	0	0	14,083	3,164	81,305	98,552
Write off	0	0	766	0	0	766
Cost as at 31.03.2011	333,859	64,850	1,000,479	567,305	272,624	2,239,117
Accumulated depreciation as at 31.03.2010	153,622	62,112	635,850	173,903	158,755	1,184,242
Charge for the year	11,297	0	113,991	50,633	30,008	205,929
Acquisition of a subsidiary by joint venture company	0	0	1,180	1,898	1,562	4,640
Less: Accumulated depreciation on disposal	0	0	13,360	3,154	77,888	94,402
Write off	0	0	707	0	0	707
Accumulated depreciation as at 31.03.2010	164,919	62,112	736,954	223,280	112,437	1,299,702
Net book value as at 31.03.2011	168,940	2,738	263,525	344,025	160,187	939,415
Net book value as at 31.03.2010	169,719	2,738	263,029	312,565	36,168	784,219

	BANK		GROUP	
	31.03.2011 Rs 000	31.03.2010 Rs 000	**31.03.2011 Rs 000**	31.03.2010 Rs 000
42. Intangible Assets				
Cost at beginning	305,086	286,816	733,787	684,263
Additions for the year	13,039	18,270	89,026	52,512
Less: Transfer to property, plant and equipment	0	0	0	2,988
Cost as at 31 March	318,125	305,086	822,813	733,787
Accumulated depreciation at beginning	255,107	240,874	573,753	514,781
Amortisation for the year	17,527	14,233	76,018	61,643
Less: Transfer to property, plant and equipment	0	0	0	2,671
Accumulated amortisation as at 31 March	272,634	255,107	649,771	573,753
Net Book Value as at 31 March	45,491	49,979	173,042	160,034
43. Deferred Tax Asset				
Balance at beginning	2,963	1,928	9,257	38,181
Income tax rate reduction (35% to 28%)	(592)	0	(1,639)	0
Increase/(decrease)	998	1,035	2,107	(28,924)
Transferred from/to deferred tax liability (Note 50)	0	0	550	(127)
Offset against deferred tax liability (Note 50)	(3,369)	(2,963)	(8,494)	(8,324)
	0	0	1,781	806

	BANK		GROUP	
	31.03.2011	31.03.2010	31.03.2011	31.03.2010
	Rs 000	Rs 000	Rs 000	Rs 000

44. Other Assets

Refundable deposits and advances	206,351	38,359	322,219	137,662
Dividend due	205,032	22,533	207,788	22,533
Debtors	100,677	397,979	812,774	1,175,330
	512,060	458,871	1,342,781	1,335,525

45. Deposits from Customers

Demand deposits	0	0	1,428,724	968,679
Savings deposits	0	0	5,384,399	4,598,808
Fixed deposits	3,686,747	5,120,684	18,272,328	19,775,256
Certificates of deposits	1,436	2,973	100,589	65,234
Others	0	0	230,357	95,708
	3,688,183	5,123,657	25,416,397	25,503,685
Deposits from banks	0	9,399	1,034,300	1,562,958
Deposits from non-bank customers	3,688,183	5,084,837	24,222,310	23,763,181
Deposits from finance companies	0	29,421	159,787	177,546
	3,688,183	5,123,657	25,416,397	25,503,685

46. Borrowing - Medium and Long-Term

Repayable in foreign currency				
Exchange difference borne by the Bank				
FMO	1,656,000	1,709,250	1,656,000	1,709,250
Nordea Bank Danmark A/S	156,804	192,309	156,804	192,309
EIB	2,400,242	2,668,735	2,400,242	2,668,735
	4,213,046	4,570,294	4,213,046	4,570,294
Repayable in Rupees				
Government of Sri Lanka/IDA loans - credit lines	1,977,155	1,771,121	1,977,155	1,771,121
Government of Sri Lanka/ADB loans - credit lines	4,388,825	4,115,732	4,388,825	4,115,732
Government of Sri Lanka/KFW loans - credit lines	1,715,533	2,065,703	1,715,533	2,065,703
Government of Sri Lanka/JBIC loans - credit lines	2,431,759	2,962,971	2,431,759	2,962,971
Government of Sri Lanka/IFAD loans - credit lines	17,664	20,375	17,664	20,375
Government of Sri Lanka/EIB loans - credit lines	8,475,302	8,814,819	8,475,302	8,814,819
Central Bank of Sri Lanka - refinance loans (secured)	739,704	1,054,928	739,704	1,054,928
FMO	169,716	339,433	169,716	339,433
Other local sources	0	3,000,000	0	3,000,000
	24,128,704	28,715,376	24,128,704	28,715,376

46.1 Supplementary Information

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

As at 31 March 2011, there were no loans outstanding which were approved and guaranteed by Government of Sri Lanka in terms of Section 14 of DFCC Bank Act No. 35 of 1955 as amended.

46.2 Assets Pledged as Security

Nature	Amount Rs 000
Assignment in terms of Section 88A of the Monetary Law of Loans refinanced by Central Bank	739,704

Acronyms:

ADB - Asian Development Bank

IDA - International Development Association

KFW - Kreditanstalt fur Wiederaufbau

IFAD - International Fund for Agriculture Devolopment

EIB - European Investment Bank

FMO - Nederlandse Financierings(Maatschappij VoorOntwikkeling)

JBIC - Japan Bank for International Cooperation Fund

	BANK		GROUP	
	31.03.2011 Rs 000	31.03.2010 Rs 000	31.03.2011 Rs 000	31.03.2010 Rs 000
47. Borrowing - Short-Term				
Borrowing under repurchase agreements (Repos)				
Government securities sold under repurchase	1,512,000	115,000	4,560,671	4,441,741
Bank overdrafts	119,819	0	133,635	22,106
Inter-bank borrowing	3,300,000	0	3,353,883	2,182,384
	4,931,819	115,000	8,048,189	6,646,231
48. Debentures				
48.1 Movement in Debentures				
Balance at beginning	2,700,000	2,700,000	2,700,000	2,700,000
Redeemed during the year	1,500,000	0	1,500,000	0
	1,200,000	2,700,000	1,200,000	2,700,000
49. Group Balances Payable				
DFCC Consulting (Pvt) Limited	0	151	0	0
	0	151	0	0

	BANK		GROUP	
	31.03.2011	31.03.2010	**31.03.2011**	31.03.2010
	Rs 000	Rs 000	**Rs 000**	Rs 000

50. Deferred Taxation

Balance at beginning	274,107	287,122	327,863	328,778
Increase/(decrease)	59,204	(13,015)	60,910	(915)
Income tax rate reduction(35% to 28%)	(54,821)	0	(65,516)	0
Offset against deferred tax asset (Note 43)	0	0	550	(127)
Less: deferred tax asset(Note 43)	(3,369)	(2,963)	(8,494)	(8,324)
	275,121	271,144	315,313	319,412

51. Other Liabilities

Accruals	73,281	57,131	103,952	65,553
Prior year dividends	22,448	19,374	24,010	19,374
Interim dividend	1,854,682	0	1,854,682	0
Security deposit for leases	5,015	7,095	45,548	58,065
Prepaid loan and lease rentals	82,793	72,895	82,793	72,895
Account payables	191,921	162,883	1,133,822	934,342
Provision for staff retirement benefits	44,296	36,831	78,066	62,411
Other provisions	136,000	130,156	169,239	164,476
	2,410,436	486,365	3,492,112	1,377,116

51.1 Provision for Staff Retirement Benefits

Defined benefit funded pension	(13,197)	(7,654)	(13,197)	(7,654)
Defined benefit unfunded pension	45,463	36,020	45,463	36,020
Defined benefit unfunded end of service gratuity	12,030	8,465	45,800	34,045
	44,296	36,831	78,066	62,411

51.2 Movement in Provision for Staff Retirement benefits

51.2.1 Defined Benefit Funded Pension

Net accrued liability on 31 March 2010	(7,654)		(7,654)	
Retirement benefit expense for the financial year	58,948		58,948	
Employer contributions for the financial year	(64,491)		(64,491)	
Net prepayment on 31 March 2011	(13,197)		(13,197)	

	BANK		GROUP	
	31.03.2011 Rs 000	31.03.2010 Rs 000	**31.03.2011 Rs 000**	31.03.2010 Rs 000
51.2.2 Defined Benefit Unfunded Pension				
Net accrued liability on 31 March 2010	36,020		36,020	
Retirement benefit expense for the financial year	9,443		9,443	
Net accrued liability on 31 March 2011	45,463		45,463	
51.2.3 Defined Benefit Unfunded End of Service gratuity				
Net accrued liability on 31 March 2010	8,466		34,045	
Acquisition of subsidiary by joint venture	0		717	
Retirement benefit expense for the financial year	5,714		17,440	
Gratuity payments for the financial year	(2,150)		(6,402)	
Net accrued liability on 31 March 2011	12,030		45,800	
51.3 Movement in Other Provisions				
Balance as at 31 March 2010	130,156		164,476	
Provision for the financial year	184,000		217,239	
Payments for the financial year	(169,585)		(198,532)	
Over provision	(8,571)		(13,944)	
Balance as at 31 March 2011	136,000		169,239	

	BANK
	31.03.2011 Rs 000
51.4 Reconciliation of Actuarial Liability with Accounting Liability Recognised in the Balance Sheet	
51.4.1 Funded Pension Liability	
Present value of defined benefit obligations	1,367,956
Fair value of pension assets	(1,521,979)
	(154,023)
Unrecognised gain on March 2011 (Note 14.2.1)	140,826
Prepayment recognised in the balance sheet	(13,197)
51.4.2 Unfunded Pension Liability	
Present value of defined benefit obligations	47,888
Unrecognised(loss) on 31 March 2011 (Note 14.2.2)	(2,425)
Liability recognised in the balance sheet on Note 51.2.2	45,463
51.4.3 Unfunded End of Service Gratuity	
Present value of defined benefit obligations	19,176
Unrecognised (loss) on 31 March 2011 (Note 14.2.3)	(7,146)
Liability recognised in the balance sheet on Note 51.2.3	12,030

	BANK 31.03.2011 Rs 000
51.5 Movement in Actuarial Liability	
51.5.1 Funded Pension Liability	
Present value of defined benefit pension obligations	1,317,586
Current service cost on 1 April 2010	58,626
Interest on obligation on 31 March 2011	123,859
Benefit payments year ended 31 March 2011	(71,457)
Actuarial experience gain	(60,658)
Present value of defined benefit pension obligations	1,367,956
51.5.2 Unfunded Pension Liability	
Present value of defined benefit pension obligations	41,234
Current service cost on 1 April 2010	4,258
Interest on obligation on 31 March 2011	4,094
Benefit payments year ended 31 March 2011	0
Actuarial experience gain	(1,698)
Present value of defined benefit pension obligations	47,888
51.5.3 Unfunded End of Service Gratuity	
Present value of defined benefit pension obligations	14,929
Current service cost on 1 April 2010	3,139
Interest on obligation on 31 March 2011	2,078
Benefit payments year ended 31 March 2011	(2,150)
Actuarial experience loss	1,180
Present value of defined benefit pension obligations	19,176
51.6 Movement in Pension Assets	
Pension assets on 1 April	1,408,365
Expected return on pension assets	123,537
Employer's contribution	64,491
Actuarial experience gain	(2,958)
Benefits paid	(71,457)
	1,521,978

	BANK		GROUP	
	31.03.2011 Rs 000	31.03.2010 Rs 000	31.03.2011 Rs 000	31.03.2010 Rs 000
52. 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

	BANK		GROUP	
	31.03.2011 Rs 000	31.03.2010 Rs 000	31.03.2011 Rs 000	31.03.2010 Rs 000

53. Share Capital

53.1 Authorised Share Capital

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

53.2 Issued Share Capital

264,883,768 ordinary shares of Rs 10/- each	2,648,838	1,323,753	2,648,838	1,323,753
Allotted and fully paid:				
Balance at beginning 132,375,305 ordinary shares	1,323,753	1,307,325	1,323,753	1,307,325
Bonus share issue on 01 November 2010 1 for every 1 held - 132,431,968 ordinary shares	1,324,320	0	1,324,320	0
Issue under share option - 76,495 ordinary shares (1,642,835 shares in 2010)	765	16,428	765	16,428
Balance on 31 March 264,883,768 ordinary shares	2,648,838	1,323,753	2,648,838	1,323,753

The financial statements of the Bank has retained the concept of par value, authorised capital and share premium account instead of the Stated Capital introduced by the Companies Act No. 07 of 2007 in accordance with Section 7 of the DFCC Bank Act No. 35 of 1955 as amended.

53.3 Employee Share Option Plan

	31.03.2011 Numbers
53.3.1 Movement in Options Granted	
Options granted	2,215,540
Adjustment for bonus and rights	2,046,779
Options lapsed	(256,723)
Total granted in prior years	4,005,596
Less: Options exercised	
Prior years	3,701,015
During the year	76,495
	228,086

Outstanding options are in respect of the grant in the year to 31 March 2006. The exercise price is Rs58.73. The options will have to be exercised on or before 2 July 2011.

	BANK		GROUP	
	31.03.2011 Rs 000	31.03.2010 Rs 000	31.03.2011 Rs 000	31.03.2010 Rs 000

54. Stated Capital

Share Capital	2,648,838	1,323,753	2,648,838	1,323,753
Share Premium	2,054,546	3,371,911	2,054,546	3,371,911
Equivalent Stated Capital	4,703,384	4,695,664	4,703,384	4,695,664

55. Reserves

55.1 Reserve Fund

Five percentum of profits after tax is transferred to the reserve fund as per direction issued by Central Bank of Sri Lanka under section 76 (j) (1) of the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 33 of 1995.

	General reserve Rs 000	Statutory investment fund reserve Rs 000	Total 31.03.2011 Rs 000	Total 31.03.2010 Rs 000
55.2 Other Reserves				
Bank				
Balance at beginning	9,379,839	0	9,379,839	8,637,839
Transfers	2,000,000	53,600	2,053,600	742,000
Balance as at 31 March	11,379,839	53,600	11,433,439	9,379,839
Group				
Balance at beginning	9,379,839	0	9,379,839	8,637,839
Transfers	2,000,000	53,600	2,053,600	742,000
Balance as at 31 March	11,379,839	53,600	11,433,439	9,379,839

55.3 Other Reserves

55.3.1 Statutory Investment Fund Reserve

This represents cumulative savings of financial services VAT accruing to the Bank for the period January to March 2011 arising from the reduction of rate from 20% to 12% with effect from 01 January 2011. The amount is appropriated from profits. The amount of the reserve will be utilised only for the purposes prescribed by the Central Bank of Sri Lanka. This is included under other reserves.

55.4 Retained Earnings

This represents cumulative net earnings, inclusive of proposed dividend amounting to Rs794 million payable on approval by the shareholders at the Annual General Meeting on 30 June 2011. The balance is retained and reinvested in the business of the Bank.

56. Minority Interests

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

	BANK		GROUP	
	31.03.2011 Rs 000	31.03.2010 Rs 000	**31.03.2011 Rs 000**	31.03.2010 Rs 000
57. Commitments and Contingencies				
57.1 Contingent Liabilities				
Guarantees issued to:				
DFCC Vardana Bank in respect of indebtedness of customers of the Bank	45,000	115,000	0	0
Other banks in respect of indebtedness of customers of the Bank	16,300	68,484	16,300	68,484
Companies in respect of indebtedness of customers of the Bank	855,640	417,502	2,192,911	1,826,848
Principal collector of customs (duty guarantees)	0	0	65,841	0
Shipping guarantees	0	0	599,532	281,845
Documentary credits	0	0	4,923,769	1,683,210
Bills for collection	0	0	675,443	631,482
Income tax (assessment under appeal)	0	77,406	0	77,406
Forward exchange contracts (net)	1,111,494	1,724,764	2,167,620	6,028,770
57.2 Commitments in Ordinary Course of Business				
Commitments for unutilised credit facilities	13,935,957	7,095,539	15,629,762	8,305,294
Capital expenditure approved by the Board of Directors:				
Contracted	4,058	22,000	46,493	33,272
Not contracted	11,280	0	195,114	17,309
	15,979,729	9,520,695	26,512,785	18,953,920

58. Litigation

58.1 Litigation against the Bank

(a) A client has filed action against five defendants including the Bank in the District Court of Kurunegala claiming that a property mortgaged by him to the Bank had been unlawfully transferred to a third party through procedure in Recovery of Loans by Banks (Special Provisions) Act No.4 of 1990 seeking the sale of the property to be set aside, and claiming Rs6 million as damages from the Bank. The Bank has transferred the property in terms of a settlement entered in the Magistrate's Court in another case. The District Court has issued an interim injunction. One of the defendants has appealed to the Provincial High Court of Civil Appeal against the interim injunction order. The Bank is defending in this action.

(b) A client of the Bank has instituted legal action in the District Court of Matara against the Bank claiming a sum of Rs10 million for non-disbursement of the full loan approved to him. The Bank had suspended the disbursement of the facility approved to him as he has made a false statement in his application to the Bank. The Bank is defending this action.

59. Maturity Profile of Assets and Liabilities

59.1 Definition of Maturity

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

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

59.2 Allocation of Amounts

Amounts are allocated to respective maturity groupings based on:

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

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

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

	Total 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	%
59.3 Profile											
59.3.1 Bank											
Assets with Contractual Maturity											
(Interest bearing assets)											
Short-term funds	1,474,076	1,191,728	81	282,348	19	–	–	–	–	–	–
Treasury bills and other securities eligible for rediscounting with Central Bank	10,500,575	2,479,261	23	7,628,867	73	–	–	392,447	4	–	–
Securities purchased under resale agreements	166,000	166,000	100	–	–	–	–	–	–	–	–
Placements with and loans to other banks and financial institutions	2,254,778	71,853	3	277,026	12	597,909	27	706,255	31	601,735	27
Loans	30,964,127	3,131,965	10	6,316,066	20	13,798,688	45	6,344,558	20	1,372,850	5
Finance leases	5,960,055	580,358	10	1,383,137	23	2,886,371	48	1,110,189	19		–
	51,319,611	7,621,165	15	15,887,444	31	17,282,968	33	8,553,449	17	1,974,585	4
Other Assets											
(Non-interest bearing assets)											
Cash and balance with banks	16,553	16,553	100	–	–	–	–	–	–	–	–
Dealing securities	85,242	85,242	100	–	–	–	–	–	–	–	–
Interest receivable	257,299	247,493	96	9,806	4	–	–	–	–	–	–
Investment securities -											
Ordinary shares/units	3,254,360	–	–	–	–	–	–	–	–	3,254,360	100
Preference shares	777,167	117,500	15	131,667	17	467,500	60	60,000	8	500	0
Investment in associate company	35,270	–	–	–	–	–	–	–	–	35,270	100
Investment in joint venture	655,000	–	–	–	–	–	–	–	–	655,000	100
Investment in subsidiary companies	2,441,320	–	–	–	–	–	–	–	–	2,441,320	100
Group balances receivable	15,950	15,950	100	–	–	–	–	–	–	–	–
Prepayments	17,331	2,881	17	4,228	24	5,111	29	5,111	30	–	–
Property, plant and equipment	493,465	–	–	–	–	–	–	–	–	493,465	100
Intangible assets	45,491	–	–	–	–	–	–	–	–	45,491	100
Other assets	512,060	512,060	100	–	–	–	–	–	–	–	–
	8,606,508	997,679	12	145,701	2	472,611	5	65,111	1	6,925,406	80
Total assets	59,926,119	8,618,844	14	16,033,145	27	17,755,579	30	8,618,560	14	8,899,991	15
Liabilities with Contractual Maturity											
(Interest bearing liabilities)											
Deposits from customers	3,688,183	1,097,802	30	1,924,822	52	630,811	17	34,748	1	–	–
Borrowings - Medium and long-term	24,128,704	1,112,953	5	2,083,535	9	6,491,237	27	5,380,067	22	9,060,912	37
- Short-term	4,931,819	4,931,819	100	–	–	–	–	–	–	–	–
Debentures	1,200,000	–	–	500,000	42	700,000	58	–	–	–	–
Subordinated debentures	2,000,000	–	–	1,410,000	71	–	–	–	–	590,000	29
	35,948,706	7,142,574	20	5,918,357	16	7,822,048	22	5,414,815	15	9,650,912	27
Other Liabilities											
(Non-interest bearing liabilities)											
Interest accrued	842,137	842,137	100	–	–	–	–	–	–	–	–
Current tax liability	230,858	230,858	100	–	–	–	–	–	–	–	–
Deferred tax liability	275,121	–	–	–	–	–	–	275,121	100	–	–
Other liabilities	2,410,436	2,410,436	100	–	–	–	–	–	–	–	–
	3,758,552	3,483,431	93	–	–	–	–	275,121	7	–	–
Total liabilities	39,707,258	10,626,005	27	5,918,357	15	7,822,048	20	5,689,936	14	9,650,912	24

	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	%
59.3.2 Group											
Assets with Contractual Maturity											
(Interest bearing assets)											
Short-term funds	27,601	27,601	100	–	–	–	–	–	–	–	–
Treasury bills and other securities eligible for rediscounting with Central Bank	18,429,116	5,428,768	30	11,452,484	62	1,012,987	5	534,877	3	–	–
Securities purchased under resale agreements	1,996,168	1,984,489	99	11,679	1	–	–	–	–	–	–
Placements with and loans to other banks and financial institutions	2,254,778	71,853	3	277,026	12	597,909	27	706,255	31	601,735	27
Bills of exchange discounted	288,932	285,432	99	3,500	1	–	–	–	–	–	–
Loans	48,706,217	11,312,110	24	13,031,361	26	14,901,278	30	7,499,940	16	1,961,528	4
Finance leases	5,960,055	580,358	10	1,383,137	23	2,886,371	48	1,110,189	19	–	–
	77,662,867	19,690,611	25	26,159,187	34	19,398,545	25	9,851,261	13	2,563,263	3
Other Assets											
(Non–interest bearing assets)											
Cash and balance with Banks	1,520,592	1,520,592	100	–	–	–	–	–	–	–	–
Balances with Central Bank	894,235	894,235	100	–	–	–	–	–	–	–	–
Dealing securities	85,242	85,242	100	–	–	–	–	–	–	–	–
Non–current assets held for sale	2,875	2,875	100	–	–	–	–	–	–	–	–
Interest receivable	415,225	335,295	81	57,326	14	8,609	2	10,200	2	3,795	1
Investment securities:	–	–	–	–	–	–	–	–		–	–
Ordinary shares/units	5,801,140	–	–	–	–	–	–	–	–	5,801,140	100
Preference shares	803,657	117,500	15	131,667	16	467,500	58	60,000	8	26,990	3
Debentures	80,750	20,000	25	–	–	4,000	5	13,625	17	43,125	53
Investment in associate company	177,291	–	–	–	–	–	–	–	–	177,291	100
Investment in subsidiary companies	16,000	–	–	–		–		–	–	16,000	100
Prepayments	17,331	2,881	17	4,228	25	5,111	29	5,111	29	–	–
Income tax refund due	1,471	421	29	1,050	71	–	–	–	–	–	–
Investment property	233,579	–	–	–	–	–	–	–	–	233,579	100
Goodwill on consolidation	226,411	–	–	–	–	–	–	–	–	226,411	100
Property and equipment	939,415	–	–	–	–	–	–	–	–	939,415	100
Intangible assets	173,042	–	–	–	–	–	–	–	–	173,042	100
Deferred tax assets	1,781	206	12	–	–	66	4	1,509	84	–	0
Other assets	1,342,781	1,053,959	79	191,856	14	35,533	3	6,463	0	54,970	4
	12,732,818	4,033,206	32	386,127	3	520,819	4	96,908	1	7,695,758	60
Total assets	90,395,685	23,723,817	26	26,545,314	30	19,919,364	22	9,948,169	11	10,259,021	11
Liabilities with Contractual Maturity											
(Interest bearing liabilities)											
Deposits from customers	25,416,397	12,101,788	48	12,200,146	48	859,556	3	157,370	1	97,537	0
Borrowing – Medium and long–term	24,128,704	1,112,953	5	2,083,535	9	6,491,237	27	5,380,067	22	9,060,912	37
– Short–term	8,048,189	7,680,612	95	367,577	5	–	–	–	–	–	–
Debentures	1,200,000	–	–	500,000	42	700,000	58	–	–	–	–
Subordinated debentures	2,000,000	–	–	1,410,000	70	–	–	–	–	590,000	30
	60,793,290	20,895,353	35	16,561,258	27	8,050,793	13	5,537,437	9	9,748,449	16
Other Liabilities											
(Non–interest bearing liabilities)											
Interest accrued	1,224,362	1,224,362	100	–	–	–	–	–	–	–	–
Taxation	401,254	264,943	66	136,311	34	–	–	–	–	–	–
Deferred taxation	315,313	–	–	–	–	–	–	275,121	87	40,192	13
Other liabilities	3,492,112	3,137,427	90	254,762	7	16,825	1	2,341	0	80,757	2
	5,433,041	4,626,732	85	391,073	7	16,825	1	277,462	5	120,949	2
Total liabilities	66,226,331	25,522,085	38	16,952,331	26	8,067,618	12	5,814,899	9	9,869,398	15

60. Concentration of Assets and Liabilities

60.1 Concentration in the Distribution of Assets

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

60.1.2 Industry-wise Distribution of main Assets are given below:

	31.03.2011 %	31.03.2010 %
Industry Sector		
Agriculture, forestry and fishing	6.1	7.4
Mining and quarrying	.8	.8
Manufacture of food, beverages and tobacco	10.1	11.4
Manufacture of textiles	.5	.8
Manufacture of wearing apparel excluding footwear	3.7	3.1
Manufacture of leather and leather products including footwear	.4	.5
Wood and manufacture of wood products	1.3	1.1
Manufacture of paper products, printing, publishing and packaging	3.9	3.7
Manufacture of chemical and chemical products	1.3	1.2
Manufacture of rubber products	1.8	3.0
Manufacture of plastic products	2.2	3.5
Manufacture of non-metallic mineral products	3.5	4.1
Basic metal products	.4	.6
Manufacture of fabricated metal products, machinery and equipment	2.4	2.6
Electricity, gas and water industries	5.9	5.7
Construction industries	7.0	4.8
Trade	13.6	12.2
Hotels and restaurants	2.5	3.3
Transport, storage and communications	4.9	6.1
Financing, insurance, real estate and business services	19.9	16.2
Community, social and personal services	7.8	7.9
	100.0	100.0

	Rs million	Rs million
Composition of Assets		
Loans*	32,953	32,041
Leases	5,960	3,466
Investment securities	4,032	1,999
Dealing securities	85	56
	43,030	37,562

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

60.2 Composition of liabilities is given in Note 46.

	BANK				GROUP			
	31.03.2011		31.03.2010		31.03.2011		31.03.2010	
	Rs 000	%	Rs 000	%	Rs 000	%	Rs 000	%
61. Non-Performing Loans, Leases and Bills								
Loans and advances	2,311,673		3,193,863		4,132,025		5,077,791	
Finance leases	307,458		574,559		307,458		574,559	
Bills of exchange discounted	0		0		35,102		30,592	
	2,619,131	6.3	3,768,422	10	4,474,585	7.4	5,682,942	10.8
Less: Interest in suspense included in overdrafts	0		0		481,032		328,428	
Gross non-performing loans, advances, leases and bills	2,619,131	6.3	3,768,422	10	3,993,553	6.6	5,354,514	10.2
Less: Provision for bad and doubtful debts	1,552,119		1,418,337		2,370,042		2,037,452	
Net exposure	1,067,012	2.6	2,350,085	6.2	1,623,511	2.7	3,317,062	6.3
Net of tangible securities	85,509		217,244		1,303,679		1,324,140	

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

	BANK		GROUP	
	31.03.2011	31.03.2010	31.03.2011	31.03.2010
	Rs 000	Rs 000	Rs 000	Rs 000
61.1 Provision for Bad and Doubtful Debts				
Loans and advances	1,507,241	1,173,459	2,301,200	1,783,204
Finance leases	200,587	345,634	200,587	345,635
Bills of exchange discounted	0	0	26,462	14,805
	1,707,828	1,519,093	2,528,249	2,143,644
Less: Provisions relating to facilities currently performing				
Loans and advances	151,467	85,615	153,965	91,051
Finance leases	4,242	15,141	4,242	15,141
	155,709	100,756	158,207	106,192
Provision relating to non-performing facilities	1,552,119	1,418,337	2,370,042	2,037,452

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

Item	% of FSV of immovable property that can be considered as the value of security	
	Freehold Property	Leasehold Property
At the first time of provisioning	75	60
Period in the loss section		
Less than 12 months	75	60
More than 12 but less than 24 months	60	50
More than 24 but less than 36 months	50	40
More than 36 but less than 48 months	40	30
More than 48 months	Property should be reviewed on a regular basis, and discounted further at the discretion of the Bank's management.	Nil

61.3 The basis for classification from performing to non-performing and reclassification from non-performing to performing adopted on 31 March 2011 is different from the basis adopted on 31 March 2010.

61.3.1 Basis for 31 March 2011

61.3.1.1 Classification

If 30% of all facilities outstanding to a borrower is non-performing the balance 70% was also classified as non-performing.

61.3.1.2 Reclassification

From non-performing to performing occurs only when all arrears of interest and/or principal are settled.

61.3.2 Basis for 31 March 2010

61.3.2.1 Classification

The minimum threshold at which all facilities to a borrower was classified as non-performing was 50%.

61.3.2.2 Reclassification

From non-performing to performing occurs when the age of arrears was reduced to below three dues in respect of credit facilities.

62. Related Party Transactions

62.1 The Group's related parties include Associates, Trust established by the Bank for post-employment retirement benefit plan, joint venture, key management personnel, close family members of key management personnel and entities which are controlled, jointly controlled or significantly influenced for which significant voting power is held by key management personnel or their close family members.

	31.03.2011 Rs 000	31.03.2010 Rs 000
62.2 Transactions with Subsidiaries		
62.2.1 Balance Sheet		
Assets		
Cash and short-term funds	1,354,263	1,950,866
Securities purchased under repurchase agreements	166,000	813,000
Interest receivable	16,897	20,435
Total	1,537,160	2,784,301
Liabilities		
Deposits	64,028	58,344
Interest payable	2,445	3,262
Total	66,473	61,606
62.2.2 Off-Balance Sheet Items		
Undrawn facilities	0	878,000
Total	0	878,000

For the year ended	**2011 Rs 000**	2010 Rs 000

62.2.3 Income Statement

Interest income	131,095	124,673
Interest expense	14,985	15,635
Other income	22,881	19,705
Dividend received	76,975	17,216
Other expenses	51,455	36,415
Reimbursed expenses	96,750	82,310
Personnel expenses	2,249	0

	31.03.2011 Rs 000	31.03.2010 Rs 000

62.3 Transactions with Joint Venture

62.3.1 Balance Sheet

Assets		
Loans	0	350,000
Interest receivable	0	134
Total	0	350,134

For the year ended	**2011 Rs 000**	2010 Rs 000

62.3.2 Income Statement

Interest income	12,082	9,747
Reimbursed expenses	269	3,048
Other expenses	3,036	1,138

	31.03.2011 Rs 000	31.03.2010 Rs 000

62.4 Transaction with Associates

62.4.1 Balance Sheet

Assets		
Cash and short-term funds	0	19,087
Placements with and loans to other banks and financial institutions	0	186,848
Interest receivable	0	3,188
Total	0	209,123

Liabilities		
Subordinated debentures	0	10,000
Interest payable	0	265
Total	0	10,265

For the year ended	**2011 Rs 000**	2010 Rs 000
62.4.2 Income Statement		
Interest income	0	7,721
Interest expense	0	1,485
Other income	827	1,696
Dividends received	249,808	425,666
Other expenses	2,108	1,138

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

	31.03.2011 Rs 000	31.03.2010 Rs 000
62.5.1 Balance Sheet		
Assets		
Loan and advances	871,370	947,050
Leases	0	4,895
Investment securities	223,597	28,825
Interest receivable	2,460	4,948
Total	1,097,427	985,718
Liabilities		
Deposits from customers	32,632	0
Subordinated debentures	0	25,000
Interest payable	971	863
Total	33,603	25,863
62.5.2 Off-Balance Sheet Items		
Commitments and contingencies		
Undrawn facilities	1,709,010	1,099,040
Total	1,709,010	1,099,040

For the year ended	**2011 Rs 000**	2010 Rs 000
62.5.3 Income Statement		
Interest income	129,037	173,816
Interest expense	3,058	3,500
Other income	2,922	1,026
Other expense	819	183

62.6 Transactions with Key Management Personnel

62.6.1 Key Management Personnel

Key management personnel are the Board of Directors of the Bank, Chief Executive Officer, Executive Vice-Presidents, Senior Vice-President - Treasury, Senior Vice-President - Integrated Risk Management, Senior Vice-President - Group, Chief Information Officer and the Secretary to the Board for the purpose of Sri Lanka Accounting Standard on Related Party Disclosures.

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

		BANK		GROUP	
For the year ended		**31.03.2011 Rs 000**	31.03.2010 Rs 000	**31.03.2011 Rs 000**	31.03.2010 Rs 000
62.6.2 Compensation of Directors and Other Key Management Personnel					
Number of persons		16	17	56	61
Short-term employment benefits		90,162	78,395	145,484	126,894
Post-employment benefits	- pension	14,177	11,493	14,177	11,493
	- others	8,737	8,416	12,078	12,609
		113,076	98,304	171,739	150,996

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

62.6.3 Share Based Payments to Key Management Personnel - Bank

Key management personnel together with other eligible employees participated in a share option plan approved by the shareholders in 2002. The final grant under this plan was made during the year ended 31 March 2006.

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

For the year ended	**31.03.2011 Rs 000**	31.03.2010 Rs 000
Unexercised options balance at the beginning of financial year	40,380	511,450
Exercised prior to bonus issue	4,958	471,070
	35,422	40,380
Adjustment for 1 for 1 bonus share issue in November 2010	35,422	0
Unexercised options balance at the end of financial year	70,844	40,380
Weighted average price of unexercised options end of the year Rs,	58.73	117.46
Weighted average price of exercised options Rs,	117.46	110.58
Weighted average price of Bank's share during the period in which options were excercised Rs,	230.09	116.90

62.6.4 Loans to Key Management Personnel - Bank

Number of KMPs	2	2
Amount outstanding on 31 March	7,171	5,418

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

62.6.5 Rent to Spouse of Key Management Personnel

Bank pays a rent of Rs1,980,000/- to Mrs R D Fonseka spouse of Chief Executive Officer.

62.7 Transactions with DFCC Pension Fund - Trust

62.7.1 DFCC Bank Pension Fund constituted as a Trust was established by the DFCC Bank to discharge defined benefit pension liability of eligible employees of the Bank. The Chairman, the Chief Executive Officer together with two other employees and two pensioners (ex-employees) are trustees.

62.7.2 Transactions with DFCC Bank Pension Fund

	31.03.2011 Rs 000	31.03.2010 Rs 000
Contributions due at the beginning of financial year	(7,654)	28,669
Contribution due for the financial year (Note 14.1.1)	58,948	65,396
Contribution paid/pre-paid	(64,491)	(101,719)
Contribution prepaid at the end of the financial year (Note 51.4.1)	(13,197)	(7,654)

62.8 Pricing Policy and Terms for Transactions with Related Parties

Bank enters into transactions with related parties in the ordinary course of business on terms similar to comparable transactions with an unrelated comparable counter party. The terms include pricing for loans, deposits and services, collateral obtained for loans where appropriate.

63. Business Segment Information

For the year ended 31 March 2011	Lending Rs 000	Finance 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	5,353,552	852,906	–	–	3,368,119	168,221	–	(84,631)	9,658,167
Amortisation of negative goodwill	–	–	–	–	–	7,313	–	–	7,313
Other income	215,312	–	5,929,095	–	419,004	590,544	1,846,552	(2,828,389)	6,172,118
Income from external customers	5,568,864	852,906	5,929,095	–	3,787,123	766,078	1,846,552	(2,913,020)	15,837,598
Total income	5,568,864	852,906	5,929,095	–	3,787,123	766,078	1,846,552	(2,913,020)	15,837,598
Percentage*	35	5	37	–	24	5	30	–	100
Expenses									
Segment losses	248,620	(4,927)	–	–	234,759	–	–	–	478,452
Depreciation	–	–	–	–	143,727	28,490	–	–	172,217
Other operating & interest expenses	2,927,686	460,292	–	–	2,680,017	410,325	–	(216,155)	6,262,165
	3,176,306	455,365	–	–	3,058,503	438,815	–	(216,155)	6,912,834
Result	2,392,558	397,541	5,929,095	–	728,620	327,263	–		8,924,764
Unallocated expenses									793,084
Value added tax on financial services									2,080,063
									6,051,617
Associate companies profit after tax									217,758
Profit before tax									6,269,375
Income tax expense									1,098,302
Profit after tax									5,171,073
Minority interest									80,760
Profit for the year									5,090,313
Assets	33,642,205	5,960,055	4,686,527	–	29,525,556	3,547,274	14,708,930	(1,852,153)	90,218,394
Percentage*	37	7	5	–	33	4	16		100
Investments in associate company									177,291
									90,395,685
Liabilities	27,949,280	5,364,049	–	–	26,432,096	3,062,217	5,270,842	(1,852,153)	66,226,331
Capital expenditure - additions					196,475	26,266	231,309		454,050

* *Net of eliminations.*

For the year ended 31 March 2010	Lending Rs 000	Finance Leasing Rs 000	Investing in Equity Rs 000	Venture Capital Rs 000	Commercial Banking Rs 000	Other Rs 000	Unallocated Rs 000	Eliminations Rs 000	Total Rs 000
Revenue									
Interest income	6,614,618	801,717	–	46,368	4,235,229	192,563	–	(97,014)	11,793,481
Other income	203,909	–	1,095,481	46,519	212,251	255,652	127,726	(649,167)	1,292,371
Income from external customers	6,818,527	801,717	1,095,481	92,887	4,447,480	448,215	127,726	(746,181)	13,085,852
Total income	6,818,527	801,717	1,095,481	92,887	4,447,480	448,215	127,726	(746,181)	13,085,852
Percentage*	52	6	8	1	34	3	6	–	100
Expenses									
Segment losses	223,897	131,828	–	–	233,571	–	–	–	589,296
Depreciation	–	–	–	236	124,970	25,396	–	–	150,602
Other operating & interest expenses	3,965,377	425,814	–	16,504	3,291,677	217,799	–	(112,560)	7,804,611
Inter segment expenses	–	–	–	–	17,551	29,075	–	(46,626)	–
	4,189,274	557,642	–	16,740	3,667,769	272,270	–	(159,186)	8,544,509
Result	2,629,253	244,075	1,095,481	76,147	779,711	175,945	–		4,541,343
Unallocated expenses									1,035,187
Value added tax on financial services									840,415
									2,665,741
Associate companies profit after tax									1,085,261
Profit before tax									3,751,002
Income tax expense									1,067,232
Profit after tax									2,683,770
Minority interest									103,798
Profit for the year									2,579,972
Assets	33,625,936	3,465,729	2,248,527	–	31,335,584	2,645,439	11,319,354	(1,925,471)	82,715,098
Percentage*	41	4	3	–	38	3	14	–	100
Investments in associate company									7,818,997
									90,534,095
Liabilities	27,186,587	3,119,156	–	–	28,457,733	1,815,006	10,507,298	(1,925,471)	69,160,309
Capital expenditure - additions				–	122,749	41,128	57,154		221,031

* *Net of eliminations.*

63.1 Revenue and expenses attributable to the incorporated business segments of industrial estate management, stockbroking and consultancy services are included in the column for Other.

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

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

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

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

64. Post Balance Sheet Events

64.1 Options Exercised by Employees

The employees have exercised options during the post Balance Sheet period. Increase in ordinary share capital corresponding to the options exercised was Rs708,360/- and the increase in the share premium was Rs3,451,838.28.

64.2 Proposed Dividend

The Directors have recommended the payment of a final dividend of Rs3 per share for the year ended 31 March 2011, which require the approval of the shareholders at the Annual General Meeting to be held on 30 June 2011. The Board of Directors confirms that the Bank has satisfied the solvency test in accordance with Section 57 of the Companies Act No. 07 of 2007 and have obtained the certificate from the Auditors.

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

64.3 Increase in Shareholding in DFCC Vardhana Bank Limited

Pursuant to the approval by Central Bank of Sri Lanka on 18 April 2011 permitting DFCC Bank to acquire up to 100% of the shares in the subsidiary, DFCC Vardhana Bank Limited (DVB), the Bank has increased its shareholding in DVB to 98.9% from 95.6% on 31 March 2011.

64.4 Statutory Investment Fund Reserve

Funds equivalent to the Statutory Investment Fund Reserve on 31 March 2011, established by appropriation from the profits for the year ended 31 March 2011 were invested in short-term Government Securities on 30 April 2011. Such funds will be utilise only for purposes prescribed by Central Bank of Sri Lanka by 30 June 2011.

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

65. Reclassification of Comparative Figures

Amounts shown for the previous year in respect of Note 26, Placements with and Loans to Other Banks and Financial Institutions, Note 30, Loans and Advances, Note 32, Interest Receivable, Note 43, Deferred Tax Asset, Note 44, Other Assets, Note 50 Deferred Taxation, Note 51, Other Liabilities Note 61, Non-performing Loans, Leases & Bills and Note 63, Business Segment Information have been reclassified to facilitate comparison.

66. Certification Required by the Companies Act. No. 07 of 2007

This certification is based on independent legal advice obtained by the Bank which confirms that the Bank will not be required to provide the certification in Section 150 (1) (b) of the Companies Act since Sections 15 and 16 of the DFCC Bank Act. No. 35 of 1955 as amended specifically deals with the financial statements of the Bank. However, Sections 152 and 158 dealing with the Group financial statements and certification in the Companies Act No. 07 of 2007 are currently applicable to the Bank.

Introduction

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

Capital to Risk Weighted Assets Ratio

(Based on audited consolidated financial statements)

	Minimum Requirement	Actual 31.03.2011	Actual 31.03.2010
Tier I (%)	5.0	30.2	32.7
Deductions - Tier I (%)		3.5	6.5
		26.7	26.2
Tier II (%)		2	2.9
Deductions - Tier II (%)		2.9	6.0
		(0.9)	(3.1)
Capital base (%)	10.0	25.8	23.1

Details of Computation

Capital Base	31.03.2011 Rs 000	31.03.2010 Rs 000
Tier I: Core Capital		
Paid-up ordinary shares	2,648,838	1,323,753
Share premium	2,054,546	3,375,410
Statutory reserve fund	1,015,000	961,929
Published retained profits	6,530,865	2,075,577
General & other reserves	11,119,693	12,895,944
Minority interests	486,666	427,427
	23,855,608	21,060,040
Less: Deductions		
Goodwill	226,411	156,225
Net deferred tax assets	1,781	806
Other intangible assets	173,042	160,034
50% Investments in the capital of other banks and financial institutions	2,323,196	3,852,315
Total Tier I Capital	21,131,178	16,890,660
Tier II: Supplementary Capital		
Revaluation reserve (as approved by the Central Bank of Sri Lanka)	134,129	134,129
Approved subordinated term debt	872,000	1,154,000
General provision	588,607	563,122
	1,594,736	1,851,251
Less: Deductions		
50% Investments in the capital of other banks and financial institutions	2,323,196	3,852,315
Eligible Tier II Capital	(728,460)	(2,001,064)
Capital base	20,402,718	14,889,596

Risk Weighted Assets and Off-Balance Sheet Exposure

Assets Exposures	Balance 31.03.2011 Rs 000	Balance 31.03.2010 Rs 000	Risk Weights %	Risk Weighted Balance 31.03.2011 Rs 000	Risk Weighted Balance 31.03.2010 Rs 000
To Central Government and CBSL	21,319,519	25,546,966	0	0	0
To Banks	2,498,038	3,470,682	20-150	603,661	839,423
To Financial Institutions	1,387,551	892,547	20-150	784,452	558,350
To Corporates	46,496,233	39,525,161	20-150	45,883,397	37,859,650
Secured by Residential Property	433,064	211,325	50-100	252,353	114,520
Secured by Commercial Real Estate	4,427,832	4,004,961	100	4,427,832	4,004,961
Classified as Non-Performing Advances	1,570,410	3,303,647	50-150	1,999,224	4,561,259
Cash Items	948,895	706,987	0-20	1,164	2,460
Other Assets	2,537,452	2,150,270	100	2,537,452	2,150,270
Total assets	81,618,994	79,812,546		56,489,535	50,090,893

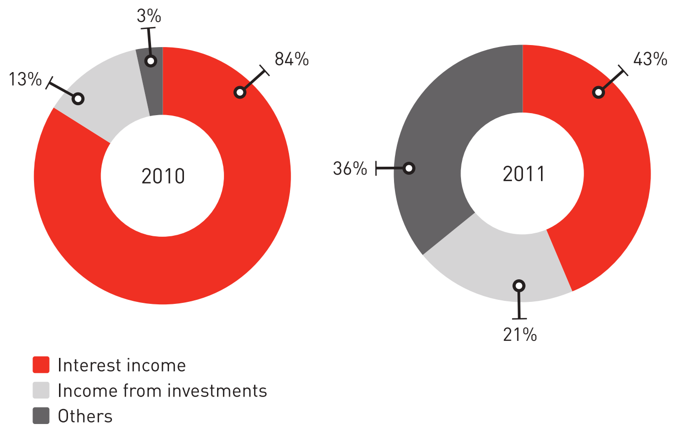
Off-Balance Sheet Exposure	Credit Conversion Factor %	31.03.2011 Rs 000	31.03.2010 Rs 000	Risk Weights %	Risk Weighted Credit Equivalent 31.03.2011 Rs 000	Risk Weighted Credit Equivalent 31.03.2010 Rs 000
General guarantee of indebtness	100	903,361	914,388	20-100	903,361	914,338
Performance bonds, bid bonds and warranties	50	995,522	707,582	20-100	496,704	353,791
Shipping guarantees	20	598,546	281,144	20-100	119,709	56,229
Documentary letters of credit	20	2,876,297	816,032	20-100	574,982	163,206
Trade related acceptances	20	1,895,066	821,988	20-100	379,013	164,398
Undrawn overdraft facilities & others	0	1,693,805	1,209,755	100	0	0
Undrawn term loans	50	13,430,665	6,988,015	100	6,715,333	3,494,008
Others - undrawn lease facilities	50	505,292	107,524	100	252,646	53,762
Forward foreign excahnge contracts - Orginal Maturity less than one year	2	5,917,274	7,345,641	100	118,346	146,913
Forward foreign excahnge contracts - Orginal Maturity more than one year	5	110,400	0	100	5,520	0
Total off balance sheet exposure		28,926,228	19,192,069		9,565,614	5,346,645
Total risk weighted assets and off-balance sheet exposure for credit risk					66,055,149	55,437,538
Total risk weighted assets equivalent for market risk (Note 1)					2,933,690	820,590
Total risk weighted assets equivalent for operational risk (Note 2)					9,908,670	8,141,560
Total risk weighted assets					78,897,509	64,399,688

	Capital Charge 31.03.2011 Rs 000	Capital Charge 31.03.2010 Rs 000	Risk Weighted Assets Equivalent 31.03.2011 Rs 000	Risk Weighted Assets Equivalent 31.03.2010 Rs 000
Market Risk (Note 1)				
Interest rate	19,772	4,954	197,720	49,540
Equity	14,901	9,885	149,010	98,850
Foreign Exchange & Gold	258,696	67,220	2,586,960	672,200
	293,369	82,059	2,933,690	820,590
Operational Risk (Note 2)				
Average gross income	6,605,779	5,427,705		
15% of average gross income	990,867	814,156		
	990,867	814,156	9,908,670	8,141,560

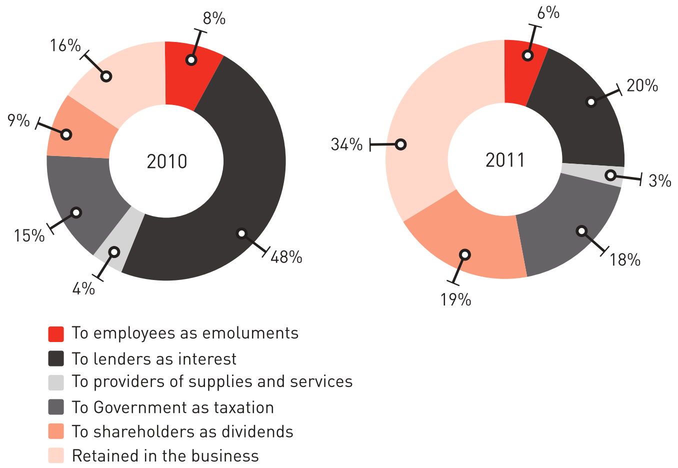
SOURCES AND DISTRIBUTION OF INCOME - BANK

For the year ended 31 March Rupees million	2007	2008	2009	2010	2011
Sources of Income					
Interest income	6,018	8,491	8,529	7,416	6,206
Income from investments	436	687	913	1,138	2,911
Others	433	458	446	289	5,074
	6,887	9,636	9,888	8,843	14,191
Distribution of Income					
To employees as emoluments	612	672	708	715	791
To lenders as interest	3,537	5,815	5,624	4,224	2,786
To providers of supplies and services	335	340	359	383	487
To Government as taxation	1,113	1,100	1,203	1,348	2,629
To shareholders as dividends	454	654	654	794	2,649
Retained in the business:					
Depreciation set aside	128	133	124	104	117
Provision of losses	37	258	510	356	244
Reserves	671	664	706	919	4,488
	6,887	9,636	9,888	8,843	14,191

SOURCES OF INCOME



DISTRIBUTION OF INCOME



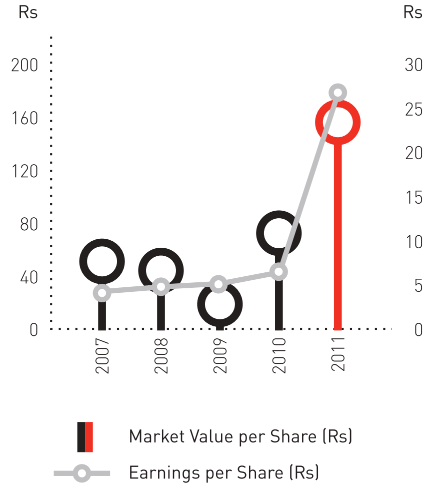
TEN YEAR SUMMARY

Year ended 31 March Rupees million	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Bank										
Operating Results										
Total income (net of TT & NSL)	4,037	4,113	4,444	4,641	5,387	6,887	9,636	9,888	8,843	14,191
Profit before tax	883	1,036	1,490	1,512	1,652	1,865	1,983	2,006	2,402	7,876
Income tax	252	181	385	404	472	740	665	646	689	739
Profit after tax	631	855	1,105	1,108	1,180	1,125	1,318	1,360	1,713	7,137
Balance Sheet										
Assets										
Cash, short-term funds and securities	2,359	2,398	2,675	2,778	4,928	7,935	8,124	8,415	10,472	11,991
Dealing securities	4	3	1	0	14	26	18	10	56	85
Receivables	666	914	909	1,641	946	1,611	1,684	1,348	930	803
Placements with and loans to banks and financial institutions	0	0	500	302	738	1,024	1,579	1,454	2,205	2,255
Securities purchased under resale agreements	569	48	26	1,051	520	240	208	96	914	166
Bills of exchange discounted	23	23	18	13	6	6	6	0	0	0
Loans and advances	17,982	19,515	22,386	25,270	30,963	38,200	38,185	35,156	31,575	32,731
Finance leases	1,859	2,445	3,742	4,348	5,545	7,756	6,726	5,211	3,966	6,360
Provisions	(757)	(949)	(1,077)	(995)	(937)	(946)	(1,179)	(1,670)	(1,979)	(2,168)
Net of provisions	19,107	21,034	25,069	28,636	35,577	45,016	43,737	38,697	33,562	36,923
Investment securities	2,102	1,802	1,704	1,731	1,340	1,260	1,680	1,918	1,999	4,032
Investment in associate, joint venture and subsidiary companies	1,392	1,407	2,514	2,636	3,057	3,350	5,829	6,064	5,845	3,132
Income tax refund receivable	0	0	0	0	0	0	0	2	0	0
Investment property	187	187	12	12	12	7	7	7	7	0
Property, plant, equipment and intangibles	265	378	516	475	481	472	493	474	426	539
Total assets	26,651	28,171	33,926	39,262	47,613	60,941	63,359	58,485	56,416	59,926
Liabilities										
Equity	5,723	6,382	7,383	8,207	9,091	9,494	13,761	14,491	15,723	20,219
Medium/long-term borrowings and debentures	17,892	16,775	19,570	24,120	30,384	34,357	38,323	33,679	33,415	27,329
Customer deposits	1,562	2,868	4,944	3,780	4,017	13,573	5,112	5,308	5,124	3,688
Short-term borrowings	398	1,143	577	1,387	2,453	1,540	4,157	3,030	115	4,932
	19,852	20,786	25,091	29,287	36,854	49,470	47,592	42,018	38,654	35,949
Other liabilities	1,076	1,003	1,451	1,768	1,668	1,977	2,006	1,976	2,039	3,758
Total equity and liabilities	26,651	28,171	33,926	39,262	47,613	60,941	63,359	58,485	56,416	59,926
Return on equity %	11.7	14.1	16.1	14.2	13.6	12.1	11.3	9.6	11.3	39.7
Return on total assets, %	2.4	3.1	3.6	3.0	2.7	2.1	2.1	2.2	3.0	12.3
Earnings per share, Rs *	2.61	3.54	4.57	4.57	4.87	4.63	5.09	5.17	6.48	26.95
Market value per share, Rs *	19.79	25.09	52.26	55.34	52.75	69.78	62.45	33.78	90.23	171.8
Price earnings ratio *	7.6	7.1	11.4	12.1	10.8	15.1	12.3	6.5	13.9	6.4
Dividend per share	5.0	5.5	5.5	5.5	6.00	5.00	5.00	5.00	6.00	10.00
Dividend cover, times	3.0	3.7	3.5	3.5	3.4	2.5	2.0	2.1	2.2	2.7
Gross dividend, Rs m	212.0	233.0	314.3	315.8	345.5	454.4	653.7	653.7	794.3	2,649
Liquid assets to liabilities (as specified in the Banking Act No. 30 of 1998)	–	–	28	38	48	79	31	145	214	295
No. of employees	289	305	305	340	374	422	419	419	427	451

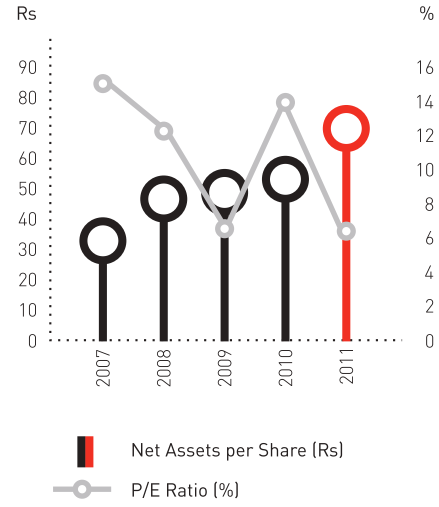
** Adjusted for bonus issue*

PERFORMANCE OF THE SHARE

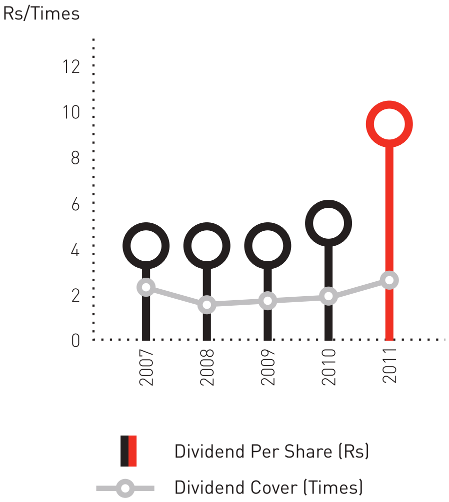
EARNINGS & MARKET VALUE



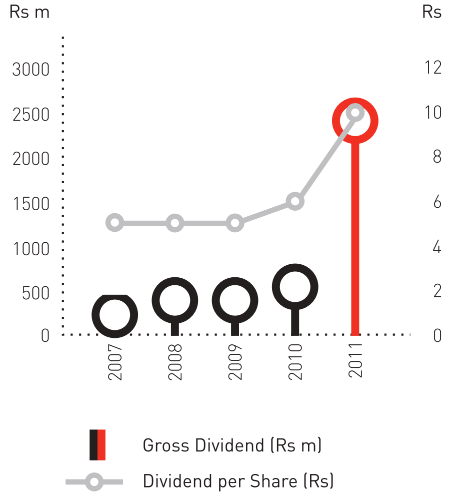
SHARE VALUE



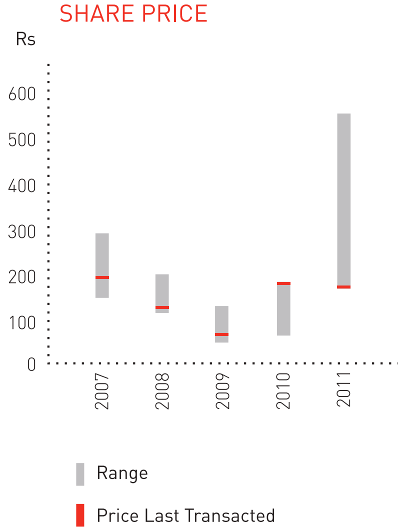
DIVIDENDS



DIVIDENDS



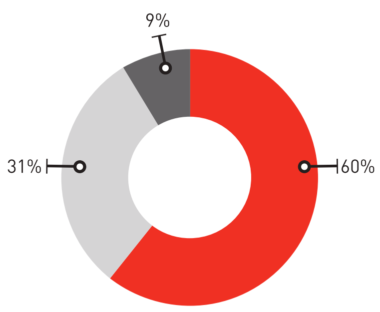
SHARE PRICE



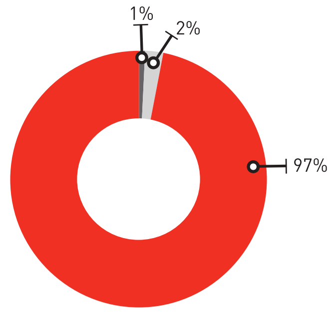
SHARE INFORMATION

Year ended 31 March	2011	2010
Earnings		
Earnings per share, Rs	26.95	6.48
Price earning ratio, times	6.4	13.9
Dividends		
Dividens for the year, paid and proposed, Rs m	2,649	794
Dividend per share, Rs	10.00	6.00
Book Value - Bank		
Net assets per share on 31 March, Rs	76.33	59.37
Price Indices		
CSE all Share Price Index	7,226.12	3,724.59
Milanka Price Index	6,874.74	4,270.73
Share Prices		
Lowest, Rs	169.10 (31.03.11)	67.00 (02.04.09)
Highest, Rs	550.00 (30.09.10)	183.50 (04.03.10)
Last transaction, Rs	171.80 (31.03.11)	180.50 (31.03.10)
Market Capitalisation		
Value, Rs m	45,507	23,894
% of total trade	1.88	1.97
Rank	13	14
Value of Shares Traded		
Value, Rs m	7,629	5,532
% of total trade	1.14	2.84
Rank	17	5
Days Traded		
Number of days traded	239	238
Total number of market days	239	240
% of market days traded	100.00	99.17
Frequency of Shares Traded		
Number of transactions	19,700	11,441
% of total frequency	0.48	0.77
Rank	68	44

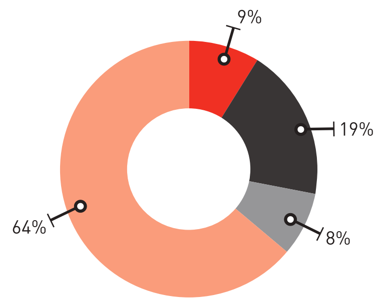
SHAREHOLDERS



SHAREHOLDING



OWNERSHIP



Size-wise Distribution of Shareholding

Number of Shares		As at 31 March 2011 No. of Shareholders	As at 31 March 2011 Total Holding	As at 31 March 2011 %	As at 31 March 2010 No. of Shareholders	As at 31 March 2010 Total Holding	As at 31 March 2010 %
01 -	1,000	5,938	2,175,145	0.82	6,226	2,088,678	1.58
1,001 -	5,000	3,024	6,260,189	2.36	1,265	2,684,969	2.03
5,001 -	10,000	369	2,650,798	1.00	180	1,286,493	0.97
10,001 -	50,000	345	7,486,004	2.83	183	3,905,804	2.95
50,001 -	100,000	54	3,636,054	1.37	39	2,861,812	2.16
100,001 -	500,000	45	9,631,498	3.64	33	7,515,457	5.68
500,001 -	1,000,000	10	6,532,196	2.47	10	6,714,184	5.07
Greater than	1,000,000	25	226,511,884	85.51	16	105,317,908	79.56
	Total	9,810	264,883,768	100	7,952	132,375,305	100

Ownership

Shareholding %	As at 31 March 2011 Foreign	As at 31 March 2011 Sri Lankan	As at 31 March 2011 Total	As at 31 March 2010 Foreign	As at 31 March 2010 Sri Lankan	As at 31 March 2010 Total
Individuals	8.83	8.08	16.91	8.86	8.04	16.9
Institutions	19.32	63.77	83.09	21.34	61.76	83.1
Total	28.15	71.85	100	30.2	69.8	100

As per the Rule No.8.7(h) of the Colombo Stock Exchange, percentage of public holding as at 31.03.2011 was 60.38% (60.29% as at 31.03.2010)

TWENTY MAJOR SHAREHOLDERS

Twenty Major Shareholders of the DFCC Bank as at 31 March 2011 are given below:

	2011			2010	
Name of Shareholder/Company Name	No. of Shares	%	Cumulative %	No. of Shares	%
Bank of Ceylon - No. 2 A/C	38,039,994	14.36	14.36	19,191,197	14.50
Sri Lanka Insurance Corporation Ltd - Life Fund	34,423,532	13.00	27.36	17,211,766	13.00
Hatton National Bank PLC A/c No. 1	32,109,140	12.12	39.48	16,054,570	12.13
Mr M A Yaseen	22,841,700	8.62	48.10	11,262,250	8.51
Distilleries Company of Sri Lanka Limited	17,042,856	6.44	54.54	8,521,428	6.44
Seafeld International Limited	15,286,794	5.77	60.31	7,643,397	5.77
Employees' Provident Fund	12,632,200	4.77	65.08	2,420,600	1.83
HSBC Intl. Nominees Limited - BPSS Lux-Aberdeen Global Asia Pacific Equity Fund	12,216,146	4.61	69.69	6,108,073	4.61
Renuka City Hotels Limited	6,926,870	2.61	72.30	3,352,035	2.53
HSBC Intl. Nominees Limited - BPSS LDN-Aberdeen Asia Pacific Fund	6,750,000	2.55	74.85	3,375,000	2.55
HSBC Intl. Nominees Limited - BP2S London-Edinburgh Dragon Trust PLC	4,728,800	1.78	76.63	–	–
Renuka Hotels Limited	4,048,360	1.53	78.16	2,024,180	1.53
HSBC Intl Nom. Ltd - SSBT- Aberdeen Institutional Commingled Funds, LLC	2,542,500	0.96	79.12	–	–
Cargo Boat Development Company PLC	2,048,200	0.77	79.89	1,024,000	0.77
Employees Trust Fund Board	2,001,666	0.76	80.65	768,333	0.58
HSBC Intl. Nominees Limited - BP2S-London-Aberdeen Asia Smaller Companies Investment Trust	1,800,000	0.68	81.33	–	–
HSBC Intl. Nominees Limited - SSBTL-Aberdeen New Dawn Investment Trust XCC6	1,800,000	0.68	82.01	900,000	0.68
Mellon Bank N.A. - Florida Retirement System	1,500,000	0.57	82.58	750,000	0.57
National Savings Bank	1,342,024	0.51	83.09	1,608,000	1.22
Sri Lanka Insurance Corporation Limited - General Fund	1,243,800	0.47	83.56	–	–
Total of the 20 Major Shareholders	221,324,582	83.56	–	–	–
Other Shareholders	43,559,186	16.44	100		
Total	264,883,768	100			

DFCC Listed Debentures

Debenture Categories	Interest Payable Frequency	Applicable Interest Rate	Comparative Govt. Sec. Interest Rate (Gross)
Fixed Rate			
2006/2016 - 14.00% p.a.	Annually	14.00%	9.95%
2006/2011 - 13.75% p.a.	Annually	13.75%	7.86%
Floating Rate			
2006/2011 - 6 months TB rate (Net) + 2.00% p.a.	Semi-Annually	9.35%	7.86%
2006/2011 - 6 months TB rate (Gross) + 1.00% p.a.	Semi-Annually	9.17%	7.86%

Total Listed Debentures at the end of the year

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

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

	2011	2010
Debt Equity Ratio	1.35	2.13
Interest Cover (Times)	3.54	1.25
Quick Assets Ratio (%)	295	214

DFCC BANK'S OFFICES

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

ANURADHAPURA
249, Maithripala Senanayake Mawatha
Anuradhapura
Telephone: 025-2223417
Fax: 025-2223418

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

BANDARAWELA
126, Main Street
Bandarawela
Telephone: 057-2224849-52
Fax: 057-2224851

BATTICALOA
105, Trinco Road
Batticaloa
Telephone: 065-2228111/333
Fax: 065-2228282

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

GALLE
93, Wackwella Road
Galle
Telephone: 091-2227372-6
Fax: 091-2227374

GAMPAHA
123, Bauddhaloka Mawatha
Gampaha
Telephone: 033-2226104
Fax: 033-2227941

JAFFNA
141, KKS Road,
Jaffna
Telephone: 021-2221444
Fax: 021-2221555

KADURUWELA
626, Main Street
Kaduruwela
Telephone: 027-2223333
Fax: 027-2225858

KALUTARA
282, Main Street
Kalutara South
Telephone: 034-2236363
Fax: 034-2236364

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

KURUNEGALA
25, Rajapihilla Road
Kurunegala
Telephone: 037-2224142,
037-2224461-2
Fax: 037-2224142

MALABE
9, Athurugiriya Road
Malabe
Telephone: 011-2442714
Fax: 011-5552868

MATARA
5, Hakmana Road
Matara
Telephone: 041-2225500-1
Fax: 041-2222585

NAWALA
540, Nawala Road
Rajagiriya
Telephone: 011-2880880
Fax: 011-2880889

RATNAPURA
46, Bandaranayake Mawatha
Ratnapura
Telephone: 045-2223667-9
Fax: 045-2223670

TRINCOMALEE
246, Ehamparam Road,
Trincomalee
Telephone: 026-2225555
Fax: 026-2225566

VAVUNIYA
7B, Horowpathana Road,
Vavuniya
Telephone: 024-2226622/00
Fax: 024-2226660/99

DFCC PIONEER'S JOURNEY

1955 OCTOBER
DFCC Founded by Act No. 35 of 1955

1956 MAY
Commenced Operations with Rs8 million Share Capital

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
1st Branch was opened in Kandy

1989 NOVEMBER
Short-Term Working Capital Financing

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

1995 JUNE
Bonus Issue of 1 for 3 ncreased 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

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

AUGUST
Act Amended No. 23 of 1997

SEPTEMBER
Acquired 29.8% Stake in Commercial Bank of Ceylon PLC

1998 FEBRUARY
5 New Projects Launched Under Small & Medium Enterprises Development Programme

APRIL
Bonus Issue of 1 for 6 Increased Paid UP Share Capital to Rs352.6 million

DECEMBER
FRN of US $ 65 million Guranteed by ADB

DECEMBER
Lead Arranged the Largest Sri Lanka Rupee Syndicated Loan for Sri Lanka Telecom

1999 OCTOBER
Asia Money Ranks DFCC as the Best Managed Company of the Decade

2000 MARCH
Structured & 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

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
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

2009 SEPTEMBER
AA(lka) Fitch Rating Affirmed

2010 JANUARY
Divested LVL Shares to Acuity Partners (Pvt) Limited

JUNE
Commercial Bank PLC ceased to be an Associate Company

SEPTEMBER
AA(lka) Fitch Rating Affirmed

NOVEMBER
Bonus Issue 1 for 1 increased paid up share capital to 2,648 million

CORPORATE INFORMATION

THE ANNUAL GENERAL MEETING

will be held at the Cinnamon Grand, Colombo 3, on 30 June 2011. Details of the business of the meeting and other information are contained in the booklet enclosed with this Annual Report.

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

Ms A Withana

AUDITORS

KPMG Ford, Rhodes, Thornton & Co.
Chartered Accountants

VAT REGISTRATION NO.

409000088-7000

NAME OF COMPANY

DFCC Bank

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.

LAWYERS

F J & G De Saram
Attorneys-at-Law

BANKERS

DFCC Vardhana Bank Limited

HEAD OFFICE

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Fax: +94-11-2440376
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Website: www.dfccbank.com

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