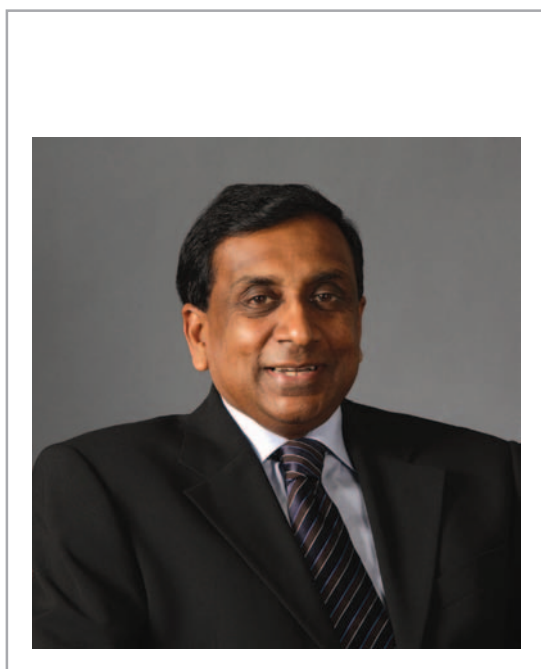


In 1956, this entity took root as the Development Finance Corporation of Ceylon. Half a century on, it has grown into what the World Bank, several decades later, described as “one of the few development finance institutions in the world to have performed creditably”.



CHAIRMAN'S STATEMENT

Dear Shareholder,

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

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

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

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

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

CHAIRMAN'S STATEMENT

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

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

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

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

We believe that project financing is very relevant particularly in the national context, as for instance, capacity limitations including infrastructure, are now a major challenge to Sri Lanka's economic growth.

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

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

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

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

CHAIRMAN'S STATEMENT

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

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

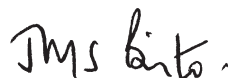
The Chief Executive Officer, Mr Nihal Fonseka, has once again inspired the staff of DFCC Bank to turn in a steadfast performance that has enabled the Bank to maintain its position among the top rungs of corporate Sri Lanka in terms of employee productivity and profitability. I thank all of them for their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

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

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

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

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



Rajan Brito

Chairman

25 May 2006

