

FINANCIAL INFORMATION

Financial Calendar

Financial Statements

Interim Reports

| | | |
|--------------------------|----------|------------|
| First Quarter to | 30.06.08 | : 29.08.08 |
| Second Quarter to | 30.09.08 | : 28.11.08 |
| Third Quarter to | 31.12.08 | : 27.02.09 |
| Annual Report year ended | 31.03.09 | : 29.05.09 |

Meetings

| | | |
|-----------------------------|---|----------|
| 52nd Annual General Meeting | : | 30.06.08 |
| 53rd Annual General Meeting | : | 30.06.09 |

Dividends

First and Final

| | | |
|------------------|---|----------|
| ended 31.03.2008 | | |
| Approved on | : | 30.06.08 |
| Ex-dividend Date | : | 01.07.08 |
| Payment | : | 08.07.08 |

Proposed First and Final for year

| | | |
|-------------------|---|----------|
| ended 31.03.2009 | | |
| to be approved on | : | 30.06.09 |

Statement of Directors' Responsibilities in Relation to Financial Statements

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

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

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

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

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

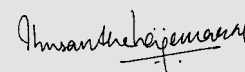
The Board appointed Audit Committee chaired by an independent non-executive director who possesses qualifications and experience in accountancy and audit assists the Directors to discharge their responsibility on the integrity of financial reporting system and monitoring the

effectiveness and adequacy of internal control system. This Committee has made an independent assessment of the financial reporting system of the Bank and confirmed "that to the best of its knowledge and belief the financial reporting system of the Bank has been designed to provide reasonable assurance on the reliability of the financial statements prepared for external purposes and is in compliance with relevant accounting principles and regulatory requirements". The report of this Committee is in pages 36 to 38.

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

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

By Order of the Board



T Wijemanna
Secretary to the Board

27 May 2009

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

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

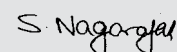
The Board of Directors and the Management of the Bank accept responsibility for the integrity and objectivity of these financial statements. The estimates and judgments relating to the financial statements were made on a prudent and reasonable basis, in order that the financial statements reflect in a true and fair manner, the form and substance of transactions, and reasonably present the Bank's state of affairs. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on

an ongoing basis. Our internal auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

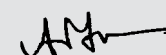
The financial statements of the Group except for Lanka Ventures PLC were audited by KPMG Ford, Rhodes, Thornton & Co. (KPMG FRT). The financial statements of the subsidiary Lanka Ventures PLC was audited by PricewaterhouseCoopers (PWC). National Asset Management Limited an associate company is also audited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

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

auditors and the internal auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.



S Nagarajah
Executive Vice President (Finance)



A N Fonseka
General Manager/Chief Executive

Colombo
27 May 2009

Independent Auditor's Report



KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300,
Sri Lanka.

Tel : +94 - 11 242 6426
+94 - 11 542 6426
Fax : +94 - 11 244 5872
+94 - 11 244 6058
+94 - 11 254 1249
+94 - 11 230 7345
Internet : www.lk.kpmg.com

TO THE SHAREHOLDERS OF DFCC BANK

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

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

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

Opinion

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

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

Report on Other Legal and Regulatory Requirements

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

Ford Rhodes, Thornton & Co.

Chartered Accountants

27th May 2009

Colombo.

Income Statement

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

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

* Current year minus previous year, Group.

** After tax, minority interest and preference dividend.

Balance Sheet

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

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

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

S Nagarajah

S Nagarajah
Executive Vice-President (Finance)

For and on behalf of the Board of Directors,

JMS Brito

J M S Brito
Chairman
Colombo
27 May 2009

A N Fonseca

A N Fonseca
Ex-Officio Director & Chief Executive

Statement of Changes in Equity

For the years ended 31 March

| | Share capital | Share premium | Reserve fund | Other reserves | Retained earnings (Restated) | Total equity | | |
|---|---------------|---------------|--------------|----------------|------------------------------|--------------|-------------------|-------------------------|
| | Rs 000 | Rs 000 | Rs 000 | Rs 000 | Rs 000 | Rs 000 | | |
| Bank | | | | | | | | |
| Balance as at 31.03.2007 | 865,565 | 607,106 | 425,000 | 6,606,248 | 990,230 | 9,494,149 | | |
| Change in accounting policy - Note 47.3.5 | - | - | - | - | (4,888) | (4,888) | | |
| Balance as at 31.03.2007 - Restated | 865,565 | 607,106 | 425,000 | 6,606,248 | 985,342 | 9,489,261 | | |
| Transfers | - | - | - | 60,795 | (60,795) | - | | |
| Profit for the year | - | - | - | - | 1,317,819 | 1,317,819 | | |
| Transfers from current earnings | - | - | 70,000 | 1,315,000 | (1,385,000) | - | | |
| First & final dividend approved on 30.06.2007 | - | - | - | - | (64,918) | (64,918) | | |
| Bonus issue of shares | 216,398 | (216,398) | - | - | - | - | | |
| Rights issue of shares | 216,391 | 2,813,088 | - | - | - | 3,029,479 | | |
| Issue of shares under share option scheme | 3,602 | 16,298 | - | - | - | 19,900 | | |
| Share issue expenses written-off | - | (35,949) | - | - | - | (35,949) | | |
| Balance as at 31.03.2008 | 1,301,956 | 3,184,145 | 495,000 | 7,982,043 | 792,448 | 13,755,592 | | |
| Profit for the year | - | - | - | - | 1,359,873 | 1,359,873 | | |
| Transfers from current earnings | - | - | 70,000 | 655,796 | (725,796) | - | | |
| Final dividend approved on 30.06.2008 | - | - | - | - | (653,663) | (653,663) | | |
| Issue of shares under share option scheme | 5,369 | 23,673 | - | - | - | 29,042 | | |
| Balance as at 31.03.2009 | 1,307,325 | 3,207,818 | 565,000 | 8,637,839 | 772,862 | 14,490,844 | | |
| Attributable to equity holders of the Bank | | | | | | | | |
| | Share capital | Share premium | Reserve fund | Other reserves | Retained earnings (Restated) | Total | Minority interest | Total equity (Restated) |
| | Rs 000 | Rs 000 | Rs 000 | Rs 000 | Rs 000 | Rs 000 | Rs 000 | Rs 000 |
| Group | | | | | | | | |
| Balance as at 31.03.2007 | 865,565 | 659,299 | 548,841 | 8,761,720 | 1,706,523 | 12,541,948 | 554,731 | 13,096,679 |
| Change in accounting policy | - | - | - | - | (4,888) | (4,888) | - | (4,888) |
| Balance as at 31.03.2007 - Restated | 865,565 | 659,299 | 548,841 | 8,761,720 | 1,701,635 | 12,537,060 | 554,731 | 13,091,791 |
| Deferred tax effect on revaluation surplus on property - associate company | - | - | - | (29,418) | - | (29,418) | - | (29,418) |
| Realised revaluation surplus on disposal of property - associate company | - | - | - | (399) | 399 | - | - | - |
| Surplus on revaluation property - associate company | - | - | - | 84,051 | - | 84,051 | - | 84,051 |
| Net unrealised losses from translation of Bangladesh operations of - associate company | - | - | - | (3,081) | - | (3,081) | - | (3,081) |
| Net income recognised directly in equity | - | - | - | 51,153 | 399 | 51,552 | - | 51,552 |
| Profit for the year | - | - | - | - | 2,167,545 | 2,167,545 | 79,095 | 2,246,640 |
| Total recognised income and expenses for the period | - | - | - | 51,153 | 2,167,944 | 2,219,097 | 79,095 | 2,298,192 |
| Transfers | - | - | - | 60,795 | (60,795) | - | - | - |
| Transfers from current earnings | - | - | 125,279 | 1,695,374 | (1,820,653) | - | - | - |
| First & final dividend approved on 30.06.2007 | - | - | - | - | (64,918) | (64,918) | (28,135) | (93,053) |
| Bonus issue of shares | 216,398 | (216,398) | - | - | - | - | - | - |
| Right Issue of shares | 216,391 | 2,813,088 | - | - | - | 3,029,479 | - | 3,029,479 |
| Issue of shares under share option scheme | 3,602 | 16,298 | - | - | - | 19,900 | - | 19,900 |
| Share issue expenses written-off | - | (35,949) | - | (22,179) | - | (58,128) | - | (58,128) |
| Balance as at 31.03.2008 | 1,301,956 | 3,236,338 | 674,120 | 10,546,863 | 1,923,213 | 17,682,490 | 605,691 | 18,288,181 |
| Deferred tax effect on revaluation surplus on property - associate company | - | - | - | 1,337 | - | 1,337 | - | 1,337 |
| Deferred tax on re-classification of revaluation surplus to retained earnings - associate company | - | - | - | - | 4,892 | 4,892 | - | 4,892 |
| Surplus on revaluation property - associate company | - | - | - | 10,574 | - | 10,574 | - | 10,574 |
| Temporary diminution value of investment | - | - | - | - | (143) | (143) | (103) | (246) |
| Net unrealised gains from translation of Bangladesh operations of associate company | - | - | - | 17,673 | - | 17,673 | - | 17,673 |
| Net income recognised directly in equity | - | - | - | 29,584 | 4,749 | 34,333 | (103) | 34,230 |
| Profit for the year | - | - | - | - | 2,044,706 | 2,044,706 | 22,865 | 2,067,571 |
| Total recognised income and expenses for the period | - | - | - | 29,584 | 2,049,455 | 2,079,039 | 22,762 | 2,101,801 |
| Transfers | - | - | 127,419 | 1,265,341 | (1,392,760) | - | - | - |
| Final dividend approved on 30.06.2008 | - | - | - | - | (653,663) | (653,663) | (62,187) | (715,850) |
| Issue of shares under share option scheme | 5,369 | 23,673 | - | - | - | 29,042 | - | 29,042 |
| Minority Interest on acquisition of joint venture | - | - | - | - | - | - | 74,985 | 74,985 |
| Disposal of subsidiary | - | - | - | - | (84,981) | (84,981) | - | (84,981) |
| Balance as at 31.03.2009 | 1,307,325 | 3,260,011 | 801,539 | 11,841,788 | 1,841,264 | 19,051,927 | 641,251 | 19,693,178 |

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

Cash Flow Statement

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

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

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

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

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

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

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

Cash Flow Statement

Note b

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

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

Note c

Net cash effect on investment in Acuity Partners (Pvt) Limited

Shares on 1 July 2008

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

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

Notes on the Financial Statements

1. Reporting Entity

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

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

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

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

The Bank does not have a Parent of its own.

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

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

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

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

(31 March 2008 - 419 and 810 respectively)

1.1 Principal Activities

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

companies and joint venture company is as follows:

DFCC Bank

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

DFCC Consulting (Pvt) Limited

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

DFCC Vardhana Bank Limited

Commercial banking.

Lanka Industrial Estates Limited

Leasing of land and buildings for industrial enterprises.

Lanka Ventures PLC

Venture capital financing.

Synapsys Limited

Information technology services and information technology enabled services.

Commercial Bank of Ceylon PLC

Commercial banking.

National Asset Management Limited

Fund management.

Acuity Partners (Pvt) Limited

Investment company and providing financial services.

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

2. Basis of Preparation

2.1 Statement of Compliance with Sri Lanka Accounting Standards

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

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

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

Key changes include:

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

2.3 Approval of Financial Statements by Directors

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

2.4 Consolidated and Separate Financial Statements

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

2.5 Basis of Measurement

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

2.6 Accrual Basis of Accounting

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

2.7 Materiality and Aggregation

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

2.8 Critical Accounting Estimates and Judgments

2.8.1 General

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

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

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

2.8.2 Judgments and the Financial Impact

The classification of investment securities is based on the positive intention of the management and the financial capacity to hold certain investments to maturity. In the event of a change of intention evidenced by management action of active

trading, such investments are transferred to Dealing securities, which represents financial assets held for trading.

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

2.8.3 Accounting Estimates

2.8.3.1 Loan Losses

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

2.8.3.2 Pension Liability

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

The pension scheme is closed to new entrants recruited on or after 1 May 2004 and the basic pension and the survivor pension amount is frozen on the date of cessation of tenured employment. These risk mitigation strategies together with annual actuarial valuation and review of key assumptions tends to

reduce the probability that the actual results will be significantly different from the estimate.

2.8.3.3 End of Service Statutory Gratuity Liability

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

2.8.3.4 Income Tax

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

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

2.8.3.5 Deferred Tax Asset arising from Unused Tax Losses

This relates to the deferred tax asset arising from unused tax losses of Bank's subsidiary, DFCC Vardhana Bank Limited. The recognition of tax asset arising from unused tax losses required the future estimation of the taxable profit of the subsidiary company to assess the absorption capacity for unused tax losses on

31 December 2008. In the event the future results of the subsidiary indicates the probability of a decline in taxable profits, the consequent impairment of deferred tax asset will be recognised in that period.

2.8.3.6 Impairment of Tangible and Intangible Assets

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

Impairment losses if any are charged to income statement immediately.

3. Basis of Consolidation

3.1 General

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

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

3.2 Transactions Eliminated on Consolidation

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

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

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

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

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

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

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

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

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

4. Scope of Consolidation

All subsidiaries have been consolidated.

4.1 Subsidiaries

Subsidiaries are those entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of entities so as to obtain

benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Note 33 contains the financial information relating to subsidiaries.

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

4.2 Associate Companies

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

4.3 Joint Venture Company

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

and unpaid on non-performing loans at the date of classification is eliminated from the income and transferred to interest in suspense.

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

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

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

5.1.3 Discount or Premium on Purchase of Dated Debt Securities

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

5.1.4 Finance Lease Income

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

2008 dated 30 December 2008 issued by Central Bank of Sri Lanka on 'Classification of Loans and Advances, Income Recognition and Provisioning' as amended.

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

5.1.5 Dividend Income

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

5.1.6 Discount on Bills of Exchange

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

5.1.7 Default Interest

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

5. Principal Accounting Policies

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

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

5.1 Revenue and Expense Recognition

5.1.1 Interest Income

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

Interest income on non-performing loans and advances is accounted on receipt basis. Interest accrued

5.1.8 Front-end Fee Income

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

5.1.9 Consultancy and Other Professional Service Income

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

5.1.10 Underwriting Commission

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

5.1.11 Guarantee Fee

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

5.1.12 Gains on Sale of Property, Plant and Equipment

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

5.1.13 Gains on Sale of Investment Property

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

5.1.14 Gains on Disposal of Dated Debt Securities

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

5.1.15 Sale and Repurchase Agreements

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

5.1.16 Premises Rental Income

Rental income is recognised on accrual basis.

5.1.17 Marked to Market Gains on Dealing Securities

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

5.1.18 Marked to Market Gains on Forward Exchange Contracts

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

5.1.19 Foreign Exchange Income

Any exchange gain or loss arising from the settlement or translation of the Bank's monetary assets and

liabilities at rates different from those which were initially recorded are dealt in the income statement.

5.1.20 Gains on Sale of Subsidiary to Joint Venture Company

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

5.1.21 Interest Expense

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

5.1.22 Allowances for Credit Losses

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

Group makes both general and specific provisions.

5.1.22.1 Specific Provisions

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

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

The specific provision has two elements:

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

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

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

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

5.1.22.2 General Provision

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

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

5.1.23 Investment Securities Losses

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

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

Temporary diminution in value of all equity securities listed in the Colombo Stock Exchange is the amount by which the aggregate market value of such securities is lower than the aggregate cost of acquisition, reduced where appropriate by write-off for diminution other than temporary in value of each

security. The market value is based on the price information on quoted securities published by the Colombo Stock Exchange.

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

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

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

5.1.24 Income Tax Expense

Income tax expense for the year comprises current and deferred tax. Income tax is recognised in

the income statement except to the extent it relates to items recognised directly in reserves in which case it is recognised in reserves.

5.1.24.1 Current Tax

- i. Current tax is the expected tax payable on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006, as amended by subsequent legislation.
- ii. Current tax expense include any adjustment to tax payable in respect of previous years.

5.1.24.2 Deferred Tax

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

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

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

Deferred tax assets and liabilities are not discounted.

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

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

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

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

5.1.24.3 Social Responsibility Levy

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

5.1.24.4 Value Added Tax

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

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

5.1.24.5 Withholding Tax on Dividends distributed by Subsidiaries and Associate Companies

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

5.2 Assets and Bases of their Valuation

5.2.1 Cash & Cash Equivalent

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

5.2.2 Balances with Central Bank

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

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

5.2.3.4 Securities Sold under Repurchase Agreements ('Repos')

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

5.2.3.5 Dealing Securities - Ordinary Shares

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

5.2.3 Securities

5.2.3.1 Dealing Debt Securities

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

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

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

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

5.2.3.2 Investment Debt Securities

These are the dated debt securities in respect of which the Bank has expressed intention and ability to hold until maturity. These are included in the balance sheet as a sub-category of Treasury Bills

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

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

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

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

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

5.2.3.7 Investment Securities - Venture Capital Investments

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

5.2.4 Loans

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

5.2.5 Non-Performing Loans and Finance Leases

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

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

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

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

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

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

5.2.6 Categorisation of Non-Performing Loans and Finance Leases

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

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

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

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

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

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

5.2.8 Finance Leases

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

5.2.9 Investment Property

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

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

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

The rates of depreciation are as follows:

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

5.2.10 Investment in Subsidiaries and Associate Companies

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

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

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

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

5.2.11 Investment in Joint Venture Company

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

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

5.2.12 Property, Plant and Equipment

5.2.12.1 Basis of Recognition

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

5.2.12.2 Measurement at Recognition

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

5.2.12.3 Subsequent Measurement

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

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

The rates of depreciation are as follows:

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

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

Land is not depreciated.

5.2.12.4 Derecognition

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

5.2.13 Goodwill or Negative Goodwill on Consolidation

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

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

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

5.2.14 Intangible Assets - Computer Application Software

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

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

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

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

5.2.15 Impairment of Assets

5.2.15.1 Tangible and Financial Assets

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

5.2.15.2 Intangible Assets - Computer Application Software and Goodwill on Consolidation

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

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

5.2.16 Foreign Currency Translation

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

Monetary liabilities denominated in foreign currencies subject to an exchange loss covered by the Government of Sri Lanka as provided in the DFCC Bank Act No. 35 of 1955 are not translated

at the exchange rates ruling on the balance sheet date. Government of Sri Lanka bears the exchange loss and is entitled to any exchange gain arising on settlement of such monetary liabilities. Government of Sri Lanka provides exchange loss cover only to liabilities guaranteed as provided in the DFCC Bank Act No. 35 of 1955.

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

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

5.2.17 Comparative Information

Where items are regrouped, comparative information is also adjusted.

5.3 Liabilities and Provisions

5.3.1 Provision for Pension Liability under a Defined Benefit Plan

5.3.1.1 Description of the Plan and Employee Groups Covered

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

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

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

5.3.1.2 Funding Arrangement

The Bank's contributions to the Trust Fund are made annually based on the recommendation of an

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

5.3.1.3 Recognition of Actuarial Gains and Losses

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

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

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

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

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

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

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

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

5.3.1.4 Transitional Arrangements

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

revised standard **exceeds** the net accrued liability recognised in the balance sheet on 31 March 2008 under the previous standard.

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

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

5.3.1.5 Recognition of Past Service Cost

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

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

5.3.2.1 Description of the Plan and Employee Groups Covered

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

the Pension Scheme. Therefore, this applies to employees recruited to the permanent cadre on or after 1 May 2004 on tenured or fixed term contract employment in the Bank.

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

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

5.3.2.2 Funding Arrangement

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

5.3.2.3 Recognition of Actuarial Gains and Losses

The Bank has chosen to recognise only the portion of the net cumulative unrecognised actuarial

gains and losses at the end of the previous reporting period that exceeds the limits of the corridor.

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

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

5.3.2.4 Transitional Arrangements

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

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

5.3.2.5 Recognition of Past Service Cost

Since end of service gratuity defined benefit is a statutory benefit, the recognition of past service cost will arise only if the Payment of Gratuity Act No. 12 of 1983 is amended in future to increase the

promised benefit on termination of employment. In such event, the Bank will adopt the accounting policy currently used for defined benefit pension plan.

5.3.2.6 Previous Accounting Policy

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

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

5.3.3 Defined Contribution Plans

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

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

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

5.3.4 Debentures Issued by the Bank and Deposit from Customers

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

5.3.5 Borrowing

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

5.3.6 Provisions for Liabilities

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

5.3.7 Off Setting

Deferred and current tax asset of each taxable entity is set off against deferred and current tax liability of

the same taxable entity operating in Sri Lanka and liable to Revenue Authority in Sri Lanka.

5.3.8 Commitments and Contingencies

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

5.3.9 Events after Balance Sheet Date

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

6. Cash Flow

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

7. Business Segment Reporting

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related

products or services that is subject to risk and returns that are different from those of other business segments. The accounting policies adopted for segment reporting are the same accounting policies adopted for preparing the financial statements of the Group.

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

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

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

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

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

8. Directors' Responsibility Statement

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

| | BANK | | GROUP | |
|--|-----------------------|----------------|-----------------------|----------------|
| | 2009 Rs 000 | 2008 Rs 000 | 2009 Rs 000 | 2008 Rs 000 |
| <i>For the year ended 31 March</i> | | | | |
| 9. Income | | | | |
| Gross income | 9,887,897 | 9,636,415 | 13,416,193 | 11,723,253 |
| Interest income | 8,528,857 | 8,491,044 | 11,998,933 | 10,497,378 |
| Other income | 1,359,040 | 1,145,371 | 1,417,260 | 1,225,875 |
| | 9,887,897 | 9,636,415 | 13,416,193 | 11,723,253 |
| 10. Interest Income | | | | |
| Loans | 6,489,723 | 6,203,091 | 9,119,574 | 8,001,762 |
| Treasury Bills Bonds and placements with other banks | 1,046,381 | 1,098,768 | 1,856,742 | 1,281,213 |
| Gross earnings under finance leases | 939,277 | 1,141,271 | 939,277 | 1,141,271 |
| Default interest on lease rentals | 53,096 | 47,914 | 53,096 | 47,925 |
| Interest and discount arising from debt securities | 380 | 0 | 30,244 | 25,207 |
| | 8,528,857 | 8,491,044 | 11,998,933 | 10,497,378 |

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

| | BANK | | GROUP | |
|---|-----------------------|----------------|-----------------------|----------------|
| | 2009 Rs 000 | 2008 Rs 000 | 2009 Rs 000 | 2008 Rs 000 |
| 11. Interest Expense | | | | |
| Medium and long-term borrowing | 2,280,827 | 1,974,367 | 2,267,370 | 1,987,887 |
| Short-term borrowing: | | | | |
| Interest on overdrafts and revolving facilities | 1,467,675 | 1,454,631 | 1,750,581 | 1,716,706 |
| Debentures | 791,306 | 662,161 | 791,306 | 662,161 |
| Time deposits from customers | 1,084,156 | 1,723,674 | 2,952,703 | 2,676,416 |
| | 5,623,964 | 5,814,833 | 7,761,960 | 7,043,170 |

| For the year ended 31 March | BANK | | GROUP | |
|--|----------------|----------------|----------------|----------------|
| | 2009 Rs 000 | 2008 Rs 000 | 2009 Rs 000 | 2008 Rs 000 |
| 12. Other Income | | | | |
| Dividend income from securities | | | | |
| Quoted ordinary shares | 16,548 | 25,644 | 16,777 | 28,643 |
| Unquoted ordinary shares | 879 | 2,652 | 11,210 | 13,001 |
| Unquoted preference shares | 172,076 | 115,674 | 183,462 | 125,602 |
| Units in unit trusts | 97,277 | 44,848 | 105,075 | 51,817 |
| Dividend income from investments in associates/subsidiaries | | | | |
| Quoted ordinary shares | 376,649 | 436,694 | 0 | 0 |
| Unquoted ordinary shares | 50,449 | 29,082 | 0 | 0 |
| Quoted preference shares | 1,831 | 5,062 | 1,831 | 5,062 |
| | 715,709 | 659,656 | 318,355 | 224,125 |
| Gain/(loss) on sale of investment securities | | | | |
| Quoted ordinary shares | 135,462 | 16,820 | 135,462 | 25,395 |
| Others | (14,076) | 15,323 | (44) | 19,072 |
| Gain on disposal of subsidiary* | 84,981 | 0 | 42,491 | 0 |
| Loss from marked to market on dealing securities | (8,883) | (5,034) | (20,170) | (5,034) |
| Recovery of bad debts | 117,942 | 203,971 | 117,942 | 203,971 |
| Front end fee | 20,694 | 18,045 | 24,784 | 19,426 |
| Consultancy and other professional services | 64,470 | 112,225 | 69,793 | 146,978 |
| LC commission | 0 | 636 | 57,349 | 39,553 |
| Underwriting commission and guarantee fees | 12,325 | 19,179 | 51,048 | 57,893 |
| Net gain on repurchase transactions | 82,133 | 24,033 | 119,389 | 43,296 |
| (Loss)/gain on sale of Treasury Bills and Bonds | (330) | 92 | (1,921) | 853 |
| Net gain on sale of equipment and investment property | 286 | 11,614 | 108 | 14,513 |
| Gain/(Loss) from marked to market on Treasury Bills and Bonds | 583 | (583) | 15,539 | (583) |
| Premises rental income: | | | | |
| Investment property | 0 | 0 | 120,493 | 116,443 |
| Freehold property | 39,229 | 31,333 | 18,045 | 18,943 |
| Foreign exchange profit/(loss) | 60,306 | (3,654) | 76,593 | 99,637 |
| (Loss)/gain on deemed disposal of associate | 0 | 0 | 130 | (4,814) |
| Others | 48,209 | 41,715 | 271,874 | 206,208 |
| | 1,359,040 | 1,145,371 | 1,417,260 | 1,225,875 |
| <i>*Only 50% of the profit from sale to the joint venture company is recognised.</i> | | | | |
| 13. Provision for Staff Retirement Benefits | | | | |
| 13.1 Amount Recognised as Expense | | | | |
| 13.1.1 Funded Liability | | | | |
| Current service cost | 53,633 | 49,614 | 53,633 | 49,614 |
| Interest on obligation | 105,289 | 90,199 | 105,289 | 90,199 |
| Expected return on pension assets | (86,297) | (70,483) | (86,297) | (70,483) |
| Net actuarial loss recognised in the financial year | 22,442 | 22,217 | 22,442 | 22,217 |
| Over provision in the previous financial year | (7) | 0 | (7) | 0 |
| | 95,060 | 91,547 | 95,060 | 91,547 |

| For the year ended 31 March | BANK | | GROUP | |
|--|----------------|----------------|----------------|----------------|
| | 2009 Rs 000 | 2008 Rs 000 | 2009 Rs 000 | 2008 Rs 000 |
| 13.1.2 Unfunded Pension Liability | | | | |
| Current service cost | 3,023 | 2,518 | 3,023 | 2,518 |
| Interest on obligation | 2,552 | 1,869 | 2,552 | 1,869 |
| Net actuarial loss recognised in the financial year | 2,385 | 909 | 2,385 | 909 |
| | 7,960 | 5,296 | 7,960 | 5,296 |
| 13.1.3 Unfunded End of Service Gratuity Liability | | | | |
| Current service cost | 1,769 | 1,470 | } 10,691 | 8,179 |
| Interest on obligation | 1,092 | 748 | | |
| | 2,861 | 2,218 | 10,691 | 8,179 |
| Total Defined Benefit Plans | 105,881 | 99,061 | 113,711 | 105,022 |
| 13.1.4 Defined Contribution Plan | | | | |
| Employer's contribution to Provident Fund | 48,269 | 42,964 | 74,601 | 59,819 |
| Employer's contribution to Employees Trust Fund | 9,672 | 8,593 | 14,905 | 12,015 |
| Total Defined Contribution Plans | 57,941 | 51,557 | 89,506 | 71,834 |
| Total Expense recognised in the Income Statement | 163,822 | 150,618 | 203,217 | 176,856 |
| 13.2 Amortisation of Net Actuarial Losses/(Gains) | | | | |
| 13.2.1 Funded Liability | | | | |
| Balance at beginning | 126,901 | 147,100 | | |
| Recognised in the financial year | (22,442) | (22,217) | | |
| | 104,459 | 124,883 | | |
| Net actuarial loss/(gain) during the financial year | (154,691) | 2,018 | | |
| | (50,232) | 126,901 | | |
| 13.2.2 Unfunded Pension Liability | | | | |
| Balance at beginning | 4,358 | 1,321 | | |
| Recognised in the financial year | (2,385) | (909) | | |
| | 1,973 | 412 | | |
| Net actuarial loss/(gain) during the financial year | (899) | 3,946 | | |
| | 1,074 | 4,358 | | |
| 13.2.3 End of Service Gratuity Liability | | | | |
| Net actuarial loss during the financial year | 5,333 | | | |

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

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

13.3 Unfunded Pension Liability

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

13.4 Actuarial Valuation

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

13.5 Actuarial Valuation Method

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

13.6 Principal Actuarial Assumptions

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

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

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

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

| For the year ended 31 March | BANK | | GROUP | |
|---|----------------|----------------|----------------|----------------|
| | 2009 Rs 000 | 2008 Rs 000 | 2009 Rs 000 | 2008 Rs 000 |
| 14. Bad and Doubtful Debts - Specific | | | | |
| Provision for the year | | | | |
| Loans | 350,013 | 208,760 | 706,372 | 446,343 |
| Leases | 208,564 | 104,543 | 208,564 | 104,543 |
| Dues on terminated leases | 9,801 | 10,233 | 9,801 | 10,233 |
| Bills of exchange | 0 | 0 | 11,021 | 5,282 |
| Others | 14,329 | 1,485 | 14,329 | 1,485 |
| Loan/lease losses | 2,697 | 14,981 | 5,767 | 14,981 |
| | 585,404 | 340,002 | 955,854 | 582,867 |
| Less: Reductions in the year | | | | |
| Loans | 166,318 | 176,898 | 289,738 | 361,058 |
| Leases | 59,151 | 62,405 | 59,151 | 62,405 |
| Dues on terminated leases | 26,702 | 17,121 | 26,702 | 17,121 |
| Bills of exchange | 5,620 | 0 | 7,405 | 1,005 |
| Others | 1,170 | 0 | 1,170 | 0 |
| | 326,443 | 83,578 | 571,688 | 141,278 |
| 15. Bad and Doubtful Debts - General | | | | |
| Provision for the year | | | | |
| Loans | 114,187 | 150,707 | 155,782 | 192,120 |
| Leases | 58,315 | 23,376 | 58,315 | 23,376 |
| Bills of exchange | 0 | 0 | 373 | 1,934 |
| | 172,502 | 174,083 | 214,470 | 217,430 |
| 16. Investment - Impairment Losses | | | | |
| Investment securities | 11,303 | 0 | 41,303 | 6,604 |
| 17. Operating Expenses | | | | |
| Operating expenses include the following: | | | | |
| Directors' remuneration | 33,446 | 25,844 | 47,955 | 36,059 |
| Employers contribution to Employees' Provident Fund | 48,269 | 42,964 | 74,601 | 59,819 |
| Employers contribution to Employees' Trust Fund | 9,672 | 8,593 | 14,905 | 12,015 |
| Gratuity provision | 2,861 | 2,218 | 10,691 | 8,179 |
| Auditors' remuneration | | | | |
| Audit fees and expenses | 2,052 | 1,782 | 3,684 | 2,718 |
| Audit related fees and expenses | 581 | 1,114 | 873 | 1,194 |
| Fees for non-audit services | 214 | 463 | 214 | 463 |
| Fees for other auditors | 0 | 0 | 530 | 445 |
| Depreciation | | | | |
| - Investment property | 0 | 0 | 6,354 | 6,069 |
| - Property, plant and equipment | 93,066 | 87,628 | 165,924 | 138,775 |
| Amortisation | | | | |
| - Intangible assets | 30,517 | 45,032 | 70,230 | 81,063 |
| Expenses on litigation | 4,375 | 4,469 | 11,910 | 8,278 |

18. Income Tax Expense

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

18.2 Relationship between Tax Expense and Accounting Income

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

| | BANK | | GROUP | |
|---|----------------|----------------|----------------|----------------|
| | 2009 Rs 000 | 2008 Rs 000 | 2009 Rs 000 | 2008 Rs 000 |
| <i>For the year ended 31 March</i> | | | | |
| Profit before tax as per the income statement | 2,005,923 | 1,982,901 | 3,122,415 | 3,090,097 |
| Disallowed expenses and provisions | 977,538 | 706,316 | 1,044,849 | 143,824 |
| Lease rentals net of capital allowances | 896,786 | 1,554,863 | 896,786 | 1,554,863 |
| Reported earnings under finance lease net of provision for bad & doubtful debts | (806,765) | (1,106,021) | (806,765) | (1,106,021) |
| Capital allowances on property, plant and equipment | (96,630) | (77,031) | (234,687) | (214,605) |
| Dividend income | (715,709) | (659,656) | (318,355) | (224,125) |
| Gain on sale of investment securities | (206,367) | (32,143) | (163,877) | (44,467) |
| Other exemptions | (255,155) | (100,228) | (309,987) | (176,338) |
| Assessable Income | 1,799,621 | 2,269,001 | 3,230,379 | 3,023,228 |
| Offset of brought forward tax lossess (limited to 35% of assessable income) | - | - | (215,130) | (135,001) |
| Taxable Income | 1,799,621 | 2,269,001 | 3,015,249 | 2,888,227 |
| Income tax expense reported in the Income Statement at the effective income tax rate | 629,867 | 794,150 | 813,445 | 930,789 |
| Effective tax rate % | 31 | 40 | | |
| Companies/income taxed at rates lower than 35% | | | 2009 % | 2008 % |
| Lanka Ventures PLC - On venture capital income | | | 20 | 20 |
| Lanka Industrial Estates Limited (BOI approved company) - On business turnover | | | 2 | 2 |
| Synapsys Limited (BOI approved company) - Income other than investment income | | | exempt | exempt |
| Profit earned on overseas assignment rendered in Sri Lanka and paid in foreign currency | | | 35 | 15 |

| | BANK | | GROUP | |
|--|----------------|----------------|----------------|----------------|
| | 2009 Rs 000 | 2008 Rs 000 | 2009 Rs 000 | 2008 Rs 000 |
| <i>For the year ended 31 March</i> | | | | |
| 18.3 Tax on Profit on Ordinary Activities | | | | |
| Taxation based on profits for the year | 629,867 | 794,150 | | |
| Tax over provision | (18,388) | (15,849) | | |
| Increase in deferred tax asset | (371) | (186) | | |
| Increase/(decrease) in deferred tax liability | 34,942 | (113,033) | | |
| Bank | 646,050 | 665,082 | 646,050 | 665,082 |
| Acuity Partners (Pvt) Limited - joint venture | | 0 | 10,112 | 0 |
| DFCC Consulting (Pvt) Limited | 0 | 0 | (54) | 4,690 |
| DFCC Stockbrokers (Pvt) Limited | 0 | 0 | 6,087 | 8,437 |
| DFCC Vardhana Bank Limited | 0 | 0 | 227,586 | 138,142 |
| Lanka Industrial Estates Limited | 0 | 0 | 19,275 | 16,112 |
| Lanka Ventures PLC | 0 | 0 | 144,193 | 10,893 |
| Synapsys Limited | 0 | 0 | 1,595 | 101 |
| Subsidiary companies' tax | 0 | 0 | 408,794 | 178,375 |
| Total | 646,050 | 665,082 | 1,054,844 | 843,457 |

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

19. Earnings per Share

19.1 Basic Earnings per Share

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

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

19.2 Diluted Earnings per Share

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

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

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

19.5 Restatement of Diluted Earnings Per Share

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

| | BANK | | GROUP | |
|--------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
| 20. Cash and Short-Term Funds | | | | |
| Cash and balance with banks | 668,498 | 142,135 | 1,491,263 | 1,160,984 |
| Call deposits | | | | |
| DFCC Vardhana Bank Limited | 857,598 | 1,562,410 | 220,973 | 873,585 |
| Others | 0 | 0 | 785,100 | 489,851 |
| Time deposits | | | | |
| DFCC Vardhana Bank Limited | 636,625 | 0 | 636,625 | 0 |
| Others | 347,250 | 0 | 1,080,023 | 1,164,099 |
| | 2,509,971 | 1,704,545 | 4,213,984 | 3,688,519 |

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

21. Balances with Central Bank

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

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

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

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

| | BANK | | GROUP | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
| 22. Treasury Bills and Other Securities Eligible for Rediscounting with Central Bank | | | | |
| Treasury Bills and Bonds held for trading | | | | |
| Repurchase transactions | 0 | 1,984,065 | 1,775,696 | 1,984,065 |
| Others | 0 | 268,708 | 1,388,080 | 268,708 |
| | 0 | 2,252,773 | 3,163,776 | 2,252,773 |
| Treasury Bills and bonds held to maturity | | | | |
| Repurchase transactions | 3,196,185 | 0 | 3,196,185 | 0 |
| Others | 2,709,024 | 4,167,167 | 6,290,838 | 5,240,212 |
| | 5,905,209 | 6,419,940 | 12,650,799 | 7,492,985 |

| | BANK | | GROUP | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
| 23. Securities Purchased under Resale Agreements | | | | |
| Loans at cost | 96,000 | 208,000 | 1,523,823 | 753,256 |

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

| | BANK | | GROUP | |
|--|----------------------|----------------------|----------------------|----------------------|
| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
| 24. Placements with and Loans to Other Banks and Financial Institutions | | | | |
| Placements | 0 | 0 | 20,000 | 0 |
| Loans to banks | 1,454,262 | 1,578,595 | 1,332,262 | 1,471,654 |
| | 1,454,262 | 1,578,595 | 1,352,262 | 1,471,654 |
| 24.1 Placements | | | | |
| Financial Institutions | 0 | 0 | 20,000 | 0 |
| | 0 | 0 | 20,000 | 0 |
| 24.2 Loans to Banks | | | | |
| Subordinated loan - DFCC Vardhana Bank Limited | 122,000 | 122,000 | 0 | 0 |
| Refinanced loans - Plantation development project | 812,086 | 956,595 | 812,086 | 956,595 |
| - KFW DFCC (V) SME in the North and East | 20,176 | 0 | 20,176 | 0 |
| Other loans | 500,000 | 500,000 | 500,000 | 515,059 |
| | 1,454,262 | 1,578,595 | 1,332,262 | 1,471,654 |

| | BANK 31.03.2009 | | | GROUP 31.03.2009 | | |
|-----------------------------------|---------------------------------|----------------|---------------------------|---------------------------------|----------------|---------------------------|
| | Number of ordinary shares | Cost Rs 000 | Market value Rs 000 | Number of ordinary shares | Cost Rs 000 | Market value Rs 000 |
| 25. Dealing Securities | | | | | | |
| Quoted Ordinary Shares | | | | | | |
| Dialog Telekom PLC | 54,890 | 919 | 269 | 54,890 | 919 | 269 |
| John Keells Holdings PLC | 148,335 | 17,555 | 9,308 | 205,477 | 26,708 | 12,894 |
| Lanka IOC PLC | 0 | 0 | 0 | 240,000 | 9,560 | 3,840 |
| Sri Lanka Telecom PLC | 900 | 16 | 30 | 900 | 16 | 30 |
| | | 18,490 | 9,607 | | 37,203 | 17,033 |
| Marked to market adjustment | | (8,883) | | | (20,170) | |
| Market value on 31.03.2009 | | 9,607 | | | 17,033 | |
| Market value on 31.03.2008 | | 17,591 | | | 17,591 | |

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

| | BANK | | GROUP | |
|---|-----------------------------|----------------------|-----------------------------|----------------------|
| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
| 27.2 Movement in Loan loss Provision | | | | |
| 27.2.1 Specific Provision | | | | |
| Balance on 31 March 2008 | 703,244 | | 861,635 | |
| Add: Provision for the year | 350,013 | | 706,372 | |
| Transfer from interest in suspense | 38,344 | | 38,907 | |
| Exchange rate difference on foreign currency provision | 0 | | 1,089 | |
| Less: Reduction in the year | 166,318 | | 289,738 | |
| Write-off of loans | 1,593 | | 4,058 | |
| | 923,690 | | 1,314,207 | |
| 27.2.2 General Provision | | | | |
| Balance on 31 March 2008 | 225,800 | | 278,328 | |
| Add: Provision for the year | 114,187 | | 155,782 | |
| | 339,987 | | 434,110 | |
| 28. Finance Leases | | | | |
| 28.1 Balance on 31 March | | | | |
| Gross investment in leases: | | | | |
| Lease rentals receivable | | | | |
| - within one year from balance sheet date | 3,318,564 | 3,214,106 | 3,318,564 | 3,214,106 |
| - after one year from balance sheet date | 3,145,097 | 5,230,762 | 3,145,097 | 5,230,762 |
| | 6,463,661 | 8,444,868 | 6,463,661 | 8,444,868 |
| Less: Deposit of rentals | 69,445 | 78,739 | 69,445 | 78,739 |
| Specific provision for leases in default | 309,715 | 206,253 | 309,715 | 206,253 |
| General provision for leases | 96,604 | 38,289 | 96,604 | 38,289 |
| Income in suspense | 79,352 | 61,927 | 79,352 | 61,927 |
| Unearned income on rentals receivable | | | | |
| - within one year from balance sheet date | 647,680 | 820,367 | 647,680 | 820,367 |
| - after one year from balance sheet date | 456,435 | 758,175 | 456,435 | 758,175 |
| Net investment in leases | 4,804,430 | 6,481,118 | 4,804,430 | 6,481,118 |

| | BANK | | GROUP | |
|--|-----------------------------|----------------------|-----------------------------|----------------------|
| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
| 28.2 Movement in Provision | | | | |
| 28.2.1 Specific Provision | | | | |
| Balance on 31 March 2008 | 206,253 | | 206,253 | |
| Add: Provision for the year | 208,564 | | 208,564 | |
| Less: Recoveries | 59,151 | | 59,151 | |
| Transfers * | 45,951 | | 45,951 | |
| | <u>309,715</u> | | <u>309,715</u> | |
| <i>* To specific provision on dues on terminated leases, included under debtors.</i> | | | | |
| 28.2.2 General Provision | | | | |
| Balance on 31 March 2008 | 38,289 | | 38,289 | |
| Add: Provision for the year | 58,315 | | 58,315 | |
| | <u>96,604</u> | | <u>96,604</u> | |
| 28.3 Movement in Income Suspense | | | | |
| Balance on 31 March 2008 | 61,927 | | 61,927 | |
| Add: Transfer during the year | 145,308 | | 145,308 | |
| Less: Recoveries | 127,883 | | 127,883 | |
| | <u>79,352</u> | | <u>79,352</u> | |
| 29. Interest Receivable | | | | |
| 29.1 Balance on 31 March | | | | |
| Amount due | 1,466,995 | 977,707 | 1,466,995 | 1,248,323 |
| Amount accrued and not due | 469,516 | 607,487 | 895,645 | 606,752 |
| Less: Interest in suspense | 1,333,222 | 980,851 | 1,680,412 | 1,154,869 |
| | <u>603,289</u> | <u>604,343</u> | <u>682,228</u> | <u>700,206</u> |
| 29.2 Movement in Interest in Suspense | | | | |
| Balance on 31 March 2008 | 980,851 | | 1,154,869 | |
| Add: Transfer during the year | 817,799 | | 1,457,901 | |
| Less: Collections | 408,407 | | 862,668 | |
| Transfer to loan provision | 38,344 | | 38,907 | |
| Write-off | 18,677 | | 30,783 | |
| | <u>1,333,222</u> | | <u>1,680,412</u> | |

30. Investment Securities

30.1 Composition of Investment Securities

30.1.1 Bank

| | Ordinary Shares Quoted Rs 000 | Ordinary Shares Unquoted Rs 000 | Preference Shares Quoted Rs 000 | Preference Shares Unquoted Rs 000 | Debentures Quoted Rs 000 | Debentures Unquoted Rs 000 | Unit Trusts Rs 000 | Total 31.03.2009 Rs 000 | Total 31.03.2008 Rs 000 |
|----------------------------|-------------------------------------|---------------------------------------|---------------------------------------|---|--------------------------------|----------------------------------|-----------------------|-------------------------------|-------------------------------|
| Performing investments | 276,248 | 39,895 | 0 | 1,186,417 | 0 | 0 | 334,055 | 1,836,615 | 1,594,072 |
| Non-performing investments | 22,068 | 47,790 | 0 | 0 | 0 | 0 | 11,947 | 81,805 | 85,755 |
| | 298,316 | 87,685 | 0 | 1,186,417 | 0 | 0 | 346,002 | 1,918,420 | 1,679,827 |

30.1.2 Group

| | | | | | | | | | |
|--------------------------------|---------|---------|---|-----------|---|---------|---------|-----------|-----------|
| Performing investments | 300,552 | 140,350 | 0 | 1,324,773 | 0 | 163,500 | 384,055 | 2,313,230 | 2,092,683 |
| Non-performing investments | 22,068 | 47,790 | 0 | 55,000 | 0 | 0 | 11,947 | 136,805 | 129,505 |
| Less: Provision for diminution | 6,850 | 0 | 0 | 48,750 | 0 | 0 | 0 | 55,600 | 25,354 |
| | 315,770 | 188,140 | 0 | 1,331,023 | 0 | 163,500 | 396,002 | 2,394,435 | 2,196,834 |

30.2 Movement in Investment Securities

30.2.1 Bank

| | | | | | | | | | |
|--------------------------------|---------|--------|--------|-----------|---|---|---------|-----------|-----------|
| Balance on 31 March | 377,424 | 72,685 | 50,000 | 828,833 | 0 | 0 | 350,885 | 1,679,827 | 1,260,439 |
| Additions for the year | 8,000 | 15,000 | 0 | 575,000 | 0 | 0 | 320,117 | 918,117 | 562,469 |
| Less: Disposals | 75,789 | 0 | 0 | 0 | 0 | 0 | 325,000 | 400,789 | 14,683 |
| Redemptions | 0 | 0 | 50,000 | 217,416 | 0 | 0 | 0 | 267,416 | 128,398 |
| Transfer to dealing securities | 16 | 0 | 0 | 0 | 0 | 0 | 0 | 16 | 0 |
| Write-offs | 11,303 | 0 | 0 | 0 | 0 | 0 | 0 | 11,303 | 0 |
| | 298,316 | 87,685 | 0 | 1,186,417 | 0 | 0 | 346,002 | 1,918,420 | 1,679,827 |

Market value

| | | | | | | | | |
|---------------|---------|---|--------|---|---|---|---------|-----------|
| on 31.03.2009 | 321,615 | - | 0 | - | - | - | 379,412 | 701,027 |
| on 31.03.2008 | 559,543 | - | 45,000 | - | - | - | 399,943 | 1,004,486 |

30.2.2 Group

| | | | | | | | | | |
|---|---------|---------|--------|-----------|--------|---------|---------|-----------|-----------|
| Balance on 31 March | 397,295 | 149,140 | 50,000 | 1,050,939 | 30,000 | 143,929 | 400,885 | 2,222,188 | 1,790,331 |
| Additions for the year | 31,725 | 40,000 | 0 | 575,000 | 0 | 40,000 | 320,117 | 1,006,842 | 679,724 |
| Additions through acquisition of a joint venture | 580 | 0 | 0 | 0 | 0 | 0 | 0 | 580 | 0 |
| Less: Disposals during the year | 75,788 | 1,000 | 0 | 0 | 0 | 0 | 0 | 76,788 | 96,327 |
| Redemptions during the year | 0 | 0 | 50,000 | 246,166 | 30,000 | 20,429 | 325,000 | 671,595 | 151,540 |
| Transfer to dealing securities | 18,729 | 0 | 0 | 0 | 0 | 0 | 0 | 18,729 | 0 |
| Write-offs | 11,303 | 0 | 0 | 0 | 0 | 0 | 0 | 11,303 | 0 |
| Disposal of a subsidiary | 1,160 | 0 | 0 | 0 | 0 | 0 | 0 | 1,160 | 0 |
| | 322,620 | 188,140 | 0 | 1,379,773 | 0 | 163,500 | 396,002 | 2,450,035 | 2,222,188 |
| Less: Provision for diminution | 6,850 | 0 | 0 | 48,750 | 0 | 0 | 0 | 55,600 | 25,354 |
| | 315,770 | 188,140 | 0 | 1,331,023 | 0 | 163,500 | 396,002 | 2,394,435 | 2,196,834 |

Market value

| | | | | | | | | |
|---------------|---------|---|--------|---|--------|---|---------|-----------|
| on 31.03.2009 | 339,368 | - | 0 | - | 0 | - | 431,610 | 770,978 |
| on 31.03.2008 | 574,507 | - | 45,000 | - | 30,200 | - | 449,948 | 1,099,655 |

GROUP

| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
|--------------------------------------|----------------------|----------------------|
| 30.3 Provision for Diminution | | |
| 30.3.1 Movement in Provision | | |
| Balance on 31 March | 25,354 | 18,750 |
| Recognised in: Income Statement | 30,000 | 6604 |
| Retained earnings | 143 | 0 |
| Minority interest | 103 | 0 |
| | 55,600 | 25,354 |

30.4 On 31 March 2009 the Bank held more than 20% and less than 50% of the voting control in Hydrotech Lanka Dickoya (Pvt) Limited. This investment is classified under investment securities and not as investments in associate companies since the Bank did not have a significant influence over the operating and financial policies of this company.

30.5 Quoted Ordinary Shares

Banks, Finance & Insurance

| | 31.03.2009 | | | 31.03.2008 | | |
|---|---------------------------|-----------------|------------------------|---------------------------|-----------------|------------------------|
| | Number of ordinary shares | Cost* Rs 000 | Market value Rs 000 | Number of ordinary shares | Cost* Rs 000 | Market value Rs 000 |
| Ceylinco Insurance PLC - voting | 4,100 | 719 | 574 | 4,100 | 719 | 880 |
| Ceylinco Insurance PLC - non-voting | 28,571 | 5,000 | 2,171 | 0 | 0 | 0 |
| Hatton National Bank PLC - non-voting | 797,600 | 23,575 | 30,308 | 797,600 | 23,575 | 40,877 |
| Housing Development Finance Corporation Bank of Sri Lanka | 37,400 | 3,375 | 1,898 | 37,400 | 8,228 | 4,479 |
| Janashakthi Insurance PLC | 250,000 | 3,000 | 1,938 | 0 | 0 | 0 |
| Lanka Orix Leasing Company PLC | 17,828 | 780 | 1,235 | 17,828 | 780 | 2,099 |
| Sampath Bank PLC | 173,300 | 18,991 | 12,131 | 173,300 | 18,991 | 20,059 |
| Seylan Bank PLC - non-voting | 260,000 | 4,416 | 1,430 | 260,000 | 4,416 | 2,405 |
| | | 59,856 | 51,685 | | 56,709 | 70,799 |

Beverages, Food & Tobacco

| | | | | | | |
|---------------------------------------|---------|-------|--------|---------|-------|--------|
| Ceylon Tobacco Company PLC | 119,967 | 86 | 11,517 | 119,967 | 86 | 7,528 |
| Distilleries Company of Sri Lanka PLC | 117,200 | 4,752 | 7,618 | 117,200 | 4,752 | 11,486 |
| | | 4,838 | 19,135 | | 4,838 | 19,014 |

Chemicals & Pharmaceuticals

| | | | | | | |
|-------------|--------|-----|-----|--------|-----|-------|
| Haycarb PLC | 19,130 | 944 | 890 | 19,130 | 944 | 1,114 |
|-------------|--------|-----|-----|--------|-----|-------|

Construction & Engineering

| | | | | | | |
|----------------------|--------|-------|-------|--------|-------|-------|
| Colombo Dockyard PLC | 88,725 | 5,442 | 5,080 | 84,500 | 5,442 | 5,091 |
|----------------------|--------|-------|-------|--------|-------|-------|

Diversified Holdings

| | | | | | | |
|-----------------------------|---------|--------|--------|---------|--------|--------|
| Aitken Spence & Company PLC | 63,200 | 21,522 | 19,908 | 63,200 | 21,522 | 27,176 |
| Hayleys PLC | 250,460 | 22,484 | 22,541 | 250,460 | 22,484 | 24,482 |
| | | 44,006 | 42,449 | | 44,006 | 51,658 |

Healthcare

| | | | | | | |
|-----------------------------------|---------|-------|--------|---------|-------|--------|
| Ceylon Hospitals PLC - voting | 100,000 | 2,500 | 5,300 | 100,000 | 2,500 | 5,800 |
| Ceylon Hospitals PLC - non-voting | 300,000 | 6,000 | 8,550 | 300,000 | 6,000 | 10,800 |
| | | 8,500 | 13,850 | | 8,500 | 16,600 |

Hotels & Travels

| | | | | | | |
|-----------------------------|-----------|--------|--------|-----------|--------|--------|
| Sigiriya Village Hotels PLC | 55,000 | 1,284 | 1,375 | 55,000 | 1,284 | 1,815 |
| Stafford Hotels PLC | 5,909,825 | 56,990 | 67,963 | 5,909,825 | 56,990 | 65,008 |
| | | 58,274 | 69,338 | | 58,274 | 66,823 |

Information Technology

| | | | | | | |
|-------------------|---------|-------|-------|---------|-------|--------|
| E-Channelling PLC | 877,100 | 8,771 | 6,798 | 877,100 | 8,771 | 13,595 |
|-------------------|---------|-------|-------|---------|-------|--------|

Investment Trusts

| | | | | | | |
|--------------------------------------|--------|-------|-------|--------|-------|--------|
| Ceylon Guardian Investment Trust PLC | 36,884 | 1,298 | 3,841 | 36,844 | 1,298 | 6,079 |
| Ceylon Investment Company PLC | 94,520 | 2,564 | 5,482 | 94,520 | 2,564 | 7,373 |
| | | 3,862 | 9,323 | | 3,862 | 13,452 |

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

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

| | 31.03.2009 | | | 31.03.2008 | | |
|--|---------------------------|-----------------|------------------------|---------------------------|-----------------|------------------------|
| | Number of ordinary shares | Cost* Rs 000 | Market value Rs 000 | Number of ordinary shares | Cost* Rs 000 | Market value Rs 000 |
| 30.5 Quoted Ordinary Shares (Contd.) | | | | | | |
| Manufacturing | | | | | | |
| ACL Cables PLC | 51,000 | 3,070 | 1,237 | 51,000 | 3,070 | 2,346 |
| Chevron Lubricants Lanka PLC | 304,700 | 20,301 | 32,146 | 304,700 | 20,301 | 29,861 |
| Piramal Glass PLC | 12,981,852 | 25,000 | 16,876 | 12,981,852 | 25,000 | 25,964 |
| Ceylon Grain Elevators PLC | 48,997 | 1,297 | 392 | 48,997 | 1,297 | 576 |
| Lanka Tiles PLC | 296,219 | 5,809 | 8,442 | 211,587 | 5,809 | 13,436 |
| Tokyo Cement (Lanka) PLC - non-voting | 1,236,000 | 16,346 | 11,124 | 1,236,000 | 16,346 | 19,158 |
| | | 71,823 | 70,217 | | 71,823 | 91,341 |
| Power & Energy | | | | | | |
| Lanka Indian Oil Company PLC | 600,000 | 12,000 | 9,600 | 600,000 | 18,450 | 13,200 |
| Vallibel Power Erathna PLC | 7,500,000 | 20,000 | 23,250 | 7,500,000 | 20,000 | 18,000 |
| | | 32,000 | 32,850 | | 38,450 | 31,200 |
| Telecommunications | | | | | | |
| Sri Lanka Telecom PLC | 0 | 0 | 0 | 4,335,900 | 75,805 | 178,856 |
| Total Quoted Shares - Bank | | 298,316 | 321,615 | | 377,424 | 559,543 |
| Investment in quoted shares by subsidiaries | | 24,304 | 17,753 | | 19,871 | 14,964 |
| Total Quoted Shares - Group | | 322,620 | 339,368 | | 397,295 | 574,507 |
| 30.5.1 Investment in Quoted Ordinary Shares by Subsidiaries | | | | | | |
| Banks, Finance & Insurance | | | | | | |
| Central Finance PLC | 3 | 0 | 0 | 6 | 0 | 1 |
| | | 0 | 0 | | 0 | 1 |
| Beverage & Tobacco | | | | | | |
| Coco Lanka PLC | 937,500 | 23,725 | 16,875 | 0 | 0 | 0 |
| | | 23,725 | 16,875 | | 0 | 0 |
| Power & Energy | | | | | | |
| Lanka Indian Oil Company PLC | 0 | 0 | 0 | 240,000 | 9,560 | 5,280 |
| | 0 | 0 | 0 | | 9,560 | 5,280 |
| Diversified Holdings | | | | | | |
| Hayleys PLC | 7,491 | 557 | 644 | 14,982 | 1,115 | 1,614 |
| John Keells Holdings PLC | 4,680 | 22 | 234 | 66,892 | 9,196 | 8,069 |
| | | 579 | 878 | | 10,311 | 9,683 |
| | | 24,304 | 17,753 | | 19,871 | 14,964 |

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

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

| | 31.03.2009 | | | 31.03.2008 | | |
|---|---------------------------|-----------------|--------------------------------|---------------------------|-----------------|--------------------------------|
| | Number of ordinary shares | Cost* Rs 000 | Directors' valuation Rs 000 | Number of ordinary shares | Cost* Rs 000 | Directors' valuation Rs 000 |
| 30.6 Unquoted Ordinary Shares | | | | | | |
| Beico Link Carbons (Pvt) Limited | 328,500 | 2,190 | 2,190 | 328,500 | 2,190 | 2,190 |
| Browns Dimo Industrial Products (Pvt) Limited | 150,000 | 1,500 | 1,500 | 150,000 | 1,500 | 1,500 |
| Ceylinco Developers Limited | 250,000 | 2,500 | 2,500 | 250,000 | 2,500 | 2,673 |
| Credit Information Bureau of Sri Lanka | 8,884 | 888 | 888 | 8,884 | 888 | 888 |
| Cyprea Lanka (Pvt) Limited | 1,500,000 | 15,000 | 15,000 | 1,500,000 | 15,000 | 15,000 |
| Durdans Medical & Surgical Hospital (Pvt) Limited | 1,200,000 | 15,000 | 15,000 | 0 | 0 | 0 |
| Fitch Ratings Lanka Limited | 62,500 | 625 | 625 | 62,500 | 625 | 625 |
| Hydrotech Lanka (Dickoya) (Pvt) Limited | 1,834,500 | 4,500 | 4,500 | 1,834,500 | 4,500 | 4,500 |
| Link Development (Pvt) Limited | 150,000 | 750 | 750 | 150,000 | 750 | 750 |
| Plastipak Lanka Limited | 240,000 | 2,400 | 2,400 | 240,000 | 2,400 | 2,400 |
| Ranweli Resorts Limited | 1,616,193 | 10,748 | 10,748 | 1,616,193 | 10,748 | 12,733 |
| Sampath Centre Limited | 1,000,000 | 10,000 | 10,000 | 1,000,000 | 10,000 | 10,000 |
| Samson Reclaim Rubbers (Pvt) Limited | 116,700 | 2,334 | 2,752 | 116,700 | 2,334 | 2,334 |
| Sinwa Holdings Limited | 460,000 | 9,200 | 9,200 | 460,000 | 9,200 | 9,200 |
| The Video Team (Pvt) Limited | 30,000 | 300 | 300 | 30,000 | 300 | 300 |
| Wayamba Plantations (Pvt) Limited | 2,750,000 | 9,750 | 9,750 | 2,750,000 | 9,750 | 9,750 |
| Total unquoted ordinary shares - Bank | | 87,685 | 88,103 | | 72,685 | 74,843 |
| Investments in unquoted ordinary shares by subsidiaries | | 100,455 | | | 76,455 | |
| Total unquoted ordinary shares - Group | | 188,140 | | | 149,140 | |

| | 31.03.2009 | | 31.03.2008 | |
|---|---------------------------|-----------------|---------------------------|-----------------|
| | Number of ordinary shares | Cost* Rs 000 | Number of ordinary shares | Cost* Rs 000 |
| 30.6.1 Investments in Unquoted Ordinary Shares by Subsidiaries | | | | |
| Credit Information Bureau of Sri Lanka | 300 | 30 | 300 | 30 |
| Durdans Heart Surgical Centre (Pvt) Limited | 1,500,000 | 14,625 | 1,500,000 | 14,625 |
| Durdans Medical & Surgical (Pvt) Limited | 2,000,000 | 25,000 | 0 | 0 |
| Hayleys Hydro Energy (Pvt) Limited | 5,880,000 | 58,800 | 5,880,000 | 58,800 |
| Lankaclear (Pvt) Limited | 100,000 | 1,000 | 100,000 | 1,000 |
| Lanka Financial Services Bureau Limited | 100,000 | 1,000 | 200,000 | 2,000 |
| | | 100,455 | | 76,455 |

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

| | 31.03.2009 | | 31.03.2008 | |
|---|------------------|-----------------|------------------|-----------------|
| | Number of shares | Cost* Rs 000 | Number of shares | Cost* Rs 000 |
| 30.7 Quoted Redeemable Cumulative Preference Shares | | | | |
| Commercial Bank of Ceylon PLC - 11.25% | 0 | 0 | 5,000,000 | 50,000 |
| Investments in quoted preference shares - Bank | 0 | 0 | | 50,000 |
| Investments in quoted preference shares - by subsidiaries | 0 | 0 | | 0 |
| Total investments in quoted preference shares - Group | | 0 | | 50,000 |
| 30.8 Unquoted Preference Shares | | | | |
| 30.8.1 Unquoted Redeemable Cumulative Preference Shares | | | | |
| Carson Cumberbatch & Company PLC | 40,625,000 | 406,250 | 17,500,000 | 175,000 |
| Dialog Telekom PLC | 423,000,000 | 423,000 | 470,000,000 | 470,000 |
| Eden Hotels Lanka Limited | 3,333,334 | 33,334 | 6,666,667 | 66,667 |
| Heladanavi (Pvt) Limited | 8,333,335 | 83,333 | 11,666,669 | 116,666 |
| Sampath Centre Limited | 24,000,000 | 240,000 | 0 | 0 |
| | | 1,185,917 | | 828,333 |
| 30.8.2 Unquoted Irredeemable Preference Shares | | | | |
| Arpico Finance Company PLC | 50,000 | 500 | 50,000 | 500 |
| Total investments in unquoted preference shares - Bank | | 1,186,417 | | 828,833 |
| Investments in unquoted preference shares by subsidiaries | | 193,356 | | 222,106 |
| Total investments in unquoted preference shares - Group | | 1,379,773 | | 1,050,939 |
| 30.8.3 Investments in Unquoted Preference Shares by Subsidiaries | | | | |
| E Services Limited | 2,500,000 | 25,000 | 2,500,000 | 25,000 |
| LVS Energy (Pvt) Limited | 5,000,000 | 50,250 | 5,000,000 | 50,250 |
| Nividhu (Pvt) Limited | 3,280,000 | 32,981 | 3,280,000 | 32,981 |
| Renuka Agrifoods Limited | 0 | 0 | 1,875,000 | 18,750 |
| Royal Fernwood Porcelain Limited | 2,500,000 | 30,000 | 2,500,000 | 30,000 |
| Tudawe Brothers Limited | 390,000 | 30,000 | 400,000 | 40,000 |
| Unit Energy (Pvt) Limited | 2,500,000 | 25,125 | 2,500,000 | 25,125 |
| | | 193,356 | | 222,106 |

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

| | 31.03.2009 Cost* Rs 000 | 31.03.2008 Cost* Rs 000 |
|---|-------------------------------|-------------------------------|
| 30.9 Quoted Debentures | | |
| Total quoted debentures - Bank | 0 | 0 |
| Investments in quoted debentures by subsidiaries | 0 | 30,000 |
| Total investments in quoted debentures - Group | | 30,000 |
| 33.10.1 Investments in Quoted Debentures by Subsidiaries | | |
| Commercial Bank of Ceylon PLC - 9.39% | 0 | 20,000 |
| Hatton National Bank PLC - 10% | 0 | 10,000 |
| | 0 | 30,000 |
| 30.10 Unquoted Debentures | | |
| Total investments in unquoted debentures - Bank | 0 | 0 |
| Investments in unquoted debentures by subsidiaries | 163,500 | 143,929 |
| Total investments in unquoted debentures - Group | 163,500 | 143,929 |
| 30.10.1 Investments in Unquoted Debentures by Subsidiaries | | |
| Ceylon Hospitals PLC | 100,000 | 100,429 |
| Hatton National Bank PLC | 13,500 | 13,500 |
| Renuka Agrifoods Limited | 0 | 10,000 |
| Neluwa Cascade Limited | 40,000 | 0 |
| Coco Lanka PLC | 0 | 10,000 |
| Unit Energy (Pvt) Limited | 10,000 | 10,000 |
| | 163,500 | 143,929 |

| | 31.03.2009 | | | 31.03.2008 | | |
|---|--------------------|-----------------|---------------------------|--------------------|-----------------|---------------------------|
| | Number of units | Cost* Rs 000 | Market value Rs 000 | Number of units | Cost* Rs 000 | Market value Rs 000 |
| 30.11 Investments in Unit Trusts | | | | | | |
| NAMAL Flexi Income Fund | 0 | 0 | 0 | 2,512,565 | 25,000 | 25,930 |
| NAMAL Growth Fund | 1,203,050 | 11,947 | 31,857 | 1,203,050 | 11,947 | 42,564 |
| NAMAL Income Fund | 16,712,129 | 170,624 | 178,987 | 16,712,129 | 170,624 | 171,466 |
| NAMAL Money Market Fund | 13,465,899 | 135,372 | 140,314 | 11,471,212 | 115,255 | 119,530 |
| National Equity Fund | 2,640,540 | 28,059 | 28,254 | 2,640,540 | 28,059 | 40,453 |
| Total investments in unit trusts by Bank | | 346,002 | 379,412 | | 350,885 | 399,943 |
| Investments in unit trusts by subsidiaries | | 50,000 | 52,198 | | 50,000 | 50,005 |
| Total investments in unit trusts by Group | | 396,002 | 431,610 | | 400,885 | 449,948 |
| 30.11.1 Investments in Unit Trusts by Subsidiaries | | | | | | |
| NAMAL Income Fund | 4,873,740 | 50,000 | 52,198 | 4,873,740 | 50,000 | 50,005 |
| | | 50,000 | 52,198 | | 50,000 | 50,005 |

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

| | BANK | | GROUP | |
|---|-----------------------------|----------------------|-----------------------------|----------------------|
| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
| 31. Investments in Associate Companies | | | | |
| Quoted | | | | |
| Commercial Bank of Ceylon PLC | | | | |
| (Ownership 26.9%-27.11% in 2008) | | | | |
| Balance at beginning | 3,151,959 | 1,549,418 | 6,353,709 | 4,076,063 |
| Share of profit after tax | – | – | 1,061,224 | 1,044,323 |
| Dividend received - elimination on consolidation | – | – | (333,005) | (393,778) |
| Loss on deemed reduction in ownership | – | – | 130 | (4,814) |
| Investments in rights issue | – | 1,602,541 | – | 1,602,541 |
| Movement recognised in the statement of changes in equity | – | – | 34,476 | 29,374 |
| Balance on 31 March | 3,151,959 | 3,151,959 | 7,116,534 | 6,353,709 |
| Unquoted | | | | |
| National Asset Management Limited | | | | |
| (Ownership 30%) | | | | |
| Balance at beginning | 35,270 | 35,270 | 42,080 | 39,813 |
| Share of profit after tax | – | – | 4,877 | 4,293 |
| Dividend received - elimination on consolidation | – | – | (2,820) | (2,026) |
| Balance on 31 March | 35,270 | 35,270 | 44,137 | 42,080 |
| Total | 3,187,229 | 3,187,229 | 7,160,671 | 6,395,789 |
| Market value of quoted investment in (Voting & non-voting ordinary shares) | 5,049,111 | 9,225,702 | 5,049,111 | 9,225,702 |

There is ongoing litigation related to the Bank's maximum permissible shareholding and voting rights in Commercial Bank of Ceylon PLC (CBC). The Bank is defending actions filed against it relating to which an interim injunction is operative until the final determination of the action, restricting the aggregate voting rights of the Bank and certain other shareholders to 10%. The Bank has also filed actions seeking to invalidate the direction issued by the Monetary Board to reduce its shareholding in CBC to 15% or in the alternative seeking time until 2012 to reduce the shareholding. These actions are pending.

Investment in Commercial Bank of Ceylon PLC continues to be classified as an Associate Company on the basis that though the voting rights attached to this investment is restricted to 10% after 23 October 2008 in terms of applicable direction issued by the Central Bank, the Bank continues to have representation on the Board of CBC and thereby has the ability to participate in policy making process.

The market price of Commercial Bank of Ceylon PLC on 31 March 2009 is the ex-div. price. (i.e., excluding dividend included in the cum-div. price on 31 March 2009).

Based on value in use the Bank has determined that there is no impairment of the equity accounted carrying amount of the investment in the Commercial Bank of Ceylon PLC.

| | BANK | | GROUP | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
| 32. Investment in Joint Venture | | | | |
| Unquoted | | | | |
| Acuity Partners (Pvt) Limited (Ownership 50%) | | | | |
| Balance on 31 March | 250,000 | 0 | 0 | 0 |
| Bank's Interest in Acuity Partners (Pvt) Limited includes: | | | | |
| Balance sheet | | | | |
| Total assets | 2,160,849 | | | |
| Elimination of gain attributable to parent - consolidation adjustment | (42,491) | | | |
| | 2,118,358 | | | |
| Less total liabilities | 1,827,850 | | | |
| | 290,508 | | | |
| Income statement | | | | |
| Income | 65,805 | | | |
| Less: Operating expenses | 47,680 | | | |
| Tax expense | 10,112 | | | |
| Profit for the period | 8,013 | | | |

Acuity Partners (Pvt) Limited became a joint venture company of Hatton National Bank PLC and DFCC Bank on 1 July 2008. The initial stated capital of joint venture company was Rs500 million contributed equally by DFCC Bank and Hatton National Bank PLC.

| | Rs 000 |
|---|---------|
| DFCC Bank contribution: | |
| Fair value of shares transferred from DFCC Stockbrokers (Pvt) Limited re-named as Acuity Stockbrokers (Pvt) Limited | 100,000 |
| Cash Contribution | 150,000 |
| | 250,000 |

| | Acuity Stockbrokers (Pvt) Limited Ownership 100% Rs 000 | DFCC Consulting (Pvt) Limited Ownership 100% Rs 000 | DFCC Vardhana Bank Limited Ownership 96% Rs 000 | Lanka Industrial Estates Limited Ownership 50% Rs 000 | Lanka Ventures PLC Ownership 59% Rs 000 | Synapsys Limited Ownership 100% Rs 000 | Bank 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
|--|--|--|--|--|--|---|---------------------------|----------------------|
| 33. Investments in Subsidiary Companies | | | | | | | | |
| Balance at beginning | 15,019 | 5,000 | 2,286,261 | 78,283 | 237,600 | 20,000 | 2,642,163 | 1,764,888 |
| Investment in rights issue | - | - | - | - | - | - | 0 | 851,957 |
| Investments in additional shares | - | - | 23 | - | - | - | 23 | 5,318 |
| Cost of acquisition | - | - | - | - | - | - | 0 | 20,000 |
| Disposal | 15,019 | - | - | - | - | - | 15,019 | 0 |
| Balance on 31 March | 0 | 5,000 | 2,286,284 | 78,283 | 237,600 | 20,000 | 2,627,167 | 2,642,163 |
| Market value of quoted investments | - | - | - | - | 167,439 | - | 167,439 | 327,597 |

The Bank increased the ownership of DFCC Vardhana Bank Limited by investing in 1707 additional shares. The ownership remained at 95.6%.

Shares in DFCC Stockbrokers (Pvt) Limited subsequently re-named as Acuity Stockbrokers (Pvt) Limited were transferred to Acuity Partners (Pvt) Limited on 1 July 2008.

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

Based on value in use Bank has determined that there is no impairment of the investment in the Lanka Ventures PLC.

| | BANK | | GROUP | |
|--------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
| 34. Group Balances Receivable | | | | |
| Acuity Partners (Pvt) Limited | 7 | 0 | 0 | 0 |
| Acuity Stockbrokers (Pvt) Limited | 0 | 1,326 | 0 | 0 |
| DFCC Consulting (Pvt) Limited | 122 | 258 | 0 | 0 |
| DFCC Vardhana Bank Limited | 33,320 | 51,932 | 0 | 0 |
| Synapsys Limited | 2,876 | 16,774 | 0 | 0 |
| | 36,325 | 70,290 | 0 | 0 |

| | BANK | | GROUP | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
| 35. Income Tax Refund Receivable | | | | |
| Balance on 31 March | 1,980 | 0 | 14,396 | 4,040 |

36. Investment Property

36.1 Movement

| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
|---------------------------|----------------------|----------------------|----------------------|----------------------|
| Balance at beginning | 6,500 | 6,500 | 137,181 | 131,833 |
| Additions during the year | 0 | 0 | 10,388 | 12,372 |
| Less: Depreciation | 0 | 0 | 6,354 | 6,069 |
| Disposals during the year | 0 | 0 | 0 | 955 |
| | 6,500 | 6,500 | 141,215 | 137,181 |

| | Buildings sq. ft. | Extent of Land Perches | Cost Rs 000 | Accumulated Depreciation/ Impairment Rs 000 | Net Book Value Rs 000 | Market Value Rs 000 |
|---|----------------------|------------------------------|----------------|--|-----------------------------|---------------------------|
| 36.2 List of Investment Property | | | | | | |
| 586, Galle Road, Colombo 3 | 0 | 20 | 6,500** | 0 | 6,500 | 6,500 |
| Pattiwila Road, Sapugaskanda, Makola | 280,000 | 20,000 | 193,802 | 59,087 | 134,715 | 575,305 |
| | | | 200,302 | 59,087 | 141,215 | 581,805 |

* The fair value of investment property as at 31.03.2009 was based on market valuations carried out in 2007 by Mr P B Kalugalagedara, FIV (Sri Lanka), Chartered Valuer.

** Cost net of cumulative impairment loss

| | GROUP | |
|--------------------------------------|----------------------|----------------------|
| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
| 37. Goodwill on Consolidation | | |
| Acuity Stockbrokers (Pvt) Limited | 0 | 56 |
| DFCC Vardhana Bank Limited | 146,602 | 146,602 |
| | 146,602 | 146,658 |

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

38. Property, Plant and Equipment

38.1 Composition: Bank

| | Land & building Rs 000 | Office equipment Rs 000 | Furniture & fittings Rs 000 | Motor vehicles Rs 000 | Total Rs 000 |
|--|---------------------------|----------------------------|--------------------------------|--------------------------|-----------------|
| Cost as at 31.03.2008 | 260,697 | 473,662 | 147,702 | 151,802 | 1,033,863 |
| Additions for the year | 569 | 47,682 | 28,338 | 5,964 | 82,553 |
| Less: Disposals during the year | 0 | 1,172 | 1,415 | 0 | 2,587 |
| Cost as at 31.03.2009 | 261,266 | 520,172 | 174,625 | 157,766 | 1,113,829 |
| Accumulated depreciation as at 31.03.2008 | 111,745 | 332,912 | 51,606 | 98,990 | 595,253 |
| Charge for the year | 8,721 | 53,556 | 13,644 | 17,145 | 93,066 |
| Less: Accumulated depreciation on disposal | 0 | 1,172 | 1,015 | 0 | 2,187 |
| Accumulated depreciation as at 31.03.2009 | 120,466 | 385,296 | 64,235 | 116,135 | 686,132 |
| Net book value as at 31.03.2009 | 140,800 | 134,876 | 110,390 | 41,631 | 427,697 |
| Net book value as at 31.03.2008 | 148,952 | 140,750 | 96,096 | 52,812 | 438,610 |

| | Building sq. ft. | Extent of land perches | Cost Rs 000 | Accumulated depreciation Rs 000 | Net book value Rs 000 |
|---|---------------------|---------------------------|----------------|---------------------------------------|-----------------------------|
| 38.1.1 List of Freehold Land and Building | | | | | |
| 73/5, Galle Road, Colombo 3 | 57,200 | 104.45 | 54,510 | 48,251 | 6,259 |
| 5, Deva Veediya, Kandy | 4,600 | 12.54 | 12,699 | 4,301 | 8,398 |
| 259/30, Kandy Road, Bambarakelle, Nuwara-Eliya | 0 | 28.72 | 7,279 | 0 | 7,279 |
| 73, W A D Ramanayake Mw., Colombo 2 | 21,400 | 45.00 | 184,178 | 67,914 | 116,264 |
| 4A, 4th Cross Lane, Borupana, Ratmalana | 0 | 20.00 | 2,600 | 0 | 2,600 |
| | | | 261,266 | 120,466 | 140,800 |

Market Value of Properties

| | Rs million | Date of valuation |
|--|------------|-------------------|
| 73/5, Galle Road, Colombo 3 | 500 | 31.03.2008 |
| 5, Deva Veediya, Kandy | 35 | 31.03.2008 |
| 73, W A D Ramanayake Mawatha, Colombo 2 | 320 | 31.03.2008 |
| Valued by Mr P B Kalugalagedera - Chartered Valuer | | |

38.2 Composition: Group

| | Land & building Rs 000 | Plant & machinery Rs 000 | Office equipment Rs 000 | Furniture & fittings Rs 000 | Motor vehicles Rs 000 | Total Rs 000 |
|--|---------------------------|-----------------------------|----------------------------|--------------------------------|--------------------------|-----------------|
| Cost as at 31.03.2008 | 313,918 | 64,850 | 692,717 | 319,373 | 201,284 | 1,592,142 |
| Additions for the year | 637 | 0 | 132,555 | 83,896 | 5,964 | 223,052 |
| Additions through acquisition of a Joint venture | 0 | 0 | 15,622 | 6,016 | 8,575 | 30,213 |
| Less: Transferred to intangible assets | 0 | 0 | 796 | 0 | 0 | 796 |
| Disposals during the year | 0 | 0 | 1,609 | 1,770 | 0 | 3,379 |
| Disposal of a subsidiary | 0 | 0 | 7,465 | 1,155 | 13,936 | 22,556 |
| Cost as at 31.03.2009 | 314,555 | 64,850 | 831,024 | 406,360 | 201,887 | 1,818,676 |
| Accumulated depreciation as at 31.03.2008 | 131,433 | 61,552 | 429,732 | 102,953 | 117,234 | 842,904 |
| Charge for the year | 11,005 | 560 | 98,235 | 32,108 | 24,016 | 165,924 |
| Additions through acquisition of a joint venture | 0 | 0 | 10,278 | 5,177 | 2,034 | 17,489 |
| Less: Transferred to intangible assets | 0 | 0 | 187 | 0 | 0 | 187 |
| Accumulated depreciated on disposal | 0 | 0 | 1,603 | 1,132 | 0 | 2,735 |
| Disposal of a subsidiary | 0 | 0 | 4,946 | 818 | 1,995 | 7,759 |
| Accumulated depreciation as at 31.03.2009 | 142,438 | 62,112 | 531,509 | 138,288 | 141,289 | 1,015,636 |
| Net book value as at 31.03.2009 | 172,117 | 2,738 | 299,515 | 268,072 | 60,598 | 803,040 |
| Net book value as at 31.03.2008 | 182,485 | 3,298 | 262,985 | 216,420 | 84,050 | 749,238 |

| | BANK | | GROUP | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
| 39. Intangible Assets | | | | |
| Cost at beginning | 264,287 | 244,926 | 610,632 | 558,229 |
| Transferred from property, plant and equipment | 0 | 0 | 796 | 0 |
| Additions for the year | 22,529 | 19,361 | 65,510 | 52,403 |
| Additions through acquisition of a joint venture | 0 | 0 | 7,325 | 0 |
| Cost | 286,816 | 264,287 | 684,263 | 610,632 |
| Accumulated amortisation at beginning | 210,357 | 165,325 | 440,525 | 359,462 |
| Transferred from property, plant and equipment | 0 | 0 | 187 | 0 |
| Amortisation for the year | 30,517 | 45,032 | 70,230 | 81,063 |
| Additions through acquisition of a joint venture | 0 | 0 | 3,839 | 0 |
| Accumulated amortisation | 240,874 | 210,357 | 514,781 | 440,525 |
| Net Book Value | 45,942 | 53,930 | 169,482 | 170,107 |
| 40. Deferred Tax Asset | | | | |
| Balance at beginning | 1,557 | 1,371 | 109,047 | 153,668 |
| Additions through acquisition of a joint venture - Acuity Partners (Pvt) Limited | 0 | 0 | 367 | 0 |
| Disposal of subsidiary - Acuity Stockbrokers (Pvt) Limited | 0 | 0 | (748) | 0 |
| Increase/(decrease) | 371 | 186 | (74,357) | (44,621) |
| Offset against deferred tax liability (Note 46) | 1,928 | 1,557 | 34,309 | 109,047 |
| 41. Other Assets | | | | |
| Refundable deposits and advances | 70,958 | 44,388 | 188,242 | 68,213 |
| Dividend due | 41,742 | 33,909 | 41,742 | 35,472 |
| Reimbursement of exchange loss due from Government of Sri Lanka | 129,959 | 453,609 | 129,959 | 453,898 |
| Debtors | 451,494 | 433,846 | 963,451 | 1,113,086 |
| | 694,153 | 965,752 | 1,323,394 | 1,670,669 |
| 42. Deposits from Customers | | | | |
| Demand deposits | 0 | 0 | 707,640 | 594,987 |
| Savings deposits | 0 | 0 | 2,361,526 | 1,359,713 |
| Fixed deposits | 5,293,162 | 5,096,374 | 20,326,168 | 14,087,966 |
| Certificates of deposits | 15,278 | 15,143 | 100,071 | 48,683 |
| Margin deposits | 0 | 0 | 79,939 | 261,294 |
| | 5,308,440 | 5,111,517 | 23,575,344 | 16,352,643 |
| Deposits from banks | 8,088 | 356,425 | 1,256,181 | 1,181,485 |
| Deposits from non-bank customers | 4,450,352 | 4,633,558 | 21,414,257 | 14,975,204 |
| Deposits from finance companies | 850,000 | 121,534 | 904,906 | 195,954 |
| | 5,308,440 | 5,111,517 | 23,575,344 | 16,352,643 |

| | BANK | | GROUP | |
|--|----------------------|----------------------|----------------------|----------------------|
| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
| 43. Borrowing - Medium and Long-Term | | | | |
| 43.1 Borrowing | | | | |
| Repayable in foreign currency | | | | |
| Exchange difference borne by the Bank | | | | |
| European Investment Bank (EIB) (US\$18 million) | 2,039,370 | 1,991,773 | 2,039,370 | 1,991,773 |
| Direct Loans (US\$6 million) | 735,450 | 973,050 | 735,450 | 973,050 |
| (Accounting Policy Note 5.2.16) | 2,774,820 | 2,964,823 | 2,774,820 | 2,964,823 |
| Exchange rate difference reimbursed by GOSL (Accounting Policy Note 5.2.16.2) | | | | |
| Floating rate notes (US\$65 million) | 0 | 4,339,732 | 0 | 4,339,732 |
| Government of Sri Lanka/ADB Loans-credit lines (JPY605 million) | 344,524 | 344,523 | 344,524 | 344,523 |
| Repayable in rupees | | | | |
| Government of Sri Lanka/IDA loans - credit lines | 1,834,112 | 2,029,670 | 1,834,112 | 2,029,670 |
| Government of Sri Lanka/ADB loans - credit lines | 3,418,583 | 3,174,374 | 3,418,583 | 3,174,374 |
| Government of Sri Lanka/KfW loans - credit lines | 2,480,202 | 2,893,589 | 2,480,202 | 2,893,589 |
| Government of Sri Lanka/JBIC loans - credit lines | 2,817,407 | 2,811,906 | 2,817,407 | 2,811,906 |
| Government of Sri Lanka/IFAD loans - credit lines | 23,085 | 25,796 | 23,085 | 25,796 |
| Government of Sri Lanka/GOI loans | 0 | 34 | 0 | 34 |
| European Investment Bank (EIB) | 8,690,318 | 7,099,378 | 8,690,318 | 7,099,378 |
| Central Bank of Sri Lanka re-finance loans (secured) | 1,346,391 | 1,689,464 | 1,346,391 | 1,689,464 |
| Local borrowing | 5,250,000 | 6,250,000 | 5,250,000 | 6,250,000 |
| | 28,979,442 | 33,623,289 | 28,979,442 | 33,623,289 |

43.2 Supplementary Information

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

Government of Sri Lanka has approved and guaranteed in terms of Section 14 of DFCC Act No. 35 of 1955 borrowing by the Bank from ADB.

No new guarantees have been issued during year ended 31 March 2009.

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

43.3 Assets Pledged as Security

| Nature | Amount Rs 000 |
|---|------------------|
| Assignment in terms of Section 88A of the Monetary Law of loans refinanced by Central Bank | 1,346,391 |

Acronyms:

| | |
|------|--|
| ADB | - Asian Development Bank |
| IDA | - International Development Association |
| KfW | - Kreditanstalt für Wiederaufbau |
| JBIC | - Japan Bank for International Cooperation Fund |
| GOI | - Government of India |
| IFAD | - International Fund for Agriculture Development |

| | BANK | | GROUP | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
| 44. Borrowing - Short-Term | | | | |
| Borrowing under repurchase agreements (Repos) | | | | |
| Government securities sold under repurchase | 2,768,741 | 1,709,172 | 5,639,540 | 2,231,037 |
| Other securities sold under repurchase | 11,130 | 662,540 | 11,130 | 662,540 |
| | 2,779,871 | 2,371,712 | 5,650,670 | 2,893,577 |
| Bank overdrafts | 0 | 14,231 | 1,757 | 19,796 |
| Inter-bank borrowing | 250,000 | 1,771,000 | 1,084,669 | 2,187,255 |
| | 3,029,871 | 4,156,943 | 6,737,096 | 5,100,628 |
| 45. Debentures | | | | |
| 45.1 Movement in Debentures | | | | |
| Balance at beginning | 2,700,000 | 2,000,000 | 2,700,000 | 2,000,000 |
| Issued during the year | 0 | 700,000 | 0 | 700,000 |
| | 2,700,000 | 2,700,000 | 2,700,000 | 2,700,000 |
| 46. Deferred Tax Liability | | | | |
| Balance at beginning | 252,180 | 365,213 | 276,100 | 379,747 |
| Additions through acquisition of a joint venture - Acuity Partners (Pvt) Limited | 0 | 0 | 1,626 | 0 |
| Increase/(decrease) | 34,942 | (113,033) | 47,180 | (103,647) |
| | 287,122 | 252,180 | 324,906 | 276,100 |
| Less: deferred tax asset (Note 40) | 1,928 | 1,557 | 34,309 | 109,047 |
| | 285,194 | 250,623 | 290,597 | 167,053 |

| | BANK | | GROUP | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
| 47. Other Liabilities | | | | |
| Accruals | 36,282 | 53,564 | 136,473 | 143,416 |
| Prior year dividends | 16,680 | 14,093 | 18,973 | 16,969 |
| Security deposit for leases | 7,349 | 7,349 | 59,989 | 53,408 |
| Prepaid loan and lease rentals | 87,754 | 87,701 | 87,754 | 87,701 |
| Account payables | 172,682 | 158,179 | 629,683 | 852,169 |
| | 320,747 | 320,886 | 932,872 | 1,153,663 |
| Provision for staff retirement benefits: | | | | |
| Defined benefit funded pension | 28,670 | 29,638 | 28,670 | 29,638 |
| Defined benefit unfunded pension | 28,934 | 20,974 | 28,934 | 20,974 |
| Defined benefit unfunded end of service gratuity | 5,510 | 7,727 | 26,171 | 20,896 |
| | 383,861 | 379,225 | 1,016,646 | 1,225,171 |
| Other provisions | 114,920 | 118,368 | 135,566 | 135,068 |
| | 498,781 | 497,593 | 1,152,212 | 1,360,239 |
| 47.1 Movement in Provision for Staff Retirement Benefits | | | | |
| 47.1.1 Defined Benefit Funded Pension | | | | |
| Net accrued liability on 31 March 2008 | 26,148 | | 26,148 | |
| Over provision | 7 | | 7 | |
| As reported previously | 26,155 | | 26,155 | |
| Increase on adoption of SLAS 16 (Revised) | 3,483 | | 3,483 | |
| Restated net accrued liability on 31 March 2008 | 29,638 | | 29,638 | |
| Retirement benefit expense for the financial year | 95,060 | | 95,060 | |
| Employer contributions for the financial year | (96,028) | | (96,028) | |
| Net accrued liability on 31 March 2009 | 28,670 | | 28,670 | |
| 47.1.2 Defined Benefit Unfunded Pension | | | | |
| Net accrued liability on 31 March 2008 | 22,225 | | 22,225 | |
| Decrease on adoption of SLAS 16 (Revised) | (1,251) | | (1,251) | |
| Restated net accrued liability on 31 March 2008 | 20,974 | | 20,974 | |
| Retirement benefit expense for the financial year | 7,960 | | 7,960 | |
| Employer contributions for the financial year | – | | – | |
| Net accrued liability on 31 March 2009 | 28,934 | | 28,934 | |
| 47.1.3 Defined Benefit Unfunded End of Service Gratuity | | | | |
| Net accrued liability on 31 March 2008 | 4,449 | | 17,619 | |
| Increase on adoption of SLAS 16 (Revised) | 3,278 | | 3,278 | |
| Restated net accrued liability on 31 March 2008 | 7,727 | | 20,897 | |
| Retirement benefit expense for the financial year | 2,861 | | 10,691 | |
| Gratuity payments for the financial year | (5,078) | | (5,417) | |
| Net accrued liability on 31 March 2009 | 5,510 | | 26,171 | |
| 47.2 Movement in Other Provisions | | | | |
| Balance as at 31 March 2008 | 118,368 | | 135,068 | |
| Provision for the financial year | 123,916 | | 144,562 | |
| Payments for the financial year | 127,364 | | 144,064 | |
| Balance as at 31 March 2009 | 114,920 | | 135,566 | |

| | BANK |
|---|------------------------------------|
| | 31.03.2009 Rs 000 |
| 47.3 Reconciliation of Actuarial Liability with Accounting Liability Recognised in the Balance Sheet | |
| 47.3.1 Funded Pension Liability | |
| Present value of defined benefit obligations | 1,194,916 |
| Fair value of pension assets | (1,216,478) |
| Funded status | (21,562) |
| Unrecognised net loss from prior years (Note 13.2.1) | (104,459) |
| Unrecognised net gain during financial year (Note 13.2.1) | 154,691 |
| Accounting net liability recognised on 31 March | 28,670 |
| 47.3.2 Unfunded Pension Liability | |
| Present value of defined benefit obligations | 30,008 |
| Fair value of pension assets | - |
| Funded status | 30,008 |
| Unrecognised net loss from prior years (Note 13.2.2) | (1,973) |
| Unrecognised net gain during financial year (Note 13.2.2) | 899 |
| Accounting net liability recognised on 31 March | 28,934 |
| 47.3.3 Unfunded End of Service Gratuity | |
| Present value of defined benefit obligations | 10,843 |
| Fair value of pension assets | - |
| Funded status | 10,843 |
| Unrecognised net loss during year (Note 13.2.3) | (5,333) |
| Accounting net liability recognised on 31 March | 5,510 |

47.3.4 Subsidiaries of the Bank, DFCC Consulting (Pvt) Limited, Synapsys Limited, Lanka Industrial Estates Limited and joint venture company Acuity Partners (Pvt) Limited, have opted to measure the post employment benefit obligation by using the gratuity formulate method while other subsidiaries used and qualified actuary. Therefore the Group reconciliation is not included.

| | BANK | GROUP |
|---|-----------------------------|-----------------------------|
| | 31.03.2009 Rs 000 | 31.03.2009 Rs 000 |
| 47.3.5 Computation of Prior Year Adjustment | | |
| Funded Pension Liability | | |
| Net accrued liability on adoption of | | |
| SLAS 16 (Revised) - transition liability | 29,631 | 29,631 |
| Net accrued liability under previous SLAS 16 | (26,148) | (26,148) |
| Increase in transition liability | 3,483 | 3,483 |
| Unfunded Pension Liability | | |
| Net accrued liability on adoption of | | |
| SLAS 16 (Revised) - transition liability | 20,974 | 20,974 |
| Net accrued liability under previous SLAS 16 | (22,225) | (22,225) |
| Decrease in transition liability | (1,251) | (1,251) |
| Unfunded End of Service Gratuity | | |
| Net accrued liability on adoption of | | |
| SLAS 16 (Revised) - transition liability | 7,727 | 7,727 |
| Net accrued liability under previous SLAS 16 | (4,449) | (4,449) |
| Increase in transition liability | 3,278 | 3,278 |
| Total prior year adjustment | 5,510 | 5,510 |
| Adjusted in retained profits on 1st April 2007 | 4,888 | |
| Adjusted to comparative year in provision for staff retirement benefits in 31 March 2008 | 622 | |
| | 5,510 | |

47.3.6 Fair Value of Pension Assets

This comprises monetary assets and does not include investment in bank's own financial instruments.

47.3.7 Discontinuance Valuation

The funded pension liability under discontinuance valuation was Rs1,020 million on 31 March 2009 compared to the fair value of pension assets of Rs1,216 million.

| | BANK | | GROUP | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
| 48. Subordinated Debentures | | | | |
| Listed in the Colombo Stock Exchange | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Private placement | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 |
| 49. Share Capital | | | | |
| 49.1 Authorised Share Capital | | | | |
| 500,000,000 ordinary shares of Rs10/- each | 5,000,000 | 5,000,000 | 5,000,000 | 5,000,000 |
| 49.2 Issued Share Capital | | | | |
| 130,732,470 ordinary shares of Rs10/- each | 1,307,325 | 1,301,956 | 1,307,325 | 1,301,956 |
| Allotted and fully paid: | | | | |
| Balance at beginning 130,195,603 ordinary shares (86,556,537 shares in 2008) | 1,301,956 | 865,565 | 1,301,956 | 865,565 |
| Rights issue in May 2007, 1 for every 4 held, 21,639,134 ordinary shares | 0 | 216,391 | 0 | 216,391 |
| Bonus share issue in June 2007, 1 for every 5 held, 21,639,765 ordinary shares | 0 | 216,398 | 0 | 216,398 |
| Issue under share option - 536,867 ordinary shares (360,167 shares in 2008) | 5,369 | 3,602 | 5,369 | 3,602 |
| Balance on 31 March 130,732,470 ordinary shares (130,195,603 shares in 2008) | 1,307,325 | 1,301,956 | 1,307,325 | 1,301,956 |

Ordinary shares held by associate Commercial Bank of Ceylon PLC - 20,588, on 31 March 2009.

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

49.3 Employee Share Option Plan

| | 31.03.2009 Numbers |
|---|-----------------------|
| 49.3.1 Movement in Options Granted | |
| Options granted | 2,215,540 |
| Adjustment for bonus and rights | 1,922,820 |
| Options lapsed | (28,319) |
| Total granted | 4,110,041 |
| Less: Options exercised | |
| Prior years | 1,521,313 |
| During the year | 536,867 |
| | 2,051,861 |

| | 31.03.2009 Exercise Price | | 31.03.2008 Exercise Price | | |
|---------------------------------------|------------------------------|--------|------------------------------|--------|-------------|
| | Number | Rs | Number | Rs | Expiry date |
| 49.3.2 Composition | | | | | |
| Options granted in year to 31.03.2003 | 0 | 0 | 527,369 | 53.08 | 30.06.2008 |
| 31.03.2004 | 1,851,407 | 110.48 | 1,860,906 | 110.48 | 30.06.2009 |
| 31.03.2006 | 200,454 | 117.46 | 200,454 | 117.46 | 02.07.2011 |
| | 2,051,861 | | 2,588,729 | | |

50. Stated Capital

| | BANK | | GROUP | |
|---------------------------|----------------------|----------------------|----------------------|----------------------|
| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
| Share Capital | 1,307,325 | 1,301,956 | 1,307,325 | 1,301,956 |
| Share Premium - Bank | 3,207,818 | 3,184,145 | 3,207,818 | 3,184,145 |
| Group | 0 | 0 | 52,193 | 52,193 |
| Equivalent Stated Capital | 4,515,143 | 4,486,101 | 4,567,336 | 4,538,294 |

51. Reserves

51.1 Reserve Fund

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

| | Sinking fund | General reserve | Foreign currency reserve | Primary dealer special risk reserve | Total | |
|---|--------------|-----------------|--------------------------|-------------------------------------|----------------------|----------------------|
| | Rs 000 | Rs 000 | Rs 000 | Rs 000 | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
| 51.2 Other Reserve | | | | | | |
| Bank | | | | | | |
| Balance at beginning | 4,028,459 | 3,953,584 | – | – | 7,982,043 | 6,606,248 |
| Transfers from retained earnings brought forward | – | – | – | – | 0 | 60,795 |
| Transfers | (4,028,459) | 4,684,255 | – | – | 655,796 | 1,315,000 |
| Balance as at 31 March | 0 | 8,637,839 | – | – | 8,637,839 | 7,982,043 |
| Group | | | | | | |
| Balance at beginning | 4,028,459 | 6,627,882 | (115,852) | 6,374 | 10,546,863 | 8,515,995 |
| Capital redemption reserve fund of associate company (CRRF) | – | – | – | – | 0 | 245,725 |
| Balance restated | 4,028,459 | 6,627,882 | (115,852) | 6,374 | 10,546,863 | 8,761,720 |
| Capitalisation of CRRF in associate company | – | – | – | – | 0 | (169,153) |
| Share issue expenses written-off | – | – | – | – | 0 | (22,179) |
| Deferred tax effect on revaluation surplus on property - associate company | – | 1,337 | – | – | 1,337 | (29,418) |
| Realised revaluation surplus on disposal of property - associate company | – | – | – | – | 0 | (399) |
| Surplus on revaluation property - associate company | – | 10,574 | – | – | 10,574 | 84,051 |
| Currency translation loss overseas operations- associate company | – | – | – | – | 0 | (3,081) |
| Net unrealised gains from translation of Bangladesh operations of - associate company | – | – | 17,673 | – | 17,673 | 0 |
| Transfers | (4,028,459) | 5,287,033 | – | 6,767 | 1,265,341 | 1,864,527 |
| Transfers from retained earnings brought forward | – | – | – | – | 0 | 60,795 |
| Balance as at 31 March | 0 | 11,926,826 | (98,179) | 13,141 | 11,841,788 | 10,546,863 |

51.3 Other Reserves

51.3.1 Foreign Currency Translation Reserve

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

51.3.2 Primary Dealer Special Risk Reserve

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

51.4 Retained Earnings

This represents cumulative net earnings, inclusive of proposed dividend amounting to Rs654 million payable on approval by the shareholders at the Annual General Meeting on 30 June 2009. The balance is retained and reinvested in the business of the Bank.

52. Minority Interests

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

53. Contingent Liabilities and Commitments

53.1 Contingent Liabilities

Guarantees issued to:

| | BANK | | GROUP | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
| DFCC Vardana Bank in respect of indebtedness of customers of the Bank | 410,176 | 375,176 | 0 | 0 |
| Other banks in respect of indebtedness of customers of the Bank | 139,234 | 206,559 | 475,446 | 466,894 |
| Companies in respect of indebtedness of customers of the Bank | 447,975 | 614,955 | 1,614,654 | 1,983,535 |
| Principal collector of customs (duty guarantees) | 0 | 0 | 51,212 | 17,045 |
| Shipping guarantees | 0 | 0 | 382,103 | 990,485 |
| Documentary credits | 0 | 0 | 1,871,713 | 2,217,465 |
| Bills for collection | 0 | 0 | 661,923 | 872,454 |
| Income tax (assessment under appeal) | 77,406 | 0 | 77,406 | 235,549 |
| Forward exchange contracts (net) | 0 | 0 | 1,910,051 | 128,585 |

53.2 Commitments in Ordinary Course of Business

| | | | | |
|--|------------------|------------------|-------------------|-------------------|
| Commitments for unutilised credit facilities | 6,758,456 | 6,068,401 | 7,662,247 | 6,870,543 |
| Capital expenditure approved by the Board of Directors | | | | |
| Contracted | 0 | 22,003 | 94,170 | 54,406 |
| Not contracted | 0 | 23,592 | 58,215 | 101,498 |
| | 7,833,247 | 7,310,686 | 14,859,140 | 13,938,459 |

54. Litigation

54.1 Litigations against the Bank

A client has filed action against five defendants including the Bank in the District Court of Kurunegala claiming that a property mortgaged by him to the Bank had been unlawfully transferred to a third party through procedure in Recovery of Loans by Banks (Special Provisions) Act No. 4 of 1990 seeking the sale of the property to be set aside. and claiming Rs.6 million as damages from the Bank. Since the Bank has transferred the property in terms of a settlement entered in the Magistrate's Court in another case the Bank is defending the action in the District Court

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

A client of the Bank has filed action in the District Court of Kandy claiming Rs1 million as damages on the basis that the Bank has published an incorrect resolution in the newspaper under Recovery of Loans by Banks (Special Provisions) Act No.4 of 1990. The Bank is defending this action.

55. Maturity Profile of Assets and Liabilities

55.1 Definition of Maturity

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

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

55.2 Allocation of Amounts

Amounts are allocated to respective maturity groupings based on:

- instalments falling due as per contracts, for assets and liabilities with a contractual maturity dates; and
- expected dates of realisation of an asset and expected dates of repayments of liabilities, for assets and liabilities with no contractual maturity dates.

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

55.3 Profile

| | 31.03.2009 Total Rs 000 | Up to 3 months | | 3 to 12 months | | 1 to 3 years | | 3 to 5 years | | > 5 years | |
|---|-------------------------------|----------------|-----|----------------|----|--------------|----|--------------|----|-----------|----|
| | | Rs 000 | % | Rs 000 | % | Rs 000 | % | Rs 000 | % | Rs 000 | % |
| 55.3.1 Bank | | | | | | | | | | | |
| Assets with Contractual Maturity | | | | | | | | | | | |
| (Interest bearing assets) | | | | | | | | | | | |
| Short-term funds | 1,841,473 | 1,552,098 | 84 | 289,375 | 16 | – | – | – | – | – | – |
| Treasury Bills & other securities | 5,905,209 | 961,953 | 16 | 1,996,767 | 34 | 2,946,489 | 50 | – | – | – | – |
| Securities purchased | | | | | | | | | | | |
| under resale agreements | 96,000 | 96,000 | 100 | – | – | – | – | – | – | – | – |
| Placements with and loans to other banks and financial institutions | 1,454,262 | 1,639 | 0 | 291,360 | 20 | 459,215 | 31 | 228,554 | 16 | 473,494 | 33 |
| Loans | 33,892,706 | 3,767,887 | 11 | 7,866,004 | 23 | 14,668,379 | 43 | 6,288,750 | 19 | 1,301,686 | 4 |
| Finance leases | 4,804,430 | 762,223 | 16 | 1,493,351 | 31 | 2,301,423 | 48 | 247,433 | 5 | – | – |
| | 47,994,080 | 7,141,800 | 15 | 11,936,857 | 25 | 20,375,506 | 42 | 6,764,737 | 14 | 1,775,180 | 4 |

| | 31.03.2009 | Up to 3 months | | 3 to 12 months | | 1 to 3 years | | 3 to 5 years | | > 5 years | |
|---|-------------------|------------------|-----------|-------------------|-----------|-------------------|-----------|------------------|-----------|-------------------|-----------|
| | Total Rs 000 | Rs 000 | % | Rs 000 | % | Rs 000 | % | Rs 000 | % | Rs 000 | % |
| Other Assets | | | | | | | | | | | |
| (Non-interest bearing assets) | | | | | | | | | | | |
| Cash and balance with banks | 668,498 | 668,498 | 100 | – | – | – | – | – | – | – | – |
| Dealing securities | 9,607 | 9,607 | 100 | – | – | – | – | – | – | – | – |
| Interest receivable | 603,289 | 561,539 | 93 | 41,750 | 7 | – | – | – | – | – | – |
| Investment securities: | | | | | | | | | | | |
| Ordinary shares/units | 732,003 | – | – | – | – | – | – | – | – | 732,003 | 100 |
| Preference shares | 1,186,417 | 142,167 | 12 | 197,500 | 17 | 558,750 | 47 | 287,500 | 24 | 500 | 0 |
| Investment in associate companies | 3,187,229 | – | – | – | – | – | – | – | – | 3,187,229 | 100 |
| Investment in joint venture | 250,000 | – | – | – | – | – | – | – | – | 250,000 | 100 |
| Investment in subsidiary companies | 2,627,167 | – | – | – | – | – | – | – | – | 2,627,167 | 100 |
| Group balances receivable | 36,325 | 36,325 | 100 | – | – | – | – | – | – | – | – |
| Prepayments | 13,812 | 2,032 | 15 | 2,032 | 15 | 8,130 | 59 | – | – | 1,618 | 11 |
| Income tax refund receivable | 1,980 | – | – | 1,980 | 100 | – | – | – | – | – | – |
| Investment property | 6,500 | – | – | – | – | – | – | – | – | 6,500 | 100 |
| Property, plant and equipment | 427,697 | – | – | – | – | – | – | – | – | 427,697 | 100 |
| Intangible assets | 45,942 | – | – | – | – | – | – | – | – | 45,942 | 100 |
| Other receivables | 694,153 | 694,153 | 100 | – | – | – | – | – | – | – | – |
| | 10,490,619 | 2,114,321 | 21 | 243,262 | 2 | 566,880 | 5 | 287,500 | 2 | 7,278,656 | 70 |
| Total assets | 58,484,699 | 9,256,121 | 16 | 12,180,119 | 21 | 20,942,386 | 36 | 7,052,237 | 12 | 9,053,836 | 15 |
| Liabilities with Contractual Maturity | | | | | | | | | | | |
| (Interest bearing liabilities) | | | | | | | | | | | |
| Deposits from customers | 5,308,440 | 3,161,213 | 60 | 1,467,191 | 27 | 111,422 | 2 | 561,274 | 11 | 7,340 | 0 |
| Borrowing: Medium and long-term | 28,979,442 | 1,581,685 | 5 | 5,197,705 | 18 | 7,084,799 | 24 | 5,324,509 | 18 | 9,790,744 | 35 |
| Short-term | 3,029,871 | 2,562,855 | 85 | 352,016 | 12 | 115,000 | 3 | – | – | – | – |
| Debentures | 2,700,000 | – | – | – | – | 2,000,000 | 74 | 700,000 | 26 | – | – |
| Subordinated debentures | 2,000,000 | – | – | – | – | 1,410,000 | 70 | – | – | 590,000 | 30 |
| | 42,017,753 | 7,305,753 | 17 | 7,016,912 | 17 | 10,721,221 | 26 | 6,585,783 | 16 | 10,388,084 | 24 |
| Other Liabilities | | | | | | | | | | | |
| (Non-interest bearing liabilities) | | | | | | | | | | | |
| Interest accrued | 1,192,127 | 1,192,127 | 100 | – | – | – | – | – | – | – | – |
| Deferred taxation | 285,194 | – | – | – | – | – | – | 285,194 | 100 | – | – |
| Other liabilities | 498,781 | 498,781 | 100 | – | – | – | – | – | – | – | – |
| | 1,976,102 | 1,690,908 | 86 | – | – | – | – | 285,194 | 14 | – | – |
| Total liabilities | 43,993,855 | 8,996,661 | 20 | 7,016,912 | 16 | 10,721,221 | 24 | 6,870,977 | 16 | 10,388,084 | 24 |
| 55.3.2 Group Assets with Contractual Maturity | | | | | | | | | | | |
| (Interest bearing assets) | | | | | | | | | | | |
| Short-term funds | 2,722,721 | 2,341,429 | 86 | 381,292 | 14 | – | – | – | – | – | – |
| Treasury Bills & other securities | 12,650,799 | 2,920,934 | 23 | 4,458,011 | 35 | 5,271,854 | 42 | – | – | – | – |
| Securities purchased under resale agreements | 1,523,823 | 481,914 | 32 | 1,041,909 | 68 | – | – | – | – | – | – |
| Placements with and loans to other banks and financial institutions | 1,352,262 | 1,639 | 0 | 189,360 | 13 | 459,215 | 34 | 228,554 | 17 | 473,494 | 36 |
| Bills of exchange discounted | 326,171 | 324,357 | 99 | 1,814 | 1 | – | – | – | – | – | – |
| Loans | 48,491,281 | 10,948,377 | 23 | 14,019,790 | 29 | 15,446,525 | 32 | 6,601,193 | 14 | 1,475,396 | 2 |
| Finance leases | 4,804,430 | 762,223 | 16 | 1,493,351 | 31 | 2,301,423 | 48 | 247,433 | 5 | – | – |
| | 71,871,487 | 17,780,873 | 24 | 21,585,527 | 30 | 23,479,017 | 33 | 7,077,180 | 10 | 1,948,890 | 3 |

| | 31.03.2009 | | Up to 3 months | | 3 to 12 months | | 1 to 3 years | | 3 to 5 years | | > 5 years | |
|--|-------------------|-------------------|----------------|-------------------|----------------|-------------------|--------------|------------------|--------------|-------------------|-----------|---|
| | Total | Rs 000 | Rs 000 | % | Rs 000 | % | Rs 000 | % | Rs 000 | % | Rs 000 | % |
| Other Assets | | | | | | | | | | | | |
| (Non-interest bearing assets) | | | | | | | | | | | | |
| Cash and balance with Banks | 1,491,263 | 1,491,263 | 100 | - | - | - | - | - | - | - | - | - |
| Balances with Central Bank | 768,383 | 768,383 | 100 | - | - | - | - | - | - | - | - | - |
| Dealing securities | 17,033 | 9,607 | 56 | 7,426 | 44 | - | - | - | - | - | - | - |
| Interest receivable | 682,228 | 569,658 | 84 | 93,783 | 14 | 12,019 | 2 | 4,095 | 0 | 2,673 | 0 | - |
| Investment securities: | | | | | | | | | | | | |
| Ordinary shares/units | 899,912 | - | - | - | - | 580 | 1 | - | - | 899,332 | 99 | - |
| Preference shares | 1,331,023 | 142,167 | 10 | 197,500 | 15 | 558,750 | 42 | 287,500 | 22 | 145,106 | 11 | - |
| Debentures | 163,500 | - | - | - | - | - | - | 13,500 | 8 | 150,000 | 92 | - |
| Investment in associate companies | 7,160,671 | - | - | - | - | - | - | - | - | 7,160,671 | 100 | - |
| Prepayments | 13,812 | 2,032 | 15 | 2,032 | 15 | 8,130 | 58 | - | - | 1,618 | 12 | - |
| Income tax refund receivable | 14,396 | 620 | 4 | 13,776 | 96 | - | - | - | - | - | - | - |
| Investment property | 141,215 | - | - | - | - | - | - | - | - | 141,215 | 100 | - |
| Goodwill on consolidation | 146,602 | - | - | - | - | - | - | - | - | 146,602 | 100 | - |
| Property, plant and equipment | 803,040 | - | - | - | - | - | - | - | - | 803,040 | 100 | - |
| Intangible assets | 169,482 | - | - | - | - | - | - | - | - | 169,482 | 100 | - |
| Other assets | 1,323,394 | 1,285,977 | 97 | 35,225 | 3 | 2,192 | 0 | - | - | - | - | - |
| | 15,125,954 | 4,269,707 | 28 | 349,742 | 2 | 581,671 | 4 | 305,095 | 2 | 9,619,739 | 64 | - |
| Total assets | 86,997,441 | 22,050,580 | 25 | 21,935,269 | 25 | 24,060,688 | 28 | 7,382,275 | 9 | 11,568,629 | 13 | |
| Liabilities with Contractual Maturity | | | | | | | | | | | | |
| (Interest bearing liabilities) | | | | | | | | | | | | |
| Deposits from customers | 23,575,344 | 15,251,934 | 65 | 7,493,764 | 32 | 198,225 | 0 | 624,081 | 3 | 7,340 | 0 | - |
| Borrowing: Medium and long-term | 28,979,442 | 1,581,685 | 5 | 5,197,705 | 18 | 7,084,798 | 24 | 5,324,509 | 18 | 9,790,745 | 35 | - |
| Short-term | 6,737,096 | 4,322,353 | 64 | 2,299,743 | 34 | 115,000 | 2 | - | - | - | - | - |
| Debentures | 2,700,000 | - | - | - | - | 2,000,000 | 74 | 700,000 | 26 | - | - | - |
| Subordinated debentures | 2,000,000 | - | - | - | - | 1,410,000 | 70 | - | - | 590,000 | 30 | - |
| | 63,991,882 | 21,155,972 | 33 | 14,991,212 | 23 | 10,808,023 | 17 | 6,648,590 | 10 | 10,388,085 | 17 | - |
| Other Liabilities | | | | | | | | | | | | |
| (Non-interest bearing liabilities) | | | | | | | | | | | | |
| Interest accrued | 1,648,996 | 1,648,996 | 100 | - | - | - | - | - | - | - | - | - |
| Taxation | 220,576 | 185,306 | 84 | 35,270 | 16 | - | - | - | - | - | - | - |
| Deferred taxation | 290,597 | 2,445 | 1 | 2,445 | 1 | 494 | 0 | 285,194 | 98 | 19 | 0 | - |
| Other liabilities | 1,152,212 | 951,422 | 83 | 134,688 | 12 | 7,514 | 0 | 1,465 | 0 | 57,123 | 5 | - |
| | 3,312,381 | 2,788,169 | 84 | 172,403 | 5 | 8,008 | 0 | 286,659 | 9 | 57,142 | 2 | - |
| Total liabilities | 67,304,263 | 23,944,141 | 35 | 15,163,615 | 23 | 10,816,031 | 16 | 6,935,249 | 10 | 10,445,227 | 16 | |

56. Concentration of Assets and Liabilities

56.1 Concentration in the Distribution of Assets

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

56.1.2 Industry wise Distribution of main Assets are given below:

| Industry Sector | 31.03.2009 | 31.03.2008 |
|---|------------|------------|
| | 2009 % | 2008 % |
| Agriculture, forestry and fishing | 7.5 | 7.7 |
| Mining and quarrying | 0.9 | 1.1 |
| Manufacture of food, beverages and tobacco | 11.0 | 9.7 |
| Manufacture of textiles | 0.8 | 0.9 |
| Manufacture of wearing apparel excluding footwear | 2.0 | 1.3 |
| Manufacture of leather and leather products including footwear | 0.3 | 0.3 |
| Wood and manufacture of wood products | 1.5 | 1.3 |
| Manufacture of paper products, printing, publishing and packaging | 3.7 | 3.6 |
| Manufacture of chemical and chemical products | 1.0 | 1.1 |
| Manufacture of rubber products | 3.4 | 3.0 |
| Manufacture of plastic products | 3.0 | 2.0 |
| Manufacture of non-metallic mineral products | 5.3 | 5.7 |
| Basic metal products | 0.5 | 0.5 |
| Manufacture of fabricated metal products, machinery and equipment | 1.6 | 1.6 |
| Electricity, gas and water industries | 4.7 | 5.2 |
| Construction industries | 4.7 | 4.5 |
| Trade | 14.3 | 14.9 |
| Hotels and restaurants | 3.2 | 3.2 |
| Transport, storage and communications | 8.8 | 10.6 |
| Financing, insurance, real estate and business services | 14.3 | 15.7 |
| Community, social and personal services | 7.5 | 6.1 |
| | 100.0 | 100.0 |

| Composition of Assets | Rs m | Rs m |
|-----------------------|--------|--------|
| Loans* | 35,106 | 38,606 |
| Leases | 4,804 | 6,481 |
| Investment securities | 1,918 | 1,679 |
| Dealing securities | 10 | 18 |
| | 41,838 | 46,784 |

* Including loans to banks & excluding staff loans.

56.2 Composition of Liabilities is given in Note 43.

| | BANK | | | | GROUP | | | |
|--|----------------------|-----|----------------------|-----|----------------------|-----|----------------------|-----|
| | 31.03.2009 Rs 000 | % | 31.03.2008 Rs 000 | % | 31.03.2009 Rs 000 | % | 31.03.2008 Rs 000 | % |
| 57. Non-Performing Loans, Leases and Bills | | | | | | | | |
| Loans and advances | 3,096,950 | | 2,202,457 | | 4,428,391 | | 2,935,892 | |
| Finance leases | 685,669 | | 682,877 | | 685,669 | | 682,877 | |
| Bills of exchange discounted | 0 | | 5,640 | | 35,485 | | 62,375 | |
| Gross exposure | 3,782,619 | 9.0 | 2,890,974 | 6.2 | 5,149,545 | 8.7 | 3,681,144 | 6.4 |
| Less: Interest in suspense included in overdrafts | 0 | | 0 | | 166,397 | | 74,254 | |
| Net non-performing loans, advances, leases and bills | 3,782,619 | 9.0 | 2,890,974 | 6.2 | 4,983,148 | 8.7 | 3,606,890 | 6.2 |
| Less: Provision for bad and doubtful debts | 1,124,603 | | 702,118 | | 1,525,418 | | 834,198 | |
| Net exposure | 2,658,016 | 6.4 | 2,188,856 | 4.7 | 3,457,730 | 6.1 | 2,772,692 | 4.8 |
| Net of tangible securities | 302,215 | | 312,653 | | 1,148,823 | | 661,246 | |

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

| | BANK | | GROUP | |
|--|----------------------|----------------------|----------------------|----------------------|
| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
| 57.1 Provision for Bad and Doubtful Debts | | | | |
| Loans and advances | 923,690 | 703,244 | 1,314,207 | 861,635 |
| Finance leases | 309,715 | 206,253 | 309,715 | 206,253 |
| Bills of exchange discounted | 0 | 5,640 | 13,947 | 10,000 |
| | 1,233,405 | 915,137 | 1,637,869 | 1,077,888 |
| Less: Provisions relating to facilities | | | | |
| Currently performing | | | | |
| Loans and advances | 94,609 | 204,142 | 98,255 | 234,813 |
| Finance leases | 14,193 | 8,877 | 14,196 | 8,877 |
| Bills of exchange discounted | 0 | 0 | 0 | 0 |
| | 108,802 | 213,019 | 112,451 | 243,690 |
| Provision relating to non-performing facilities | 1,124,603 | 702,118 | 1,525,418 | 834,198 |

57.2 The realisable value of tangible security is computed based on the progressive discounts on the forced sale value (FSV) stipulated in the direction issued by Central Bank of Sri Lanka is given below:

| Item | Discount on FSV, % | |
|--------------------------------------|-------------------------------------|--------------------|
| | Freehold Property | Leasehold Property |
| At the first time of provisioning | 25 | 40 |
| Period in the loss section | | |
| Less than 12 months | 25 | 40 |
| More than 12 but less than 24 months | 40 | 50 |
| More than 24 but less than 36 months | 50 | 60 |
| More than 36 but less than 48 months | 60 | 70 |
| More than 48 months | At the discretion of the Management | 100 |

58. Related Party Transactions

58.1 The Group's related parties include Associates Trust established by the Bank for post-employment retirement benefit plan, Joint ventures, Key Management Personnel, close family members of key management personnel and entities which are controlled, jointly controlled or significantly influenced for which significant voting power is held by key management personnel or their close family members.

Where appropriate additional information on Related Party transactions are disclosed in compliance with Rule No. 3 (8) (ii) (e) of the Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka on Corporate Governance.

58.2 Transactions with Subsidiaries of the Bank

58.2.1 Balance Sheet

| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | Average Balance | |
|--|----------------------|----------------------|----------------------|----------------------|
| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
| Assets | | | | |
| Cash and short-term funds | 1,758,641 | 1,697,877 | 1,728,259 | 1,682,746 |
| Loans and advances | 122,000 | 122,000 | 122,000 | 122,000 |
| Securities purchased under repurchase agreements | 96,000 | 105,431 | 100,716 | 52,716 |
| Interest receivable | 7,985 | 2,187 | 5,086 | 2,757 |
| Total | 1,984,626 | 1,927,495 | 1,956,061 | 1,860,219 |
| Liabilities | | | | |
| Deposits | 42,110 | 123,911 | 83,010 | 136,871 |
| Securities sold under repurchase agreement | 800,000 | 58,525 | 429,262 | 29,263 |
| Interest payable | 3,270 | 17,613 | 10,441 | 10,699 |
| Total | 845,380 | 200,049 | 522,713 | 176,833 |
| Undisbursed credit facilities | 878,000 | 878,000 | 878,000 | 878,000 |

58.2.2 Income Statement

for the year ended

| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
|------------------|----------------------|----------------------|
| Interest income | 88,966 | 149,479 |
| Interest expense | 15,198 | 34,341 |
| Other income | 106,454 | 79,502 |
| Other expenses | 42,098 | 25,275 |

58.3 Transaction with Associates

58.3.1 Balance Sheet

| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | Average Balance | |
|-------------------------|----------------------|----------------------|----------------------|----------------------|
| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
| Assets | | | | |
| Lease | 0 | 209 | 104 | 438 |
| Total | 0 | 209 | 104 | 438 |
| Liabilities | | | | |
| Deposits | 0 | 21,534 | 10,767 | 10,767 |
| Subordinated debentures | 10,000 | 10,000 | 10,000 | 10,000 |
| Interest payable | 507 | 1,068 | 787 | 716 |
| Total | 10,507 | 32,602 | 21,554 | 21,483 |

58.3.2 Income Statement

For the year ended

| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
|-------------------|----------------------|----------------------|
| Interest income | 6 | 56 |
| Interest expenses | 2,564 | 4,082 |
| Other income | 339,128 | 402,209 |
| Other expenses | 6,243 | 633 |

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

58.4.1 Balance Sheet

| | Average Balance | | | |
|--------------------|----------------------|----------------------|----------------------|----------------------|
| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
| Assets | | | | |
| Loans and advances | 838,990 | 685,270 | 762,130 | 791,735 |
| Total | 838,990 | 685,270 | 762,130 | 791,735 |

58.4.2 Off-Balance Sheet Items

| | | |
|-------------------------------|---------------|---------------|
| Commitments and contingencies | | |
| Undrawn facilities | 12,650 | 5,340 |
| Guarantees | 59,750 | 59,750 |
| Total | 72,400 | 65,090 |

58.4.3 Income Statement

| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
|---------------------------|----------------------|----------------------|
| <i>For the year ended</i> | | |
| Interest income | 95,405 | 106,658 |
| Other income | 654 | 1,869 |

58.5 Transactions with Key Management Personnel

58.5.1 Key Management Personnel

Key management personnel are the Board of Directors of the Bank, Chief Executive Officer, Executive Vice-Presidents, Senior Vice-President - Treasury, Senior Vice-President - Operations, Senior Vice-President - Group, Chief Information Officer and the Secretary to the Board for the purpose of Sri Lanka Accounting Standard on Related Party Disclosures.

Chief Information Officer concurrently serves as the Managing Director of Synapsys Limited during the year ended 31 March 2009. During the year ended 31 March 2009 received emoluments from Synapsys Limited.

58.5.2 Compensation of Directors and Other Key Management Personnel

| | BANK | | GROUP | |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
| <i>For the year ended 31 March</i> | | | | |
| Number of persons | 16 | 17 | 33 | 37 |
| Short-term employment benefits | 74,634 | 64,259 | 116,801 | 96,216 |
| Post-employment benefits - pension | 15,054 | 12,852 | 15,054 | 12,852 |
| - others | 7,083 | 6,127 | 11,746 | 10,024 |
| | 96,771 | 83,238 | 143,601 | 119,092 |

Post employment benefits are the expenses recognised in the income statement to provide a pension and other retirement benefits (end of service gratuity payable to employees not eligible for pension) defined contribution to Employees Provident Fund/Mercantile Service Provided Fund Society and Employees Trust Fund by the employer.

58.5.3 Share Based Payments to Key Management Personnel - Bank

Key management personnel together with other eligible employees participated in a share option plan approved by the shareholders in 2002. The final grant under this plan was made during the year ended 31 March 2006.

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

| <i>For the year ended 31 March</i> | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
|--|------------------------------|----------------------|
| Unexercised options balance at the beginning of financial year | 647,404 | 464,605 |
| Adjustment to the unexercised options on the date of bonus issue 30 June 2007 | – | 246,460 |
| Awarded during the year | – | 28,339* |
| Exercised during the year | (140,912) | (92,000) |
| Unexercised options balance end of financial year | 506,492 | 647,404 |
| Weighted average price of unexercised options end of the year | 111.07 | 98.44 |
| Weighted average price of exercised options | 53.08 | 53.08 |
| Weighted average price of Bank's share during the period in which options were exercised | 125.33 | 141.89 |

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

58.5.4 Loans to Key Management Personnel - Bank

| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
|--------------------------------|------------------------------|----------------------|
| Number of KMPs | 2 | 3 |
| Amount outstanding on 31 March | 2,949 | 3,907 |

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

58.6 Transactions with DFCC Pension Fund - Trust

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

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

58.6.2 Transactions with DFCC Bank Pension Fund

| | 31.03.2009 Rs 000 | 31.03.2008 Rs 000 |
|---|------------------------------|----------------------|
| Contributions due at the beginning of financial year | 29,638 | 25,206 |
| Contribution due for the financial year (Note 13.1.1) | 95,060 | 91,547 |
| Contribution paid | (96,028) | (87,115) |
| Contribution due at the end of the financial year (Note 47.1.1) | 28,670 | 29,638 |

58.6.3 Transactions between DFCC Bank Pension Fund and Associate

There were no transactions during the year ended 31 March 2009 and 31 March 2008. Details of investments made by the Pension Fund in Commercial Bank of Ceylon PLC in the year ended 31 March 2007 and outstanding on 31 March 2009 are given below:

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

58.7 Pricing Policy and Terms for Transactions with Related Parties

Bank enters into transactions with related parties in the ordinary course of business on terms similar to comparable transactions with an unrelated comparable counter party. The terms include pricing for loans, deposits and services, collateral obtained for loans where appropriate.

58.8 Net Accommodation Granted to Related Parties

(Disclosure under Rule 3 (8) (ii) (e) of the Corporate Governance Direction of No. 11 of 2007 issued by the Central Bank of Sri Lanka.)

| | 31.03.2009 Rs '000 | % |
|--|-----------------------|-------|
| Subsidiaries | | |
| Loans and advances | 122,000 | 1.17 |
| Securities purchased under resale agreements | 96,000 | 0.92 |
| Undisbursed credit facility | 878,000 | 8.41 |
| | 1,096,000 | 10.50 |
| Key Management Personnel | | |
| Loans to 2 employees | 2,949 | 0.03 |
| Total net accommodation | 1,098,949 | 10.53 |
| Regulatory Capital - solo basis | 10,432,945 | |

The total net accommodation was 10.53% of the Bank's regulatory capital on solo basis.

The undisbursed credit facility is a standby facility and was not used by the subsidiary DFCC Vardhana Bank Limited throughout the year ended 31 March 2009.

The definition of Related Parties for the purpose of this disclosure is based in Rule 7 (1) of Corporate Governance Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka. This definition is slightly different from the definition of Related Parties under the Sri Lanka Accounting Standard 30 (Revised 2005) on Related Party Disclosures.

| <i>For the year ended 31 March 2009</i> | Lending | Financial Leasing | Investing in Equity | Venture Capital | Commercial Banking | Other | Unallocated | Eliminations | Total |
|---|------------------|----------------------|------------------------|--------------------|-----------------------|----------------|----------------|------------------|-------------------|
| | Rs '000 | Rs '000 | Rs '000 | Rs '000 | Rs '000 | Rs '000 | Rs '000 | Rs '000 | Rs '000 |
| 59. Business Segment Information | | | | | | | | | |
| Revenue | | | | | | | | | |
| Interest income | 7,536,486 | 992,373 | – | 78,169 | 3,212,690 | 235,486 | – | (56,271) | 11,998,933 |
| Other income | 215,430 | – | 910,789 | 45,005 | 285,583 | 258,362 | 221,532 | (519,441) | 1,417,260 |
| Income from external customers | 7,751,916 | 992,373 | 910,789 | 123,174 | 3,498,273 | 493,848 | 221,532 | (575,712) | 13,416,193 |
| Inter segment income | – | – | – | – | – | – | 111,159 | (111,159) | – |
| Total income | 7,751,916 | 992,373 | 910,789 | 123,174 | 3,498,273 | 493,848 | 332,691 | (686,871) | 13,416,193 |
| Percentage * | 58 | 7 | 7 | 1 | 26 | 4 | 6 | – | 100 |
| Expense | | | | | | | | | |
| Segment losses | 308,117 | 190,827 | 11,303 | 30,000 | 287,213 | – | – | – | 827,460 |
| Depreciation | – | – | – | 714 | 101,479 | 16,732 | – | – | 118,925 |
| Other operating & interest expenses | 968,675 | 98,524 | – | 31,124 | 2,666,872 | 298,971 | – | (56,271) | 4,007,895 |
| Inter segment expense | – | – | – | – | 3,950 | 46,034 | – | (49,984) | – |
| | 1,276,792 | 289,351 | 11,303 | 61,838 | 3,059,514 | 361,737 | – | (106,255) | 4,954,280 |
| Result | 6,475,124 | 703,022 | 899,486 | 61,336 | 438,759 | 132,111 | – | – | 8,461,913 |
| Unallocated expenses | | | | | | | | | 5,747,541 |
| Value added tax on financial services | | | | | | | | | 658,058 |
| | | | | | | | | | 2,056,314 |
| Associate companies profit before tax | | | | | | | | | 1,066,101 |
| Profit before tax | | | | | | | | | 3,122,415 |
| Income tax expense | | | | | | | | | 1,054,844 |
| Profit after tax | | | | | | | | | 2,067,571 |
| Minority interests | | | | | | | | | 22,865 |
| Profit for the year | | | | | | | | | 2,044,706 |
| Assets | 37,887,730 | 4,804,430 | 2,168,420 | 828,166 | 24,804,733 | 2,624,287 | 6,755,382 | (36,378) | 79,836,770 |
| Percentage | 48 | 6 | 3 | 1 | 31 | 3 | 8 | – | 100 |
| Investments in associate companies | | | | | | | | | 7,160,671 |
| | | | | | | | | | 86,997,441 |
| Liabilities | 30,291,925 | 4,323,987 | – | 145,326 | 22,176,796 | 1,834,922 | 8,567,685 | (36,378) | 67,304,263 |
| Capital expenditure - additions | | | | 198 | 176,383 | 6,899 | 105,082 | | 288,562 |
| <i>For the year ended 31 March 2008</i> | | | | | | | | | |
| Revenue | | | | | | | | | |
| Interest income | 7,301,859 | 1,189,185 | – | 72,320 | 1,937,732 | 41,517 | – | (45,235) | 10,497,378 |
| Negative goodwill | – | – | – | – | – | – | 1,119 | – | 1,119 |
| Other income | 353,420 | – | 691,799 | 42,727 | 310,359 | 255,716 | 37,630 | (465,776) | 1,225,875 |
| Income from external customers | 7,655,279 | 1,189,185 | 691,799 | 115,047 | 2,248,091 | 297,233 | 38,749 | (511,011) | 11,724,372 |
| Inter segment income | – | – | – | – | – | – | 57,708 | (57,708) | – |
| Total income | 7,655,279 | 1,189,185 | 691,799 | 115,047 | 2,248,091 | 297,233 | 96,457 | (568,719) | 11,724,372 |
| Percentage * | 65 | 10 | 6 | 1 | 19 | 3 | 4 | – | 100 |
| Expense | | | | | | | | | |
| Segment losses | 199,035 | 58,626 | – | 6,604 | 101,047 | – | – | – | 365,312 |
| Depreciation | – | – | – | 727 | 76,834 | 15,686 | – | – | 93,247 |
| Other operating & interest expenses | 5,139,295 | 847,184 | – | 26,752 | 1,709,508 | 87,938 | – | (45,235) | 7,765,442 |
| Inter segment expense | – | – | – | – | 20,045 | 37,663 | – | (57,708) | – |
| | 5,338,330 | 905,810 | – | 34,083 | 1,907,434 | 141,287 | – | (102,943) | 8,224,001 |
| Result | 2,316,949 | 283,375 | 691,799 | 80,964 | 340,657 | 155,946 | – | – | 3,500,371 |
| Unallocated expenses | | | | | | | | | 974,258 |
| Value added tax on financial services | | | | | | | | | 484,632 |
| | | | | | | | | | 2,041,481 |
| Associate companies profit before tax | | | | | | | | | 1,048,616 |
| Profit before tax | | | | | | | | | 3,090,097 |
| Income tax expense | | | | | | | | | 843,457 |
| Profit after tax | | | | | | | | | 2,246,640 |
| Minority interests | | | | | | | | | 79,095 |
| Profit for the year | | | | | | | | | 2,167,545 |
| Assets | 41,170,656 | 6,519,407 | 1,679,828 | 861,272 | 16,893,775 | 599,791 | 7,135,508 | (70,069) | 74,790,168 |
| Percentage | 55 | 9 | 2 | 1 | 23 | 1 | 10 | (1) | 100 |
| Investments in associate companies | | | | | | | | | 6,395,789 |
| | | | | | | | | | 81,185,957 |
| Liabilities | 33,298,930 | 5,867,466 | – | 12,658 | 14,365,951 | 152,253 | 9,270,587 | (70,069) | 62,897,776 |
| Capital expenditure - additions | | | | 282 | 153,157 | 28,896 | 134,135 | | 316,470 |

*Net of eliminations

- 59.1** Revenue and expenses attributable to the incorporated business segments of industrial estate management, unit trust management, stockbroking, investment banking, consultancy services and information technology services are included in the column for Other.
- 59.2** Revenue and expenses attributable to the business segment of DFCC Vardhana Bank Limited is included in the column for Commercial Banking.
- 59.3** Property, plant and equipment and depreciation attributable to an incorporated business segment is included in the relevant segment and the balance is unallocated.
- 59.4** Dealing securities losses of subsidiary company are included in unallocated expenses.
- 59.5** Eliminations are the consolidation adjustments for inter company transactions, dividend and dividend payable attributable to minority shareholders.

60. Post Balance Sheet Events

60.1 Proposed Dividend

Directors have recommended the payment of a final dividend of Rs5 per share for the year ended 31 March 2009, which require the approval of the shareholders at the Annual General Meeting to be held on 30 June 2009. The Board of Directors confirm that the Bank has satisfied the solvency test in accordance with Section 57 of the Companies Act No. 7 of 2007 and have obtained the certificate from the auditors.

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

60.2 Market Price of Voting Ordinary Share of Commercial Bank of Ceylon PLC.

This increased from Rs79.25 per share (ex-div) to Rs120.50 per share and consequently the market value of investment increased to Rs8.08 million.

61. Comparative Amounts

61.1 Reclassification

Material Changes are:

| | Note | Rs 000 |
|---|--------|--------|
| Bank | | |
| Provision for staff retirement benefit - increase | 13.1.4 | 51,557 |
| Personal expenses - decrease | | 51,557 |
| Group | | |
| Investment securities - increase | 20 | 13,500 |
| Cash and short-term funds - decrease | 30 | 13,500 |
| Compensation of Directors and Key Management Personnel due to change in the composition - increase | 58.5.2 | 15,477 |

61.2 Restatement due to change in Accounting Policy

Bank

| | | |
|---|----|-----|
| Provision for retirement benefit - increase | 13 | 622 |
| Other liabilities - increase | 47 | 622 |

62. Certification Required by Companies Act No. 7 of 2007

This certification is based on independent legal advice obtained by the Bank which confirms that the Bank will not be required to provide the certification in Section 150(1) (b) of the Companies Act since Sections 15 and 16 of the DFCC Bank Act No. 35 of 1955 as amended, specifically deals with the financial statements of the Bank. However Sections 152 and 153 dealing with the Group financial statements and certification in the Companies Act No. 7 of 2007 are currently applicable to the Bank.