

### Financial Calendar - 2011

---

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

### Proposed Financial Calendar - 2012

---

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

\* Subject to confirmation by Shareholders



# Financial Report

# STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

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

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

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

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

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

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

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

As part of institutional checks and balances and accountability, in addition to this Directors' Responsibility Statement, the Directors have included the Chief Executive Officer's and the Chief Financial Officer's Responsibility Statement on page 83.

By Order of the Board



**Ms A Withana**  
*Secretary to the Board*

30 May 2011

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

FINANCIAL REPORT

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

The Board of Directors and the Management of the Bank accept responsibility for the integrity and objectivity of these financial statements. The estimates and judgments relating to the financial statements were made on a prudent and reasonable basis, in order that the financial statements reflect in a true and fair manner, the

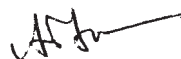
form and substance of transactions, and reasonably present the Bank's state of affairs. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. Our internal auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

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

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



**S Nagarajah**  
*Executive Vice-President (Finance)*



**A N Fonseka**  
*Ex-Officio Director & Chief Executive*

Colombo  
30 May 2011

# INDEPENDENT AUDITOR'S REPORT

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

#### Management's Responsibility for the Financial Statements

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

#### Scope of Audit and Basis of Opinion

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

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

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

#### Opinion

In our opinion, so far as appears from our examination, the Bank maintained proper accounting records for the year

ended March 31, 2011 and the financial statements give a true and fair view of the Bank's state of affairs as at March 31, 2011 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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

#### Report on Other Legal and Regulatory Requirements

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

**Chartered Accountants**

30th May 2011  
Colombo.

KPMG Ford, Rhodes, Thornton & Co, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International") a Swiss entity.

A.N. Fernando FCA  
P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyratne ACA

M.R. Mihular FCA  
C.P. Jayatilake FCA  
Ms. S. Joseph ACA  
S.T.D.L. Perera FCA

Ms. M.P. Perera FCA  
T.J.S. Rajakarier FCA  
Ms. S.M.B. Jayasekara ACA  
G.A.U. Karunaratne ACA

Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

# INCOME STATEMENT

## FINANCIAL REPORT

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

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

\* Current year minus, previous year - Group.

\*\* After tax.

# BALANCE SHEET

## FINANCIAL REPORT

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

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

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

S. Nagarajah

S Nagarajah  
Executive Vice-President (Finance)

For and on behalf of the Board of Directors,

JMS Brito

J M S Brito  
Chairman

Colombo  
30 May 2011

AN Fonseca

A N Fonseca  
Ex-Officio Director & Chief Executive

# STATEMENT OF CHANGES IN EQUITY



## FINANCIAL REPORT

For the years ended 31 March

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

### Attributable to the equity holders of the Bank

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

\* Includes statutory reserve fund of DFCC Vardhana Bank Limited.

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

# CASH FLOW STATEMENT

## FINANCIAL REPORT

For the year ended 31 March

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

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

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

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

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

For the year ended 31 March

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

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

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

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

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

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

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

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

# NOTES ON THE FINANCIAL STATEMENTS

## FINANCIAL REPORT

### 1. Reporting Entity

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

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

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

Section 6 (c) of the Companies Act No. 07 of 2007 requiring a limited company which is a listed company to have the words public limited company or the abbreviation PLC added to its name does not apply to the Bank which continues with the description DFCC Bank given in Section 2 (1) (b) of DFCC Bank Act No. 35 of 1955, as amended. Ordinary shares of the Bank are listed in the Colombo Stock Exchange.

The Bank does not have a Parent of its own.

The Bank's Group comprises of subsidiary companies viz., DFCC Consulting (Pvt) Limited, DFCC Vardhana Bank Limited, Lanka Industrial Estates Limited, Synapsys Limited. Acuity Partners (Pvt) Limited a joint venture company equally owned by the Bank and Hatton National Bank PLC. Lanka Ventures PLC ceased to be a subsidiary

of the Bank from 18 January 2010 consequent to transfer of its voting shares held by the Bank to Acuity Partners (Pvt) Limited.

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

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

#### 1.1 Principal Activities

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

##### **DFCC Bank**

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

##### **DFCC Consulting (Pvt) Limited**

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

##### **DFCC Vardhana Bank Limited**

Commercial banking.

##### **Lanka Industrial Estates Limited**

Leasing of land and buildings for industrial enterprises.

##### **Synapsys Limited**

Information technology services and information technology enabled services.

##### **National Asset Management Limited**

Fund management.

##### **Acuity Partners (Pvt) Limited**

Investment company and providing financial services.

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

### 2. Basis of Preparation

#### 2.1 Statement of Compliance with Sri Lanka Accounting Standards

The financial statements have been prepared in compliance with relevant Sri Lanka Accounting Standards adopted by the Institute of Chartered Accountants of Sri Lanka and comply with the requirements of Banking Act No. 30 of 1988 and amendments there to.

#### 2.2 Approval of Financial Statements by Directors

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

#### 2.3 Consolidated and Separate Financial Statements

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

#### 2.4 Basis of Measurement

The consolidated and separate financial statements of DFCC Bank are presented in Sri Lankan Rupees, the functional and presentation currency, rounded to the nearest thousand and, unless otherwise stated herein, have been prepared under the historical cost convention. Exceptions to the historical cost convention of accounting relate to dealing securities and investment securities. Investment securities are carried in the Balance Sheet at lower of aggregate cost and market value on a portfolio basis while dealing securities are marked to market and carried in the Balance Sheet at the market price of each security. In the separate financial statements of the DFCC Bank,

the investments in associates, subsidiaries and joint venture company are accounted on the basis of direct equity interest rather than on the basis of the reported results and net assets of the investees.

## **2.5 Accrual Basis of Accounting**

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

## **2.6 Materiality and Aggregation**

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

## **2.7 Critical Accounting Estimates and Judgments**

### **2.7.1 General**

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

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

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

### **2.7.2 Judgments and the Financial Impact**

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

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

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

### **2.7.3 Accounting Estimates**

#### **2.7.3.1 Loan Losses**

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

#### **2.7.3.2 Pension Liability**

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

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

#### **2.7.3.3 End of Service Statutory Gratuity Liability**

The estimation of this liability, which is not funded, determined by an independent qualified actuary necessarily involves long-term assumptions on future changes

to salaries, resignations prior to the normal retirement age and mortality of covered employees. Key assumptions are disclosed in Note 14.6.

#### **2.7.3.4 Current Tax**

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

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

#### **2.7.3.5 Impairment of Tangible and Intangible Assets**

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

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

## **3. Basis of Consolidation**

### **3.1 General**

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

similar items line-by-line in the financial statements of the Bank.

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

### **3.2 Transactions Eliminated on Consolidation**

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

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

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

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

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

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

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

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

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

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

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

## **4. Scope of Consolidation**

All subsidiaries have been consolidated.

### **4.1 Subsidiaries**

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

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

### **4.2 Associate Companies**

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

### **4.3 Joint Venture Company**

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

## **5. Principal Accounting Policies**

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

## **5.1 Revenue and Expense Recognition**

### **5.1.1 Interest Income**

Interest receivable is recognised on an accrual basis except for loans and advances classified as non-performing based on criteria set out in Direction No. 4 of 2008 dated 8 May 2008 as amended by Direction No. 10 of 2008 dated 30 December 2008, Direction No. 7 of 2009 dated 30 December 2009 and Direction No. 2 of 2010 dated 20 May 2010 issued by Central Bank of Sri Lanka on 'Classification of Loans and Advances, Income Recognition and Provisioning' as amended.

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

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

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

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

### **5.1.3 Discount or Premium on Purchase of Dated Debt Securities**

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

### **5.1.4 Finance Lease Income**

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

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

### **5.1.5 Dividend Income**

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

### **5.1.6 Discount on Bills of Exchange**

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

### **5.1.7 Front-end Fee Income**

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

### **5.1.8 Consultancy and Other Professional Service Income**

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

### **5.1.9 Underwriting Commission**

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

### **5.1.10 Guarantee Fee**

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

### **5.1.11 Gains on Sale of Property, Plant and Equipment**

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

### **5.1.12 Gains on Sale of Investment Property**

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

### **5.1.13 Gains on Disposal of Dated Debt Securities**

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

#### 5.1.14 Sale and Repurchase Agreements

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

#### 5.1.15 Premises Rental Income

Rental income is recognised on accrual basis.

#### 5.1.16 Marked to Market Gains on Dealing Securities

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

#### 5.1.17 Marked to Market Gains on Forward Exchange Contracts

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

#### 5.1.18 Foreign Exchange Income

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

#### 5.1.19 Gains on Sale of Subsidiary to Joint Venture Company

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

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

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

#### 5.1.21 Interest Expense

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

#### 5.1.22 Allowances for Credit Losses

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

Group makes both general and specific provisions.

#### 5.1.22.1 Specific Provisions

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

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

The specific provision has two elements:

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

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

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

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

#### 5.1.22.2 General Provision

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

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

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

#### **5.1.23 Investment Securities Losses**

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

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

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

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

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

Diminution other than temporary in value of all investment securities is charged against the earnings of the period in which they occur. Diminution other than temporary in value of shares included in investment securities is written-off.

#### **5.1.24 Income Tax Expense**

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

##### **5.1.24.1 Current Tax**

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

##### **5.1.24.2 Deferred Tax**

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

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

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

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

##### **5.1.24.3 Social Responsibility Levy**

This is 1.5% of the income tax.

##### **5.1.24.4 Value Added Tax**

The value base for Value Added Tax for the Bank is the adjusted accounting profit before tax and emoluments of employees. The adjustment to the accounting profit before tax is for economic depreciation computed on prescribed rates instead of the rates adopted in the financial statements. The Value Added Tax rate is reduced from 20% to 12% with effect from 1 January 2011.

##### **5.1.24.5 Withholding Tax on Dividends distributed by Subsidiaries and Associate Companies**

Dividends distributed out of the taxable profit of the subsidiaries and associate companies suffer a 10% deduction at source and is not available for set off against the tax liability of the Bank. Thus, the withholding tax deducted at source is added to the tax expense of the

subsidiary company and the associated company in the Group financial statements as a consolidation adjustment.

## 5.2 Assets and Bases of their Valuation

### 5.2.1 Cash & Cash Equivalent

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

### 5.2.2 Balances with Central Bank

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

## 5.2.3 Securities

### 5.2.3.1 Dealing Debt Securities

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

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

These securities are recognised at cost initially on acquisition and thereafter marked to market on the balance sheet date in accordance with the Direction

issued by Central Bank of Sri Lanka on 'Prudential norms for classification, valuation, and operation of the Bank's investment portfolio' dated 1 March 2006.

### 5.2.3.2 Investment Debt Securities

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

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

### 5.2.3.3 Securities Purchased under Resale Agreements (Reverse Repurchase Transactions)

These are loans 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. This relates to transfers from investment securities to dealing securities when a significant portion of ordinary shares of a company is disposed. The remaining shares are transferred on the basis that such sales of significant amount has tainted the character of the balance from held to maturity investment to dealing securities.

### 5.2.3.6 Investment Securities - Shares and Units Purchased from Unit Trusts

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

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

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

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

#### 5.2.4 Assets held for Sale

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

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

#### 5.2.5 Loans and Advances

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

#### 5.2.6 Non-Performing Loans and Finance Leases

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

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

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

Prior to the issue of Direction No. 4 of 2008 dated 8 May 2008 issued by the Central Bank, as per the previous Direction on this subject, the non-performing classification criteria applied to each credit facility extended to a

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

The implementation of this new basis of classification originally effective from 1 January 2009 was deferred until 1 January 2011 by subsequent amendments. Thus, with effect from 1 January 2011, all facilities to a borrower are classified as non-performing if 30% of the credit facilities are non-performing.

#### 5.2.7 Categorisation of Non-Performing Loans and Finance Leases

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

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

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

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

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

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

### 5.2.9 Finance Leases

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

### 5.2.10 Investment Property

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

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

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

The rates of depreciation are as follows:

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

### 5.2.11 Investment in Subsidiaries and Associate Companies

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

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

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

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

### 5.2.12 Investment in Joint Venture Company

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

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

### 5.2.13 Property, Plant & Equipment

#### 5.2.13.1 Basis of Recognition

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

#### 5.2.13.2 Measurement at Recognition

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

#### 5.2.13.3 Subsequent Measurement

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

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

The rates of depreciation are as follows:

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

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

Land is not depreciated.

#### **5.2.13.4 Derecognition**

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

#### **5.2.14 Goodwill or Negative Goodwill on Consolidation**

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

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

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

#### **5.2.15 Intangible Assets - Computer Application Software**

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

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

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

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

#### **5.2.16 Impairment of Assets**

##### **5.2.16.1 Tangible and Financial Assets**

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

##### **5.2.16.2 Intangible Assets - Computer Application Software and Goodwill on Consolidation**

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

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

##### **5.2.17 Foreign Currency Translation**

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

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

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

### 5.2.18 Deferred Tax Asset

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

### 5.2.19 Unrecognised Deferred Tax Assets

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

\* 50% of Loss, proportionate consolidation.

### Comparative Information

Where items are regrouped, comparative information is also adjusted.

## 5.3 Liabilities and Provisions

### 5.3.1 Provision for Pension Liability under a Defined Benefit Plan

#### 5.3.1.1 Description of the Plan and Employee Groups Covered

The Bank established a Trust Fund in May 1989, which operates the pension scheme for payment of pension approved by the Commissioner General of Inland Revenue. The fund of the scheme is managed by trustees appointed by the Bank and is separate from the Bank. The scheme provides for payment of pension to retirees, spouse and minor children of deceased retirees based on pre-retirement salary. All members of the permanent staff

who joined prior to 1 May 2004 except one are covered by this funded pension scheme subject to fulfilment of eligibility conditions prescribed by the Bank.

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

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

### 5.3.1.2 Funding Arrangement

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

### 5.3.1.3 Recognition of Actuarial Gains and Losses

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

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

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

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

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

#### **5.3.1.4 Recognition of Past Service Cost**

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

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

##### **5.3.2.1 Description of the Plan and Employee Groups Covered**

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

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

The promised benefit is half a month pre-termination salary for each completed year of service provided a minimum qualifying period of 5 years is served prior to termination of employment. The Bank however recognises the liability by way of a provision for all employees in tenured

employment from the date they joined the permanent cadre while fixed term employees liability is recognised only if the fixed term contract of service provides for unbroken service of 5 years or more either singly or together with consecutive contracts.

##### **5.3.2.2 Funding Arrangement**

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

##### **5.3.2.3 Recognition of Actuarial Gains and Losses**

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

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

##### **5.3.2.4 Recognition of Past Service Cost**

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

##### **5.3.3 Defined Contribution Plans**

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

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

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

#### **5.3.4 Debentures 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 Offsetting

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

### 5.3.8 Commitments and Contingencies

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

### 5.3.9 Events after Balance Sheet Date

All material and important events which occur between the balance sheet date and the date on which the financial statements are authorised for issue, and the financial impact on the condition of assets and liabilities are disclosed in Note 64.

## 6. Cash Flow

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

## 7. Business Segment Reporting

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

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

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

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

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

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

## 8. Directors' Responsibility Statement

The Directors' acknowledge the responsibility for true and fair presentation of the financial statements in accordance with the books of account and Sri Lanka Accounting Standards. Further elaboration of the Directors' Responsibility is on page 82.

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

### 9.1 General

The Institute of Chartered Accountants of Sri Lanka, entrusted with the task of setting Sri Lanka Accounting Standards by Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 have

decided to converge fully with International Financial Reporting Standards (IFRS) with effect from 1 January 2012. In accordance with this decision, new accounting standards and existing Sri Lanka Accounting Standards renumbered with corresponding International Accounting Standards and IFRS have been issued.

### 9.2 Title of the New Standards

- i. LKAS 32 (previously issued as Sri Lanka Accounting Standard 44 - 'Financial Instruments Presentation')
- ii. LKAS 39 (previously issued as Sri Lanka Accounting Standard 45 - 'Financial Instrument Recognition and Measurement')
- iii. IFRS 7 (previously issued as Sri Lanka Accounting Standard 46 - 'Financial Instrument Disclosure')
- iv. IFRS 1 - First time adoption of International Financial Reporting Standards

### 9.3 Effective Date for Mandatory Application

Financial year to 31 March 2013.

### 9.4 Nature of Significant Impending Changes

- i. These Standards deal with the presentation, recognition and measurement of financial instruments defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
- ii. Loans and customer advances and held to maturity investments will be carried at amortised cost reduced by impairment losses.

- iii. Recognition of impairment losses on loans and customer advances will be based on the present value of future recoveries individually or collectively assessed, compared to the amortised cost. Currently, the impairment loss does not take into consideration time value of future cash flows discounted at the effective rates of the interest applicable to loans and customer advances.
- iv. Most of the financial liabilities will be carried at amortised cost.
- v. All other financial assets and financial liabilities other than those carried at amortised cost will be carried in the balance sheet at their fair value.
- vi. All derivatives will be recognised as on-balance sheet asset or liability and carried at the fair value. Currently, they are recognised off-balance sheet.
- vii. Application of hedge accounting, which is optional, is permitted subject to stringent requirements on documentation and test for effectiveness of the hedges.
- viii. Fair value is the market price where an active market exists or is computed using prescribed valuation techniques.
- ix. The first time adoption of IFRS in full could result in variations in the recognition and measurement of assets and liabilities between the

previous Sri Lanka Accounting Standards applicable up to 31 March 2012 and IFRS applicable from 1 April 2012. The new Standard requires changes to be reflected in the 'opening SLFRS statement of financial position' on 1 April 2012 with specific additional disclosures and changes to the representation and titles of financial statements.

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

The impact is not currently known or reasonably estimated.

For the year ended 31 March

	BANK		GROUP	
	2011 Rs 000	2010 Rs 000	2011 Rs 000	2010 Rs 000
<b>10. Income</b>				
Gross income	14,191,300	8,843,452	15,830,285	13,085,852
Interest income	6,206,458	7,416,335	9,658,167	11,793,481
Other income	7,984,842	1,427,117	6,172,118	1,292,371
	14,191,300	8,843,452	15,830,285	13,085,852

### 11. Interest Income

Loans	3,947,846	5,333,174	6,192,886	7,987,556
Treasury bills, bonds and placements with other banks	1,405,707	1,281,444	2,612,357	2,985,492
Gross earnings under finance leases	755,972	720,221	755,972	720,221
Default interest on lease rentals	96,933	81,496	96,952	81,496
Interest and discount arising from debt securities	0	0	0	18,716
	6,206,458	7,416,335	9,658,167	11,793,481

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

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

For the year ended 31 March

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

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

For the year ended 31 March

	BANK		GROUP	
	2011 Rs 000	2010 Rs 000	2011 Rs 000	2010 Rs 000
<b>14. Provision for Staff Retirement Benefits</b>				
<b>14.1 Amount Recognised as Expense</b>				
<b>14.1.1 Funded Liability</b>				
Current service cost	58,626	59,556	58,626	59,556
Interest on obligation	123,859	112,903	123,859	112,903
Expected return on pension assets	(123,537)	(107,063)	(123,537)	(107,063)
	<b>58,948</b>	<b>65,396</b>	<b>58,948</b>	<b>65,396</b>
<b>14.1.2 Unfunded Pension Liability</b>				
Current service cost	4,258	4,024	4,258	4,024
Interest on obligation	4,094	3,063	4,094	3,063
Amortisation of unrecognised actuarial loss	1,090	0	1,090	0
	<b>9,442</b>	<b>7,087</b>	<b>9,442</b>	<b>7,087</b>
<b>14.1.3 Unfunded End of Service Gratuity Liability</b>				
Current service cost	3,139	2,524		
Interest on obligation	2,078	1,537		
Amortisation of unrecognised actuarial loss	497	425		
	<b>5,714</b>	<b>4,486</b>	<b>17,440</b>	<b>12,824</b>
Total defined benefit plans	<b>74,104</b>	<b>76,969</b>	<b>85,830</b>	<b>85,307</b>
<b>14.1.4 Defined Contribution Plan</b>				
Employer's contribution to Employees' Provident Fund	56,173	52,492	93,914	84,597
Employer's contribution to Employees' Trust Fund	11,235	10,500	19,175	16,953
Total defined contribution plans	<b>67,408</b>	<b>62,992</b>	<b>113,089</b>	<b>101,550</b>
Total expense recognised in the income statement	<b>141,512</b>	<b>139,961</b>	<b>198,919</b>	<b>186,857</b>
<b>14.2 Movement in Unrecognised Actuarial Gain</b>				
<b>14.2.1 Funded Liability</b>				
Unrecognised actuarial gain on 1 April	(83,126)	(50,231)		
Adjustments	0	(10)		
Restated unrecognised actuarial gain on 1 April	(83,126)	(50,241)		
Actuarial (gain)/loss during the financial year				
Due to experience of pension assets	2,958	(32,885)		
Due to actuarial experience	(11,034)	0		
Due to change in plan assumption	(49,624)	0		
Unrecognised actuarial (gain) on 31 March	<b>(140,826)</b>	<b>(83,126)</b>		

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

#### 14.2.3 Unfunded End of Service Gratuity Liability

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

#### 14.2.4 Amortisation of Unrecognised (Gain)/Loss

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

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

For the year ended 31 March

**BANK**  
**2011**  
**Rs 000**

---

**Unfunded End of Service Gratuity Liability**

Unrecognised actuarial loss on 1 April 2010	6,463
Limits of Corridor on 1 April 2010	
(i) 10% of present value of pension obligation on 1 April 2010	1,493
Excess unrecognised actuarial loss to be amortised, over the remaining working life of employees eligible for gratuity	4,970
Expected average remaining working lives of employees eligible for gratuity	10 years
Unrecognised actuarial loss amortised and recognised in the income statement	497

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

**14.3 Unfunded Pension Liability**

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

**14.4 Actuarial Valuation**

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

**14.5 Actuarial Valuation Method**

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

## 14.6 Principal Actuarial Assumptions

	Pension benefit (%)	End of service gratuity (%)
Discount rate as at 31 March 2011, per annum		
Pre-retirement (for End of service gratuity previous year 11.5%)	9.0	10.0
Post-retirement	9.0	not applicable
Future salary increases per annum (Previous year 11.5% per annum for pension and 11% for End of service gratuity)	10.5	10.0
Expected rate of return on pension assets - post tax (Previous year 9% per annum)	7.0	–
Actual rate of return on pension assets	8.9	–
Mortality	UP 1984 mortality table	
Retirement age	55 years	55 years
Normal form of payment:		
Pension benefit	lump sum commuted pension payment followed by reduced pension for 10 years (25% reduction) (for new entrants recovery period is 15 years)	
End of service gratuity		lump sum
Turnover rate -		
Age		
20	10.0	10.0
25	10.0	10.0
30	10.0	10.0
35	7.5	7.5
40	5.0	5.0
45	2.5	2.5
50/55	1.0	1.0

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

The differences in the discount rates for pension and end of service gratuity reflect the differences in the estimated period for benefit payments.

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

For the year ended 31 March

	BANK		GROUP	
	2011 Rs 000	2010 Rs 000	2011 Rs 000	2010 Rs 000
<b>15. Bad and Doubtful Debts - Specific</b>				
Provision for the year				
Loans and advances	733,525	480,468	1,103,431	893,720
Leases	75,902	161,318	75,902	161,318
Dues on terminated leases	2,180	10,124	2,180	10,124
Bills of exchange	0	0	15,462	9,632
Others	16,965	18,599	16,965	18,599
Loan/lease losses	9,024	4,031	11,052	7,004
	<b>837,596</b>	<b>674,540</b>	<b>1,224,992</b>	<b>1,100,397</b>
Less: Recoveries in the year				
Loans and advances	443,801	243,262	618,876	433,093
Leases	126,354	73,244	126,354	73,244
Dues on terminated leases	2,081	24,170	2,081	24,170
Bills of exchange	0	0	3,362	9,111
Others	21,820	1,135	21,820	1,135
	<b>243,540</b>	<b>332,729</b>	<b>452,499</b>	<b>559,644</b>
<b>16. Bad and Doubtful Debts - General</b>				
Provision for the year				
Loans and advances	0	10,990	26,344	17,357
Leases	51,777	92,824	51,777	92,824
Bills of exchange	0	0	499	289
	<b>51,777</b>	<b>103,814</b>	<b>78,620</b>	<b>110,470</b>
Less: Reduction in the year				
Loans and advances	45,273	45,794	45,273	45,794
Leases	6,351	35,024	6,351	35,024
Bills of exchange	0	0	1,043	0
	<b>153</b>	<b>22,996</b>	<b>25,953</b>	<b>29,652</b>
<b>17. Investments - Impairment Losses</b>				
Investment securities	0	0	3,125	0

For the year ended 31 March

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

\* Commercial Bank of Ceylon PLC

## 20. Income Tax Expense

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

### 20.2 Relationship between Tax Expense and Accounting Income

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

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

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

**Companies/income taxed at rates lower than 35%**

	2011 %	2010 %
Lanka Industrial Estates Limited (BOI approved company) - On business turnover	2	2
Synapsys Limited (BOI approved company) - Income other than investment income	Exempt	Exempt
<i>For the year ended 31 March</i>	<b>2011 Rs 000</b>	2010 Rs 000

**20.3 Tax on Profit on Ordinary Activities**

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

**20.4 Summary**

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

**21. Earnings per Share****21.1 Basic Earnings per Share**

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

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

**21.2 Diluted Earnings per Share**

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

### 21.3 Adjustment for Bonus Issue

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

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

### 21.4 Computation of Basic and Diluted Earnings per Share

Profit for the year (Rs000)	7,137,451	1,713,236	5,090,313	2,579,972
Weighted average number of shares	264,854,825	264,521,330	264,854,825	264,521,330
<b>Basic earnings per share, Rs</b>	<b>26.95</b>	<b>6.48</b>	<b>19.22</b>	<b>9.75</b>
Weighted average number of shares that would have been issued at average market price	(44,284)	(146,497)	(44,284)	(146,497)
Weighted average number of shares under option	260,746	180,622	260,746	180,622
Weighted average number of shares	265,071,287	264,555,455	265,071,287	264,555,455
<b>Diluted earnings per share, Rs</b>	<b>26.93</b>	<b>6.48</b>	<b>19.21</b>	<b>9.75</b>

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

### 22. Cash and Short-Term Funds

Cash and balances with banks	16,553	328,820	1,520,592	1,182,950
Call deposits				
DFCC Vardhana Bank Limited	1,474,076	1,643,213	0	948,379
Others	0	850,000	27,435	0
Time deposits				
DFCC Vardhana Bank Limited	0	0	0	102,791
Others	0	0	166	109,530
	<b>1,490,629</b>	<b>2,822,033</b>	<b>1,548,193</b>	<b>2,343,650</b>

### 23. Balances with Central Bank

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

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

As required by the provisions of Section 93 of the Monetary Law Act, a minimum cash balance is maintained with the Central Bank of Sri Lanka, as explained in Note 5.2.2. The minimum cash reserve requirement on rupee deposit liabilities is prescribed as a percentage of Rupee deposit liabilities. The percentage is varied from time to time.

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

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

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

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

Treasury bills and bonds held for trading				
Held for repurchase transactions	392,447	0	392,447	464,492
Others	0	0	305,434	1,314,683
	392,447	0	697,881	1,779,175
Treasury bills and bonds held to maturity				
Held for repurchase transactions	10,108,128	7,651,073	11,875,195	10,932,156
Others	0	0	5,856,040	11,029,504
	10,500,575	7,651,073	18,429,116	23,740,835

#### 25. Securities Purchased under Resale Agreements

Loans at cost	166,000	913,611	1,996,168	1,004,055
---------------	---------	---------	-----------	-----------

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

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

#### 26. Placements with and Loans to Other Banks and Financial Institutions

##### 26.1 Loans to Banks and Financial Institutions

Refinanced loans - Plantation development project	1,985,378	1,830,757	1,985,378	1,830,757
- KFW DFCC (V) SME in the North and East	99,400	39,292	99,400	39,292
Other loans	170,000	335,000	170,000	335,000
	2,254,778	2,205,049	2,254,778	2,205,049

BANK				GROUP			
31.03.2011		31.03.2010		31.03.2011		31.03.2010	
Number of ordinary shares	Market Value	Number of ordinary shares	Market Value	Number of ordinary shares	Market Value	Number of ordinary shares	Market Value
	Rs 000		Rs 000		Rs 000		Rs 000

#### 27. Dealing Securities

##### Quoted Ordinary Shares

Dialog Axiata PLC	54,890	576	54,890	370	54,890	576	54,890	370
Dolphin Hotels PLC	818,800	42,250	818,800	28,658	818,800	42,250	818,800	28,658
John Keells Holdings PLC	148,335	42,365	148,335	27,294	148,335	42,365	148,335	27,294
Sri Lanka Telecom PLC	900	51	900	33	900	51	900	33
	85,242		56,355		85,242		56,355	

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

## 28. Non-Current Assets Held for Sale

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

### Details of the Land

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

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

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

## 29. Bills of Exchange

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

### 29.1 Movement in Provision

#### 29.1.1 Movement in Specific Provision

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

#### 29.1.2 Movement in General Provision

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

	BANK		GROUP	
	31.03.2011 Rs 000	31.03.2010 Rs 000	31.03.2011 Rs 000	31.03.2010 Rs 000
<b>30. Loans and Advances</b>				
<b>30.1 Balance on 31 March</b>				
<b>Sri Lanka Rupee Loans</b>				
Direct loans	28,994,362	29,086,089	37,906,311	35,309,155
Commercial papers and asset back notes	740,300	343,616	755,543	343,616
Debenture loans	1,109,674	398,178	1,109,674	398,178
Overdrafts	0	0	7,928,430	6,613,716
Staff loans for miscellaneous purposes	265,410	259,661	396,801	335,458
	<b>31,109,746</b>	<b>30,087,544</b>	<b>48,096,759</b>	<b>43,000,123</b>
<b>Foreign Currency Loans</b>				
Direct loans	1,621,532	1,486,985	3,777,999	3,122,835
	<b>32,731,278</b>	<b>31,574,529</b>	<b>51,874,758</b>	<b>46,122,958</b>
Less: Loan loss provision - Specific	1,507,241	1,173,459	2,301,200	1,783,204
- General	259,910	305,183	386,309	405,662
Interest in suspense relating to overdrafts	0	0	481,032	328,428
Balance net of loan loss provision	<b>30,964,127</b>	<b>30,095,887</b>	<b>48,706,217</b>	<b>43,605,664</b>
<b>30.2 Movement in Provision</b>				
<b>30.2.1 Movement in Specific Provision</b>				
Balance on 31 March	1,173,459		1,783,204	
Add: Provision for the year	733,525		1,103,431	
Transfer from interest in suspense	44,058		44,058	
Less: Recoveries in the year	443,801		618,876	
Write-off of loans	0		9,005	
Exchange rate difference in foreign currency provision	0		1,612	
	<b>1,507,241</b>		<b>2,301,200</b>	
<b>30.2.2 Movement in General Provision</b>				
Balance on 31 March	305,183		405,662	
Add: Provision for the year	0		26,344	
Less: Reduction in the year	45,273		45,273	
Exchange rate difference on foreign currency provision	0		424	
	<b>259,910</b>		<b>386,309</b>	

	BANK		GROUP	
	31.03.2011 Rs 000	31.03.2010 Rs 000	31.03.2011 Rs 000	31.03.2010 Rs 000
<b>31. Finance Leases</b>				
<b>31.1 Balance on 31 March</b>				
Gross investment in leases:				
Lease rentals receivable				
- within one year from balance sheet date	2,991,608	2,678,279	2,991,608	2,678,279
- after one year from balance sheet date	4,928,633	2,232,106	4,928,633	2,232,106
	7,920,241	4,910,385	7,920,241	4,910,385
Less: Deposit of rentals				
Specific provision for leases in default	35,934	57,153	35,934	57,153
General provision for leases in default	200,587	345,634	200,587	345,634
Income in suspense	199,830	154,404	199,830	154,404
Unearned income on rentals receivable	48,874	79,892	48,874	79,892
- within one year from balance sheet date	699,796	470,907	699,796	470,907
- after one year from balance sheet date	775,165	336,665	775,165	336,665
Net investment in leases	5,960,055	3,465,730	5,960,055	3,465,730

### 31.2 Movement in Provision

#### 31.2.1 Movement in Specific Provision

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

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

#### 31.2.2 Movement in General Provision

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

#### 31.3 Movement in Income Suspense

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

### 32. Interest Receivable

#### 32.1 Balance on 31 March

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

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

	Ordinary Shares		Preference Shares	Debentures		Unit Trusts		Total	Total
	Quoted Rs 000	Unquoted Rs 000	Unquoted Rs 000	Quoted Rs 000	Unquoted Rs 000	Quoted Rs 000	Unquoted Rs 000	31.03.2011 Rs 000	31.03.2010 Rs 000

### 33. Investment Securities

#### 33.1 Composition of Investment Securities

##### 33.1.1 Bank

Performing investments	2,688,611	34,095	777,167	0	0	151,528	262,503	3,913,904	1,898,576
Non-performing investments	73,424	38,906	0	0	0	0	5,293	117,623	99,951
	<b>2,762,035</b>	<b>73,001</b>	<b>777,167</b>	<b>0</b>	<b>0</b>	<b>151,528</b>	<b>267,796</b>	<b>4,031,527</b>	<b>1,998,527</b>

##### Market value

on 31.03.2011	16,347,547					257,159	350,782	16,955,488	
on 31.03.2010	810,317					159,000	314,996	1,284,313	

##### 33.1.2 Group

Performing investments	5,188,548	55,938	803,657	4,000	76,750	151,528	287,503	6,567,924	1,901,186
Non-performing investments	73,424	38,906	12,500	0	0	0	5,293	130,123	99,951
Less: Provision for diminution	0		12,500	0	0	0		12,500	0
	<b>5,261,972</b>	<b>94,844</b>	<b>803,657</b>	<b>4,000</b>	<b>76,750</b>	<b>151,528</b>	<b>292,796</b>	<b>6,685,547</b>	<b>2,001,137</b>

##### Market value

on 31.03.2011	16,351,528					257,159	377,831	16,986,518	
on 31.03.2010	812,402					159,000	314,996	1,286,398	

#### 33.2 Movement in Investment Securities

##### 33.2.1 Bank

Balance on 31 March	318,940	87,685	1,180,083	0	0	150,000	261,819	1,998,527	1,918,420
Additions for the year	801,384	1,816	0	0	0	1,528	5,977	810,705	552,744
Transfer from investments in associate companies	2,051,225	0	0	0	0	0	0	2,051,225	0
dealing securities	4,896	0	0	0	0	0	0	4,896	0
Less: Disposals	81,293	16,500	0	0	0	0	0	97,793	156,496
Redemptions	0	0	402,916	0	0	0	0	402,916	306,334
Transfer to dealing securities	333,117	0	0	0	0	0	0	333,117	9,807
	<b>2,762,035</b>	<b>73,001</b>	<b>777,167</b>	<b>0</b>	<b>0</b>	<b>151,528</b>	<b>267,796</b>	<b>4,031,527</b>	<b>1,998,527</b>

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

**GROUP**  
31.03.2011  
Rs 000

### 33.3 Provision for Diminution

Recognised in income statement	3,125
Consolidation adjustment - acquisition of a subsidiary by joint venture company	9,375
	12,500

### 33.4 Transfers to/from Dealing Securities

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

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

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

**33.5** On 31 March 2011 the Bank held more than 20% and less than 50% of the voting control in Hydrotech Lanka Dickoya (Pvt) Limited. This investment is classified under investment securities and not as investment in associate companies since the Bank did not have a significant influence over the operating and financial policies of this company.

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

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

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

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

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

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

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

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

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

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

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

	31.03.2011 Cost Rs 000	31.03.2010 Cost Rs 000
<b>33.10 Unquoted Debentures</b>		
Total investments in unquoted debentures - Bank	0	0
Investments in unquoted debentures by joint venture	76,750	0
<b>Total investments in unquoted debentures - Group</b>	<b>76,750</b>	<b>0</b>

#### 33.10.1 Investments in Unquoted Debentures by Joint Venture

Ceylon Hospitals PLC	50,000	0
Hatton National Bank PLC	6,750	0
Neluwa Cascade Hydro Power (Pvt) Limited	20,000	0
	<b>76,750</b>	<b>0</b>

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

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

#### 33.12.1 Investments in Unit Trusts by Joint Venture

NAMAL Income Fund	2,436,870	25,000	27,049	0	0	0
		<b>25,000</b>	<b>27,049</b>		<b>0</b>	<b>0</b>

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

### 34. Investments in Associate Companies

#### 34.1 Quoted

##### Commercial Bank of Ceylon PLC (CBC)

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

#### 34.2 Unquoted

##### National Asset Management Limited (Ownership 30%)

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

34.3 Investment in Associate Company by Acuity Partners (Pvt) Limited	0	0	126,360	0
---	---	---	---------	---

<b>Total</b>	<b>35,270</b>	<b>3,187,229</b>	<b>177,291</b>	<b>7,818,997</b>
--------------	---------------	------------------	----------------	------------------

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

### 35. Investment in Joint Venture

#### Unquoted

##### Acuity Partners (Pvt) Limited (ownership 50%)

Balance on 31 March	655,000	250,000	0	0
---------------------	---------	---------	---	---

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

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

	DFCC Consulting (Pvt) Limited Ownership 100% Rs 000	DFCC Vardhana Bank Limited Ownership 96% Rs 000	Lanka Industrial Estates Limited Ownership 51% Rs 000	Synapsys Limited Ownership 100% Rs 000	31.03.2011 Rs 000	Bank 31.03.2010 Rs 000
--	--	--	--	---	----------------------	---------------------------

### 36. Investments in Subsidiary Companies

Balance at beginning	5,000	2,286,284	97,036	20,000	2,408,320	2,627,167
Investments in additional shares	0	0	0	33,000	33,000	18,753
Less: Disposal	0	0	0	0	0	237,600
<b>Balance on 31 March</b>	<b>5,000</b>	<b>2,286,284</b>	<b>97,036</b>	<b>53,000</b>	<b>2,441,320</b>	<b>2,408,320</b>

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

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

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

### 37. Group Balances Receivable

Acuity Partners (Pvt) Limited	0	302	0	150
DFCC Consulting (Pvt) Limited	36	0	0	0
DFCC Vardhana Bank Limited	12,674	30,777	0	0
Synapsys Limited	3,240	5,042	0	0
	<b>15,950</b>	<b>36,121</b>	<b>0</b>	<b>150</b>

### 38. Income Tax Refund Due

Income tax overpayment	0	0	1,471	1,682
------------------------	---	---	-------	-------

### 39. Investment Properties

#### 39.1 Composition

Balance as at 31 March	6,500	6,500	132,641	141,215
Additions during the year	0	0	118,073	0
Less: Depreciation	0	0	8,030	7,257
Disposals during the year	6,500	0	9,105	1,317
	<b>0</b>	<b>6,500</b>	<b>233,579</b>	<b>132,641</b>

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

#### 39.2 List of Investment Property

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

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

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

	Land & building Rs 000	Office equipment Rs 000	Furniture & fittings Rs 000	Motor vehicles Rs 000	Total Rs 000
<b>41. Property, Plant and Equipment</b>					
<b>41.1 Composition: Bank</b>					
Cost as at 31.03.2010	261,266	541,494	191,376	153,928	1,148,064
Additions for the year	4,284	52,853	30,669	130,464	218,270
Less: Disposals during the year	0	13,798	717	70,456	84,971
<b>Cost as at 31.03.2011</b>	<b>265,550</b>	<b>580,549</b>	<b>221,328</b>	<b>213,936</b>	<b>1,281,363</b>
Accumulated depreciation as at 31.03.2010	128,651	435,019	80,080	128,756	772,506
Charge for the year	7,725	50,429	17,819	23,853	99,826
Less: Accumulated depreciation on disposal	0	13,269	709	70,456	84,434
Accumulated depreciation as at 31.03.2011	136,376	472,179	97,190	82,153	787,898
<b>Net book value as at 31.03.2011</b>	<b>129,174</b>	<b>108,370</b>	<b>124,138</b>	<b>131,783</b>	<b>493,465</b>
Net book value as at 31.03.2010	132,615	106,475	111,296	25,172	375,558

	Building sq. ft.	Extent of land perches	Cost Rs 000	Accumulated depreciation Rs 000	Net book value Rs 000
<b>41.1.2 List of Freehold Land and Building</b>					
73/5, Galle Road, Colombo 3	57,200	104.45	55,297	49,965	5,332
5, Deva Veediya, Kandy	4,600	12.54	16,196	4,950	11,246
259/30, Kandy Road, Bambarakelle, Nuwara-Eliya	0	28.72	7,279	0	7,279
73, W A D Ramanayake Mawatha, Colombo 2	21,400	45.00	184,178	81,461	102,717
4A, 4th Cross Lane, Borupana, Ratmalana	0	20.00	2,600	0	2,600
			<b>265,550</b>	<b>136,376</b>	<b>129,174</b>

#### Market Value of Properties

	Rs million	Date of valuation
73/5, Galle Road, Colombo 3	605	31.03.2011
5, Deva Veediya, Kandy	50	31.03.2011
73, W A D Ramanayake Mawatha, Colombo 2	350	31.03.2011
(Valued by Mr P B Kalugalagedera - Chartered Valuer)		

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

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

#### 42. Intangible Assets

Cost at beginning	305,086	286,816	733,787	684,263
Additions for the year	13,039	18,270	89,026	52,512
Less: Transfer to property, plant and equipment	0	0	0	2,988
Cost as at 31 March	318,125	305,086	822,813	733,787
Accumulated depreciation at beginning	255,107	240,874	573,753	514,781
Amortisation for the year	17,527	14,233	76,018	61,643
Less: Transfer to property, plant and equipment	0	0	0	2,671
Accumulated amortisation as at 31 March	272,634	255,107	649,771	573,753
<b>Net Book Value as at 31 March</b>	<b>45,491</b>	<b>49,979</b>	<b>173,042</b>	<b>160,034</b>

#### 43. Deferred Tax Asset

Balance at beginning	2,963	1,928	9,257	38,181
Income tax rate reduction (35% to 28%)	(592)	0	(1,639)	0
Increase/(decrease)	998	1,035	2,107	(28,924)
Transferred from/to deferred tax liability (Note 50)	0	0	550	(127)
Offset against deferred tax liability (Note 50)	(3,369)	(2,963)	(8,494)	(8,324)
	0	0	1,781	806

	BANK		GROUP	
	31.03.2011 Rs 000	31.03.2010 Rs 000	31.03.2011 Rs 000	31.03.2010 Rs 000
<b>44. Other Assets</b>				
Refundable deposits and advances	206,351	38,359	322,219	137,662
Dividend due	205,032	22,533	207,788	22,533
Debtors	100,677	397,979	812,774	1,175,330
	512,060	458,871	1,342,781	1,335,525
<b>45. Deposits from Customers</b>				
Demand deposits	0	0	1,428,724	968,679
Savings deposits	0	0	5,384,399	4,598,808
Fixed deposits	3,686,747	5,120,684	18,272,328	19,775,256
Certificates of deposits	1,436	2,973	100,589	65,234
Others	0	0	230,357	95,708
	3,688,183	5,123,657	25,416,397	25,503,685
Deposits from banks	0	9,399	1,034,300	1,562,958
Deposits from non-bank customers	3,688,183	5,084,837	24,222,310	23,763,181
Deposits from finance companies	0	29,421	159,787	177,546
	3,688,183	5,123,657	25,416,397	25,503,685
<b>46. Borrowing - Medium and Long-Term</b>				
<b>Repayable in foreign currency</b>				
<b>Exchange difference borne by the Bank</b>				
FMO	1,656,000	1,709,250	1,656,000	1,709,250
Nordea Bank Danmark A/S	156,804	192,309	156,804	192,309
EIB	2,400,242	2,668,735	2,400,242	2,668,735
	4,213,046	4,570,294	4,213,046	4,570,294
<b>Repayable in Rupees</b>				
Government of Sri Lanka/IDA loans - credit lines	1,977,155	1,771,121	1,977,155	1,771,121
Government of Sri Lanka/ADB loans - credit lines	4,388,825	4,115,732	4,388,825	4,115,732
Government of Sri Lanka/KFW loans - credit lines	1,715,533	2,065,703	1,715,533	2,065,703
Government of Sri Lanka/JBIC loans - credit lines	2,431,759	2,962,971	2,431,759	2,962,971
Government of Sri Lanka/IFAD loans - credit lines	17,664	20,375	17,664	20,375
Government of Sri Lanka/EIB loans - credit lines	8,475,302	8,814,819	8,475,302	8,814,819
Central Bank of Sri Lanka - refinance loans (secured)	739,704	1,054,928	739,704	1,054,928
FMO	169,716	339,433	169,716	339,433
Other local sources	0	3,000,000	0	3,000,000
	24,128,704	28,715,376	24,128,704	28,715,376

#### 46.1 Supplementary Information

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

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

#### 46.2 Assets Pledged as Security

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

##### Acronyms:

ADB - Asian Development Bank

IDA - International Development Association

KFW - Kreditanstalt für Wiederaufbau

IFAD - International Fund for Agriculture Development

EIB - European Investment Bank

FMO - Nederlandse Financierings(Maatschappij VoorOntwikkeling)

JBIC - Japan Bank for International Cooperation Fund

	BANK		GROUP	
	31.03.2011 Rs 000	31.03.2010 Rs 000	31.03.2011 Rs 000	31.03.2010 Rs 000
<b>47. Borrowing - Short-Term</b>				
Borrowing under repurchase agreements (Repos)				
Government securities sold under repurchase	1,512,000	115,000	4,560,671	4,441,741
Bank overdrafts	119,819	0	133,635	22,106
Inter-bank borrowing	3,300,000	0	3,353,883	2,182,384
	4,931,819	115,000	8,048,189	6,646,231

#### 48. Debentures

##### 48.1 Movement in Debentures

Balance at beginning	2,700,000	2,700,000	2,700,000	2,700,000
Redeemed during the year	1,500,000	0	1,500,000	0
	1,200,000	2,700,000	1,200,000	2,700,000

#### 49. Group Balances Payable

DFCC Consulting (Pvt) Limited	0	151	0	0
	0	151	0	0

	BANK		GROUP	
	31.03.2011 Rs 000	31.03.2010 Rs 000	31.03.2011 Rs 000	31.03.2010 Rs 000
<b>50. Deferred Taxation</b>				
Balance at beginning	274,107	287,122	327,863	328,778
Increase/(decrease)	59,204	(13,015)	60,910	(915)
Income tax rate reduction(35% to 28%)	(54,821)	0	(65,516)	0
Offset against deferred tax asset (Note 43)	0	0	550	(127)
Less: deferred tax asset( Note 43)	(3,369)	(2,963)	(8,494)	(8,324)
	275,121	271,144	315,313	319,412

### 51. Other Liabilities

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

#### 51.1 Provision for Staff Retirement Benefits

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

#### 51.2 Movement in Provision for Staff Retirement benefits

##### 51.2.1 Defined Benefit Funded Pension

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

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

**BANK**  
31.03.2011  
Rs 000

**51.4 Reconciliation of Actuarial Liability with Accounting Liability Recognised in the Balance Sheet**

**51.4.1 Funded Pension Liability**

Present value of defined benefit obligations	1,367,956
Fair value of pension assets	(1,521,979)
	(154,023)
Unrecognised gain on March 2011 (Note 14.2.1)	140,826
Prepayment recognised in the balance sheet	(13,197)

**51.4.2 Unfunded Pension Liability**

Present value of defined benefit obligations	47,888
Unrecognised(loss) on 31 March 2011 (Note 14.2.2)	(2,425)
Liability recognised in the balance sheet on Note 51.2.2	45,463

**51.4.3 Unfunded End of Service Gratuity**

Present value of defined benefit obligations	19,176
Unrecognised (loss) on 31 March 2011 (Note 14.2.3)	(7,146)
Liability recognised in the balance sheet on Note 51.2.3	12,030

**BANK**  
31.03.2011  
Rs 000

## 51.5 Movement in Actuarial Liability

### 51.5.1 Funded Pension Liability

Present value of defined benefit pension obligations	1,317,586
Current service cost on 1 April 2010	58,626
Interest on obligation on 31 March 2011	123,859
Benefit payments year ended 31 March 2011	(71,457)
Actuarial experience gain	(60,658)
<b>Present value of defined benefit pension obligations</b>	<b>1,367,956</b>

### 51.5.2 Unfunded Pension Liability

Present value of defined benefit pension obligations	41,234
Current service cost on 1 April 2010	4,258
Interest on obligation on 31 March 2011	4,094
Benefit payments year ended 31 March 2011	0
Actuarial experience gain	(1,698)
<b>Present value of defined benefit pension obligations</b>	<b>47,888</b>

### 51.5.3 Unfunded End of Service Gratuity

Present value of defined benefit pension obligations	14,929
Current service cost on 1 April 2010	3,139
Interest on obligation on 31 March 2011	2,078
Benefit payments year ended 31 March 2011	(2,150)
Actuarial experience loss	1,180
<b>Present value of defined benefit pension obligations</b>	<b>19,176</b>

## 51.6 Movement in Pension Assets

Pension assets on 1 April	1,408,365
Expected return on pension assets	123,537
Employer's contribution	64,491
Actuarial experience gain	(2,958)
Benefits paid	(71,457)
<b>Present value of defined benefit pension obligations</b>	<b>1,521,978</b>

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

## 52. Subordinated Debentures

Listed in the Colombo Stock Exchange	1,000,000	1,000,000	1,000,000	1,000,000
Private placement	1,000,000	1,000,000	1,000,000	1,000,000
	<b>2,000,000</b>	<b>2,000,000</b>	<b>2,000,000</b>	<b>2,000,000</b>

	BANK		GROUP	
	31.03.2011 Rs 000	31.03.2010 Rs 000	31.03.2011 Rs 000	31.03.2010 Rs 000
<b>53. Share Capital</b>				
<b>53.1 Authorised Share Capital</b>				
500,000,000 ordinary shares of Rs 10/- each	5,000,000	5,000,000	5,000,000	5,000,000
<b>53.2 Issued Share Capital</b>				
264,883,768 ordinary shares of Rs 10/- each	2,648,838	1,323,753	2,648,838	1,323,753
<b>Allotted and fully paid:</b>				
Balance at beginning 132,375,305 ordinary shares	1,323,753	1,307,325	1,323,753	1,307,325
Bonus share issue on 01 November 2010 1 for every 1 held - 132,431,968 ordinary shares	1,324,320	0	1,324,320	0
Issue under share option - 76,495 ordinary shares (1,642,835 shares in 2010)	765	16,428	765	16,428
Balance on 31 March 264,883,768 ordinary shares	2,648,838	1,323,753	2,648,838	1,323,753

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

### 53.3 Employee Share Option Plan

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

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

	BANK		GROUP	
	31.03.2011 Rs 000	31.03.2010 Rs 000	31.03.2011 Rs 000	31.03.2010 Rs 000
<b>54. Stated Capital</b>				
Share Capital	2,648,838	1,323,753	2,648,838	1,323,753
Share Premium	2,054,546	3,371,911	2,054,546	3,371,911
Equivalent Stated Capital	4,703,384	4,695,664	4,703,384	4,695,664

## 55. Reserves

### 55.1 Reserve Fund

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

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

## 55.3 Other Reserves

### 55.3.1 Statutory Investment Fund Reserve

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

## 55.4 Retained Earnings

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

## 56. Minority Interests

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

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

## **58. Litigation**

### **58.1 Litigation against the Bank**

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

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

## **59. Maturity Profile of Assets and Liabilities**

### **59.1 Definition of Maturity**

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

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

### **59.2 Allocation of Amounts**

Amounts are allocated to respective maturity groupings based on:

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

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

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

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

## 60. Concentration of Assets and Liabilities

### 60.1 Concentration in the Distribution of Assets

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

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

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

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

\* Including loans to banks and excluding staff loans.

**60.2** Composition of liabilities is given in Note 46.

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

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

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

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

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

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

**61.3.1 Basis for 31 March 2011**

**61.3.1.1 Classification**

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

**61.3.1.2 Reclassification**

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

**61.3.2 Basis for 31 March 2010**

**61.3.2.1 Classification**

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

**61.3.2.2 Reclassification**

From non-performing to performing occurs when the age of arrears was reduced to below three dues in respect of credit facilities.

**62. Related Party Transactions**

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

	<b>31.03.2011</b>	31.03.2010
	<b>Rs 000</b>	Rs 000
<b>62.2 Transactions with Subsidiaries</b>		
<b>62.2.1 Balance Sheet</b>		
<b>Assets</b>		
Cash and short-term funds	1,354,263	1,950,866
Securities purchased under repurchase agreements	166,000	813,000
Interest receivable	16,897	20,435
<b>Total</b>	<b>1,537,160</b>	<b>2,784,301</b>
<b>Liabilities</b>		
Deposits	64,028	58,344
Interest payable	2,445	3,262
<b>Total</b>	<b>66,473</b>	<b>61,606</b>
<b>62.2.2 Off-Balance Sheet Items</b>		
Undrawn facilities	0	878,000
<b>Total</b>	<b>0</b>	<b>878,000</b>

<i>For the year ended</i>	<b>2011</b>	2010
	<b>Rs 000</b>	Rs 000
<b>62.2.3 Income Statement</b>		
Interest income	131,095	124,673
Interest expense	14,985	15,635
Other income	22,881	19,705
Dividend received	76,975	17,216
Other expenses	51,455	36,415
Reimbursed expenses	96,750	82,310
Personnel expenses	2,249	0
	<b>31.03.2011</b>	31.03.2010
	<b>Rs 000</b>	Rs 000

## **62.3 Transactions with Joint Venture**

### **62.3.1 Balance Sheet**

#### **Assets**

Loans	0	350,000
Interest receivable	0	134
<b>Total</b>	<b>0</b>	<b>350,134</b>

<i>For the year ended</i>	<b>2011</b>	2010
	<b>Rs 000</b>	Rs 000
<b>62.3.2 Income Statement</b>		
Interest income	12,082	9,747
Reimbursed expenses	269	3,048
Other expenses	3,036	1,138
	<b>31.03.2011</b>	31.03.2010
	<b>Rs 000</b>	Rs 000

## **62.4 Transaction with Associates**

### **62.4.1 Balance Sheet**

#### **Assets**

Cash and short-term funds	0	19,087
Placements with and loans to other banks and financial institutions	0	186,848
Interest receivable	0	3,188
<b>Total</b>	<b>0</b>	<b>209,123</b>

#### **Liabilities**

Subordinated debentures	0	10,000
Interest payable	0	265
<b>Total</b>	<b>0</b>	<b>10,265</b>

<i>For the year ended</i>	<b>2011</b>	2010
	<b>Rs 000</b>	Rs 000

#### **62.4.2 Income Statement**

Interest income	0	7,721
Interest expense	0	1,485
Other income	827	1,696
Dividends received	249,808	425,666
Other expenses	2,108	1,138

#### **62.5 Transaction with entities in which Directors of the Bank have significant influence without substantial shareholding**

	<b>31.03.2011</b>	31.03.2010
	<b>Rs 000</b>	Rs 000

#### **62.5.1 Balance Sheet**

##### **Assets**

Loan and advances	871,370	947,050
Leases	0	4,895
Investment securities	223,597	28,825
Interest receivable	2,460	4,948
<b>Total</b>	<b>1,097,427</b>	<b>985,718</b>

##### **Liabilities**

Deposits from customers	32,632	0
Subordinated debentures	0	25,000
Interest payable	971	863
<b>Total</b>	<b>33,603</b>	<b>25,863</b>

#### **62.5.2 Off-Balance Sheet Items**

Commitments and contingencies		
Undrawn facilities	1,709,010	1,099,040
<b>Total</b>	<b>1,709,010</b>	<b>1,099,040</b>

For the year ended

2011  
Rs 000

2010  
Rs 000

### 62.5.3 Income Statement

Interest income	129,037	173,816
Interest expense	3,058	3,500
Other income	2,922	1,026
Other expense	819	183

## 62.6 Transactions with Key Management Personnel

### 62.6.1 Key Management Personnel

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

Chief Information Officer concurrently serves as the Managing Director of Synapsys Limited and received emoluments only from Synapsys Limited.

For the year ended

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

### 62.6.2 Compensation of Directors and Other Key Management Personnel

Number of persons	16	17	56	61
Short-term employment benefits	90,162	78,395	145,484	126,894
Post-employment benefits - pension	14,177	11,493	14,177	11,493
- others	8,737	8,416	12,078	12,609
	113,076	98,304	171,739	150,996

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

### 62.6.3 Share Based Payments to Key Management Personnel - Bank

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

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

<i>For the year ended</i>	<b>31.03.2011</b> <b>Rs 000</b>	31.03.2010 Rs 000
Unexercised options balance at the beginning of financial year	40,380	511,450
Exercised prior to bonus issue	4,958	471,070
	35,422	40,380
Adjustment for 1 for 1 bonus share issue in November 2010	35,422	0
Unexercised options balance at the end of financial year	70,844	40,380
Weighted average price of unexercised options end of the year Rs,	58.73	117.46
Weighted average price of exercised options Rs,	117.46	110.58
Weighted average price of Bank's share during the period in which options were exercised Rs,	230.09	116.90

### 62.6.4 Loans to Key Management Personnel - Bank

Number of KMPs	2	2
Amount outstanding on 31 March	7,171	5,418

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

### 62.6.5 Rent to Spouse of Key Management Personnel

Bank pays a rent of Rs1,980,000/- to Mrs R D Fonseka spouse of Chief Executive Officer.

### 62.7 Transactions with DFCC Pension Fund - Trust

**62.7.1** DFCC Bank Pension Fund constituted as a Trust was established by the DFCC Bank to discharge defined benefit pension liability of eligible employees of the Bank. The Chairman, the Chief Executive Officer together with two other employees and two pensioners (ex-employees) are trustees.

## 62.7.2 Transactions with DFCC Bank Pension Fund

	31.03.2011 Rs 000	31.03.2010 Rs 000
Contributions due at the beginning of financial year	(7,654)	28,669
Contribution due for the financial year (Note 14.1.1)	58,948	65,396
Contribution paid/pre-paid	(64,491)	(101,719)
Contribution prepaid at the end of the financial year (Note 51.4.1)	(13,197)	(7,654)

## 62.8 Pricing Policy and Terms for Transactions with Related Parties

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

For the year ended 31 March 2011	Lending Rs 000	Finance Leasing Rs 000	Investing in Equity Rs 000	Venture Capital Rs 000	Commercial Banking Rs 000	Other Rs 000	Unallocated Rs 000	Eliminations Rs 000	Total Rs 000
----------------------------------	-------------------	------------------------------	----------------------------------	------------------------------	---------------------------------	-----------------	-----------------------	------------------------	-----------------

## 63. Business Segment Information

<b>Revenue</b>									
Interest income	5,353,552	852,906	-	-	3,368,119	168,221	-	(84,631)	9,658,167
Amortisation of negative goodwill	-	-	-	-	-	7,313	-	-	7,313
Other income	215,312	-	5,929,095	-	419,004	590,544	1,846,552	(2,828,389)	6,172,118
Income from external customers	5,568,864	852,906	5,929,095	-	3,787,123	766,078	1,846,552	(2,913,020)	15,837,598
<b>Total income</b>	<b>5,568,864</b>	<b>852,906</b>	<b>5,929,095</b>	<b>-</b>	<b>3,787,123</b>	<b>766,078</b>	<b>1,846,552</b>	<b>(2,913,020)</b>	<b>15,837,598</b>
<b>Percentage*</b>	35	5	37	-	24	5	30	-	100
<b>Expenses</b>									
Segment losses	248,620	(4,927)	-	-	234,759	-	-	-	478,452
Depreciation	-	-	-	-	143,727	28,490	-	-	172,217
Other operating & interest expenses	2,927,686	460,292	-	-	2,680,017	410,325	-	(216,155)	6,262,165
	3,176,306	455,365	-	-	3,058,503	438,815	-	(216,155)	6,912,834
<b>Result</b>	<b>2,392,558</b>	<b>397,541</b>	<b>5,929,095</b>	<b>-</b>	<b>728,620</b>	<b>327,263</b>	<b>-</b>	<b>-</b>	<b>8,924,764</b>
Unallocated expenses									793,084
Value added tax on financial services									2,080,063
									6,051,617
Associate companies profit after tax									217,758
<b>Profit before tax</b>									<b>6,269,375</b>
Income tax expense									1,098,302
<b>Profit after tax</b>									<b>5,171,073</b>
Minority interest									80,760
<b>Profit for the year</b>									<b>5,090,313</b>
<b>Assets</b>	<b>33,642,205</b>	<b>5,960,055</b>	<b>4,686,527</b>	<b>-</b>	<b>29,525,556</b>	<b>3,547,274</b>	<b>14,708,930</b>	<b>(1,852,153)</b>	<b>90,218,394</b>
<b>Percentage*</b>	37	7	5	-	33	4	16	-	100
Investments in associate company									177,291
									90,395,685
<b>Liabilities</b>	<b>27,949,280</b>	<b>5,364,049</b>	<b>-</b>	<b>-</b>	<b>26,432,096</b>	<b>3,062,217</b>	<b>5,270,842</b>	<b>(1,852,153)</b>	<b>66,226,331</b>
<b>Capital expenditure - additions</b>					196,475	26,266	231,309		454,050

\* Net of eliminations.

<i>For the year ended 31 March 2010</i>	Lending	Finance	Investing in	Venture	Commercial	Other	Unallocated	Eliminations	Total
	Rs 000	Leasing Rs 000	Equity Rs 000	Capital Rs 000	Banking Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Revenue</b>									
Interest income	6,614,618	801,717	–	46,368	4,235,229	192,563	–	(97,014)	11,793,481
Other income	203,909	–	1,095,481	46,519	212,251	255,652	127,726	(649,167)	1,292,371
Income from external customers	6,818,527	801,717	1,095,481	92,887	4,447,480	448,215	127,726	(746,181)	13,085,852
<b>Total income</b>	<b>6,818,527</b>	<b>801,717</b>	<b>1,095,481</b>	<b>92,887</b>	<b>4,447,480</b>	<b>448,215</b>	<b>127,726</b>	<b>(746,181)</b>	<b>13,085,852</b>
<b>Percentage*</b>	<b>52</b>	<b>6</b>	<b>8</b>	<b>1</b>	<b>34</b>	<b>3</b>	<b>6</b>	<b>–</b>	<b>100</b>
<b>Expenses</b>									
Segment losses	223,897	131,828	–	–	233,571	–	–	–	589,296
Depreciation	–	–	–	236	124,970	25,396	–	–	150,602
Other operating & interest expenses	3,965,377	425,814	–	16,504	3,291,677	217,799	–	(112,560)	7,804,611
Inter segment expenses	–	–	–	–	17,551	29,075	–	(46,626)	–
	4,189,274	557,642	–	16,740	3,667,769	272,270	–	(159,186)	8,544,509
<b>Result</b>	<b>2,629,253</b>	<b>244,075</b>	<b>1,095,481</b>	<b>76,147</b>	<b>779,711</b>	<b>175,945</b>	<b>–</b>	<b>–</b>	<b>4,541,343</b>
Unallocated expenses									1,035,187
Value added tax on financial services									840,415
									2,665,741
Associate companies profit after tax									1,085,261
<b>Profit before tax</b>									3,751,002
Income tax expense									1,067,232
<b>Profit after tax</b>									2,683,770
Minority interest									103,798
<b>Profit for the year</b>									<b>2,579,972</b>
<b>Assets</b>	<b>33,625,936</b>	<b>3,465,729</b>	<b>2,248,527</b>	<b>–</b>	<b>31,335,584</b>	<b>2,645,439</b>	<b>11,319,354</b>	<b>(1,925,471)</b>	<b>82,715,098</b>
<b>Percentage*</b>	<b>41</b>	<b>4</b>	<b>3</b>	<b>–</b>	<b>38</b>	<b>3</b>	<b>14</b>	<b>–</b>	<b>100</b>
Investments in associate company									7,818,997
									90,534,095
<b>Liabilities</b>	<b>27,186,587</b>	<b>3,119,156</b>	<b>–</b>	<b>–</b>	<b>28,457,733</b>	<b>1,815,006</b>	<b>10,507,298</b>	<b>(1,925,471)</b>	<b>69,160,309</b>
<b>Capital expenditure - additions</b>					<b>–</b>	<b>122,749</b>	<b>41,128</b>	<b>57,154</b>	<b>221,031</b>

\* Net of eliminations.

**63.1** Revenue and expenses attributable to the incorporated business segments of industrial estate management, stockbroking and consultancy services are included in the column for Other.

**63.2** Revenue and expenses attributable to the business segment of DFCC Vardhana Bank Limited is included in the column for Commercial Banking.

**63.3** Property and equipment and depreciation attributable to an incorporated business segment is included in the relevant segment and the balance is unallocated.

**63.4** Assets held for sale is included in the segment, other.

**63.5** Eliminations are the consolidation adjustments for inter company transactions, dividend and dividend payable attributable to minority shareholders.

## **64. Post Balance Sheet Events**

### **64.1 Options Exercised by Employees**

The employees have exercised options during the post Balance Sheet period. Increase in ordinary share capital corresponding to the options exercised was Rs708,360/- and the increase in the share premium was Rs3,451,838.28.

### **64.2 Proposed Dividend**

The Directors have recommended the payment of a final dividend of Rs3 per share for the year ended 31 March 2011, which require the approval of the shareholders at the Annual General Meeting to be held on 30 June 2011. The Board of Directors confirms that the Bank has satisfied the solvency test in accordance with Section 57 of the Companies Act No. 07 of 2007 and have obtained the certificate from the Auditors.

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

### **64.3 Increase in Shareholding in DFCC Vardhana Bank Limited**

Pursuant to the approval by Central Bank of Sri Lanka on 18 April 2011 permitting DFCC Bank to acquire up to 100% of the shares in the subsidiary, DFCC Vardhana Bank Limited (DVB), the Bank has increased its shareholding in DVB to 98.9% from 95.6% on 31 March 2011.

### **64.4 Statutory Investment Fund Reserve**

Funds equivalent to the Statutory Investment Fund Reserve on 31 March 2011, established by appropriation from the profits for the year ended 31 March 2011 were invested in short-term Government Securities on 30 April 2011. Such funds will be utilise only for purposes prescribed by Central Bank of Sri Lanka by 30 June 2011.

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

## **65. Reclassification of Comparative Figures**

Amounts shown for the previous year in respect of Note 26, Placements with and Loans to Other Banks and Financial Institutions, Note 30, Loans and Advances, Note 32, Interest Receivable, Note 43, Deferred Tax Asset, Note 44, Other Assets, Note 50 Deferred Taxation, Note 51, Other Liabilities Note 61, Non-performing Loans, Leases & Bills and Note 63, Business Segment Information have been reclassified to facilitate comparison.

## **66. Certification Required by the Companies Act. No. 07 of 2007**

This certification is based on independent legal advice obtained by the Bank which confirms that the Bank will not be required to provide the certification in Section 150 (1) (b) of the Companies Act since Sections 15 and 16 of the DFCC Bank Act. No. 35 of 1955 as amended specifically deals with the financial statements of the Bank. However, Sections 152 and 158 dealing with the Group financial statements and certification in the Companies Act No. 07 of 2007 are currently applicable to the Bank.