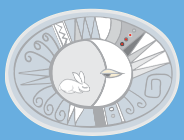
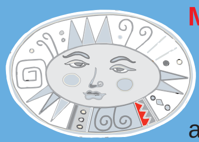
2005

DFCC BANK

ANNUAL REPORT 2004/2005



Vision To be Sri Lanka's premier financial services group.



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

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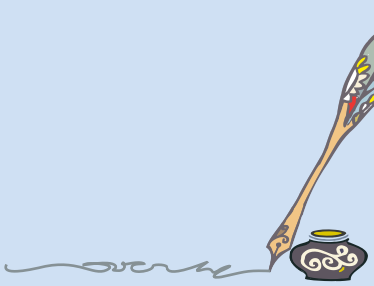
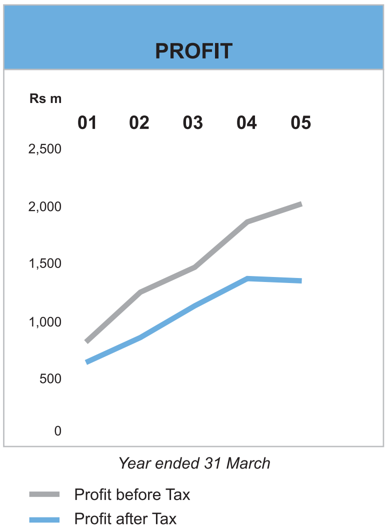
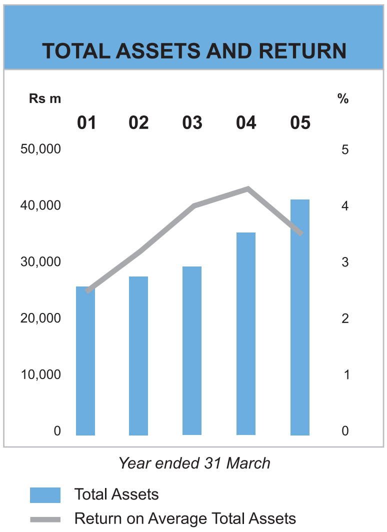


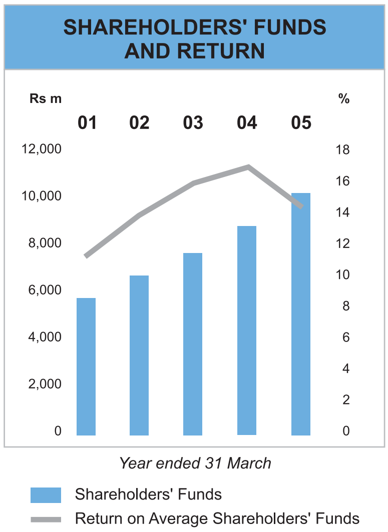
"Whilst December's tsunami was a horrific but defining event, its impact and aftermath must be viewed pragmatically. The nation has to look forward positively, to not only just rebuilding and rehabilitating what was lost and affected, but more importantly, to leverage the unprecedented international goodwill and assistance engendered by the disaster. The rebuilding effort must aim to replace the damaged infrastucture with better and more modern facilities in order to reap some advantage for the country."

Dr Nihal Jinasena
Chairman, DFCC Bank

FINANCIAL HIGHLIGHTS







For the year ended 31 March	**2005**	2004	% Change
Income, Rs m	**4,641**	4,444	4
Profit before tax, Rs m	**2,018**	1,871	8
Profit after tax, Rs m	**1,350**	1,355	
Earnings per share, Basic, Rs	**23.56**	23.80	
Diluted, Rs	**23.36**	23.47	
Gross dividend, Rs m	**316**	314	
Rate of dividend, %	**55**	55	
Shareholders' funds (capital & reserves), Rs m	**10,108**	8,730	16
Medium/long-term borrowing,			
deposits & debentures, Rs m	**27,899**	24,513	14
Total assets, Rs m	**41,059**	35,278	16
Return on average total assets, %	**3.5**	4.2	
Return on average shareholders' funds, %	**14.3**	16.6	

CHAIRMAN'S STATEMENT

DR NIHAL JINASENA Chairman

Dear Shareholder,

It is my privilege to welcome you to the Forty Ninth Annual General Meeting of DFCC Bank and to present to you the Annual Report for the financial year ended 31 March 2005. This occasion is of special significance to me, as the newly appointed Chairman of the Board.

The performance of the DFCC Group and of the Bank itself, reflects to a great extent, the challenging external operating environment the banking industry had to contend with during the financial year. As explained in the Chief Executive's Report and the Operations and Financial Reviews, this environment was not conducive to maintaining earnings growth, at levels that were experienced by the Bank in the recent past. Consequently, the Rs1,350 million profit after tax for the year under review, represents a marginal 0.4% decline from the previous year, while the return on average shareholders' funds of 14%, though less than last year's level, is amongst the highest in the banking industry.

While increased exports, consumption, private investment and the continued ceasefire were cited as the positives underpinning the economy, erratic weather conditions and escalating oil prices were among the external factors that dampened growth. These adverse factors also impacted on prices with the Colombo Consumers Price Index (CCPI) based inflation rising to 7.6% from 6.3% in 2003 and the budget deficit widening to 8.2% from 8.0%. Nonetheless, with a GDP growth of 5.4% against 5.9% in the previous year, the performance of the Sri Lankan economy could be described as resilient. Indeed, one notable indicator of this resilience was the strong confidence displayed by equity investors resulting in the Colombo Stock Market ranking amongst the best performing in the world. In terms of sectoral performance, as has been the past pattern, the services sector led the economy, followed by industries and agriculture with the transport, storage and communications sub-sector contributing the most to growth.

While December's tsunami was a horrific but defining event, its impact and aftermath must be viewed pragmatically. The nation has to look forward positively, to not only just rebuilding and rehabilitating what was lost and affected, but more importantly, to leverage the unprecedented international goodwill and assistance engendered by the disaster. The rebuilding effort must aim to replace the damaged infrastucture with better and more modern facilities in order to reap some advantage for the country.

It is a basic tenet that for the economy to gain momentum, the peace process must not stall and political stability must prove to be durable. However, it is apparent that stresses and strains are building up in both the political and economic arenas, and it is essential that the administration does not lose sight of the urgent need to make progress on both the peace and economic fronts. The process of reform must resume with due consideration given to political exigencies and populist demands. No doubt hard choices have to be made, but it is increasingly evident that procrastination will only render inevitable a political and economic debacle. We therefore, continue to trust that broad national interests will be served.

DFCC Bank's bold vision is to be 'Sri Lanka's premier financial services group' and it would be appropriate for me to enunciate what exactly such a vision implies or entails. If we are to be acknowledged as 'premier', we believe the DFCC Group should (a) be ranked first in several Key Indicators of Performance as viewed by different stakeholders; (b) offer the broadest gamut of financial products and services; and (c) be perceived as the leading player in the market. While the Bank has consistently maintained a tradition of superior performance, shareholders will note that most of the key elements to achieve this vision, namely development banking, commercial banking and investment banking are already represented in the DFCC Group structure. Your Board is open to going beyond organic growth and considering various other options available to make the vision a reality.

I am indeed happy to report that DFCC Vardhana Bank, is now strengthened and well on track to fulfil its potential as a critical partner in the DFCC Group. Having filled a gap in DFCC Bank's product range, DFCC Vardhana Bank also represents a key strategy for growing the Group's commercial banking business. On the same theme, I have to report that the status quo with regard to DFCC Bank's association with Commercial Bank of Ceylon Limited, remains unchanged. Developments in the regulatory framework to permit consolidation have yet to take place, thereby staying any action that may have been considered by the two banks, although of late, the Central Bank has signalled that consolidation in the industry will be viewed positively.

CHAIRMAN'S STATEMENT

The Bank is ever mindful of the need to afford shareholders a commensurate cash return on their investment. Accordingly, the Board recommends the payment of a first and final dividend of 55% in respect of the financial year under review, thereby maintaining the dividend rate set in the previous financial year.

The fact that DFCC Bank continues to enjoy the support of a growing and loyal clientele is critical to the Bank's success. I therefore, take this opportunity to express my sincere appreciation of their loyalty.

Under the leadership of the Chief Executive Officer, Mr Nihal Fonseka, the Bank's employees have been inspired to deliver a spirited performance in the face of a tough and challenging environment. The Bank has consistently ranked with the very best in terms of value added and profits per employee among listed companies in Sri Lanka and shareholders would be pleased that the Bank's employees have maintained this creditable record during this financial year too. This is a clear demonstration of their continued drive and motivation.

It is with a heavy heart that I make reference to my friend, former colleague on the Board and our former Chairman, the late Mr Michael Mack. His demise has left a void not only in the Bank but also within Sri Lanka's business community at large. While his legacy will endure, the Board acknowledges and deeply misses his valued guidance and contribution.

Mr M R Prelis, a Director serving on the Board since 1977, opted to retire at the Annual General Meeting in June 2004. I take this opportunity to acknowledge his invaluable contribution to DFCC Bank during his long association with the Bank, which spanned a period of over 27 years as the Chief Executive Officer / Ex-officio Director and as a Shareholder Director. I extend a warm welcome to Messrs S B Hewage and J M S Brito who were appointed to the Board in June 2004 and March 2005 respectively. They bring a wealth of experience and business acumen, which will be very advantageous in directing the affairs of the Bank. My role as Chairman would not have been meaningful without the support and counsel of my fellow Directors. To them I express my sincere thanks.

In conclusion, I thank you, the shareholders of the Bank, for placing confidence in our ability to guide and direct DFCC Bank to greater heights. In return, we shall continue our commitment to strive at all times to preserve and enhance the value of your equity.

Dr Nihal Jinasena
Chairman
26 May 2005

CHIEF EXECUTIVE'S REPORT

MR NIHAL FONSEKA Chief Executive/Director

The period under review was a satisfactory year for DFCC Bank, despite a general decline in performance of the banking sector. Our acquisition of a small licensed commercial bank in the last financial year, re-branded DFCC Vardhana Bank, proved to be an important strategic move that will reap benefits in the years to come. DFCC Bank will continue to preserve its core competencies in development banking while complementing it with a full spectrum of commercial banking services, thus providing comprehensive and seamless banking solutions demanded by its urban and rural customers.

A 16% asset growth coupled with continued improvement in the quality of the loan portfolio, with the non-performing asset ratio reducing further to a single digit level, and the successful migration of operations of the entire branch network to an online information and communication technology platform, were important milestones that characterised another successful year. Profit after tax at Bank level before equity accounting for subsidiaries and associates was Rs1,051 million (compared to Rs1,085 million last year), while the Group profit was Rs1,350 million (compared to Rs1,355 million last year). The performance was satisfactory when compared with the banking sector as a whole.

The continuation of the ceasefire between the Government and LTTE for the third successive year and the relatively low interest rate regime, contributed to a favourable investment climate. However, business confidence was somewhat undermined by the political uncertainties, high international oil prices, higher inflation and the delay in the implementation of key projects and essential reforms. The tsunami disaster of December 2004, that ravaged much of the coastal belt of the country and the urgent need to address the resultant human misery also diverted attention and resources from other on-going development activities.

PERFORMANCE

Gross approvals of loan and leasing facilities during the year under review, totalled Rs12,073 million, a material decline compared to the Rs17,930 million in the previous year, largely due to the aforesaid reasons but also due to lower emphasis placed on providing working capital finance. Disbursements, which lag approvals, however, were at about the previous year's level and amounted to Rs12,016 million, assisted by brought forward undisbursed approvals. The total portfolio of the Bank (net of provisions) grew by 14% to reach Rs28,527 million. DFCC Vardhana Bank contributed to the growth of customer advances at a Group level by significantly increasing its advances, albeit from a low base.

The Small and Medium Enterprise (SME) sector, which is targeted by the branches, received 51% of the Bank's approvals of loans, leases and guarantees, thus reinforcing the Bank's long history of nurturing this sector. The Bank's contribution to this sector was recognised recently by the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP).

As a Development Bank, we continue to make every effort to restructure and rehabilitate projects facing problems, before considering more drastic measures. Our efforts have borne good results with the non-performing asset ratio decreasing further to 8.9% during the year under review. However, the Bank continues its policy of making provisions above the minimum required by regulation when the circumstances warrant it. Net provision of Rs250 million was made for bad and doubtful debts, compared to Rs300 million in the previous year. The provisions included Rs47 million on account of borrowers directly affected by the tsunami.

The Bank was able to record significant capital gains by exiting some of its mature equity investments. Having reduced its equity exposure over the last few years, it was considered appropriate to reallocate some resources to replenish and balance its quoted investment portfolio. However, the emphasis is on investing in stocks that have the potential for medium-term value creation and not on generating trading profit.

Detailed analyses of the Bank's performance are given in the Operations and Financial Reviews.

Subsidiaries other than DFCC Vardhana Bank were all profitable. Lanka Ventures Limited (LVL) had the best results from its core venture capital business since inception, but venture capital business remains difficult. DFCC Stockbrokers (Pvt) Limited also made a good contribution, although lower than the previous year, in part due to the financial services Value Added Tax (VAT) imposed on this business sector in 2004. The recent abolition of the tax, the move to permit negotiated brokerage for large transactions and other capital markets related reforms being implemented by the Securities and Exchange Commission and the Colombo Stock Exchange, are likely to prove beneficial to this Company as hitherto, those companies that have strictly complied with the brokerage fee structure imposed by the Colombo Stock Exchange have found themselves to be at a disadvantage. The industrial estate subsidiary, Lanka Industrial Estates Limited (LINDEL), continued to make a satisfactory contribution. The fund management company, National Asset Management Limited (NAMAL), although making a small profit had another disappointing year. Unfortunately, the anticipated reforms in pension fund management appear to have stalled and the medium-term outlook for fund management business remains bleak. The Company is considering broadening the scope of its operations to improve its profitability.

Our associate company, Commercial Bank of Ceylon Limited had yet another successful year, reporting a Group profit after tax of Rs1,727 million, an increase of 18% over the previous year. It continued to receive many local and international accolades.

DFCC Vardhana Bank, in which DFCC Bank holds a 94% ownership, made satisfactory progress in turning around, and significantly reduced its losses in 2004 in comparison with the previous year. It has been operating profitably since October 2004. This was the first full year of operations as a DFCC Group member and its contribution in 2004 needs to be viewed, not only in terms of profit but also in the context of the ability of the DFCC Group to be successful in the fiercely competitive market for good quality corporate and SME assets.

OPERATIONS

As detailed in the Operations Review, the year under review saw improvements in key operating parameters such as portfolio volume, portfolio quality and net interest income. The Bank made good use of available credit lines targeting key sectors of the economy, in particular the credit line made available by the European Investment Bank and the Renewable Energy for Rural Economic Development (RERED) credit line of the World Bank to finance on-grid and off-grid renewable resource based power projects. Credit opportunities for SMEs are expected to improve further in 2005 with the availability of a new credit line for this sector.

DFCC Bank's core business continues to be lending for development projects. In addition to providing long-term and start-up loans, the Bank has been actively involved in SME capacity building programmes through its branch network. In a changing era, where there is increasing convergence between the services provided by commercial and development banks, DFCC Bank too, has refined its business model to face such challenges with the acquisition of DFCC Vardhana Bank. The business model for the two institutions, although legally separate, envisages the maximisation of operational synergies. This is being achieved by initially opening 'Vardhana Windows' in all DFCC Bank branches, thus offering clients, particularly the SMEs in the provinces, a full range of banking services under one roof. Work is now in progress to migrate DFCC Vardhana Bank to the same technology platform as DFCC Bank, later this year. The Head Office of DFCC Vardhana Bank was relocated to the building housing DFCC Bank's Colombo Office in April 2005 and this will further improve efficiency and generate cost savings at Group level.

Although the tsunami of 26 December 2004 did not directly affect life or property at DFCC Bank and its subsidiaries, its impact in terms of human tragedy and economic setback, particularly in the fisheries and tourism sectors, will take time to heal. The Bank is actively involved in efforts to rehabilitate the business activities of its customers who were affected by providing new funding to affected businesses through the special Susahana Scheme launched by the Government as well as granting relief where appropriate, on existing obligations of these customers. However, these measures are not expected to have a material impact on future Income Statements. The tsunami damage also resulted in unprecedented international assistance and pledges for reconstruction and if properly harnessed, can prove to be a unique opportunity to uplift the quality of life of the worst affected communities.

RESOURCE MOBILISATION

Progress was made in mobilising resources from domestic savings, local institutions and international agencies. The Bank successfully negotiated new credit lines from two bilateral development agencies and these will be available for use in 2005. DFCC Vardhana Bank concentrated on mobilising customer deposits as they were better equipped to cater to retail depositors by being able to offer a wider range of deposit products.

FINANCIAL SECTOR REFORMS

The long awaited amendments to the Banking Act were passed by Parliament. However, important laws relating to Electronic Payments, Anti-Money Laundering and Securitisation have not become law as yet. The recovery of debts in default continues to be protracted and cumbersome and a recent legal decision restricting the application of the special debt recovery laws may further lengthen the recovery process. While the rights of enterprises that fail and those who secure the borrowings of such enterprises should be adequately protected, a legislative framework will have to be found to provide this protection in a way that does not endanger depositors or make access to finance more difficult, especially for the SME sector. If not, society at large will pay the price for the failure of a relative few.

The reforms in the Banking and Financial Services Sector have been heavily focussed on strengthening supervision, disclosure requirements and prudential regulation. While these are very important ingredients of reform, in a developing country such as Sri Lanka, where the role of banks as financial intermediaries far outweigh the collective role of other intermediaries, it is essential that banking sector reforms are based on a comprehensive policy framework formulated after discussion with the various stakeholders and public debate, rather than on an ad hoc basis. Even the long overdue replacement of the current Banking Act should be based on a comprehensive assessment of the development needs of the sector and the role the banks have to play in the development of the country as a whole in the next decade. While the regulatory and disclosure framework certainly require strengthening and we must learn from developments in other countries, we must also resist the temptation to prematurely implement practices from other environments without due regard to the local circumstances.

The trade-off between regulation and development is admittedly a difficult one for regulators to deal with on their own. The time may therefore, be opportune to set up a Presidential Commission to formulate a vision for the financial services sector. Thereafter, in the light of an agreed vision to reconsider, update or revalidate, in the context of global and local developments in the last 15 years and the future requirements, the findings and the various recommendations contained in the Banking Commission Reports of the early 1990's which cover the banking industry and the capital markets. Such a Commission, as a starting point for their deliberations, can use the work already done by the relevant clusters of the National Council for Economic Development (NCED) and the various regulatory agencies.

OUTLOOK

The country's economic prospects look promising when considered in isolation, but attaining 8% to 10% growth essential for reducing regional as well as internal disparities in living standards, remain elusive. The escalating petroleum prices and its effect on Sri Lanka and its trading partners pose a threat and continuation of the ceasefire, the pace of post-tsunami reconstruction work and tangible progress on structural reforms are important aspects that will determine the realisation of the country's potential.

Looking forward, DFCC Bank sees opportunities in the financing of infrastructure projects and services, particularly in areas such as information and communication technology, transport, education, healthcare, power generation, construction and the development of high value adding export enterprises. The Bank will continue to actively support SME development and the post-tsunami reconstruction and rehabilitation efforts in the country.

DFCC Bank is well poised to meet the changes and challenges that will soon enter the Sri Lankan regulatory environment. With external consultancy assistance, the Bank has embarked on a programme to enhance its risk management techniques. Processes will be implemented that will enable the Bank to have an improved risk rating system for its lending activities. The investments in technology have also begun to yield results through improved operational control and faster and better management information. As noted in my Report last year, these measures will help the Bank to increase capital efficiency when the new Capital Accord of the Bank for International Settlements, commonly referred to as Basle II, is introduced in Sri Lanka.

DFCC Bank is already in full compliance with the increased minimum capital requirement for licensed banks that will become effective at the end of 2007. However, DFCC Vardhana Bank will require new capital during the next two years to meet the regulatory requirements. Although DFCC Bank has the capacity to provide the requirements fully while meeting its own requirements, we will explore all options and select one that promises the best long-term value creation for our shareholders.

The Bank's recruitment and remuneration policies as well as its investment in staff training and development, aims to attract and retain the best. The Bank has and will continue to be an institution driven by high calibre staff with integrity, commitment and a results-orientation. The performance linked reward system, refined over the years, has become an accepted process for creating value for stakeholders while rewarding merit at group and individual level.

The year 2006 will herald the Golden Jubilee of DFCC Bank's development banking services to the nation. While it will be an occasion to celebrate, it would also be a moment for introspection and planning to chart our course for the next decade and beyond.

I wish to express my sincere appreciation of the support and assistance received from the Ministry of Finance and the Central Bank of Sri Lanka. The direction, support and guidance received from the former Chairman, the late Mr Michael Mack, the current Chairman and the Board of Directors were invaluable as was the excellent co-operation extended to me by my senior management colleagues and all staff. I also thank our numerous customers, bilateral and multilateral lending agencies for their continued patronage and confidence placed in DFCC Bank and its subsidiaries.

Nihal Fonseka
Chief Executive/Director
26 May 2005

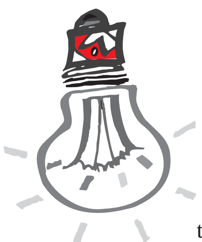
ASSOCIATE AND SUBSIDIARY COMPANIES

COMPANY	BANK'S INTEREST	PRINCIPAL ACTIVITY	DIRECTORS	PROFIT AFTER TAX Rs m FYE 31 March 2005	2004	DIVIDEND RATE % FYE 31 March 2005	2004
Commercial Bank of Ceylon Limited "Commercial House" 21 Bristol Street Colombo 1 Tel: 2445010-15 2336700-5 2430420 Incorporated: June 1969 *Note: Profit is for FYE December 2004 and FYE December 2003.*	28%	Commercial Banking	M J C Amarasuriya *(Chairman)* J S Mather *(Deputy Chairman)* A L Gooneratne *(Managing Director)* B R L Fernando L J A Fernando A N Fonseka I M Malas S K G Senanayake *(Alternate Director)* Dr H S Wanasinghe	**1,725**	1,465*	**60.0**	50.0
DFCC Stock Brokers (Pvt) Limited 3rd Floor 73 W A D Ramanayake Mawatha Colombo 2 Tel: 2446021-2 2446031-4 Incorporated: February 1990 *Note: Profit is for FYE December 2004 and FYE December 2003.*	100%	Securities Broking	A N Fonseka *(Chairman)* M R Abeywardena *(CEO)* J H D B Abeyaratna D E De Mel T W De Silva P P S Fernando S Nagarajah	**14**	47	**32.0**	100.0
DFCC Vardhana Bank Limited 73 W A D Ramanayake Mawatha Colombo 2 Tel: 2371371 Incorporated: August 1995 *Note: Profit is for FYE December 2004 and FYE December 2003. Only the post aquisition loss for five months to 31 December 2003 is included.*	94.46%	Commercial Banking	Dr T N Jinasena *(Chairman)* L G Perera *(ManagingDirector/CEO)* S Nagarajah J H D B Abeyaratna Ms R A P Withana Mrs Y N Perera J A R E M Machado T K Bandaranayake	**(28.8)**	(48.4)	**Nil**	Nil
Lanka Industrial Estates Limited Pattiwila Road Sapugaskanda Makola Tel: 2400318 Incorporated: March 1992	50%	Leasing of Land and Buildings for Industrial Enterprises	A N Fonseka *(Chairman)* Mrs K C S Abeyesundere T W De Silva E G P Kalpage L A Mahendran M R Prelis Dr R M K Ratnayake A D Tudawe	**51**	46**	**40.0**	20.0
Lanka Ventures Limited 2nd Floor Ceylon Ocean Lines Building 46/12 Navam Mawatha Colombo 2 Tel: 2439201 Incorporated: February 1992	59%	Venture Capital Financing	A N Fonseka *(Chairman)* Mrs K C S Abeyesundere S E De Silva T L F W Jayasekera J D N Kekulawela J M J Perera M R Prelis	**114**	206	**–**	27.5
National Asset Management Limited 2nd Floor 73 W A D Ramanayake Mawatha Colombo 2 Tel: 2445911 Incorporated: September 1990	80%	Fund Management	A N Fonseka *(Chairman)* Mrs K C S Abeyesundere D E De Mel C Dharmakirthi *(Appointed on 27.09.04)*	**6**	10	**–**	10.0

*Note: * Restated figures for FYE December 2003 (Rs1,536 million before restatement)*

*** Restated figures for FYE March 2004 (Rs50 million before restatement)*

Sector Review



POWER

Lately, the most commercially intensive sources of energy, power and petroleum, have resurfaced sharply into focus due to the shocks both sectors experienced in 2004, thereby making Sri Lanka's economy vulnerable. Both institutions, mandated with managing these energy sources, the Ceylon Electricity Board (CEB) and the Ceylon Petroleum Corporation (CPC), continued to record considerable losses even in the year 2004, threatening their very existence and hence requiring greater budgetary support from the Government. The urgent need to implement serious reforms to achieve a certain level of resilience has been brought into focus, but is being met with resistance by the Institution's unionised workforce.

Electricity has become essential to modern living and holds a direct influence on a country's development and growth. Availability of electricity at a competitive price is a key determinant factor of long-term development plans of a country. Sri Lanka is required to increase power generation capacity by over 10% annually to meet the anticipated medium-term economic growth rate of above 6%.

Power and Problems

The problems in the power sector, arising mainly from the insufficient generating capacity, were further aggravated by the drought experienced in the first half of 2004. Having experienced, on earlier occasions, the non-reliability of hydro power, the CEB gradually decreased its reliance on hydro-power to 43% from 94% in 1994 and built on thermal solutions which require the use of petroleum. In such a scenario, the rising petroleum prices during the year, with no consequent increases in electricity tariffs, led to the deterioration in the financial position of the CEB.

According to recent reports the CEB is currently weighed down by a financial burden of Rs80 billion of which Rs27 billion rupees are in very expensive short-term loans. At present generation costs, the CEB loses around Rs2.80 per kWh of power from each unit it sells to the customer. Currently the production cost of a unit of electricity is approximately Rs10.50 and the selling cost is at an average of Rs7.70. It has been reported that with the subsidisation, the CEB loses nearly Rs35 to 40 million a day.

The Central Bank Annual Report for 2004 reported that parallel to these adverse developments the delays in building new Base Load plants, proposed reforms and measures to address the high system losses, compounded its woes threatening the long-term sustainability of the Institution.

According to the CEB, the demand for electricity increases by an average 8% per annum, which means that by 2010 Sri Lanka's estimated annual electricity consumption would increase to 10,000 million units. Already there is a shortage of generation capacity with the CEB needing 300 MW of low cost power to meet even the present demand. Only hydro and coal power plants can generate electricity at a low cost of around Rs6.00 per kWh. Hence "the delays in the construction of the Upper Kotmale Hydro Power Plant and the Norochcholai Coal Plant are tantamount to inviting disaster" noted the Chairman of the Grid Connected Small Power Developers Association, Dr Nishantha Nanayakkara.

Hobson's Choice

With the CEB monopolising transmission and together with its subsidiary Lanka Electricity Company, enjoying monopoly in distribution, consumers have little choice but to grapple with the rising cost of electricity, which is already high, compared with other countries in the region.

The Government has indicated that with the implementation of reforms, the cost of electricity can be brought down considerably. However, the engineers at the CEB do not agree with this premise and say that except for addressing a few trivial problems in the power sector the critical issues would only aggravate due to increases in operational costs. The fundamental concern in this scenario is the inability to generate electricity at a low cost and with world oil prices escalating, the CEB will only burrow deeper into the crisis.

The non-implementation of low cost large scale power generation schemes using sources such as coal has also led to frequent power shortages with the CEB resorting to high cost small capacity emergency solutions. The transfer of these costs to consumers has been so far discouraged by the already high tariff rates.

With no implementation in sight of medium-term solutions to generate low cost electricity, increases in tariffs may be inevitable. The CEB had its last price increase of 38% in 2002. Under the present circumstances, for the CEB to break even, a 50% increase in tariffs is required. The Government has indicated that if the reforms are seen through, the CEB will get help to weather the storm by way of soft loans from the Asian Development Bank (ADB) and the Japan Bank for International Co-operation (JBIC). However, some groups are of the view that offloading the debt alone is not likely to wipe away the problems that affect high electricity production costs. Therefore, the question, whether come tomorrow electricity would still be affordable to people, remains unanswered.

Hope on the Horizon?

The Central Bank Annual Report for 2004 reported a 135 MW increase in the installed capacity of electricity recording a total capacity of 2,358 MW. This was made possible with the commissioning of the Heladhanavi Thermal Power Plant (100 MW) and the private sector owned mini hydro power plants adding another 35MW of power in the same year. The report also states that “these developments have now changed the installed capacity of the hydro thermal ratio to 54:46”.

In the medium-term, several committed thermal power plants will expand generating capacity by about 400 MW. The diesel power plant of 100 MW commenced operations in April 2005 at Embilipitiya. The combined cycle Gas Turbine project with a total capacity of 300 MW at Kerawalapitiya is scheduled to be completed by 2007.

System losses, although still high, have declined significantly to 17.1% in 2004 from around 22% in 2000 saving about 400 GWh per year, which is equivalent to having an additional hydro power plant with a capacity of 100 MW.

Whilst plans for medium-term capacity expansion continue, the disconcerting factor is that most new power plants, which are on the horizon in Sri Lanka, are not geared to generate low cost electricity, which is the need of the hour.

Initiating private sector participation

In order to reduce the dependency on the CEB owned hydro power, the national power policy was formulated to encourage private sector investment to play a key role, particularly, in the area of thermal and mini hydro power generation. At present around 70 MW of privately owned mini hydro power plants have been connected to the national grid and letters of intent have been issued for approximately another 375 MW and eight thermal power plants owned by the private sector are now operational with a capacity of 550 MW. The 100 MW plant in Embilipitiya was the latest to be commissioned in April 2005.

The Government, with the assistance of the World Bank and Global Environmental Facility (GEF), initiated two credit programmes to promote private sector and community owned power projects using renewable energy. These have resulted in 31 grid-connected mini hydro power plants, 65,800 solar home systems, 85 village hydro schemes, a 1 MW Biomass project at Walapane. Another 21 hydro power plants are under construction and once commissioned will generate 57 MW of power.

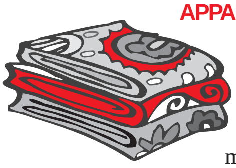
The potential for further expansion in the mini hydro sector will depend on the CEB’s outlook. On several occasions CEB has raised concerns relating to system capabilities to absorb embedded non-dispatchable power generation. In a bid to resolve the problem, the World Bank supported Renewable Energy for Rural Economic Development (RERED) Project has commissioned a comprehensive technical appraisal which includes the assessment of the absorption capacity of the power system. Simultaneously, the RERED Project has commissioned a study on the development of Sri Lanka’s policy framework for electricity generation based on renewable sources. The study will analyse economic, financial, legal and regulatory aspects and recommend a transparent tariff setting procedure.

Risky Business

In 1996 DFCC Bank pioneered the mini hydro power sector, extending unstinted support towards developing the first project in Dickoya. Even though the road was long and arduous and fraught with risk, due to the national significance of the sector, the Bank continued to support private sector renewable power generation initiatives, extending project assistance to the value of Rs1.96 billion and managing the two World Bank credit lines (see the Operations Review for details). 32 grid-connected hydro power projects, 20 off-grid village hydro projects, two solar projects and one wind power project were among those that have thus far received assistance from DFCC Bank. The Bank has also funded private thermal power projects.

As at 31 March 2005, DFCC Bank's commitment to the total power sector including thermal and hydro, stood at Rs3.7 billion.

APPAREL



It was January 2005. China's "pillar industry of the nation" had never seen such an upsurge of export quantities as was going to be during this year. In the first 60 days of 2005 alone, 434 million pieces of garments were dispatched by Chinese apparel manufacturers to the United States of America. During the same period 14 textile plants in the United States closed down. The Global Alliance for Fair Textile Trade (GAFTT) called on the United States of America (USA) and the European Union (EU) to move quickly to impose safeguards against China.

The Multi Fibre Agreement (MFA), a system of voluntary export restraints based on allocated quotas which governed the global apparel trade over the past three decades, ended on 31 December 2004. Following the removal of barriers, Chinese exports of garments to both the USA and the EU exploded, increasing by US$1.5 billion in the first two months of 2005.

Post-Quota Blues

The remarkable growth in the apparel sector in most developing countries is attributed to the MFA, which offered the kind of opportunity developing nations were yearning for, to gain a foothold in the lucrative apparel markets of the EU and the USA. After decades of rapid universal growth, the industry is now facing a major challenge. Even though the primary objective of abolishing the quota system was to promote free market policies and hence provide a better deal for consumers the world over, it is now feared that the move would lead to a monopolistic situation with a few countries dominating the industry. Most of the manufacturing countries that benefited from the quota system are now clearly worried that they will be forced out of the markets they have been enjoying over the years, in the face of severe competition from low cost merchandise offered by China and India.

Whilst the removal of quotas was viewed with optimism, that it would open up new avenues to a large and growing market, factual evidence reveals that China, with the world's largest workforce may control nearly half the global apparel market within the next few years. Currently, Chinese textile and apparel industries have optimised the integration of raw material, equipment, production and management skills to become a market-oriented processing industry with the largest production capacity. The apparel industry in China is heavily subsidised since it is the kind of labour intensive industry the country needs. India and Vietnam are also expected to gain a large slice of the pie, for the same reasons, coupled with cheap labour, weak or non-existent trade unions, and vertical integration that enables them to exist independently.

On the other side of the line global retailers welcome the move which allows them to source from a few selected manufacturers thus reducing the merchandising cost, simplifying the sourcing process and enhancing the flexibility of the supply chain. However, the governments of the importing countries, led by the EU and the USA are ill at ease with the knowledge of having to rely heavily on China for their apparel needs in the future. Furthermore, the cheap imports that will be flooding these markets are expected to erode the domestic manufacturers' margins progressively, so much so that they will eventually be swept off their own home grounds. GAFTT officials urged both the EU and the USA to take urgent action saying that every day without safeguards in place is a day that hundreds of thousands of workers worldwide will lose their jobs. Already, many textile and apparel plants from Bangladesh to the Caribbean and from Africa to the USA have been forced to shutter as a result of China's export surge.

Although retailers may prefer to stay with a few selected manufacturers, they will ultimately be driven by customer-centric buying procedures. With the emerging 'ethically conscious' consumer, there is a greater need for sourcing from countries which maintain high social and environmental standards and corporate ethics with regard to employee welfare, child labour and anti-discriminatory practices. In the future, it is believed these aspects will play an even more crucial role in selecting suppliers, as the western consumers are frequently pressurising their governments and business enterprises to source 'ethically correct' merchandise. A rise in anti dumping and countervailing duties can also be expected.

When the going gets tough…

Sri Lanka, on par with a number of other developing countries, relies on apparel exports for a sizeable share of its foreign exchange earnings and employment generation. Today, Sri Lanka's textile and garment industry occupies an incomparable position in the country's industrial structure, being the topmost employer in the manufacturing sector and the number one foreign exchange earner. It represents 62% of the country's industrial exports and 49% of the total exports.

Of the 859 garment factories registered with Sri Lanka Customs, 88% are classified as small and medium scale enterprises. Nonetheless, they account for only 28% of the total value of garment exports, while the bulk of the export revenue is generated by the remaining 12% large-scale exporters. Collectively, the industry provides employment to 330,000 directly and 1.2 million indirectly.

Owing to the inspiring growth in the last three decades, the present day apparel industry of Sri Lanka boasts of a prestigious customer base, with a range of celebrated international brands. The greater portion of approximately 95% of the merchandise is exported to the lush markets in the EU and the USA. Nonetheless, the share of the market secured by Sri Lanka's apparel exports is relatively low. It is observed that particularly in the USA, the market share is virtually negligible when compared to China, India, Mexico, Indonesia and even Pakistan. Low market share coupled with over reliance on two key markets, has pushed the country to an insecure position in the intensely competitive global marketplace.

The Road Ahead

It is anticipated that with the removal of quotas there would be an increase in the formation of regional blocs and preferential trading arrangements worldwide. Sri Lanka has also entered into several trade pacts such as the Indo-Lanka Bilateral Free Trade Agreement (under which India has granted a preferential duty reduction to Sri Lankan exporters, subject to sourcing fabric from India), the recent Free Trade Agreement with Pakistan, the Comprehensive Economic Partnership Agreement (CEPA) with India and the Bangladesh, India, Myanmar, Sri Lanka and Thailand Economic Co-operation (BIMST-EC). Measures such as these are critical, for a country which relies heavily on raw material imports to sustain the industry, in the post-quota era.

There is justifiable optimism that although some factories, may go out of business, most others will be used for sub-contracting or consolidated with stronger businesses. The larger manufacturers, who have by and large established direct links with overseas buyers, will be better equipped to compete in a quota free environment. It is also felt that much of the concerns regarding the future of the industry are largely a reflection of the perceived weaknesses of the majority of small and medium scale firms, which account for only 28% of exports but employ 38% of the workforce.

However, sceptics argue that, despite the global growth in the garment sector, Sri Lanka is not geared to survive in the new trading environment. It is felt that Sri Lanka's heavy dependence on imported raw material coupled with fairly low local value addition, will pose a serious threat in the face of intensifying competition, where speed of delivery and price comparativeness will be the key to survival. According to them the higher costs and low productivity makes the Sri Lankan apparel sector uncompetitive and this will result in the closure of a number of factories with an anticipated loss of around 100,000 jobs.

Over the years Sri Lanka has managed to establish itself as a high quality manufacturer of apparel. The country is reputed for as being highly compliant with international labour and environmental standards. Given the high literacy rate the labour force is regarded as easily trainable, though more costly as compared with other developing countries.

The country should be able to alleviate some of the adversities the quota removal may bring, owing to the Generalised System of Preferences (GPS) scheme; under which Sri Lanka is eligible to export 7,000 items including apparel on special incentive arrangements to the EU. Sri Lanka is the only country yet to qualify, having ratified and implemented 26 out of 27 international conventions relating to sustainable development and good governance stipulated by the EU. As reported in the Central Bank Annual Report, this resulted in an 8% volume growth of apparel exports in 2004 while export prices increased by 1%. Hence the industry was able to minimise the potential risks arising from the heavy concentration in the USA market by expanding its market share in the EU.

Strategy for Survival

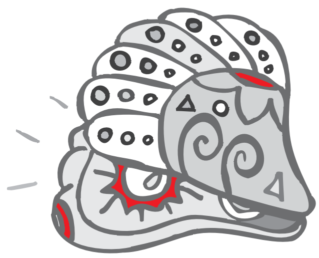
From a manufacturing standpoint, it is crucial that Sri Lanka improves its productivity in order to drive down the cost. In this regard adequate investment in human capital and machinery can do wonders. In the meantime, other critical success factors such as quality, brand image, reduction of lead times and issues relating to vertical integration require to be effectively and promptly addressed.

With due regard to Sri Lanka's performance in the global apparel market, an advisable competitive strategy would be to produce high-ticket items in small volume for premium markets. The country can leverage on its reputation for high environmental standards, commendable labour practices, corporate governance and good ethical practices to differentiate itself from other producers.

The Government has formulated a series of proposals including, simplification of Value Added Tax (VAT) applications, granting incentives for buying offices, productivity improvement and product designs. A grant of Rs100 million is proposed to support the productivity improvement measures in the industry and an additional Rs50 million is reserved for international image building campaigns.

Impact on DFCC Bank

DFCC Bank's exposure to the textile and garment sector as at March 2005 was approximately Rs1.2 billion, DFCC Vardhana Bank provided facilities to the value of Rs245 million to the sector. The large-scale apparel manufacturers funded by DFCC Bank are well managed, have a network of sound relationships with buyers and are technologically geared to face the challenges of the post-quota era. Thus, from the DFCC Bank's point of view, the quota removal is not expected to have a significant adverse impact on the quality of the banks portfolio.



Operations Review

The operations of DFCC Bank during the period under review showed satisfactory results, given the challenges the Bank and the industry in general had to contend with. General Elections in early 2004 leading to a coalition government, the stalled peace process, rising oil prices and the depreciation of the rupee resulted in a lower demand for credit for start-up large scale projects compared to the previous year. A declining interest rate regime and intense competition in the banking sector continued to adversely impact the interest spread. On the other hand, sector exposure limits based on risk management considerations did not allow the Bank to fully exploit lending opportunities to some sectors where the demand for credit was relatively high, such as plantations and tourism.

APPROVALS

The total approvals during the financial year ended 31 March 2005 amounted to Rs14,003 million which is a decline of Rs5,708 million from the previous year. The decline was partly due to lower emphasis on the provision of working capital finance. DFCC Vardhana Bank is better equipped to cater to this segment of the business. The decline is also due to the fact that in the previous year the Bank had the benefit of approving loans to several large new projects such as two thermal power plants, a wheat flour mill etc. that do not recur year after year.

Product-wise Analysis of Approvals (Rs million)

Year ended 31 March	2001	2002	2003	2004	**2005**
Loans & Advances	8,146	6,803	9,087	15,233	**9, 547**
Finance Leases	998	1,039	1,732	2,697	**2,526**
Investment Securities	641	652	601	453	**316**
Guarantees & Underwriting	396	2,611	279	1,328	**1,614**
Total	10,181	11,105	11,699	19,711	**14,003**

The trade sector, which represents a large number of SME and a few corporate clients engaged in diversified trade activities, was the major contributor accounting for approximately 19% of the total approvals. In addition, property development, communication, non-metallic mineral products, construction industry together with food and beverage industries contributed significantly towards overall approvals.

DISBURSEMENTS

Despite a decline in approvals, the Bank was able to maintain the last year's disbursement level due to the substantial undisbursed loan balances brought forward from the previous year.

Product-wise Analysis of Disbursements (Rs million)

Year ended 31 March	2001	2002	2003	2004	**2005**
Loans & Advances	6,750	4,533	6,820	9,671	**9,839**
Finance Leases	798	868	1,657	2,546	**2,177**
Investment Securities	625	400	326	306	**418**
Total	8,172	5,801	8,803	12,523	**12,434**

PORTFOLIO

The total portfolio of the Bank (net of provisions and pre-payments) grew by 12% to Rs30,321 million from the previous year's figure of Rs27,184 million. Details of approvals during the year and the portfolio as at 31 March 2005, analysed by industry sectors and products, are given at the end of this Review.

MANAGEMENT OF NON-PERFORMING LOANS AND LEASES

The Bank successfully reduced its Non-Performing Asset (NPA) ratios to single digit levels as planned at the beginning of the financial year. This reflects the Bank's emphasis on maintaining portfolio quality in tandem with asset growth, as seen by the consistent reduction in NPA ratio over the last few years. The NPA ratios of loans and leases as at the end of the financial year were 8.8% and 9.0% respectively.

Focussed efforts on rehabilitation of problem projects, recovery of loans through negotiated settlements and portfolio growth contributed towards the reduction of the NPA ratio. The strategies adopted in the recent past proved to be successful as witnessed by year-on-year improvement of the portfolio quality. Senior management of the Bank reviews the portfolio regularly to identify potential NPAs and to take remedial action early.

At sector level, prawn farming is the only non-performing sector in our portfolio. The Bank's exposure to this sector was reduced from Rs257 million to Rs189 million during the year and adequate provisions have been made for this portfolio. However, considering the benefits to the economy, the Bank continues to assist credit worthy clients and assists the Government in its efforts to revive the sector.

BRANCH BANKING OPERATIONS

Branch Credit Operations

Branches approved credit facilities amounting to Rs6,965 million to 3,755 projects during the financial year, which accounts for 51% of the Bank's total approvals of loans and advances. Branch credit approvals target SMEs, a sector that DFCC Bank continues to support and nurture. The non-availability of a concessionary credit line to refinance project lending to the SME sector constrained credit expansion in the branches, which recorded a 14% decline in approvals compared to the previous financial year. Credit growth in the branches is expected to improve this year with the availability of a new SME credit line.

The total lending portfolio of branches grew by Rs197 million to reach Rs13,389 million by 31 March 2005, despite the decline in approvals noted earlier. The branch banking portfolio accounted for about 45% of the Bank's loan and lease portfolio as at 31 March 2005. Branch lending covered start-up ventures as well as expansion, modernisation and relocation of existing enterprises. The sectors that benefited include small and medium scale plantations, agro-processing of commodities, light engineering industries, transportation, tourism and trade.

Finance Leasing

Approvals of finance leasing facilities during the year amounted to Rs2,526 million, representing 1,992 lease agreements. This is slightly higher than the finance leases approved during the previous year amounting to Rs2,697 million consisting of 2,105 lease agreements. Lease facilities granted were mostly for businesses in the areas of transport of agricultural produce, haulage of industrial raw materials and output, commuter transportation, building construction undertakings, infrastructure development etc.

Network Development

During the year under review, the Bank completed the process of opening DFCC Vardhana Bank branches in all DFCC Bank branches. Customers are therefore, now able to access a full spectrum of commercial banking and development banking products under one roof. As a complementary measure, DFCC Bank opened an Extension Office at the DFCC Vardhana Bank branch in Malabe.

DFCC Bank branches in Badulla, Gampaha and Anuradhapura were relocated to more modern and spacious premises to accommodate the expanding volume of business of both DFCC Bank and DFCC Vardhana Bank. They are all centrally located in the respective towns to provide convenient access to customers. Similarly, the Kandy Branch was renovated to make it a more modern office. DFCC Bank has also identified locations for relocating the Kurunegala and Matara branches during the new financial year.

Branch Profitability

All the branches reported profits during the year under review. The branches as a whole made a significant contribution to the Bank's profit, which reflects the quality of the branch credit portfolio as well as operational efficiencies that have been consistently maintained. Considering their present performance and future potential, the Bank has planned to set up several Extension Offices in the next financial year and upgrade two existing Extension Offices in Kalutara and Polonnaruwa to Branch Offices.

TECHNOLOGY INITIATIVES

The Information Technology Department underwent some far reaching structural changes during the year under review as the DFCC Bank and DFCC Vardhana Bank IT functions were unified into a common group IT service organisation. The new structure saw the creation of the position of Group Chief Information Officer with responsibility for the various functional areas of IT coming under the Vice Presidents responsible for Operations, Infrastructure & Administration and Business Applications. The IT procedures and practices were adapted to leverage the combined strength of the new IT organisation.

A process of rationalising the IT platforms of the two banks was completed in areas such as messaging, security and communications connectivity and the data centres were consolidated to reduce costs and improve service.

The rollout of SYMBOLS core banking platform to all branches of DFCC Bank resulted in improved operational efficiencies for the Bank and real-time management information is now available across all branches.

Following the successful deployment of SYMBOLS at DFCC Bank the process of unifying the business systems of DFCC Bank and DFCC Vardhana Bank was initiated. This project will result in DFCC Vardhana Bank migrating to DFCC Bank's core banking application. Similarly, the implementation of Oracle Financials at DFCC Vardhana Bank will facilitate consolidated financial reporting and management at Group level. Upgrading of disaster recovery capabilities will also be carried out in 2005.

DFCC VARDHANA BANK

The financial year ended 31 December 2004 saw DFCC Vardhana Bank making satisfactory progress and becoming profitable on a monthly basis from October 2004. An appreciable improvement in business volume was achieved, resulting in a notable reduction in the net loss from Rs175.7 million in the previous year to Rs28.8 million for the year under review. The 2005 first quarter performance confirms that the Bank is on a profitable course. Loans and advances as well as deposits grew more than four and three-fold respectively, albeit from a small base. All key functions including International Banking, Trade Finance and Treasury along with other support services performed well.

DFCC Bank acquired Merc Bank in August 2003 (rebranded DFCC Vardhana Bank) with the primary goal of providing comprehensive banking services to its customers under one roof. The results achieved during the year brought the DFCC Group a step closer to this goal. Commercial banking operations were set up through DFCC Vardhana Bank windows in all DFCC Bank branch premises, augmented by *V-Tell* ATMs in major towns. Staff strength was also increased from 63 to 95 to support this expansion. To broaden the consumer banking product line a minors' savings deposit scheme, *Vardhana Junior*, was introduced followed by a special fixed deposit scheme for senior citizens. DFCC Vardhana Bank signed an agreement with the Asian Development Bank in August 2004 to join its Trade Finance Facilitation Programme, a move that will have an important bearing on the Bank's international business in the future. Meanwhile, links with correspondent banks in key destinations around the world were strengthened.

Migration to the SYMBOLS application package used by DFCC Bank was initiated to bring about consistency in the IT platform, while the Wide Area Network and the messaging system of DFCC Bank were adopted. The integration of IT and telecommunication systems enhanced data exchange capabilities between the two Banks, while customers and the DFCC Group will reap the benefits of such integrated functions in IT, human resources, marketing and treasury operations.

Access to DFCC Bank's customer base and the use of its strong image were put to good use to spur asset growth and deposit mobilisation. The capital reduction exercise, followed by a Rights Issue in October, resulted in a substantial growth in shareholder funds. An additional sum provided by DFCC Bank as a subordinated term loan was recognised by the Central Bank as Tier 2 capital in order to meet capital adequacy regulatory requirements.

In September 2004 Fitch Ratings Lanka Limited assigned the **AA- (sri)** national rating for implied long-term unsecured senior debt of DFCC Vardhana Bank, a rating that confirms strong financial fundamentals and growth potential. In the coming year DFCC Vardhana Bank will enhance its capacity for funding its operations.

RESOURCE DEVELOPMENT

The Bank raised Rs8,164 million during the financial year to fund the growing loan portfolio and treasury operations. Approximately 60% of the funds raised were from domestic sources while the balance was from credit lines made available by multilateral and bilateral agencies. The credit line from the European Investment Bank accounted for the largest share, which also included US$12.4 million in foreign currency funding.

The customer deposit base of the Bank contracted during the year by Rs1,164 million, mainly due to the withdrawal of deposits by government institutions due to recently imposed restrictions requiring such institutions to give preference to state banks. However, due to the thrust placed on retail deposit mobilisation by DFCC Vardhana Bank the aggregate deposits of both banks grew to Rs6,919 million by the end of March 2005, an increase of 15% in addition to existing lines of credit, the Bank will have access to new credit lines during the coming year for lending to both the SME sector as well as the corporate sector.

TREASURY AND MONEY MARKET

There were limited market opportunities to gain from the movement in interest rates during the year under review. The interest income from treasury bills, placement with other banks and debt securities declined by 21% to Rs294 million during the year, mainly due to the depressed short-term rates and a decline in the trading fund portfolio. Further, the capital gain on treasury bills, bonds and other debt securities was only Rs17 million compared with the Rs62 million recorded in the previous year. Benefits are expected with the centralisation of treasury operations of DFCC Bank and DFCC Vardhana Bank, while trading in corporate debt securities and government securities will be pursued more aggressively in the coming years within the framework of strong risk management practices that have been implemented. The Bank is also exploring the possibility of offering risk hedging products to satisfy institutional demand.

CAPITAL MARKETS AND INVESTMENT BANKING

The Colombo Stock Market proved to be resilient beyond all expectations. External as well as internal shocks were to have limited impact with investor sentiment rebounding from the temporary dips that followed each event. Although macro economic conditions and the outlook were less than ideal, belief that the “frozen war” would not thaw appeared to be the main comfort factor. The market largely chose to ignore developments on the political front, although these did have an effect on greenfield investments. Both secondary and primary market activity rose to new heights with quantum leaps in transaction volumes. During the financial year, the All Share Price Index recorded a gain of 36% to 1,752 points while the Milanka Price Index moved up by 18% to 2,392 points.

Leveraging on the positive capital market conditions, the Bank focussed primarily on its equity portfolio and the realisation of capital gains. The adoption of a more proactive strategy in relation to the management of DFCC Bank's equity portfolio culminated in the realisation of more than Rs150 million in capital gains from quoted (Rs107 million) and unquoted (Rs49 million) shareholdings. The realised gain of Rs107 million was on an average quoted portfolio cost of Rs435 million.

The equity sales were accompanied by judicious and well-timed reinvestments to replenish and also improve the quality and size of the portfolio. Accordingly, DFCC Bank’s equity exposure represents a balanced portfolio of investments in well-managed companies with growth prospects, operating in a diverse range of industry sectors. Such stocks have been selected primarily with regard to sound fundamentals, intrinsic value, liquidity and strong upside potential. The size of the equity portfolio, which stood at Rs370 million as at 1 April 2004 was built up to Rs500 million by 31 March 2005. Going forward, the Bank will consider a modest increase in asset allocation to equity with a view to generating a steady stream of capital gains and dividend income in future years.

Given the significance of its contribution to overall earnings, the Bank is also actively examining ways and means of reaping the full business potential of the Investment Banking Division through institutional strengthening. In this regard, certain options are under active consideration.

MANAGEMENT OF CREDIT LINES

Renewable Energy Development

DFCC Bank functions as the Administrative Unit of the Renewable Energy for Rural Economic Development (RERED) project, which is assisted by a World Bank (IDA) credit line of US$75 million and a Global Environment Facility grant of US$8 million. The RERED Project aims to improve the quality of rural life by promoting access to electricity through off-grid renewable energy technologies and to add capacity to the grid through private sector participation in power generation using renewable resources. The RERED project continues to foster the development of a vibrant industry of suppliers, developers, consultants and industry associations, while promoting commercial financing to this sector through banks, leasing companies and micro finance institutions. By 31 March 2005 a total of Rs5,125 million had been committed with Rs2,813 million disbursed by the 10 Participating Credit Institutions (PCIs). Completed grid-connected projects include 16 mini hydro projects with 39.6 MW aggregate capacity (with a further 56.8 MW approved and under construction), and the first dendro power project of 1 MW capacity. Completed off-grid projects include the electrification of 44,911 rural homes through solar home systems and 2,293 homes through 51 village hydro schemes, while schemes utilising wind and biomass technologies were also under implementation. The RERED Project is progressing satisfactorily.

Plantation Development

DFCC Bank functions as the Apex Body in the Plantation Development Project / Plantation Reform Project II, that is assisted by the Asian Development Bank and Japan Bank for International Co-operation. The two credit lines became effective in August 2003 and May 2003 respectively, although disbursements have yet to begin. The Project will provide long-term financing to meet the investment needs of regional plantation companies through a credit component and address the estate workers' poor working, living and social conditions through a social and environmental component, which includes a housing loan scheme. 6 PCIs were appraising 11 loan applications by 31 March 2005, while modifications to some aspects of the Project were under review to ease disbursements that have been affected by limited appetite of PCIs and concerns about the capacity of potential borrowers to service further debt.

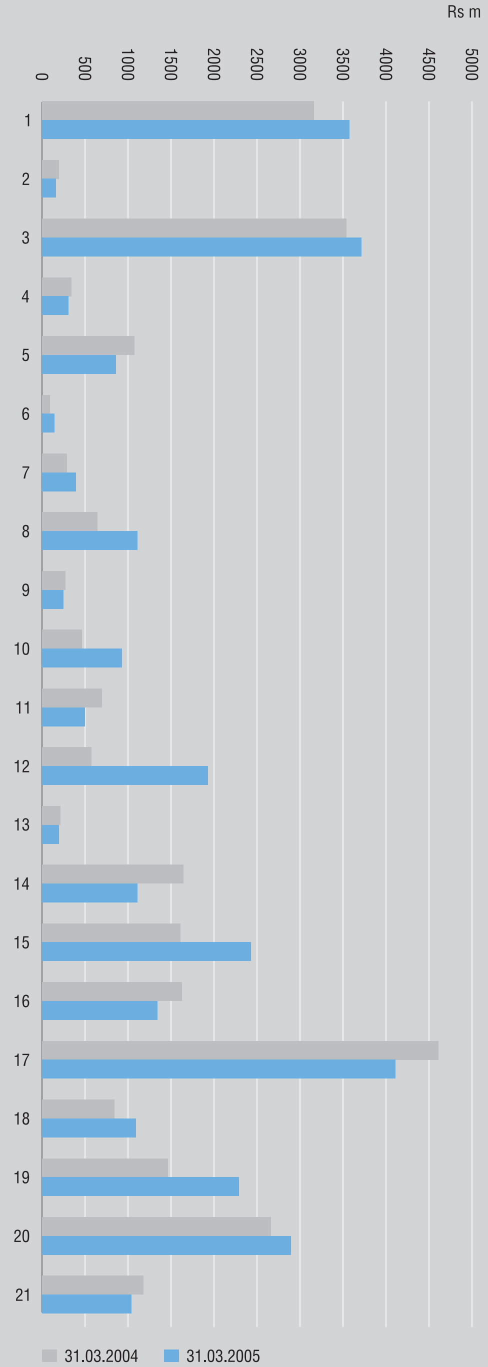
SECTORAL ANALYSIS

Sector	No. of Projects	Loans	Finance Leases	Investment Securities	Guarantees & Underwriting	Total	%
	Approvals for the year ended 31 March 2005						
Sector groupings based on International Standard Industrial Classification	Rupees million						
1 Agriculture, forestry and fishing	437	571	192	0	69	832	5.9
2 Mining and quarrying	43	76	27	0	0	103	0.7
3 Manufacture of food, beverages and tobacco	252	778	165	32	37	1,012	7.2
4 Manufacture of textiles	31	221	22	0	0	243	1.7
5 Manufacture of wearing apparel excluding footwear	79	420	68	0	61	549	3.9
6 Manufacture of leather and leather products including footwear	20	99	10	0	0	109	0.8
7 Wood and manufacture of wood products	72	110	19	0	0	129	0.9
8 Manufacture of paper products, printing, publishing and packaging	72	373	58	0	111	542	3.9
9 Manufacture of chemicals and chemical products other than rubber and plastic products	37	96	31	1	0	128	0.9
10 Manufacture of rubber products	28	247	15	0	298	560	4.0
11 Manufacture of plastic products	31	119	65	0	0	184	1.3
12 Manufacture of non-metallic mineral products including pottery, china and glass	16	956	3	0	0	959	6.9
13 Basic metal production	29	50	27	0	10	87	0.6
14 Manufacture of fabricated metal products, machinery and equipment including electrical items, transport equipment and instruments	62	208	35	7	39	289	2.1
15 Electricity, gas and water industries	33	767	9	0	211	987	7.1
16 Construction industries	245	616	268	0	151	1,035	7.4
17 Trade	1,359	1,217	727	86	573	2,603	18.6
18 Hotels and restaurants	146	294	46	12	0	352	2.5
19 Transport, storage and communications	401	816	491	1	0	1,308	9.3
20 Financing, insurance, real estate and business services	181	1,301	88	177	49	1,615	11.6
21 Community, social and personal services	289	212	160	0	5	377	2.7
	3,863	9,547	2,526	316	1,614	14,003	100.0

Note: Portfolio balances are excluding loans to staff.

Portfolio as at 31 March 2005						
No. of Clients	Loans	Finance Leases	Investment Securities	Bills Discounted	Total	%
Rupees million						
1,718	3,170	380	22	0	3,572	11.8
156	116	53	0	0	169	0.6
758	3,281	223	211	0	3,715	12.3
157	246	49	0	0	295	1.0
216	795	71	0	0	866	2.9
63	125	16	9	0	150	0.5
224	342	51	0	0	393	1.3
214	1,030	76	0	0	1,106	3.6
91	191	38	19	0	248	0.8
61	890	24	6	0	920	3.0
62	479	18	8	0	505	1.7
84	1,771	21	135	0	1,927	6.4
83	167	37	0	0	204	0.7
372	899	179	26	0	1,104	3.6
106	2,195	33	206	0	2,434	8.0
516	1,005	323	5	0	1,333	4.4
2,801	2,956	1,055	96	0	4,107	13.4
370	690	202	189	0	1,081	3.6
1,082	1,421	710	147	0	2,278	7.5
510	2,091	268	527	0	2,886	9.5
746	716	287	25	0	1,028	3.4
10,390	24,576	4,114	1,631	0	30,321	100.0

Portfolio



Financial Review

OVERVIEW

This review explains the main features of DFCC Bank's financial performance and position. The Bank accounts for its investments in associate and subsidiary companies under the equity method of accounting. Since this is a partial consolidation, under this method, the profit after tax of the Bank equals the profit attributable to the Group after deducting minority interest, and the Bank's Balance Sheet includes post acquisition reserves of associate and subsidiary companies. Except where specific reference is made to other entities, this analysis relates to the financial statements of the Bank and not the Group. The profit after tax for the current year including equity accounted contribution, was Rs1,350 million compared to Rs1,355 million achieved in the previous year, a decrease of 0.4%. The return on average assets and the return on average equity declined from the previous year's 4.2% to 3.5% and 16.6% to 14.3% respectively.

The composition of the profit after tax (PAT) is given below:

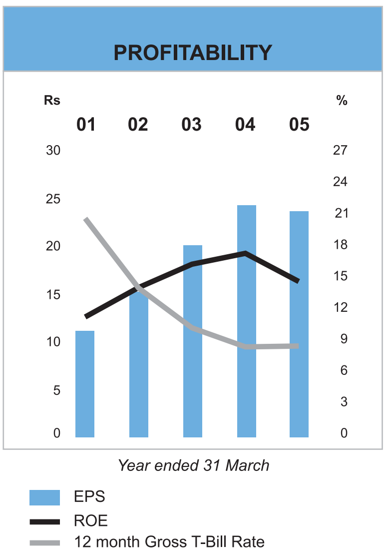
	Year to 31 March 2005		Year to 31 March 2004	
	Rs million	**%**	Rs million	%
DFCC Bank	**1,051**	**78**	1,085	80
Commercial Bank of Ceylon Limited	**307**	**22 ***	236***	17
Lanka Ventures Limited	**22**	**2**	55	4
DFCC Stockbrokers (Pvt) Limited	**7**	**0 ****	23	2
Lanka Industrial Estates Limited	**-6**	**0 ****	7***	0**
DFCC Vardhana Bank Limited (2005, 12 months / 2004, 5 months)	**-27**	**-2**	-45	-3
National Asset Management Limited	**-4**	**0 ****	-6	0**
Total	**1,350**	**100**	1,355	100

* Adjusted for rounding off differences.
** Less than 1%.
*** Restated.

Dividends received from associate and subsidiaries during the year are included under DFCC Bank's PAT with a corresponding deduction from the respective PATs of associate and subsidiary companies.

DFCC Bank's profit after tax from its own operations decreased by 3% in the current financial year compared to the previous year. Although the Bank achieved significantly higher gains from the disposal of mature equity investments, improved its collection of bad and doubtful debts previously provided partially or in full and achieved a reduction in its non-performing asset ratio in the current year, these gains were offset by the following adverse circumstances.

- Asymmetric goodwill expense. The current year's goodwill expense relating to DFCC Vardhana Bank Limited was Rs56 million for a 12 month period compared to Rs23 million for a 5 month post acquisition period in the previous year.
- Increase in Value Added Tax (VAT) on financial service expense due to an increase in the rate from 10% to 15% with effect from 1 January 2004.
- Tsunami related bad debt provision amounting to Rs47 million.
- Reduction in interest margin, primarily through lower on-lending rates in line with market rates of interest and reduced yield on the treasury bill investment portfolio.
- Increase in pension cost due to reduced yield on government securities, the primary source of income of the pension fund.



- Reinstatement of a tax provision of Rs22 million relating to a prior year consequent to the repeal of tax amnesty legislated originally in June 2002.
- Branch refurbishment and relocation expenses.

The reasons for the significant variations in income and expenses are explained below, followed by comments on key Balance Sheet items, and dividend appropriation.

INCOME STATEMENT

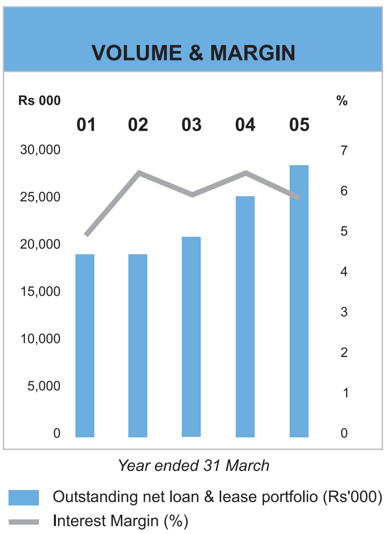
Net interest Income, Interest Spread and Margin

Rs million

		Year to 31.03.2005	Year to 31.03.2004	Year to 31.03.2003
1	Interest income	**3,644**	3,461	3,428
2	Interest expense	**1,873**	1,819	2,091
3	Net interest income	**1,771**	1,642	1,337
4	Interest rate on assets (Interest income / average interest bearing assets) x 100	**12.13%**	13.52%	15.22%
5	Borrowing rate: Method 1 (interest expense / average interest bearing liabilities) x 100	**6.89%**	7.93%	10.29%
6	Borrowing rate: Method 2 (interest expense / average interest bearing assets) x 100	**6.24%**	7.11%	9.29%
7	Interest spread (item 4 minus item 5)	**5.24%**	5.59%	4.93%
8	Interest margin (item 4 minus item 6)	**5.89%**	6.41%	5.93%

The intermediation cost of a bank inclusive of the return to equity capital providers is conventionally measured either as interest spread or margin achieved during the financial year.

Interest spread measures the nominal intermediation cost while interest margin measures the effective intermediation cost. Interest margin takes into account the fact that loan funds may be financed by a mix of borrowed and equity capital.



As depicted in the table interest spread and margins were lower in the current year compared to the previous year. This was an industrywide phenomenon in the relatively liquid and low interest rate environment that prevailed.

Other Income

Other income for the current year was Rs996 million, a 1% increase over the Rs983 million earned in the previous year. Likewise, dividend income, recovery of bad debts, gain on sale of investment securities increased by 6%, 17% and 94% respectively compared to the corresponding amounts in the previous year. These significant improvements were however, offset by a sharp reduction in gains from sale of treasury bills and bonds in the secondary market. This gain amounted to Rs14 million compared to Rs62 million in the previous year. Due to expectations of high interest rates, secondary market activity in government securities declined especially during the first seven months of 2004 and consequently reduced the opportunity for the Bank to profit from this activity unlike in the previous year. Further, other income in the previous year was boosted by a one-off gain of Rs100 million on sale of investment property.

Operating Expenses

The components of operating expenses were changed during the current year to include, bad and doubtful debts and investment losses as part of operating expenses. The comparative previous year's classification is also restated. With the new classification, operating expenses increased by 13% to Rs1,314 million during the year compared to Rs1,160 million in the previous year. Significant improvement in bad and doubtful debt recoveries in the current year compared to the previous year together with improvements in the quality of loan and lease portfolios as evidenced by a reduction in the non-performing asset ratio contributed to mitigate increases in pension cost, branch refurbishment and relocation costs and other costs correlated to domestic inflation, asymmetric goodwill expense and VAT.

Reduced yield on government securities during a period when inflation increased, has had an adverse impact on pension cost, particularly the past service cost. Thus, the increase in pension cost from Rs32 million to Rs48 million recorded in the previous year has further increased to Rs76 million in the current year. However, the rate of annual increase in pension cost experienced during the previous two years could be expected to reduce in the foreseeable future. Factors contributing to this reduction include expected improvement in yield of government securities commensurate with inflation, the abolition of the pension scheme for the new entrants effective from 1 May 2004 and the retirement of some of the senior employees. Post retirement increases in pension are not granted under the Bank's pension plan.

The cost income ratio of the Bank (excluding provisions for bad and doubtful debts and investment security losses) was 38% in the current year compared with 32% in the previous year. At Group level the ratio was 43% compared with 36% in the previous year. Investment in technology, upgrading of distribution network and higher VAT rate contributed to this increase which nevertheless compares well with the cost income ratios in the banking industry.

Profit Contribution by Commercial Bank of Ceylon Limited, an Associate Company

The financial year of this Company ends on 31 December and consequently its results for the year to 31 December 2004 have been consolidated with the Bank for the year to 31 March 2005. The published results of Commercial Bank of Ceylon Limited (CBC) are adjusted prior to incorporation in the Income Statement of the Bank. The consolidation adjustments relate to differences in accounting policy on deferred taxation and the treatment of preference dividend paid by CBC and withholding tax deducted on ordinary and preference dividends paid by CBC to DFCC Bank. CBC uses partial liability method, to account for the deferred tax liability relating to the timing differences on its leased assets whereas the Bank uses full liability method. Thus, as part of consolidation adjustment the reported profit of CBC is recomputed to determine the profit share of CBC on the same accounting policy as adopted by the Bank. The adjustments were based on information communicated to us by CBC advising us of certain corrections identified by CBC after the publication of their Annual Report 2004 relating to the disclosure on deferred taxation which however did not have an impact on CBC's reported Income Statement. This correction also required a restatement of CBC's share of profit in the previous year, as well as the reserves and retained profit on 31 December 2002. This is included as a consolidation adjustment in our financial statements.

Contribution from Subsidiaries

The financial year for all subsidiaries except DFCC Stockbrokers (Pvt) Limited and DFCC Vardhana Bank Limited ends on 31 March. The financial year of these two subsidiaries ends on 31 December and their results are included in the Income Statement of the Bank and the consolidated financial statements with a three month gap.

All subsidiaries of the Bank with the exception of DFCC Vardhana Bank (DVB) reported profits after tax in the current year as in the previous year. However, the contribution from each of these subsidiaries to the profit after tax to the Bank is relatively small although some of them have yielded very good returns on the investments.

Lanka Industrial Estates Limited (LINDEL) changed its accounting policy on investment property by early adoption of SLAS 40 on Investment Property, which becomes effective for accounting periods beginning on or after 1 April 2005. Previously, accounting for Investment Property was included in SLAS 22: Accounting for Investments. The new standard therefore, replaces all references to Investment Property in SLAS 22. The new standard provides a choice between cost and fair value model, and LINDEL which previously used the market value considered it appropriate to change over to cost model. Essentially, the change reduces the net assets of LINDEL and is incorporated in the financial statements of the Bank with a prior year adjustment.

The scale of investment in DVB and its strategic value to the DFCC Bank merits detailed analysis of its performance and the initiatives taken by the Bank to improve its performance and its efficiency. The loss incurred by this subsidiary was Rs29 million in year to 31 December 2004 compared to Rs176 million in the year to 31 December 2003, indicating a substantial improvement in its first full year of operations as a DFCC Group entity. The Bank acquired this subsidiary in August 2003. DFCC Bank's share of post acquisition loss for the 12 months in the current year was Rs27 million compared to its share of the five month post acquisition loss in the previous year amounting to Rs45 million.

The key to profitability of DVB is to increase its customer advances and business volume while improving its operational efficiencies and distribution network. As at 31 March 2005, DVB had opened 11 branches, and most of them are located in the same premises as DFCC Bank to provide commercial banking and development banking services under one roof, initially to DFCC Bank's existing customers whose risk profile and past track record are known. This cautious approach to building customer advances and business volumes would enable DVB to manage the credit risks better than in the case of entirely new customers. The customer advances of DVB increased from Rs602 million on 31 December 2003 to Rs2,554 million on 31 December 2004.

Synergies between DVB and DFCC Bank have been further enhanced by relocating the Head Office of DVB to the premises owned by DFCC Bank in Colombo during April 2005. Further improvement in operational efficiency is expected when the project to migrate DVB to the same technology platform as DFCC Bank is completed later in 2005. This will enable DFCC Bank and DVB to have a common core banking and processing platform leading to reduced training, operational and future enhancement costs and also improve the quality of management information.

Taxation

The tax expense as a percentage of profit before tax, increased to 33% compared to 28% in the previous year. Under equity accounting the tax expense includes the tax expense on the Bank's own profit before tax and the tax expense on the undistributed profit of its associates and subsidiaries.

The tax charge on the Bank's own current year profit and the Bank's own deferred tax constitutes the total tax expense on the Bank's own profit before tax.

The tax charge of the Bank on its own profits, including the dividends received from its subsidiaries and associates, was only 26% of its profit before tax. This however, was offset by the deferred tax, which neutralises the current tax saving arising from timing difference and under-provision in respect of the previous years, amounting to Rs32 million.

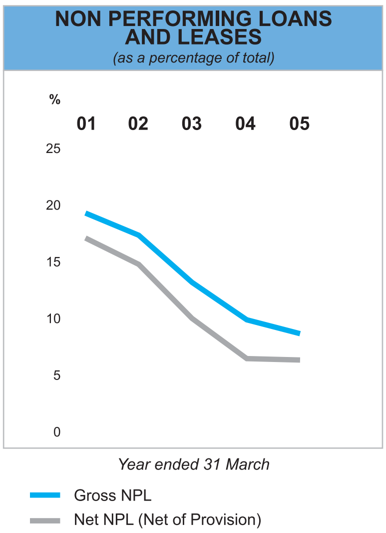
BALANCE SHEET

Year on Year Change in the Credit Portfolio

The credit portfolio comprises items included in the Balance Sheet as loans to customers excluding loans to employees, finance leases and bills of exchange discounted. The credit portfolio on 31 March 2005 amounted to Rs28,387 million, an increase of 13% over the credit portfolio one year ago.

Analysis of non-performing loans by age of arrears

	Year to 31 March 2005		Year to 31 March 2004	
Age of arrears	**Rs m**	**%**	Rs m	%
Less than 3 months	**361**	**16.1**	374	16.1
3 to less than 6 months	**495**	**22.1**	190	8.2
6 to less than 12 months	**410**	**18.3**	438	18.9
12 to less than 18 months	**171**	**7.6**	158	6.8
Over 18 months	**803**	**35.9**	1,163	50.0
Total gross	**2,240**	**100.0**	2,323	100.00
Less: Specific provision	**559**		767	
Total - net	**1,681**		1,556	



This includes loans outstanding in the Textile Debt Restructure Fund (TDRF) of the Government of Sri Lanka, amounting to Rs156 million in the current year and Rs197 million for the previous year. The TDRF loan, which is repaid by the Government of Sri Lanka with some delay and consequently remains classified as non-performing, is included in the 3 to less than 6 months age of arrears category in the above table.

Non-performing loans and leases net of provision and realisable value of security as disclosed in the Notes to the Financial Statements was Rs394 million on 31 March 2005 and Rs78 million on 31 March 2004. The amount of such deficit over shareholders' funds was 3.9% on 31 March 2005 and 0.9% on 31 March 2004. The shareholders' funds are the ultimate buffer to absorb the loss of write-off.

As evident from the maturity profile of the receivables and liabilities disclosed in the Notes to the Financial Statements, there was a favourable maturity gap to cushion delays in collection and avoid liquidity risk.

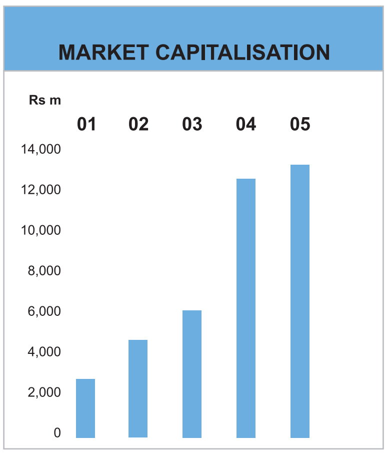
Capital and Liability Structure

Interest bearing liabilities accounted for 71% of the total liabilities and shareholders' funds on 31 March 2005, same as last year. Deposits from customers decreased from Rs4,944 million on 31 March 2004 to Rs3,779 million on 31 March 2005 due to withdrawals by state owned institutions consequent to a policy decision of the Government that these institutions should give preference to state owned banks. The deposits of DFCC Bank, taken together with DVB which strengthened its activities in the retail deposits sector, increased by 12% from Rs5,724 million to Rs6,426 million.

The issued and paid-up capital of the Bank was increased by the exercise of employee options.

The capital adequacy computation given in pages 113 and 114 gives the composition of the regulatory capital and risk weighted assets. The regulatory capital of the Bank is significantly higher than the minimum of 10% applicable on 31 March 2005.

The market capitalisation of the Bank was Rs13,298 million on 31 March 2005 compared to Rs12,544 million on 31 March 2004.



Year ended 31 March

The Direction issued by the Central Bank in April 2005 increased the minimum capital requirements of licensed specialised banks (DFCC Bank) to Rs1,500 million and licensed commercial banks (DVB, a subsidiary and CBC, an associate) to Rs2,500 million by 31 December 2007.

DVB would require substantial infusion of capital to comply with this requirement and DFCC Bank will examine appropriate strategies for efficient capital allocation whilst ensuring regulatory compliance by DVB.

Cash and Cash Equivalents

Cash and cash equivalents increased to Rs1,432 million on 31 March 2005 from Rs302 million on 31 March 2004. Funds advanced to customers during the current year net of recoveries was Rs3,657 million compared to Rs4,320 million in the previous year. Despite the lower funding requirement for granting credit to its customers, the borrowing net of repayment increased during the current year. The higher level of borrowing served two purposes. Firstly, it replenished cash outflow consequent to the reduction in deposits from state owned institutions primarily due to the Government policy of encouraging state owned institutions to deposit in state banks. Secondly, it served to provide an additional source of borrowing negotiated during a period of relatively low interest regime. The additional funds mobilised through this borrowing, over and above the current year's requirement, are placed in cash and cash equivalent for utilisation in the future.

DVB, adopted a slightly different financing strategy better suited to its commercial banking products. It has financed its credit growth with significant increase in customer deposits. Thus, although at DFCC Bank level there is a reduction in customer deposits compensated by increase in medium to long-term borrowing at Group level, there is an increase in customer deposits in the current year.

Investing activities of the Bank yielded a net cash inflow of Rs541 million compared to a net cash outflow of Rs61 million in the previous year. The primary reason for the net cash outflow in the previous year was the investment in DVB to re-capitalise that bank (Rs481 million) and subscription to the Rights Issue of CBC (Rs542 million).

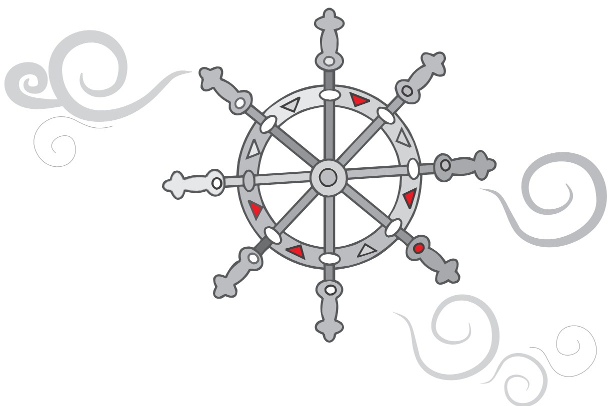
The Bank has adequate committed lines of credit and standby facilities to meet the cash requirements for its operational needs and new strategic initiatives.

OTHERS

Dividend Distribution

The proposed dividend per share is Rs5.50, the same as in the previous financial year.

The proposed dividend pay out as a percentage of Bank's own profit after tax is 28.5%.



Matching Risk to Reward

DFCC Bank and its subsidiary DFCC Vardhana Bank are exposed to a variety of risks arising from the transactions they enter into and from the environment in which they operate. Apart from measuring , monitoring and managing its own risks, DFCC Bank also functionally manages the risks faced by DFCC Vardhana Bank, other than the Operational Risks, under a collaborative agreement between the two banks.

DFCC Bank views risk management as a dynamic and evolving process and therefore, subjects its risk mitigation framework to continuous review and improvement. Committees such as the Credit Committee and the Asset and Liability Committee (ALCO) that have carefully defined responsibilities, well-structured procedures and clearly demarcated accountabilities, form the backbone of risk management at DFCC Bank.

With the new international framework for capital adequacy being changed to better reflect credit risk and to also include operational risk, effective management of risk will be a distinct competitive advantage. The new framework also stresses on supervisory review of risk management and risk management processes while also calling for greater transparency through disclosure and market discipline. Although these requirements are yet to be implemented in Sri Lanka, DFCC Bank has identified the need to set up a specialised division that will adopt an integrated approach to risk management.

The following describes the risks and the institutional arrangements in place to implement the strategies for mitigation.

Credit Risk

Credit risk, which is the risk to earnings or capital arising from potential borrower default, remains DFCC Bank's biggest exposure in terms of risk. It resides primarily in the Bank's lease and loan portfolios that form the bulk of the Bank's interest bearing assets. Other on Balance Sheet exposures include inter-bank lending. Off Balance Sheet credit risk arises mainly from guarantees issued by the Bank on behalf of its clients.

Credit risk is managed by procedures and controls relating to gross positions, counterparties, exposure concentration, rating, collection performance, non-performing assets and specific provisions. DFCC Bank maintains a diversified lending portfolio that helps to manage concentration risk.

The credit decision-making process is well structured with a multi-stage review and clear authority limits and is based on a rigorous appraisal of credit applications undertaken by competent staff and reviewed by their supervisors depending on authority limits set out by the Credit Committee or Board of Directors. This process, that brings different perspectives to the credit decision, is supported by an automated document flow with built in authority limits. The review process is backed by an internal client rating system that has been developed to meet the future requirements of the Basle II Capital Accord, with independent evaluation of the borrower and collateral. This enables loan pricing to be matched to credit risk. Post-disbursement project monitoring and review detects signs of distress and enables timely transfer to the Restructuring and Rehabilitation Unit of the Bank.

Lending against collateral obtained in the form of mortgage over movable or immovable assets as well as third party guarantees are the other risk mitigation measures. DFCC Bank can enforce such security by auction of mortgaged assets, subject to legal safeguards provided in the Recovery of Loans by Banks (Special Provisions) Act No. 4 of 1990. Where security belongs to a third party, recovery action is pursued through the courts of law.

Liquidity Risk

Liquidity risk is the risk that DFCC Bank may not be in a position to meet its financial commitments when due without incurring unacceptable losses. The Bank's liquidity management policy is in line with the Basle Committee Guidelines on Banking Supervision. Risk is managed through maturity gap analyses, rolling cash flow forecasts, ratio analyses and contingency plans, which are subject to regular review by the ALCO. For liquidity support the Bank also has access to the short-term money market.

Interest Rate Risk

The potential risk of loss in net interest income arises from adverse changes in rates of interest bearing assets relative to the changes in rates of borrowings that finance such assets, thereby resulting in the narrowing of net interest margins.

The main sources of interest rate risk for the Bank are changes in the yield curve, timing differences in the repricing of assets and liabilities, prepayment options on fixed rate loans and mismatches in the basis used for asset and liability pricing. Interest rate gaps are regularly analysed to assess the Bank's interest rate risk and viewed in terms of the interest rate outlook. Risk mitigation measures adopted include caps, floors, prepayment levies etc. Overall, the Bank's fixed rate assets have been financed by fixed rate liabilities. Floating rate assets and liabilities are similarly matched. The Bank, by choice, sometimes carries a basis risk on its floating rate assets and liabilities, which are calculated to enhance the net interest margin. ALCO regularly monitors these risks, assesses the impact of rate changes on profitability and sets minimum spreads for pricing credit products. Policies for measuring and controlling interest rate risk in the treasury portfolio are also in place. The Value at Risk methodology is adopted for this purpose.

Foreign Exchange Risk

Although DFCC Bank has borrowed from foreign counterparties it is not exposed to foreign exchange risks. These borrowings have been made with the concurrence of the Government of Sri Lanka. In terms of the DFCC Act No. 35 of 1955, the Government bears the exchange loss or benefits from the gain.

In recent times the Bank has made advances in foreign currency to eligible borrowers. The aggregate of such advances is small as a proportion of the Bank's consolidated portfolio. The advances are funded by matching foreign currency credit lines or deposits and the borrowers have the capacity to service the debt from their foreign currency income stream thereby providing a natural hedge.

Price Risk

Equity price risk arises from changes in the prices of the Bank's equity investments. The risk of loss arising from adverse changes in prices is managed by having a sound investment appraisal, which includes an assessment of the probability of permanent diminution in value. Other risk mitigation strategies include diversifying investments to avoid concentrations. The investment portfolio is continuously monitored to determine the appropriate timing for divestment.

Operational Risk

Operational risk arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud or unforeseen catastrophes will result in losses.

Risks arising from errors, omissions and fraud are managed by segregation of duties, definition of authority limits and internal audit procedures. Follow up action on internal and external audit findings are examined by the Audit Sub-committee of the Board of Directors. The Bank takes measures to safeguard its tangible assets as well as those taken as collateral by insuring them against identified risks.

Legal Risk

Legal risk arises from the potential that unenforceable contracts, lawsuits or adverse judgements can disrupt or negatively affect the operations or the condition of the Bank. Legal risks arising from inadequate documentation, legal or regulatory incapacity and other factors resulting in the unenforceability of contracts with counterparties are managed through the use of legal advice from competent staff and where appropriate, external consultants.

Reputation Risk

This is the risk to earnings or capital arising from the possibility that negative publicity regarding the Bank, whether true or not, will cause a decline in its customer base, trigger costly litigation or result in revenue reductions. Such risk is mitigated by an early warning system that includes inputs from frontline staff, the systematic scanning of media reports and responding appropriately where deemed necessary. In addition, the Bank conducts market surveys from time to time to ascertain market perception. A specialised Corporate Communications Unit within the Bank coordinates the proactive management of this risk.

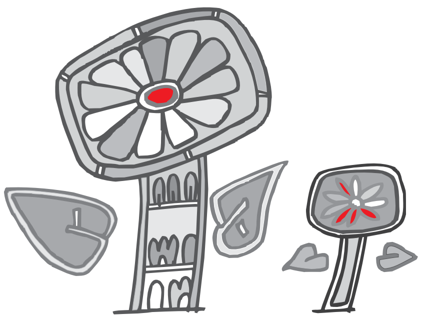
Institutional Arrangements

The ALCO is responsible for balance sheet planning from a risk - return perspective, including the strategic and tactical management of interest rates, liquidity, investment and capital risks. Its goal is to ensure an acceptable balance between profitability, growth and risk. ALCO’s authority arises from a charter delegated by the Board of Directors. ALCO meetings are conducted regularly and key decisions submitted to the Board. ALCO also formulates and reviews the interest rate outlook, issues pricing guidelines for deposits and advances, decides on desired maturity profiles and the mix of incremental assets and liabilities. The ALCO also formulates key assumptions and inputs for the planning and budgeting process of the Bank.

The broad framework for credit decisions, including the role of the Credit Committee, is laid down in the Credit Policy Manual. The Credit Administration Department checks compliance with credit procedures and regularly reports to the Board salient performance indicators pertaining to the credit portfolio.

The planning and budgeting functions and the asset and liability management support functions of the Bank are closely coordinated so that ALCO decisions are aligned to achieving corporate objectives.

Quantitative information on significant credit exposure, non-performing loans, security cover for such loans and level of specific provisions, maturity profile of assets and liabilities, contingent liabilities arising from litigation with the Bank etc are regularly disclosed to management and the Board of Directors.



The Community and us

During the course of the last decade, the notion of Corporate Social Responsibility (CSR) has gradually risen to occupy a key position in corporate entities worldwide. As for Sri Lanka, it is needless to say that the opportunities businesses have towards exercising CSR are infinite and the benefits to the communities, in which they operate, substantial.

During the last few years, DFCC Bank's CSR programmes have strived to gain ground in the areas of entrepreneur development and education. However, last year, in addition to work related to our regular programmes, the Bank supported several projects of national significance.

A good portion of farmland in Sri Lanka is irrigated by rainwater captured in man-made tanks, some of them that date back hundreds of years. From time to time the tanks need restoration work so as to maximise capacity and improve efficiency. Recently the Government of Sri Lanka launched a programme to rehabilitate the system. The programme titled 'Dahasak Wew Rehabilitation Project' is targeting to restore 1,000 tanks to its original condition. In support of this project DFCC Bank has undertaken the rehabilitation of three tanks in the Mihintale AGA's division. Once the restoration is complete the Seeppukulama Wewa, Meda Wewa and Ambagahawela Wewa will irrigate over 150 acres of paddy land and other crops, uplifting the lives of approximately 200 farmers in the area. The Bank is utilising Rs5 million for the project.

Access to education has been given a coveted place in Sri Lanka, resulting in a high literacy rate. As part of an effort to develop the infrastructure of provincial schools, the Government recently launched a programme in collaboration with the private sector. In support of this project, named "Sahasra Thaksala", DFCC Bank committed to rebuild and equip Sri Sangamitta Balika Maha Vidyalaya in Matale.

The Bank also continued its efforts towards making students from rural areas of the country computer literate by providing them access to computers in their respective schools. The Bank set-up 6 mini computer laboratories in schools in Vavuniya, Anuradhapura, Kurunegala and Ratnapura districts.

In our annual report of 2004, we highlighted the launch of a TV programme entitled "Kasiya", a magazine style business programme in Sinhala targeted towards start-up entrepreneurs, those who have business ideas and need encouragement, aspiring entrepreneurs and the general public whose knowledge is limited on money matters. Encouraged by the success of the initial 25 programmes and the numerous responses we received from viewers urging us to continue the programme, the Bank conducted another 25 programmes during the year under review. The programme continued to provide greater insights into the management of business, banking issues and money related matters, but more importantly, provided more air time for viewers to participate live in the discussions.

Efforts to develop managerial capabilities of small and medium scale entrepreneurs continued with the Bank conducting customer service workshops for their clients, sponsoring entrepreneur development programmes and award ceremonies and supporting entrepreneur development activities conducted by various chambers.

No CSR report is complete without the mention of the 26 December 2004 catastrophe that devastated the eastern and southern coastal belts of Sri Lanka. The staff of DFCC Bank initiated a relief fund, which was swelled by an equal contribution from the Bank. Immediate requirements like medicine, clothes, cooking utensils, etc were taken to affected communities in and around our branch office in Matara. The balance funds, helped by our subsidiary companies, Lanka Ventures Limited and LINDEL, are being used to finance much needed medical equipment for the Mahamodara Teaching Hospital in Galle. Apart from our immediate response to the disaster, in the longer term, the Bank has allocated funds to take on a rebuilding project in a Tsunami affected area.

During the next financial year, DFCC Bank will unveil a sustainable CSR programme, the implementation of which will coincide with the Bank's Golden Jubilee in 2006. The new programme will have as its objective the task of projecting DFCC Bank as a 'Compassionate Corporate'.

BOARD OF DIRECTORS

DR NIHAL JINASENA
Chairman

Dr Nihal Jinasena is an eminent Industrialist and is the Chairman/ Managing Director of the Jinasena Group of Companies. Dr Jinasena joined the Board of DFCC Bank in December 1991 and was appointed as Chairman of the Board in January 2005.

Dr Jinasena is a member of the Government's Task Force on Rebuilding the Nation (TAFFREN). He is also a member of the Presidential Task Force on Science and Technology and of the Presidential Commission on Trade and Tariffs.

He has a B.Tech Degree in Mechanical Engineering and an Honorary Doctorate from Loughborough University, U.K. He is also a Chartered Engineer and a Fellow of The Institution of Engineers, Sri Lanka.

MR RAJAN BRITO
Director

Mr Rajan Brito is Deputy Chairman and Managing Director of Aitken Spence & Company Limited. He joined the Board of DFCC Bank in March 2005.

Mr Brito is a Director of Sri Lanka Insurance, a member of the Government's Strategic Enterprise Management Agency (SEMA) and the Task Force for Rebuilding the Nation (TAFFREN).

He is a Chartered Accountant by profession. He also holds a Bachelors Degree in Law and a Masters Degree in Business Administration. He brings with him a wealth of management expertise having served in top local and international companies such as Pricewaterhouse, British EverReady PLC, Minmetco Group, World Bank, Public Enterprises Reform Commission (PERC) and Air Lanka.

MRS ROSE COORAY
Government Director

Mrs Rose Cooray is an Assistant Governor of the Central Bank of Sri Lanka. She was appointed to the Board of DFCC Bank in March 2002.

Mrs Cooray's career at Central Bank spans over 30 years. On release from the Central Bank, from 1999 to 2004, she served the Ministry of Finance as Director General of the Department of Fiscal Policy and Economic Affairs. During this period she represented the Government on several Boards of leading public institutions such as the Ceylon Electricity Board, Sri Lanka Telecom Limited, Sri Lanka Institute of Information Technology and Thomas De La Rue (Pvt) Limited. She is also a member of the Tariff Advisory Council and has been on teams representing Sri Lanka on trade agreement negotiations and loan negotiations with international organisations.

She has a B.A. (Honours) Degree in Economics from the University of Peradeniya and a Masters Degree from the University of Strathclyde, U.K.

MR MAHENDRA AMARASURIYA
Director

Mr Mahendra Amarasuriya is the Chairman of Commercial Bank of Ceylon Limited. He was appointed to the Board of DFCC Bank in June 2001.

Mr Amarasuriya is also currently Chairman of United Motors Lanka Limited, Commercial Fund Management (Pvt) Limited, Equity Investments Lanka Limited, Pelwatte Sugar Industries Limited, Serendib Flour Mills (Pvt) Limited, the International Chamber of Commerce, Sri Lanka and the Regional Industry Service Committee of the North Western Province. He was the former Deputy Chairman of Hayleys Limited and immediate past Chairman of the Joint Business Forum of the Chamber of Commerce & Industry, Employers' Organisations & Trade Associations of Sri Lanka (JBIZ).

He has a Degree in Botany from the University of Ceylon.

MR TURAN CAGLAYAN
Director

Mr Turan Caglayan is Head of Portfolio Management with the German Investment Development Company - DEG. He was appointed to the Board of DFCC Bank in August 1999.

Mr Caglayan began his career with Deutsche Bank, Frankfurt. In 1992 he joined DEG as an Investment Manager responsible for South Asia, East Asia and the Pacific Islands and subsequently became Senior Investment Manager. In 1999 he took up duties as Head of Department for South Asia, the Philippines and Turkey. As Head of Portfolio Management, he now holds responsibility for a portfolio of nearly one billion Euro.

Mr Caglayan has a Masters Degree in Business Administration.

MR NIHAL FONSEKA
Chief Executive Officer
Ex-Officio Director

Mr Nihal Fonseka is a career banker. He joined the Board of DFCC Bank in January 2000 with his appointment as Chief Executive of the Bank.

Mr Fonseka is a Director of Commercial Bank of Ceylon Limited, the Colombo Stock Exchange, Credit Information Bureau of Sri Lanka and is a Member of the Governing Boards of the National Institute of Business Management (NIBM) and the Postgraduate Institute of Management, University of Sri Jayewardenepura. He is also a Member of the

Government's Strategic Enterprise Management Agency (SEMA), the Financial Sector, Capital Markets, Legal and Taxation Clusters of the National Council for Economic Development (NCED) and the Task Force for Rebuilding the Nation (TAFFREN). He serves as the Chairman of the Exchange Control and Banking & Finance Sub-committees of the Ceylon Chamber of Commerce and as the Co-Chairman of the Finance & Taxation Sub-committee of the National Chamber of Commerce of Sri Lanka.

He has a Degree in Physics from the University of Ceylon and is a Fellow of the Chartered Institute of Bankers, U.K.

MR GEMUNU GUNATILLEKE
Alternate Director to
T Caglayan

Mr Gemunu Gunatilleke is the Managing Partner of Ernst & Young, Colombo Office. Mr Gunatilleke was appointed to the Board of DFCC Bank in 1984.

He chairs the Audit Sub-committee of the Board and is a Director of several companies dealing with Secretarial Services, Management Consultancy, Information Technology and Internal Audit Services.

He is a Graduate of the University of Ceylon and a Fellow of the Institute of Chartered Accountants of Sri Lanka. He received professional training at the Cranfield Institute of Management, UK and has been in professional practice for over 30 years.

MR S B HEWAGE
Director

Mr S B Hewage is the Deputy Chairman/Executive Director of United Motors Lanka Limited. He joined the Board of DFCC Bank in June 2004.

Until recently he was the Deputy Chairman & Finance Director of Readywear Industries Limited. With effect from January 2004 he has been seconded to the United Motors Group. He is also the Chairman of Orient Financial Services Corporation Limited and Orient Motor Company Limited. He is a Director of Kelani Tyres Limited, Wayamba Plantations Ltd and Deputy Chairman of TVS Lanka (Pvt) Limited.

He is a Chartered Accountant by profession and has a Masters Degree in Business Administration from the University of Colombo.

MR SHANTHI PALIHENA
Director

Mr Shanthi Palihena is a career banker and is the General Manager of the Bank of Ceylon. He joined the Board of DFCC Bank in October 2002.

Mr Palihena has wide exposure in all aspects of commercial banking, having headed some of the key business units of the Bank of Ceylon. He has also worked at the National Development Bank for a short period heading the Small and Medium Industries Division.

He is a Fellow of the Chartered Institute of Bankers, U.K. and a Fellow of the Institute of Bankers, Sri Lanka.

MR DINESH WEERAKKODY
Director

Mr Dinesh Weerakkody is the Director, Human Resources of GlaxoSmithKline, Sri Lanka. He was appointed to the Board of DFCC Bank in June 2003

Mr Weerakkody is an eminent writer and a leading economic commentator. He received the "Twentieth Century Achievement Award" by IBC USA and the international "Man of the Year" award in 2000 for researched contributions in relation to International Politics in Less Developed Countries. He is a Council Member of the Chartered Institute of Management Accountants, Sri Lanka Division. He was a former Chairman of the Employees' Trust Fund Board and an advisor to a former Prime Minister.

Mr Weerakkody is an Associate of the Chartered Institute of Management Accountants, UK. He holds a Masters Degree in Business Administration from the University of Leicester, England.

MR RIENZIE WIJETILLEKE
Director

Mr Rienzie Wijetilleke's career in banking spans over forty five years. He is the current Chairman of Hatton National Bank Limited (HNB). Mr Wijetilleke was appointed to the Board of DFCC Bank in May 2001.

Mr Wijetilleke is also the Chairman of HNB Assurance Limited, HNB Stockbrokers (Pvt) Limited and HNB Securities Limited. He is also on the Boards of the Colombo Stock Exchange, Nawaloka Hospitals Limited and is a Director of the Asian Bankers Association.

He is a Fellow of the Chartered Institute of Bankers, U.K. and of the Institute of Bankers, Sri Lanka and a Companion of the Chartered Management Institute, U.K.

HUMAN CAPITAL

The Driving Force

The sustainability of any organisation is closely linked to the calibre of the people who drive it. With this in mind, DFCC Bank has consistently strived to attain, develop and maintain employee excellence through stringent recruitment processes, focused and needs based training and development programmes, and through a concerted effort to instil a performance based culture among staff.

At the conclusion of the year under review, the Bank had a staff strength of 340 of whom 191 were in the executive cadre. During the course of the year we recruited 30 persons to the executive cadre, including a batch of 14 management trainees. With the amalgamation of the human resource function of our subsidiary, DFCC Vardhana Bank, we were involved in an intensive employment drive that led to 46 new recruitments at DFCC Vardhana Bank.

The Bank invested considerably in the development of its staff by providing access to a gamut of local and foreign training opportunities. A total of 65 executives, constituting over one third of our executive cadre, attended 18 overseas programmes while a total of 211 executives, non-executives and support staff participated in 88 local programmes. The staff of DFCC Vardhana Bank participated in 18 domestic and 3 foreign programmes.

Two custom designed programmes were conducted for our staff, one on project appraisal and follow-up and the other on management development. These were conducted by the Jawaharlal Nehru Institute for Development Banking (JNIDB) in Hyderabad, India. The management development programme, a new initiative, was attended by 20 of our middle level managers and was targeted towards exploration, understanding and development of competencies for enhancing their effectiveness in the Bank.

To align ourselves to the changing business environment and to take advantage of emerging opportunities, a restructuring of the Bank operations as well as a reorganisation of the middle management was instituted. As a vital component of the process, towards the latter half of the year, we embarked on a new initiative in the form of a competency mapping exercise. The JNIDB, in partnership with Visisht Corporate Growth Associates of India, was selected as the consultant to undertake this assignment. On completion of this exercise, later in 2005, skill gaps and development needs could be identified and addressed in a more scientific and systematic manner.

DFCC Bank has endeavoured to develop a multi-talented, varied and representative workforce. Over 62% of our executive cadre possess multi-disciplinary qualifications, which enables us to provide essential value addition in our customer services while giving us a true competitive advantage. However, there remain many more initiatives that need to be undertaken to harness the full potential of our staff, and we remain committed to embarking on these in the coming years.

MANAGEMENT TEAM

Nihal Fonseka	–	General Manager / Director & Chief Executive Officer

Corporate Banking

H A Ariyaratne	–	Executive Vice President - Corporate Banking
Chandana Dharmawardana	–	Vice President - Corporate Banking
Roshan Jayasekara	–	Vice President - Corporate Banking
Renuka Amarasinghe	–	Assistant Vice President - Corporate Banking
Jayangani Perera	–	Assistant Vice President - Trade Finance
Stanislaus Rayen	–	Assistant Vice President - Corporate Banking

Branch Operations and Special Loans

Kanthika Abeyesundere	–	Executive Vice President - Branch Operations & Special Loans
Asoka Mendis	–	Senior Vice President - Branch Operations
Lionel Wickramasinghe	–	Vice President - Branch Credit
Bhathiya Alahakoon	–	Vice President / Manager (Gampaha Branch)
Prasad Dharmaratne	–	Vice President / Manager (Ratnapura Branch)
Palitha Gamage	–	Vice President / Manager (Colombo Office)
Samarakodi Godakanda	–	Vice President / Manager (Kandy Branch)
Chanaka Kariyawasam	–	Vice President / Manager (Kurunegala Branch)
Ananda Kumaradasa	–	Vice President / Manager (Matara Branch)
Harsha Jayathilake	–	Assistant Vice President / Manager (Badulla Branch)
Priyadarsana Sooriya Bandara	–	Assistant Vice President / Manager (Anuradhapura Branch)
Champal de Costa	–	Assistant Vice President - Leasing (Colombo Office)
Bandula Gamarachchi	–	Assistant Vice President - Accounting & Administration (Colombo Office)
Ruwangani Jayasundera	–	Assistant Vice President - Credit (Colombo Office)
Kapila Samarasinghe	–	Assistant Vice President - Credit (Colombo Office)
Neeta Sooriarachchi	–	Assistant Vice President - Credit (Colombo Office)
Nanediri Karunasinghe	–	Vice President - Recoveries & Acquired Assets
Dharmasiri Wickramatilaka	–	Vice President - Restructuring & Rehabilitation
Pushpa Kariyawasam	–	Assistant Vice President - Restructuring & Rehabilitation

Corporate Finance and Human Resources

Dayantha De Mel	–	Executive Vice President - Corporate Finance & Human Resources
Tyrone De Silva	–	Vice President - Financial Advisory Services
Asoka Tennekoon	–	Vice President - Human Resources
Sonali Jayasinghe	–	Assistant Vice President - Training & Development
Patabendi Premaratne	–	Assistant Vice President - Relief

Treasury

Dheerendra Abeyaratna	–	Senior Vice President - Treasury & Resource Development

Finance

S Nagarajah	–	Executive Vice President - Finance
Chinthika Amarasekara	–	Vice President - Accounting & Reporting
Suraj De Silva	–	Vice President - Financial Analysis & Asset / Liability Management
Anomie Withana	–	Vice President - Credit Administration
Duleep Mahatantila	–	Assistant Vice President - Loan Administration
Sriyani Ranatunga	–	Assistant Vice President - Lease Administration

Information Technology

Dinesh Fernandopulle	–	Group Chief Information Officer
Neville Fernando	–	Vice President - Core Banking Project
Guptani Gunasekera	–	Vice President - Network & Technical Services
Channa Jasenthuliyana	–	Assistant Vice President - IT / Application Systems
Tilak Nissanga	–	Assistant Vice President - Core Banking Project

Legal, Secretarial and General Manager's Office

Thusantha Wijemanna	–	Senior Vice President / General Counsel (Secretary to the Board)
Visaka Sriskantha	–	Vice President - Legal
Jayani Amarasiri	–	Assistant Vice President - General Manager's Office

Audit

Mala Goonatilake	–	Assistant Vice President - Internal Audit

Corporate Communications and Business Development

Rosheeni Madanayake Wijesekera	–	Assistant Vice President - Corporate Communications
Prasanna Premaratne	–	Assistant Vice President - Business Development

Office Management

Chanaka Kalansuriya	–	Assistant Vice President - Office Management

Project Management

Jayantha Nagendran	–	Senior Vice President - Project Management
Kapila Subasinghe	–	Assistant Vice President - Project Management

Secondments

Lakshman Silva	–	Vice President on secondment to DFCC Vardhana Bank Limited as Chief Operating Officer
H A Samarakoon	–	Assistant Vice President on secondment to Lanka Industrial Estates Limited as Chief Executive Officer

Management Team as on 26 May 2005 with names in alphabetical order within each grade.

Best Practice

INTRODUCTION

Corporate Governance - which embodies transparency, disclosure and accountability - is the primary responsibility of the Board of Directors. This includes the processes by which power is exercised over the management and direction of the entity, the supervision of executive actions and accountability to owners and other stakeholders. Good governance is therefore, synonymous with sound financial and business practices, leading to the enhancement of shareholder value. As a company listed on the Colombo Stock Exchange and as a Licensed Specialised Bank, DFCC Bank is guided by the Code of Best Practice of the Institute of Chartered Accountants of Sri Lanka and also the Code of Corporate Governance for Banks and other Financial Institutions issued by the Central Bank of Sri Lanka.

BOARD OF DIRECTORS

In the context of corporate governance, the responsibilities of the Board of Directors of DFCC Bank include:

- Enunciating the Vision, Mission, Values and Objectives of the Bank
- Approving the strategic business plan, annual budget and monitoring performance
- Approving the organisation structure
- Ensuring that appropriate accounting policies are adopted in the preparation of the financial report circulated to shareholders
- Appointment and annually evaluating the performance of the Chief Executive, fixing his remuneration and approving the remuneration schemes for other grades of staff
- Setting acceptable levels of risk and ensuring that senior management takes necessary action to identify, monitor and control these risks
- Ascertaining that applicable laws and regulations have been complied with

According to the Development Finance Corporation of Ceylon Act, the Board of DFCC Bank consists of eight Non-Executive Directors elected by shareholders, one Ex-officio Director who is the Chief Executive Officer designated as General Manager and one Director appointed by the Government. The Non-Executive Directors represent the major shareholders of the Bank and other stakeholders. They are professionals drawn from various fields such as banking, finance, engineering and business. The Director appointed by the Government is a senior official of the Central Bank of Sri Lanka. All Directors are 'fit and proper persons' in terms of the Banking Act.

The decisions made at the Board meetings are carried out by majority vote with the Chairman having a casting vote in the event of an equal division. The General Manager, being an Ex-officio Director, does not have voting rights with regard to decisions at the Board level. In terms of Section 9(6) of the Act, if a Director declares his interest in a business transaction with the Bank, he is not authorised to participate in deliberations on that matter at the Board Meeting. Such a transaction should be approved unanimously by the remaining Directors who have voting rights. Furthermore, all transactions with entities in which the Directors have significant influence, even where they were transacted on an arm's length basis, are disclosed in the Annual Report of the Bank for reasons of transparency.

Except for the Government Director and the Ex-officio Director, all other Directors are subject to retirement and are eligible for re-election by shareholders at an Annual General Meeting. When appointing Directors to fill casual vacancies occurring due to death or resignation, the Board of Directors takes into consideration any views expressed by shareholders as well as the need for diverse and relevant skills to be represented on the Board. When a Director is appointed on the recommendation of the Nominations Sub-committee of the Board, the background and expertise of the new Director is made available to shareholders and the investment community. The Bank adheres to the requirements of the Banking Act in the appointment of Directors.

During the financial year under review, the Directors met seventeen times as a Board and six times as Committees of the Board. It is a practice at DFCC Bank for Directors to meet at least once a month to consider and decide on matters brought before the Board in the form of Board Circulars, which are circulated prior to Board meetings, giving adequate time for the Directors to study them. When situations warrant, Directors obtain independent advice from experts before making a final decision.

DFCC Bank is one of the few institutions where the Directors' remuneration is determined by the shareholders at the Annual General Meeting.

The decisions made by the Board are documented properly and archived by the Secretary to the Board, who has the necessary qualifications required by law to function as a Secretary to the Board of a banking corporation.

Chairman and Chief Executive Officer

The Chairman of the Board is elected by the Directors, and holds office for a period of three years from the date of election unless he or she retires during this period from the Board arising from rotation. In the absence of the Chairman, a pro tem Chairman is elected by the Directors present to preside at that meeting.

The General Manager who is the Chief Executive Officer is not eligible to be elected as the Chairman of the Board of Directors. The duties of the General Manager and Chairman are clearly segregated in the DFCC Act. While the Chairman presides at the Board meetings and is responsible for policy advocacy, the General Manager presides at Management Committee meetings and is responsible for policy implementation and management of the day to day affairs of the Bank.

Sub-committees of the Board

In keeping with the Code of Corporate Governance for Banks and other Financial Institutions recommended by the Central Bank of Sri Lanka, the Board of Directors of DFCC Bank has appointed several sub-committees in order to discharge its obligations.

There are four functioning sub-committees of the Board at present, comprising the Audit Sub-committee, credit Sub-committee, Staff Compensation and Remuneration Sub-committee and Nominations Sub-committee. Each of these Sub-committees are chaired by a Non-executive Director and its recommendations are conveyed to the entire Board before final decisions are made by the Board of Directors. The composition of the Sub-committees is given below:

Name of Director	Audit	Credit	Staff Compensation & Remuneration	Nominations
Dr N Jinasena	✓		✓●	●✓
Mr A N Fonseka		✓		
Mr M J C Amarasuriya			✓	
Mr J M S Brito				
Ms M A R C Cooray		●✓		
Mr G A E Gunatilleke	●✓		✓	✓
Mr S B Hewage		✓		
Mr S N P Palihena	✓			
Mr D S Weerakkody			✓	✓
Mr R T Wijetilleke			✓	

● *Chairperson*

The General Manager attends meetings of the Audit and Staff Compensation & Remuneration Sub-committees by invitation.

Accountability and Compliance

DFCC Bank has appointed an Executive Vice President as its Compliance Officer. The Board also receives a compliance report from this Officer quarterly or when an important event occurs which needs to be reported. DFCC Bank endeavours to and has complied with statutory and regulatory requirements.

The shareholders of DFCC Bank appoint the external auditors every year at the Annual General Meeting. In addition, there is an internal audit department reporting to the Chairman of the Audit Sub-committee of the Board. The head of the internal audit department of the Bank is also the Secretary to the Audit Sub-committee of the Board of Directors. The Audit Sub-committee of the Board meets regularly and highlights any shortcomings in the control systems and ensures that remedial action is taken without delay.

The Bank nurtures a strong culture among all staff of the importance of compliance, particularly in respect of conduct, IT security, credit and human resources.

Management

DFCC Bank has a hierarchical management structure and offers opportunities for career development within the Bank and also through secondments to its subsidiaries. Senior management positions are held by well qualified and experienced professionals, who also serve on the Management Committee and other special purpose committees. The Bank follows a policy of filling vacancies through internal promotions as far as possible, but when skill gaps are identified external recruits are inducted. Staff compensation and promotions are based on performance. This has fostered a meritocracy focussed on service excellence. In order to maintain these standards, DFCC Bank continues to invest in the training and development of all categories of staff.

Shareholders

DFCC Bank has approximately 7,000 shareholders comprising individual and institutional investors, both domestic and foreign. While the Annual Report and the Annual General Meeting comprise the primary vehicles through which the Bank communicates with its investors, communication via individual notices, the media and the world wide web are used as appropriate.

DIRECTORS REPORT

The Directors have pleasure in submitting their Report and the audited accounts of DFCC Bank for the year ended 31 March 2005.

REVIEW OF THE YEAR

The Chairman's Statement and the Chief Executive's Report give a detailed description of the operations of DFCC Bank during the year under review.

PRINCIPAL ACTIVITIES

The principal activities of DFCC Bank include the business of development financing and investment banking services. There has been no significant change in the nature of DFCC Bank's principal activities during the year. The activities of the associate and subsidiary companies of DFCC Bank are given in page 12 of the Report under Associate and Subsidiary Companies.

PROFITS AND APPROPRIATIONS

Year ended 31.03.2005	**Rs million**
Profit before income tax (excluding subsidiaries and associates)	1,455
Goodwill amortisation - net	58
Income tax on profit	404
Profit after income tax	1,109
Directors have made the following appropriations:	
Statutory Reserve Fund	60
Sinking Fund	460
Available for dividend distribution	589
The Directors recommend the payment of a first and final dividend of 55% on the share capital	316
Retained profit carried forward	273

CAPITAL EXPENDITURE

The total expenditure on the acquisition of property and equipment during the year amounted to Rs65 million. The details of property and equipment are shown in Note 29 to the Financial Statements.

RESERVES

Total reserves augmented by the annual appropriation and retained profit amounted to Rs9,534 million.

TAXATION

It is the policy of DFCC Bank to account for deferred taxation under the full liability method on all timing differences including those relating to financial leases.

SHARE CAPITAL INFORMATION

With the options exercised by the employees during this financial year, the total share capital as at 31 March 2005 is Rs574,132,830 and it consisted of 57,413,283 shares of Rs10/- each. Further information is given on page 100 in this report.

SHAREHOLDING

As at 31 March 2005 there were 6,880 registered shareholders and the distribution is indicated on page 120. The 20 largest shareholders as at 31 March 2005 are listed on page 121 of this Report.

EMPLOYMENT

It is the policy of DFCC Bank to maintain a dedicated and highly motivated team committed to the achievement of excellence in service. Towards this end DFCC Bank continuously invests in training and development of staff while encouraging their participation in the business and social activities of the Bank. DFCC Bank is an equal opportunity employer.

EMPLOYEE SHARE OPTION PLAN

Details of the Employee Share Option Plan (ESOP) and the movement in options granted, are given in Note 40.2 to the Financial Statements. The remaining number of options available for award until 2007 under the scheme approved by the shareholders is about 80,000. Options will not be awarded in respect of the year ending 31 March 2005 since the performance of the Bank has not fully met the criteria for awarding options.

DIRECTORS

The following were Directors of DFCC Bank during the year ended 31 March 2005:

Amarasuriya, M J C	Director
Brito, J M S	Director *(appointed on 23 March 2005)*
Caglayan, T*	Director
Cooray, Mrs M A R C	Government Director
Fonseka, A N	Ex-officio Director
Hewage, S B	Director
Jinasena, T N	Chairman *(appointed as Chairman on 26.1.2005)*
Palihena, S N P	Director
Weerakkody, D S	Director
Wijetilleke, R T	Director

* *Mr G A E Gunatilleke is Alternate Director to Mr T Caglayan.*

Mr M L Mack who passed away on 22 January 2005 was also a Director and Chairman of the Board during the year.

Consequent to the demise of Mr Michael Mack, Dr T N Jinasena was appointed as Chairman of the Board of Directors on 26 January 2005.

Mr J M S Brito was appointed as a Director to the Board of DFCC Bank on 23 March 2005 to fill the casual vacancy created due to the demise of Mr Michael Mack. In terms of Regulation No. 88 of the DFCC Regulations, Mr Brito will retire at the Annual General Meeting.

The Director retiring by rotation in terms of Regulation No. 85 of the DFCC Regulations is Mr T Caglayan.

Mr J M S Brito and Mr T Caglayan being eligible, offer themselves for re-election with the support of the other Directors.

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

	No. of Shares* as at 31 March 2005	No. of Shares* as at 31 March 2004
Amarasuriya, M J C	**13,333**	13,333
Brito, J M S	**Nil**	
Caglayan, T	**Nil**	Nil
Cooray, Mrs M A R C	**Nil**	Nil
Fonseka, A N	**8,262**	8,262
Gunatilleke, G A E	**7,585**	7,229
Hewage, S B	**5,000**	
Jinasena, T N	**1,657**	1,657
Palihena, S N P	**Nil**	Nil
Weerakkody, D S	**500**	Nil
Wijetilleke, R T	**600**	Nil

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

Ex-officio Director, Mr A N Fonseka in his capacity as General Manager has been awarded options on shares under the ESOP. He held 133,904 options as at 31 March 2005 (74,274 on 31 March 2004). He has not exercised any options during the year.

No Directors directly or indirectly hold debentures of DFCC Bank.

DIRECTORS' INTERESTS IN CONTRACTS

Directors' interests in contracts with DFCC Bank, both direct and indirect, are declared in Note 46 to the Financial Statements. These interests have been declared at Directors' meetings.

GOING CONCERN

The Directors are satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements are prepared on the "Going Concern" concept.

POST BALANCE SHEET EVENTS

Subsequent to the date of the balance sheet no circumstances have arisen which would require adjustments to the accounts. Significant events, which in the opinion of Directors, require disclosure are described in Note 48 on page 112.

RE-APPOINTMENT OF AUDITORS

Messrs KPMG Ford, Rhodes, Thornton & Company have expressed their willingness to continue in office as auditors of DFCC Bank for the year ending 31 March 2006. A Resolution pertaining to their re-appointment and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting.

By Order of the Board

T Wijemanna
Secretary to the Board
26 May 2005

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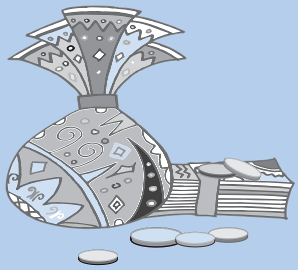

FINANCIAL STATEMENTS

FINANCIAL CALENDAR

Financial Statements

Interim Reports

First Quarter to	30.06.04	:	06.08.04
Second Quarter to	30.09.04	:	23.11.04
Third Quarter to	31.12.04	:	17.02.05
Annual Report year ended	31.03.05	:	26.05.05

Meetings

48th Annual General Meeting	:	30.06.04
49th Annual General Meeting	:	30.06.05

Dividends

First and Final for year ended 31.03.2004

Approved on	:	30.06.04
Ex-dividend Date	:	24.06.04
Payment	:	08.07.04

Proposed First and Final for year ended

31.03.2005 to be approved on : 30.06.05

AUDIT COMMITTEE REPORT

The Audit Committee comprises three Non-executive Directors of the Bank with the Head of Internal Audit functioning as the Secretary. The General Manager/CEO, Executive Vice President (Finance) and the External Auditors attend the committee meetings by invitation.

The Audit Committee is empowered to examine the adequacy and effectiveness of Internal Control Systems, review the statutory accounts and published financial statements, assess compliance with regulatory requirements, consider contents of Internal Audit reports, and recommend appointment and remuneration of the External Auditors.

Four Audit Committee meetings were held during the financial year ended 31 March 2005. Proceedings of the Audit Committee meetings are reported regularly to the Board.

The Audit Committee, together with the other Board members reviewed the Bank's interim and annual financial statements and approved them for publication.

With the concurrence of the Board, the Audit Committee has engaged the services of a firm of Chartered Accountants to supplement the Bank's Internal Audit function in carrying out periodic audits at Colombo Office, Outstation Branches and Sub-offices. Representatives from the firm are invited to the Audit Committee meetings convened to discuss their reports.

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

The Committee is of the view that adequate controls and procedures are in place to provide reasonable assurance that the financial position of the Bank is well monitored.

The Audit Committee has recommended to the Board of Directors that, KPMG Ford, Rhodes, Thornton & Co be re-appointed as Auditors for the year to 31 March 2006, subject to the approval of shareholders at the Annual General Meeting.

G.A.E. Gunatilleke
Chairman - Audit Committee

26th May 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

The Auditor's Report sets out the respective responsibilities of Directors and the 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. 17 of 1982. 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 judgement 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 and the Group.

In discharging this responsibility the Directors have instituted a system of internal financial controls and a system for monitoring its effectiveness. The system of controls provide reasonable and not absolute assurance of safeguarding of Bank's assets, maintenance of proper accounting records and the reliability of financial information.

By Order of the Board

T Wijemanna
Secretary to the Board

26th May 2005

KPMG

KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
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Colombo 00300,
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TO THE MEMBERS OF DFCC BANK

We have audited the balance sheet of DFCC Bank as at March 31, 2005, the consolidated balance sheet of the Bank and its subsidiaries as at that date, and the related statements of income, movement in shareholders' funds and cash flows for the year then ended, together with the accounting policies and notes exhibited on pages 60 to 112 of the Annual Report.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing and presenting these financial statements in accordance with the Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements, based on our audit.

Basis of Opinion

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the Directors, evaluating the overall presentation of the financial statements, and determining whether the said financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. 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 books of account for the year ended March 31, 2005, and to the best of our information and according to the explanations given to us, the said balance sheet and related statements of income, movement in shareholders' funds and cash flows and the accounting policies and notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the DFCC Bank Act No. 35 of 1955 and the Banking Act No. 30 of 1988 as amended by the Banking (Amendment) Act No. 33 of 1995, and give a true and fair view of the Bank's state of affairs as at March 31, 2005 and of its profit and cash flows for the year then ended.

In our opinion, the consolidated balance sheet and statements of income, movement in shareholders' funds and cash flows and the accounting policies and notes thereto have been properly prepared and presented in accordance with the Sri Lanka Accounting Standards, and give a true and fair view of the state of affairs as at March 31, 2005 and of its profit and cash flows for the year then ended of the Bank and its subsidiaries dealt with thereby, so far as concerns the members of the Bank.

Directors' Interests in Contracts with the Company

According to the information made available to us, the Directors of the Bank were not directly or indirectly interested in contracts with the Company during the year ended March 31, 2005 except as stated in Note 46 to these financial statements.

Ford Rhodes Thornton & Co.

Chartered Accountants
Colombo.
26th May 2005

PRINCIPAL ACCOUNTING POLICIES

1 General

1.1 Constitution of legal entity

DFCC Bank is incorporated and domiciled in Sri Lanka. It was incorporated in 1955 under DFCC Act No. 35 of 1955.

DFCC Bank's Group comprises Commercial Bank of Ceylon Limited, an associate company and five subsidiary companies viz. DFCC Stockbrokers (Pvt) Limited, DFCC Vardhana Bank Limited, Lanka Industrial Estates Limited, Lanka Ventures Limited and National Asset Management Limited.

1.2 Approval of financial statements by Directors

The financial statements are authorised for issue by the Board of Directors on 26 May 2005.

1.3 Principal activities

DFCC Bank provides a comprehensive range of financial products and services to industrial, agricultural and commercial enterprises in Sri Lanka.

1.4 Accounting convention

The financial statements are presented in Sri Lanka rupees, rounded to the nearest thousand. The balance sheet, income statement and cash flow statement, unless otherwise stated herein, are prepared under the historic cost convention in conformity with generally accepted accounting principles applied consistently and in compliance with the accounting standards prescribed by the Institute of Chartered Accountants of Sri Lanka (SLAS). Exceptions to the historic cost convention of accounting relate to dealing securities and investment securities, as described in accounting policy 2.3 and 2.6.

1.5 Basis of consolidation

The financial statements of the subsidiaries and associate company are also prepared under the historic cost convention unless otherwise stated, with similar accounting policies for transactions and events in similar circumstances.

1.5.1 Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise 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.

1.5.2 Associate company

Associate company is an enterprise 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 company, Commercial Bank of Ceylon Limited, on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases.

1.5.3 Transactions eliminated on consolidation

Intra group balances and transactions, and any unrealised gains arising from intra group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with subsidiaries and associate company are eliminated to the extent of the Bank's interest in the enterprise.

1.5.4 Financial statements of subsidiaries and associate company included in the consolidated financial statements

Audited financial statements are used. All subsidiaries included in the consolidation except DFCC Vardhana Bank Limited and DFCC Stockbrokers (Pvt) Limited have financial year to 31 March in common with the Bank. The financial year of DFCC Vardhana Bank Limited, DFCC Stockbrokers (Pvt) Limited and

Commercial Bank of Ceylon Limited, an associate company ends on 31 December and financial statements of these companies for year to 31 December 2004 have been included for consolidation and equity accounting with appropriate adjustments for significant events between the two dates.

1.6 Foreign currency translation

1.6.1 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. Exchange rates used are the middle spot rates.

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

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

1.7 Taxation

Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 38 of 2000, as amended by subsequent legislation.

1.7.1 Deferred taxation

Deferred taxation is provided using the balance sheet liability method, providing for timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.7.2 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.

1.7.3 Off set of deferred tax liability against deferred tax assets

The deferred tax liability and the related charge in the income statement of DFCC Vardhana Bank Limited has been off-set against the deferred tax asset and the related tax saving in respect of the tax losses incurred by it.

1.7.4 Withholding tax on dividends distributed by subsidiaries and associate company

Dividends distributed out of the taxable profit of the subsidiaries and associate company suffers 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 associate company in the Group financial statements as a consolidation adjustment.

1.8 Comparative information

Where items are re-grouped, comparative information is also adjusted.

1.9 Directors' responsibility statement

The Board of Directors is responsible for the preparation and presentation of these financial statements. Details on page 58.

2 Assets and Bases of their Valuation

2.1 Dated - debt securities

Investments in treasury bill, treasury bonds issued at a discount or premium are stated at the cost of acquisition increased by amortised discount or decreased by amortised premium as appropriate.

2.2 Securities purchased under resale agreements

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

2.3 Dealing securities

These are marketable securities acquired and held with the intention of resale over a short period. They are stated in the balance sheet at the lower of cost and market value on an aggregate portfolio basis.

Cost includes the cost of acquisition adjusted for amortisation of premium and discounts arising on acquisition.

2.4 Loans

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

2.5 Finance leases

Assets leased to customers in terms of which the Bank does not assume substantially all the risks and rewards of ownership, are classified as financial leases and disclosed as amounts receivable. The leases are stated in the balance sheet after deduction of future income, prepaid lease rentals and provision for losses.

2.6 Investment securities

2.6.1 Investment securities excluding venture capital investments

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

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

ii. Market value

determined on an aggregate portfolio basis.

Other shares and debentures 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.

2.6.2 Venture capital investments

Venture capital investments in quoted and unquoted equity and debentures by Lanka Ventures Limited are stated at cost.

2.7 Investment property

Land or buildings or both held by the Bank or its subsidiaries or associate company exclusively or substantialy to earn rentals or for capital appreciation is classified as investment property .

Land classified as investment property is carried at cost and building classified as investment property is carried at cost net of accumulated depreciation. Prior to 1 April 2004, investment properties were carried at market value and surplus over cost included in the reserves. By early adoption of Sri Lanka Accounting Standard on investment property which is effective from 1 April 2005 the Bank has chosen the cost model in preference to fair value model. The financial impact of this change is disclosed as prior year adjustment in the statement of recognised gains & losses.

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

The rates of depreciation are as follows:

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

2.8 Investment in subsidiaries and associate company

Shares in subsidiaries and associate company are accounted using the equity method. The carrying amount includes the acquisition cost, balance of goodwill or negative goodwill net of cumulative amortisation and Bank's share of undistributed post acquisition profit/(losses) in subsidiaries and associate company.

2.9 Goodwill or negative goodwill on acquisition of shares in subsidiaries and associate company

2.9.1 Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Conversely negative goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition. Goodwill or negative goodwill is amortised over a period of five years from the date of acquisition. The amount of goodwill or negative goodwill amortised in a financial year is proportionate to the number of months the subsidiary/associate company results are included in the financial statements of the Bank. The carrying amount of goodwill or negative goodwill as appropriate, is included in the carrying amount of the investment in the subsidiary or associate company.

2.9.2 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.

2.10 Property and equipment

2.10.1 Owned assets

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.

The assets are stated at cost less cumulative depreciation which is provided for on the basis outlined in 2.10.2.

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

The rates of depreciation are as follows:

Buildings	5% per annum
Furniture & fittings	10% per annum
Office equipment & Motor vehicles	20% per annum
Application software	20% per annum

Prior to 1 April 2004 the rate of depreciation for furniture & fittings was 20% per annum.

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

Land is not depreciated.

2.10.3 Leased assets

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Motor vehicles acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation. The depreciation policy for the leased assets is consistent with that for depreciable assets, which are owned. Depreciation is accounted for in accordance with the rate and policy disclosed in 2.10.2.

3 Liabilities and Provisions

3.1 Pension and gratuity payments

3.1.1 Description of the plan and employee groups covered

The Bank established a Trust Fund in May 1989, which operates an approved pension scheme for payment of pension. 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. All members of the permanent staff except one are covered by this funded pension scheme subject to fulfillment of eligibility conditions prescribed by the Bank.

The scheme was amended on 31 August 1998 and the amended plan will apply to all members of the permanent staff who joined the Bank on or after this date. 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 new recruites to the permanent cadre on or after 1 May 2004 will not qualify for the pension benefit.

3.1.2 Funding arrangement

The Bank's contributions to the Trust Fund are made annually based on a percentage of gross emoluments excluding certain allowances and bonus. The percentage required was determined by an independent Actuary. No contributions are made by the employees in respect of the basic pension benefit. 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.

3.1.3 Unfunded pension liability

This relates to pension liability of an employee, not funded through the DFCC Bank Pension Fund and was Rs8.2m on 31 March 2005. The liability relates to the pension benefit to retiree and survivor spouse and minor children.

3.1.4 Amount recognised as expense

	Rs million
In respect of funded liability	
Current service cost	57.1
Experience adjustments	16.3
In respect of unfunded liability	
Current service cost	2.4
Experience adjustments	0.4
	76.2

3.1.5 Experience adjustments

In respect of funded liability	
Balance on 31.3.04	122.6
Loss due to change in plan assumptions at 31.3.05	27.1
Total actuarial loss	149.7
Recognised as expense in the financial year to 31.3.05	-16.3
Balance on 31.3.05	133.4

	Rs million
In respect of unfunded liability	
Balance on 31.3.04	1.0
Loss due to change in plan assumptions at 31.3.05	0.3
Total actuarial loss	1.3
Recognised as expense in the financial year to 31.3.05	-0.4
Balance on 31.3.05	0.9

Experience adjustment is the loss arising from change in plan assumptions in 1 April 2004 and 1 April 2005.

The total actuarial loss of Rs149.7m in respect of employees whose pension liabilities are funded is amortised equally over the average remaining working life of the employees eligible for pension.

The total actuarial loss of Rs1.3m in respect of an employee whose pension liability is not funded is amortised equally over the average remaining working life of the employee eligible for pension.

Change in plan assumptions are described in 3.1.9.

3.1.6 *Actuarial valuation*

Date of most recent valuation is 31 March 2005.

3.1.7 *Actuarial valuation method*

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

3.1.8 *Pension assets and actuarial present value of accrued benefits*

As at 31 March 2005, value of assets of the Pension Trust Fund was Rs575.9m and value of benefits that had accrued to members after allowing for expected future increases in earnings was Rs709.7m. The pension liability under discontinuance basis was Rs576.7m on 31 March 2005. The unrecognised liability of Rs133.8m in respect of the funded liability representing the unamortised balance of the experience adjustments will be amortised at the rate of Rs16.3m per annum.

3.1.9 *Principal actuarial assumptions*

Current assumptions
Over the long term, the annual rate of return on investments net of tax would be 9%. The discount rate used to determine actuarial pension liability during pre-retirement period was 9% per annum reducing to 8% per annum during the post retirement period, while the annual increase in total pensionable remuneration would be 10.5%.

Previous assumptions
The annual increase in total pensionable remuneration was assumed to be 9.5%.

3.1.10 *Gratuity provision*

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

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 computation of the provision is based on half month's qualifying salary at the end of the financial year, for each completed year of service commencing from the first year of service. Such provision is not externally funded.

3.2 Defined contribution plans

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 basic or consolidated salary and cost of living allowance.

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

3.3 Securities sold under repurchase agreements

These are borrowing collateralised by sale of treasury bills or treasury bonds held by the Bank to the counter party from whom the Bank borrowed, subject to a commitment to repurchase them at a pre-determined price. Such securities remain on the balance sheet of the Bank and the liability is recorded in respect of the consideration received.

3.4 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, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.5 Obligations under finance leasing

Obligations in respect of property and equipment acquired under a finance leasing arrangement are stated at the present value of total of minimum lease payments at the balance sheet date. The present value is computed by discounting the total of minimum lease payments on the balance sheet date by the interest rate implicit in the lease.

3.6 Proposed dividend

The first and final dividend proposed by the Board of Directors after the balance sheet date is not recognised as a liability and the amount of dividend is included in the profit for the year attributable to shareholders.

3.7 Commitments and contingencies

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

3.8 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 No. 48.

4. Revenue and Expense Recognition

4.1 Interest income

Interest receivable is generally recognised on an accrual basis. Interest ceases to be taken to revenue after the interest or principal is in arrears for three (3) months and thereafter such income is recognised on receipt basis. The interest accrued up to three months is also eliminated from the income and transferred to interest in suspense.

4.2 Imputation of 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 imputation credit is $1/9^{th}$ of the net income.

4.3 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.

4.4 Lease income

4.4.1 Finance leases

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 in respect of lease rentals due ceases to be taken to revenue after it is in arrears for three (3) months and thereafter such income is recognised on receipt basis.

The interest accrued up to three months is also eliminated from the income and transferred to income suspense.

4.4.2 Operating leases

Rental income is recognised on a straight line basis over lease term.

4.5 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.

4.6 Discount on bills of exchange

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

4.7 Default interest on lease rentals

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

4.8 Front-end fee income

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

4.9 Consultancy & other professional service income

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

4.10 Underwriting commission

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

4.11 Guarantee Fee

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

4.12 Gains on sale of property, plant & equipment

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

4.13 Gains on sale of investment property

On disposal, 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.

4.14 Gains on disposal of dated debt securities

This represents the difference between net disposal proceeds and the carrying amount of the debt securities.

4.15 Premises rental income

Rental income is recognised on accrual basis.

4.16. Accounting for profit of subsidiaries and associate company

4.16.1 Significant events and transactions during the gap between date of financial statement of the subsidiary/associate company and the date of financial statement of Bank

Results of subsidiary/associate company is adjusted and disclosed for any such transactions.

4.16.2 Results of subsidiaries and associate company

Profit for the current financial year and undistributed post acquisition profit of subsidiaries and associate company, attributable to the Bank, are included in the financial statements under equity method of accounting for investment in subsidiaries and associate company, with appropriate disclosures.

4.16.3 Taxes on the undistributed earnings of subsidiaries and associate

10% withholding tax applicable on the distribution of the undistributed earnings of the subsidiaries and associate have not been recognised as a tax expense in the financial statements of the Bank and the Group financial statements as such distribution is remote in the foreseeable future.

4.17 Finance charges on finance lease payments

Finance charges are allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

4.18 Interest expense

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

4.19 Bad and doubtful debts

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

Bank makes both general and specific provisions.

Specific partial provisions are made for the estimated loss on doubtful loans, finance leases, bills of exchange, commercial papers, trust certificates and promissory notes not covered by realisable value of collateral. When full specific provisions are required, they are treated as write-offs for accounting purposes.

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

The specific provision has two elements:

i. A minimum statutory provision as per the direction issued by Central Bank of Sri Lanka.

This is on a graduated scale based on the amount of outstanding principal net of realisable security value (net exposure at risk) as given below:

20% of net exposure at risk has to be provided for loans, finance leases, bills of exchange and other credit facilities which are in arrears for 6 months or more but less than 12 months. The percentage of net exposure to be provided increases to 50% when the age of arrears is 12 to 18 months and to 100% when the age of arrears is more than 18 months.

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

The general provision relates to potential losses not separately identified but known from experience to exist in the portfolio of loans. The amount of the general provision on formulic basis reflects past experience, judgement and current conditions in particular sectors.

Sector	Applicable %
Poultry	15
Prawn aquaculture	25
Brewery	5
Hotel	5
Abandoned projects	10
(age of arrears over two years)	

The respective percentages are applied to the loans outstanding on 31 March, net of specific provisions if any, for the enterprises in such sectors.

4.20 Investment securities losses

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

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

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

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

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

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

The amount of diminution other than temporary and temporary diminution recognised in this financial year is disclosed in Note No. 21.2

5 Cash Flow

The Cash Flow has been prepared by using the "Direct Method". Cash and cash equivalents include cash and bank 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.

6 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 directly attributable to the segment 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 directly attributable to the segment 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.

INCOME STATEMENT

For the year ended 31 March	Notes	Page No.	Bank **2005** **Rs 000**	Bank 2004 Rs 000	Group **2005** **Rs 000**	Group 2004 Rs 000	*Variance Rs 000
Income	1	75	**4,640,746**	4,444,294	**5,167,274**	4,678,506	488,768
Interest income	2	**75**	**3,644,848**	3,461,424	**3,935,959**	3,560,098	375,861
Interest expense	3	**75**	**1,873,381**	1,819,389	**1,992,945**	1,835,894	157,051
Net interest income			**1,771,467**	1,642,035	**1,943,014**	1,724,204	218,810
Amortisation of negative goodwill			**2,130**	5,053	**2,130**	5,053	(2,923)
Other income	4	**76**	**995,898**	982,870	**1,231,315**	1,118,408	112,907
Operating income			**2,769,495**	2,629,958	**3,176,459**	2,847,665	328,794
Personnel costs			**362,093**	346,396	**460,432**	400,565	59,867
Provision for staff retirement benefits			**76,175**	47,584	**79,567**	50,975	28,592
Premises, equipment and establishment expenses			**183,703**	118,829	**324,794**	177,881	146,913
Other overhead expenses			**376,969**	313,582	**448,151**	375,289	72,862
Goodwill written off - associate			**2,321**	1,161	**2,321**	1,161	1,160
- subsidiary			**57,222**	23,911	**57,222**	23,911	33,311
Bad and doubtful debts - specific	5	76	**253,650**	329,821	**249,517**	324,018	(74,501)
- general			**(3,875)**	(29,579)	**(3,875)**	(29,579)	25,704
Investment securities losses	6	77	**6,250**	8,367	**6,243**	975	5,268
Operating expenses	7	77	**1,314,508**	1,160,072	**1,624,372**	1,325,196	299,176
Operating profit before income tax and associate/subsidiary companies' profit			**1,454,987**	1,469,886	**1,552,087**	1,522,469	29,618
Associate/subsidiary companies' profit/(losses) before income tax			**562,646**	402,045	**549,577**	417,327	132,250
Profit on ordinary activities before tax	8	77	**2,017,633**	1,871,931	**2,101,664**	1,939,796	161,868
Income tax on profit on ordinary activities	9	77	**667,678**	516,785	**680,392**	478,147	202,245
Profit on ordinary activities after tax	10	79	**1,349,955**	1,355,146	**1,421,272**	1,461,649	(40,377)
Minority interest			**0**	0	**71,317**	106,503	(35,186)
Profit for the year			**1,349,955**	1,355,146	**1,349,955**	1,355,146	(5,191)
Earnings per share, Rs - Basic	11	80	**23.56**	23.80	**23.56**	23.80	
- Diluted			**23.36**	23.47	**23.36**	23.47	

The accounting policies from pages 60 to 69 and the notes from pages 75 to 112 form part of these financial statements.

** Current year minus previous year, Group.*

STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 31 March	Bank		Group	
	2005	2004	**2005**	2004
	Rs 000	Rs 000	**Rs 000**	Rs 000
Reversal of diminution of investment securities - bank	**0**	43,723	**0**	43,723
Preference share issue expenses of associate	**(31)**	(2,161)	**(31)**	(2,161)
Surplus on revaluation of property-associate	**314,214**	0	**314,214**	0
Gains & losses not recognised in the Income Statement	**314,183**	41,562	**314,183**	41,562
Profit for the year	**1,349,955**	1,355,146	**1,349,955**	1,355,146
Total recognised gains & losses	**1,664,138**	1,396,708	**1,664,138**	1,396,708
Prior year adjustment				
Change in accounting policy by susbsidiary				
re-investment property of Lanka Industrial Estates Limited	**0**	(194,236)	**0**	(194,236)

STATEMENT OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 31 March	Bank		Group	
	2005	2004	**2005**	2004
	Rs 000	Rs 000	**Rs 000**	Rs 000
Total recognised gains & losses	**1,664,138**	1,396,708	**1,664,138**	1,396,708
Dividend approved during the year	**(314,319)**	(232,711)	**(314,319)**	(232,711)
Issue of shares under Employee share option plan	**2,675**	5,482	**2,675**	5,482
Increase in share premium	**25,361**	79,826	**25,361**	79,826
Net addition to shareholders' funds	**1,377,855**	1,249,305	**1,377,855**	1,249,305
Shareholders' funds at 1 April	**8,730,379**	7,627,336	**8,730,379**	7,627,336
Prior year adjustment	**0**	(194,236)	**0**	(194,236)
Consolidation adjustment	**0**	47,974	**0**	47,974
Shareholders' funds at 1 April-restated	**8,730,379**	7,481,074	**8,730,379**	7,481,074
Shareholders' funds at 31 March	**10,108,234**	8,730,379	**10,108,234**	8,730,379

BALANCE SHEET

As at 31 March	Notes	Page No.	Bank 2005 Rs 000	Bank 2004 Rs 000	Group 2005 Rs 000	Group 2004 Rs 000
Assets						
Cash and short-term funds	12	80	**440,618**	408,137	**1,021,250**	675,915
Balances with Central Bank			**0**	0	**136,466**	50,309
Treasury bills and other securities eligible for rediscounting with Central Bank	13	80	**2,337,761**	2,266,605	**2,563,830**	2,439,120
Securities purchased under resale agreements	14	81	**1,051,000**	26,006	**1,459,502**	852,684
Placements with and loans to other banks and financial institutions	15	81	**302,457**	500,000	**278,015**	606,607
Dealing securities	16	81	**0**	1,314	**0**	1,314
Bills of exchange discounted	17	81	**0**	0	**77,080**	16,320
Loans	18	82	**24,413,347**	21,502,234	**27,014,930**	22,138,006
Finance leases	19	83	**4,113,669**	3,567,320	**4,113,669**	3,567,320
Interest receivable	20	83	**298,428**	204,137	**284,138**	184,977
Investment securities	21	84	**1,730,792**	1,703,799	**2,233,840**	2,219,926
Investment in associate company	22	93	**3,251,155**	2,632,603	**3,251,155**	2,632,603
Investment in subsidiary companies	23	93	**1,289,583**	1,232,995	**0**	0
Group balances receivable	24	94	**30,966**	19,015	**0**	0
Prepayments			**116,379**	145,474	**116,379**	145,474
Receivables	25	94	**1,195,728**	539,801	**1,537,205**	638,739
Income tax refund due	26	94	**0**	0	**0**	4,188
Investment property	27	94	**12,180**	12,180	**143,836**	145,234
Goodwill on consolidation	28	95	**0**	0	**203,809**	260,851
Property and equipment	29	95	**474,745**	516,462	**607,070**	681,757
Total assets			**41,058,808**	35,278,082	**45,042,174**	37,261,344
Liabilities						
Deposits from customers	30	96	**3,779,433**	4,943,661	**6,426,530**	5,724,484
Borrowing - Medium and long-term	31	97	**22,619,985**	19,569,808	**22,619,985**	19,569,808
- Short-term	32	98	**1,387,279**	577,166	**1,801,816**	1,072,296
Debentures	33	98	**1,500,000**	0	**1,500,000**	0
Obligations under finance leases	34	98	**1,915**	2,767	**1,915**	2,767
Group balances payable	35	98	**2,446**	0	**0**	0
Interest accrued			**660,703**	575,833	**687,353**	587,085
Taxation	36	99	**198,386**	52,821	**204,882**	70,871
Deferred taxation	37	99	**461,864**	470,324	**462,028**	471,074
Other liabilities	38	99	**335,204**	349,834	**711,209**	508,555
			30,947,215	26,542,214	**34,415,718**	28,006,940
Negative goodwill	39	99	**3,359**	5,489	**3,359**	5,489
Minority interest			**0**	0	**514,863**	518,536
Shareholders' funds						
Share capital	40	100	**574,133**	571,458	**574,133**	571,458
Reserves	41	101				
Reserve fund			**305,000**	245,000	**305,000**	245,000
Sinking fund reserve			**2,246,868**	1,786,458	**2,246,868**	1,786,458
Share premium			**917,654**	892,293	**917,654**	892,293
Revenue reserves			**4,898,476**	4,292,217	**4,898,476**	4,292,217
Retained profit			**1,166,103**	942,953	**1,166,103**	942,953
			10,108,234	8,730,379	**10,108,234**	8,730,379
Total liabilities, minority interest and shareholders' funds			**41,058,808**	35,278,082	**45,042,174**	37,261,344
Commitments and contingencies	42	103	**7,153,276**	6,910,684	**8,573,620**	7,852,072

The accounting policies from pages 60 to 69 and the notes from pages 75 to 112 form part of these financial statements.

For and on behalf of the Board of Directors,

T N Jinasena
Chairman
Colombo
26 May 2005

A N Fonseka
Director & Chief Executive

CASH FLOW STATEMENT

	Bank		Group	
For the year ended 31 March	**2005**	2004	**2005**	2004
	Rs 000	Rs 000	**Rs 000**	Rs 000
Cash flow from operating activities				
Interest receipts	**3,288,948**	2,976,312	**3,499,343**	3,013,240
Interest payments	**(1,788,511)**	(1,624,217)	**(1,899,926)**	(1,649,526)
Recoveries on loans previously written off	**332,059**	283,695	**332,059**	283,695
Receipts from other operating activities	**135,772**	202,581	**373,957**	408,002
Cash payments to employees and suppliers	**(725,338)**	(515,268)	**(958,015)**	(616,081)
Value added tax	**(221,078)**	(184,118)	**(222,821)**	(185,035)
Operating profit before changes in operating assets	**1,021,852**	1,138,985	**1,124,597**	1,254,295
(Increase)/decrease in operating assets:				
Short-term funds	**1,080,527**	(782,138)	**1,107,348**	(331,051)
Balances with Central Bank of Sri Lanka	**0**	0	**(86,157)**	(5,568)
Funds advanced to customers	**(3,657,395)**	(4,319,870)	**(5,665,441)**	(4,880,750)
Other short-term securities	**(71,156)**	(10,371)	**(124,710)**	(62,453)
Others	**(640,505)**	(45,218)	**(829,479)**	(42,002)
Increase/(decrease) in operating liabilities:				
Security deposits from customers	**(3,197)**	(5,443)	**5,235**	(1,972)
Deposits from customers	**(1,053,985)**	2,099,648	**909,342**	2,386,329
Negotiable certificates of deposit	**(110,243)**	(23,652)	**(43,330)**	(23,841)
Net cash flow from operating activities before income tax	**(3,434,102)**	(1,948,059)	**(3,602,595)**	(1,707,013)
Income tax paid	**(241,842)**	(111,267)	**(278,933)**	(132,484)
Income tax refund	**0**	0	**0**	130,247
Net cash from operating activities (Note a)	**(3,675,944)**	(2,059,326)	**(3,881,528)**	(1,709,250)
Cash flow from investing activities				
Dividends received	**344,171**	365,947	**278,623**	271,336
Interest received	**229,141**	385,841	**289,747**	461,143
Proceeds from sale of securities and redemption of securities	**566,577**	534,277	**785,842**	624,683
Purchase of securities	**(417,104)**	(305,781)	**(554,507)**	(538,342)
Acquisition of subsidiary	**0**	(59,626)	**0**	(21,165)
Acquisition of additional shares of subsidiaries	**(1,099)**	(55,237)	**0**	(55,237)
Subscription to rights issue in subsidiary and associate	**(120,566)**	(991,941)	**0**	(541,937)
Purchase of property, equipment and investment property	**(64,893)**	(212,270)	**(106,770)**	(242,715)
Proceeds from sale of equipment	**4,537**	277,450	**6,279**	297,632
Net cash from investing activities	**540,764**	(61,340)	**699,214**	255,398
Cash flow from financing activities				
Issue of debentures	**1,500,000**	0	**1,500,000**	0
Issue of new shares under option	**28,036**	85,308	**28,036**	85,308
Issue of new shares by subsidiary (Rights issue)	**0**	0	**6,335**	49,996
Redemption of debentures	**0**	(616,667)	**0**	(616,667)
Borrowing, medium and long-term	**7,282,008**	5,516,266	**7,282,008**	5,516,266
Repayment of borrowing, medium and long-term	**(4,231,831)**	(2,104,860)	**(4,231,831)**	(2,104,860)
Dividends paid	**(312,687)**	(231,613)	**(400,845)**	(311,116)
Net cash flow from financing activities	**4,265,526**	2,648,434	**4,183,703**	2,618,927
Effect of exchange rate changes on cash & cash equivalents	**0**	0	**0**	17
Net increase in cash & cash equivalents	**1,130,346**	527,768	**1,001,389**	1,165,092
Cash & cash equivalents/(overdraft - net) at the beginning of period	**301,993**	(225,775)	**1,391,420**	226,328
Cash & cash equivalents/(overdraft - net) at the end of period	**1,432,339**	301,993	**2,392,809**	1,391,420
Reconciliation of cash & cash equivalents				
Cash and short-term funds - Refer Note 12	**440,618**	408,137	**1,021,250**	675,915
Securities purchased under resale agreements - Refer Note 14	**1,051,000**	26,006	**1,459,502**	852,684
Borrowing, short-term - Bank overdraft - Refer Note 32	**(59,279)**	(132,150)	**(87,943)**	(137,179)
	1,432,339	301,993	**2,392,809**	1,391,420

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

Note a

Reconciliation of profit for the year to net cash from operating activities

	Bank		Group	
For the year ended 31 March	**2005**	2004	**2005**	2004
	Rs 000	Rs 000	**Rs 000**	Rs 000
Profit for the year	**1,349,955**	1,376,857	**1,349,955**	1,376,857
Deduct: Dividend transferred to investing activities	**(339,275)**	(321,317)	**(272,087)**	(226,456)
	1,010,680	1,055,540	**1,077,868**	1,150,401
Add/(deduct) items not using (providing) cash:				
Depreciation	**106,610**	72,062	**182,068**	106,920
Amortisation - goodwill	**57,413**	20,019	**57,413**	20,019
Gains on sale of investment securities	**(181,402)**	(93,410)	**(250,178)**	(115,069)
Gain on sale of equipment	**(4,537)**	(100,582)	**(5,521)**	(104,616)
Gain on deemed disposal of associate company ordinary shares	**(58)**	0	**(58)**	0
Notional tax credit on treasury bills and bonds	**(24,862)**	(61,062)	**(24,862)**	(61,062)
Associate/subsidiary companies profit before tax	**(562,646)**	(404,281)	**(549,577)**	(417,327)
Bad and doubtful debts	**249,775**	300,242	**245,642**	294,439
Investment securities losses	**6,250**	8,367	**6,243**	975
Minority interest	**0**	0	**71,317**	108,722
Increase in accounts receivables	**(333,833)**	(405,335)	**(417,345)**	(469,419)
Increase in accounts payables	**30,784**	250,115	**51,195**	281,640
Increase in income tax payable	**434,296**	263,096	**409,919**	333,488
Increase/(decrease) in deferred tax	**(8,460)**	122,947	**(8,460)**	122,947
Increase in operating assets	**(3,288,529)**	(5,157,597)	**(5,598,439)**	(5,321,824)
Increase/(decrease) in operating liabilities	**(1,167,425)**	2,070,553	**871,247**	2,360,516
Net cash from operating activities	**(3,675,944)**	(2,059,326)	**(3,881,528)**	(1,709,250)

For the year ended 31 March	Bank 2005 Rs 000	Bank 2004 Rs 000	Group 2005 Rs 000	Group 2004 Rs 000
1 Income				
Gross income	**4,640,746**	4,444,294	**5,167,274**	4,678,506
Interest income	**3,644,848**	3,461,424	**3,935,959**	3,560,098
Other income	**995,898**	982,870	**1,231,315**	1,118,408
	4,640,746	4,444,294	**5,167,274**	4,678,506
2 Interest Income				
Loans	**2,734,316**	2,549,670	**2,917,464**	2,575,693
Treasury bills and placements with other banks	**271,175**	330,986	**337,318**	366,441
Discount on bills of exchange	**290**	2,002	**290**	2,002
Gross earnings under finance leases	**592,146**	515,420	**592,146**	515,420
Default interest on lease rentals	**23,747**	21,423	**23,934**	21,561
Interest and discount arising from debt securities	**23,174**	41,923	**64,807**	78,981
	3,644,848	3,461,424	**3,935,959**	3,560,098

Treasury bill and bond interest income includes Rs25m, notional tax credit of 10% imputed for the withholding tax deducted/paid at source in respect of the financial year ended 31 March 2005. The amount relating to the previous financial year is Rs29m.

For the year ended 31 March	Bank 2005 Rs 000	Bank 2004 Rs 000	Group 2005 Rs 000	Group 2004 Rs 000
3 Interest Expense				
Medium and long-term borrowing	**1,054,342**	1,220,836	**1,054,342**	1,220,725
Short-term borrowing:				
Treasury bills under repurchase agreements	**322,477**	174,521	**331,530**	174,608
Others	**590**	537	**40,016**	1,276
Debentures	**74,831**	40,642	**74,831**	40,642
Time deposits from customers	**421,141**	382,853	**492,226**	398,643
	1,873,381	1,819,389	**1,992,945**	1,835,894

For the year ended 31 March	Bank 2005 Rs 000	Bank 2004 Rs 000	Group 2005 Rs 000	Group 2004 Rs 000
4 Other Income				
Dividend income from securities				
Quoted ordinary shares	**20,382**	17,427	**26,005**	17,585
Unquoted ordinary shares	**5,178**	3,505	**8,408**	6,645
Unquoted preference shares	**97,026**	62,869	**100,817**	65,241
Units in unit trusts	**15,889**	28,869	**19,301**	33,359
Dividend income from investments in associate/subsidiaries				
Quoted ordinary shares	**147,777**	156,973	**106,644**	96,147
Unquoted ordinary shares	**42,111**	44,195	**0**	0
Quoted preference shares	**10,912**	7,479	**10,912**	7,479
	339,275	321,317	**272,087**	226,456
Gains on sale of investment securities				
Quoted ordinary shares	**107,368**	72,494	**157,865**	79,812
Unquoted ordinary shares	**48,371**	19,731	**52,880**	32,823
Units	**25,663**	1,184	**39,433**	2,434
Recovery of bad debts	**332,059**	283,695	**332,059**	283,695
Front end fee	**20,156**	23,168	**26,642**	23,267
Consultancy and other professional services	**37,872**	50,185	**40,569**	50,185
LC Commission	**618**	3,731	**6,707**	5,044
Underwriting commission and guarantee fees	**14,308**	14,651	**18,889**	14,946
Gain on sale of commercial paper and pro-notes	**2,375**	3,360	**2,375**	3,360
Gain on sale of treasury bills and bonds	**14,425**	61,652	**14,427**	61,652
Gain on sale of equipment	**4,537**	912	**5,521**	1,443
Exceptional gain on sale of investment property	**0**	99,670	**0**	103,173
Premises rental income	**15,753**	10,772	**80,817**	70,092
Operating lease income	**1,880**	4,529	**1,880**	4,529
Foreign exchange profit	**8**	2	**20,453**	1,451
Gain on deemed disposal of associate company ordinary shares	**58**	0	**58**	0
Others	**31,172**	11,817	**158,653**	154,046
	995,898	982,870	**1,231,315**	1,118,408
5 Bad and Doubtful Debts				
5.1 Specific provision				
Provision for the year				
Loans	**443,495**	413,090	**457,898**	411,145
Leases	**50,225**	75,602	**50,225**	75,602
Bills of exchange	**0**	10,015	**0**	10,015
Loan/lease write-off	**3,784**	11,199	**3,784**	11,200
	497,504	509,906	**511,907**	507,962
Less: Reductions in the year				
Loans	**198,857**	134,113	**217,393**	137,972
Leases	**40,057**	40,868	**40,057**	40,868
Bills	**4,940**	5,104	**4,940**	5,104
	253,650	329,821	**249,517**	324,018
5.2 General provision - loans				
Provision for the year	**2,724**	1,808	**2,724**	1,808
Less: Reduction in the year	**6,599**	31,387	**6,599**	31,387
	(3,875)	(29,579)	**(3,875)**	(29,579)

For the year ended 31 March	Bank 2005 Rs 000	Bank 2004 Rs 000	Group 2005 Rs 000	Group 2004 Rs 000
6 Investment Securities Losses				
Relates to diminution other than temporary in value of share investments	**6,250**	8,367	**6,243**	975
7 Operating Expenses				
Operating expenses include the following:				
Chairman's emoluments - Fees	**480**	480	**480**	480
Directors' emoluments - Fees	**1,893**	1,960	**3,010**	4,977
Employers' contribution to Provident Fund	**26,126**	22,812	**32,653**	25,178
Employers' contribution to Employees' Trust Fund	**5,231**	4,540	**6,707**	5,009
Gratuity	**334**	0	**1,306**	5,518
Auditors' remuneration	**1,100**	960	**2,254**	1,916
Depreciation - operating leases	**1,755**	3,213	**1,755**	3,213
- property and equipment	**104,855**	68,849	**180,313**	108,162
Legal expenses	**1,559**	4,046	**2,538**	4,796
Value Added Tax on financial services	**224,852**	181,811	**227,715**	182,895
8 Profit on Ordinary Activities before Tax				
Bank	**1,454,987**	1,469,886	**1,371,744**	1,364,863
Commercial Bank of Ceylon Limited	**549,577**	417,327	**549,577**	417,327
DFCC Stock Brokers (Pvt) Limited	**17,284**	46,314	**24,484**	69,376
DFCC Vardhana Bank Limited	**(22,585)**	(45,179)	**(23,976)**	(48,397)
Lanka Industrial Estates Limited	**(4,282)**	9,023	**55,347**	49,912
Lanka Ventures Limited	**25,166**	(21,769)	**117,631**	75,622
National Asset Management Limited	**(2,514)**	(3,671)	**6,857**	11,093
Associate/Subsidiary Companies	**562,646**	402,045	**729,920**	574,933
Total	**2,017,633**	1,871,931	**2,101,664**	1,939,796

The profit accounted in accordance with the equity method of accounting is limited to the undistributed profits of the respective associate/subsidiary companies.

9 Income Tax on Profit

9.1 Income tax on profit of the Bank has been provided at 30% on the taxable income.

9.2 In computing the liability to taxation, the Bank has:

9.2.1 Taken the full credit for savings arising from capital allowances for equipment and building and equipment leased.

9.2.2 Treated 25% of the Value Added Tax as a deductible expense.

9.3 Tax effect of undistributed earnings of associate and subsidiaries

The Bank's accounts have included its share of post acquisition profits from associate and subsidiary companies. A withholding tax of 10% would be deducted if a full distribution is made and such distribution is from the taxable income of the associate and subsidiaries. However no provision for withholding tax payable on distribution of such profits has been made in the accounts of the Bank, since profits will not be distributed in full.

Cumulative total of post-acquisition undistributed profits of associate and subsidiary companies on which withholding tax is not provided is Rs2,011m. (Note 23 adjusted for share premium and unamortised negative goodwill)

9.4 Relationship between tax expense and accounting income

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

	Bank	
For the year ended 31 March	**2005**	2004
	Rs 000	Rs 000
Profit before tax as per the Income Statement	**1,454,987**	1,469,886
Disallowed expenses and provisions		
- Value Added Tax on financial services	**224,852**	181,811
- others	**105,135**	19,923
Lease rentals net of capital allowances	**541,670**	270,904
Exceptional gain on sale of investment property	–	(99,670)
Reported income under finance leases net of provision for bad & doubtful debts	**(585,639)**	(480,686)
Capital allowances on property and equipment	**(15,707)**	(203,571)
Dividend income	**(339,275)**	(321,317)
Gain on sale of investment securities	**(181,402)**	(93,409)
Gain on deemed disposal of associate company ordinary shares	**(58)**	0
Goodwill written off - net	**57,413**	20,019
Adjustment to income for imputation credit for 31.03.2003	**–**	(32,867)
Taxable income	**1,261,976**	731,023
Tax - 30%	**378,593**	219,307
15%	**1,339**	–
Taxation based on profit for the year	**379,932**	219,307
Tax rate on accounting profit %	**26**	15

9.5 Tax on profit on ordinary activities

	Bank		Group	
For the year ended 31 March	**2005**	2004	**2005**	2004
	Rs 000	Rs 000	**Rs 000**	Rs 000
Taxation based on profits for the year - Note 9.4	**379,932**	219,307	**379,932**	219,307
Tax under provision	**9,797**	42,325	**9,797**	42,325
Re instatement of tax liability under appeal	**22,540**	0	**22,540**	0
Transfer to/(from) deferred taxation	**(8,460)**	122,947	**(8,460)**	122,947
Bank	**403,809**	384,579	**403,809**	384,579
Commercial Bank of Ceylon Limited	**242,945**	181,669	**242,945**	181,669
DFCC Stock Brokers (Pvt) Limited	**10,165**	22,756	**10,885**	25,568
DFCC Vardhana Bank Limited	**4,523**	0	**4,789**	0
Lanka Indurtrial Estates Limited	**2,267**	1,999	**8,400**	5,924
Lanka Ventures Limited	**2,058**	(76,398)	**6,624**	(123,839)
National Asset Management Limited	**1,911**	2,180	**2,940**	4,246
Associate/subsidiary companies' tax	**263,869**	132,206	**276,583**	93,568
Total	**667,678**	516,785	**680,392**	478,147

For the year ended 31 March	Bank 2005 Rs 000	Bank 2004 Rs 000	Group 2005 Rs 000	Group 2004 Rs 000
10 Profit on Ordinary Activities after Tax				
Bank	**1,051,178**	1,085,307	**967,935**	980,284
Commercial Bank of Ceylon Limited	**306,632**	235,658	**306,632**	235,658
DFCC Stock Brokers (Pvt) Limited	**7,119**	23,558	**13,599**	43,808
DFCC Vardhana Bank Limited	**(27,108)**	(45,179)	**(28,765)**	(48,397)
Lanka Industrial Estates Limited	**(6,549)**	7,024	**46,947**	43,988
Lanka Ventures Limited	**23,108**	54,629	**111,007**	199,461
National Asset Management Limited	**(4,425)**	(5,851)	**3,917**	6,847
Associate/subsidiary companies	**298,777**	269,839	**453,337**	481,365
Total	**1,349,955**	1,355,146	**1,421,272**	1,461,649

10.1 Consolidation adjustments

10.1.1 Associate - Commercial Bank of Ceylon Limted

	2005 Rs 000	2004 Rs 000
Reported group profit after tax	1,727,101	1,537,315
Minority interest	(1,742)	(1,715)
Reported profit after tax	1,725,359	1,535,600
Prior year adjustment	–	(70,108)
As restated	1,725,359	1,465,492
Net preference dividend paid	(230,352)	(189,667)
Deferred tax on leased assets	22,700	(65,323)
Profit available for ordinary shareholders	1,517,707	1,210,502
DFCC Bank's share @ 27.78% (2004 - 27.79%)	421,589	336,407
Net ordinary dividend received by Bank (included in other income - Note 4)	(106,644)	(96,147)
Withholding tax	(8,313)	(4,602)
	306,632	235,658

10.1.2 Subsidiaries

	DFCC Stock Brokers (Pvt) Limited Rs 000	DFCC Vardhana Bank Limited Rs 000	Lanka Industrial Estates Limited Rs 000	Lanka Ventures Limited Rs 000	National Asset Management Limited Rs 000
Reported profit/(loss) after tax	14,319	(28,765)	50,831	114,146	5,769
Percentage holding	100	94	50	59	80
DFCC Bank's share	14,319	(27,108)	25,517	67,381	4,615
Less: Net dividend received (included in other income - Note 4)	6,480	0	28,183	41,132	7,449
Withholding tax deducted at source	720	0	3,883	3,141	551
Intra Group Transactions Investment	0	0	0	0	1,040
	7,119	(27,108)	(6,549)	23,108	(4,425)

11 Earnings per Share

11.1 Basic earnings per share

Basic earnings per share of the Bank has been calculated by dividing 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.

11.2 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 number of shares issued adjusted for the effect of all dilutive potential ordinary shares.

		Bank		Group	
For the year ended 31 March		**2005**	2004	**2005**	2004
		Rs 000	Rs 000	**Rs 000**	Rs 000
11.3 Computation of basic and diluted earnings per share					
Profit for the year		**1,349,955**	1,355,146	**1,349,955**	1,355,146
Weighted average number of shares		**57,307,411**	56,945,370	**57,307,411**	56,945,370
Basic earnings per share, Rs		**23.56**	23.80	**23.56**	23.80
Number of shares that would have been issued at fair value in respect of options granted on	31.03.2002	**28,198**	47,489	**28,198**	47,489
	31.03.2003	**251,037**	290,360	**251,037**	290,360
	31.03.2004	**749,309**	640,770	**749,309**	640,770
		1,028,544	978,619	**1,028,544**	978,619
Number of shares at nil consideration (dilutive potential shares) in respect of options granted on	31.03.2002	**30,277**	67,673	**30,277**	67,673
	31.03.2003	**346,730**	518,180	**346,730**	518,180
	31.03.2004	**107,853**	216,417	**107,853**	216,417
		484,860	802,270	**484,860**	802,270
Total number of shares under option		**1,513,404**	1,780,889	**1,513,404**	1,780,889
Weighted average ordinary shares in issue and dilutive potential shares		**57,792,271**	57,747,640	**57,792,271**	57,747,640
Diluted earnings per share, Rs		**23.36**	23.47	**23.36**	23.47

	Bank		Group	
	31.03.2005	31.03.2004	**31.03.2005**	31.03.2004
	Rs 000	Rs 000	**Rs 000**	Rs 000
12 Cash and Short-Term Funds				
Cash and balance with banks	**70,812**	175,904	**570,885**	299,027
Call deposits				
DFCC Vardhana Bank Limited	**120,697**	0	**120,697**	0
Others	**249,109**	0	**249,109**	0
Time deposits	**0**	232,233	**80,559**	376,888
	440,618	408,137	**1,021,250**	675,915
13 Treasury Bills and other Securities eligible for Rediscounting with Central Bank				
Treasury bills - short-term	**434,813**	1,671,266	**533,454**	1,843,781
Treasury bonds - medium-term	**1,902,948**	595,339	**2,030,376**	595,339
	2,337,761	2,266,605	**2,563,830**	2,439,120

This includes investments to the value of Rs1,875m covering the amount of sinking fund created as per loan covenant in floating rate notes of US$65m and loan of US$5m from Asian Development Bank.

	Bank		Group	
	31.03.2005	31.03.2004	**31.03.2005**	31.03.2004
	Rs 000	Rs 000	**Rs 000**	Rs 000

14 Securities purchased under Resale Agreements

Treasury bills	**398,400**	26,006	**806,902**	852,684
Treasury bonds	**652,600**	0	**652,600**	0
	1,051,000	26,006	**1,459,502**	852,684

This includes sinking fund investment to the value of Rs350m. Details in Note 13.

15 Placements with and Loans to other Banks and Financial Institutions

Banks				
DFCC Vardhana Bank Limited - subordinated loan	**122,000**	0	**0**	0
- other loans	**178,000**	500,000	**0**	500,000
Others	**2,457**	0	**2,457**	5,717
Financial institutions	**0**	0	**275,558**	100,890
	302,457	500,000	**278,015**	606,607

16 Dealing Securities

Quoted debentures				
Sri Lanka Telecom Limited - 14%	**0**	864	**0**	864
- 14.5%	**0**	450	**0**	450
	0	1,314	**0**	1,314
Market value	**0**	1,576	**0**	1,576

17 Bills of Exchange Discounted

17.1 Balance on 31 March

Local bills	**12,642**	17,582	**21,127**	17,895
Export bills	**0**	0	**40,009**	6,332
Import bills	**0**	0	**28,586**	9,675
Less: Provision for bills of exchange overdue	**12,642**	17,582	**12,642**	17,582
	0	0	**77,080**	16,320

17.2 Movement in provision

Balance on 31 March 2004	**17,582**		**17,582**	
Less : Recoveries	**4,940**		**4,940**	
	12,642		**12,642**	

	Bank		Group	
	31.03.2005	31.03.2004	**31.03.2005**	31.03.2004
	Rs 000	Rs 000	**Rs 000**	Rs 000

18 Loans

18.1 Balance on 31 March

	Bank 31.03.2005 Rs 000	Bank 31.03.2004 Rs 000	Group 31.03.2005 Rs 000	Group 31.03.2004 Rs 000
Sri Lanka Rupee loans				
Direct loans	**23,657,990**	21,190,113	**25,068,214**	21,544,974
Refinance loans	**1,247**	8,352	**1,247**	8,352
Debenture loans	**572,135**	957,496	**572,135**	957,496
Overdrafts	**0**	0	**1,238,800**	333,890
Staff loans for miscellaneous purposes	**140,021**	90,178	**149,727**	98,479
	24,371,393	22,246,139	**27,030,123**	22,943,191
Foreign Currency loans				
Direct loans	**896,543**	378,334	**896,543**	378,334
Less : Loan loss provision - Specific	**762,690**	842,991	**819,837**	904,271
Loan loss provision - General	**36,999**	40,874	**36,999**	40,874
Prepaid loan instalments	**54,900**	238,374	**54,900**	238,374
Balance net of loan loss provision	**24,413,347**	21,502,234	**27,014,930**	22,138,006

18.2 Movement in Provision

18.2.1 Movement in specific provision

	Bank 31.03.2005 Rs 000	Group 31.03.2005 Rs 000
Balance on 31 March 2004	**842,991**	**904,271**
Add: Provision for the year	**443,495**	**457,898**
Transfer from interest in suspense	**172,872**	**172,872**
Less: Recoveries in the year	**198,857**	**217,393**
Write-off of loans	**497,811**	**497,811**
	762,690	**819,837**

18.2.2 Movement in general provision

	Bank 31.03.2005 Rs 000	Group 31.03.2005 Rs 000
Balance on 31 March 2004	**40,874**	**40,874**
Add: Provision for the year	**2,724**	**2,724**
Less: Recoveries in the year	**6,599**	**6,599**
	36,999	**36,999**

	Bank		Group	
	31.03.2005	31.03.2004	**31.03.2005**	31.03.2004
	Rs 000	Rs 000	**Rs 000**	Rs 000

19 Finance Leases

19.1 Balance on 31 March

Gross investment in leases				
Lease rentals receivable				
- within one year from balance sheet date	**2,089,498**	1,993,778	**2,089,498**	1,993,778
- after one year from balance sheet date	**3,182,326**	2,752,241	**3,182,326**	2,752,241
	5,271,824	4,746,019	**5,271,824**	4,746,019
Less: Deposit of rentals	**88,201**	100,680	**88,201**	100,680
Provision for leases in default	**182,105**	174,896	**182,105**	174,896
Income in suspense	**46,368**	41,022	**46,368**	41,022
Prepaid lease rentals	**52,715**	55,473	**52,715**	55,473
Unearned income on rentals receivable				
- within one year from balance sheet date	**454,233**	455,076	**454,233**	455,076
- after one year from balance sheet date	**334,533**	351,552	**334,533**	351,552
Net investment in leases	**4,113,669**	3,567,320	**4,113,669**	3,567,320

19.2 Movement in provision

Balance on 31 March 2004	**174,896**		**174,896**	
Add: Provision for the year	**50,225**		**50,225**	
Less: Recoveries	**40,057**		**40,057**	
Transfers *	**2,959**		**2,959**	
	182,105		**182,105**	

* To specific provision on debts on repossession, included under debtors.

19.3 Movement in income in suspense

Balance on 31 March 2004	**41,022**		**41,022**	
Add: Transfer during the year	**98,287**		**98,287**	
Less: Recoveries	**92,941**		**92,941**	
	46,368		**46,368**	

20 Interest Receivable

20.1 Balance on 31 March

Amount due	**688,531**	577,167	**688,531**	577,167
Amount accrued and not due	**279,832**	664,148	**334,824**	695,067
Less: Interest in suspense	**669,935**	1,037,178	**739,217**	1,087,257
	298,428	204,137	**284,138**	184,977

20.2 Movement in interest in suspense

Balance on 31 March 2004	**1,037,178**		**1,087,257**	
Add: Transfer during the year	**164,978**		**197,665**	
Less: Collections	**265,639**		**279,123**	
Transfer to loan provision	**172,872**		**172,872**	
Write-offs	**93,710**		**93,710**	
	669,935		**739,217**	

21 Investment Securities

21.1 Balance on 31 March

	Bank		Group	
	31.03.2005	31.03.2004	**31.03.2005**	31.03.2004
	Rs 000	Rs 000	**Rs 000**	Rs 000
Ordinary shares				
Quoted				
Balance at beginning of period	**370,092**	431,310	**409,779**	452,159
Additions	**242,104**	55,781	**317,007**	91,842
Disposals	**(117,201)**	(108,854)	**(135,781)**	(126,077)
Transfers from unquoted shares on listing	**5,000**	0	**5,000**	0
Write-offs	**0**	(8,145)	**0**	(8,145)
	499,995	370,092	**596,005**	409,779
Unquoted				
Balance at beginning of period	**101,052**	105,654	**181,412**	198,046
New subsidiary investments	**0**	0	**0**	1,030
Additions	**0**	0	**0**	20,000
Disposals	**(8,117)**	(4,602)	**(17,592)**	(19,802)
Transfers to quoted shares on listing	**(5,000)**	0	**(5,000)**	0
Write-offs	**(6,250)**	0	**(11,550)**	(17,862)
	81,685	101,052	**147,270**	181,412
Preference shares				
Quoted				
Balance at beginning of period	**100,000**	50,000	**100,000**	50,000
Additions	**0**	50,000	**0**	50,000
	100,000	100,000	**100,000**	100,000
Unquoted				
Balance at beginning of period	**750,500**	703,500	**899,050**	787,550
Additions	**100,000**	200,000	**140,000**	276,500
Redemptions	**(169,000)**	(153,000)	**(180,900)**	(165,000)
Write-offs	**0**	0	**(5,100)**	0
	681,500	750,500	**853,050**	899,050
Debentures				
Quoted				
Balance at beginning of period	**113,470**	237,410	**150,251**	257,472
Additions	**0**	0	**0**	20,000
Redemptions	**(15,000)**	(123,718)	**(18,281)**	(126,999)
Transfers from unquoted debentures on listing	**0**	0	**10,000**	0
Write-offs	**0**	(222)	**0**	(222)
	98,470	113,470	**141,970**	150,251
Unquoted				
Balance at beginning of period	**2,266**	2,268	**218,662**	262,782
Additions	**0**	0	**10,000**	30,000
Redemptions	**(2)**	(2)	**(98,366)**	(21,045)
Transfers to quoted debentures on listing	**0**	0	**(10,000)**	0
Write-offs	**0**	0	**(2,000)**	(53,075)
	2,264	2,266	**118,296**	218,662

Investment Securities *(Contd.)*

	Bank		Group	
	31.03.2005	31.03.2004	**31.03.2005**	31.03.2004
	Rs 000	Rs 000	**Rs 000**	Rs 000
Investments in unit trusts				
Balance at beginning of period	**268,679**	318,057	**327,568**	326,946
Additions	**75,000**	0	**87,500**	50,000
Redemptions	**(74,541)**	(49,378)	**(83,430)**	(49,378)
	269,138	268,679	**331,638**	327,568
Total	**1,733,052**	1,706,059	**2,288,229**	2,286,722
Less: Provision for diminution	**2,260**	2,260	**54,389**	66,796
	1,730,792	1,703,799	**2,233,840**	2,219,926
Market value of quoted investments				
Ordinary shares	**653,584**	511,711	**764,380**	553,086
Preference shares	**91,250**	108,750	**91,250**	108,750
Debentures	**98,470**	125,564	**143,130**	166,993
Market value of units in unit trusts	**335,470**	324,122	**397,634**	383,906

21.2 Provision for diminution

21.2.1 Movement in provision

	Bank	Group
Balance on 31 March 2004	**2,260**	**66,796**
Decrease in provision for diminution	**0**	**(12,074)**
Write-off against cost	**0**	**(333)**
	2,260	**54,389**

21.2.2 Composition

	Bank	Group
Temporary diminution	**0**	**53,592**
Other than temporary diminution	**2,260**	**797**
	2,260	**54,389**

21.3 On 31 March 2005 the Bank held more than 20% and less than 50% of the voting control in Hydrotech Lanka Dickoya (Pvt) Limited. This investment is classified under investment securities and not as investments in associate companies since the Bank did not have a significant influence over the operating and financial policies of this company.

21.4 Quoted Ordinary Shares

	31.03.2005				31.03.2004			
	Number of ordinary shares of Rs10 each	Cost* Rs 000	% of total cost	Market value Rs 000	Number of ordinary shares of Rs10 each	Cost* Rs 000	% of total cost	Market value Rs 000
Banks, Finance & Insurance								
Hatton National Bank Limited - non-voting	**231,000**	**12,678**		**8,894**	165,000	10,500		7,178
Lanka Orix Leasing Company Limited	**111,228**	**4,850**		**9,454**	161,328	7,017		9,680
Mercantile Leasing Limited	**0**	**0**		**0**	204,200	3,292		5,513
National Development Bank	**278,100**	**40,805**		**44,009**	278,100	40,805		43,175
Nations Trust Bank Limited	**60**	**1**		**1**	297,760	4,937		7,518
NDB Bank Limited	**0**	**0**		**0**	15	–		–
People's Merchant Bank Limited	**0**	**0**		**0**	1,250,000	12,500		14,688
Sampath Bank Limited	**0**	**0**		**0**	100	7		8
Seylan Bank Limited - non-voting	**130,000**	**2,792**		**2,373**	50,000	1,141		1,100
		61,126	**12.3**	**64,731**		80,199	21.7	88,860
Beverages, Food & Tobacco								
Ceylon Tobacco Company Limited	**142,567**	**102**		**6,487**	142,567	102		5,845
Distilleries Company of Sri Lanka Limited**	**947,800**	**29,043**		**30,093**	135,000	3,135		2,970
Lanka Milk Foods Limited	**197,300**	**3,041**		**3,797**	311,300	4,734		7,004
Nestle Lanka Limited	**0**	**0**		**0**	99	2		9
		32,186	**6.4**	**40,377**		7,973	2.2	15,828
Chemicals & Pharmaceuticals								
Chemical Industries (Colombo) Limited - voting	**34,101**	**1,449**		**5,294**	30,312	1,449		4,001
Haycarb Limited	**19,130**	**944**		**880**	19,130	944		612
		2,393	**0.5**	**6,174**		2,393	0.6	4,613
Construction & Engineering								
Samuel Sons & Company Limited	**396,933**	**1,985**	**0.4**	**4,168**	458,333	2,292	0.6	3,667
Diversified Holdings								
Aitken Spence & Company Limited	**119,400**	**40,902**		**45,372**	0	0		0
Hayleys Limited	**198,360**	**10,247**		**22,316**	91,574	3,014		10,646
Hemas Holdings Limited	**485,700**	**40,581**		**52,941**	154,900	9,472		13,670
James Finlay & Company (Colombo) Limited	**57,126**	**3,275**		**11,668**	87,726	5,029		8,553
John Keells Holdings Limited	**638,954**	**67,052**		**86,578**	99,540	11,023		11,049
		162,057	**32.4**	**218,875**		28,538	7.7	43,918
Healthcare								
Asiri Medical Services Limited ***	**500,000**	**5,000**		**18,125**	0	0		0
Ceylon Hospitals Limited - voting	**142,800**	**3,570**		**3,891**	142,800	3,570		2,856
Ceylon Hospitals Limited - non-voting	**483,200**	**9,664**		**10,147**	483,200	9,664		7,490
		18,234	**3.6**	**32,163**		13,234	3.6	10,346
Hotels & Travels								
Aitken Spence Hotel Holdings Limited	**0**	**0**		**0**	956,279	52,385		65,027
Nuwara Eliya Hotels Company Limited	**1,078**	**50**		**538**	1,078	50		377
Pegasus Hotels of Ceylon Limited	**307,200**	**1,920**		**6,144**	307,200	1,920		3,994
Sigiriya Village Hotels Limited	**55,000**	**1,284**		**2,488**	55,500	1,295		3,052
Stafford Hotels Limited	**6,160,725**	**59,410**		**77,009**	4,928,580	47,088		64,072
The Lighthouse Hotel Limited	**145**	**1**		**9**	1,892,145	18,921		64,333
		62,665	**12.5**	**86,188**		121,659	32.8	200,855

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

** *Par Value Rs 1 each.*

*** *Listed in the Colombo Stock Exchange as a quoted company on the 12th of November 2004.*

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

Quoted Ordinary Shares (contd.)

	31.03.2005				31.03.2004			
	Number of ordinary shares of Rs10 each	Cost* Rs 000	% of total cost	Market value Rs 000	Number of ordinary shares of Rs10 each	Cost* Rs 000	% of total cost	Market value Rs 000
Information Technology								
E-Channelling Limited	**666,600**	**6,666**	**1.3**	**9,999**	666,600	6,666	1.8	4,666
Investment Trusts								
Ceylon Guardian Investment Trust Limited	**20,725**	**745**		**3,731**	10,363	331		3,021
Ceylon Investment Company Limited	**49,005**	**1,183**		**4,937**	21,780	639		3,490
		1,928	**0.4**	**8,668**		970	0.3	6,511
Land & Property								
C T Land Development Limited	**24,195**	**193**	**0.0**	**345**	39,195	312	0.1	265
Manufacturing								
ACL Cables Limited	**155,756**	**4,615**		**13,473**	133,437	4,832		4,370
Caltex Lubricants Lanka Limited	**220,500**	**14,448**		**13,947**	205,600	13,289		15,677
Ceylon Grain Elevators Limited	**48,997**	**1,297**		**772**	48,997	1,297		955
Ceylon Oxygen Limited	**15,276**	**1,342**		**2,689**	15,276	1,342		1,455
Lanka Aluminium Industries Limited	**24,600**	**246**		**590**	1,106,000	11,060		15,484
Lanka Ceramic Limited	**208,900**	**5,223**		**5,118**	208,900	5,223		3,499
Lanka Tiles Limited	**173,008**	**5,129**		**11,246**	157,280	5,130		6,291
Metal Packaging Limited	**394,997**	**9,900**		**12,541**	394,997	9,900		15,800
Samson International Limited	**110,619**	**3,830**		**6,969**	110,619	3,830		3,346
		46,030	**9.3**	**67,345**		55,903	15.1	66,877
Motors								
Associated Motorways Limited	**0**	**0**	**0.0**	**0**	65,776	1,519	0.4	5,525
Plantations								
Agalawatte Plantations Limited	**35,000**	**350**		**446**	35,000	350		411
Kegalle Plantations Limited	**100,000**	**1,000**		**2,200**	100,000	1,000		1,325
		1,350	**0.3**	**2,646**		1,350	0.4	1,736
Power & Energy								
Lanka Indian Oil Company Limited	**1,257,100**	**55,188**	**11.0**	**60,027**	0	0		0
Telecommunications								
Sri Lanka Telecom Limited	**3,192,500**	**47,994**	**9.6**	**51,878**	3,137,500	47,084	12.7	58,044
Total quoted shares - Bank		**499,995**	**100.0**	**653,584**		370,092	100.0	511,711
Investment in quoted shares by subsidiaries		**96,010**		**110,796**		39,687		41,375
Total quoted shares - Group		**596,005**		**764,380**		409,779		553,086

21.4.1 Investment in Quoted Ordinary Shares by Subsidiaries

Banks, Finance & Insurance								
Asian Alliance Insurance Company Limited	**0**	**0**		**0**	403,850	4,039		3,938
Central Finance Limited	**4**	**0**		**1**	4	0		1
Nation Trust Bank Limited	**200,000**	**4,455**		**4,250**	0	0		0
		4,455	**4.5**	**4,251**		4,039	10.2	3,939

* *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.

Quoted Ordinary Shares (contd.)

	31.03.2005				31.03.2004			
	Number of ordinary shares of Rs10 each	**Cost* Rs 000**	**% of total cost**	**Market value Rs 000**	Number of ordinary shares of Rs10 each	Cost* Rs 000	% of total cost	Market value Rs 000
Beverage & Tobacco								
Ceylon Tobacco Company Limited	**134,100**	**5,417**		**6,102**	0	0		0
Distilleries Company of Sri Lanka Limited	**150,000**	**4,817**		**4,763**	0	0		0
		10,234	**10.5**	**10,865**		0		0
Investment Trusts								
Ceylon Gurdian Investment Trust Limited	**4,000**	**928**		**720**	0	0		0
		928	**1.6**	**720**	0	0		0
Manufacturing								
Caltex Lubricants Lanka Limited	**164,100**	**12,671**		**10,379**	113,400	8,935		8,647
Metal Packaging Limited	**39,700**	**1,985**		**1,260**	39,800	1,990		1,592
		14,656	**15.2**	**11,639**		10,925	27.5	10,239
Power & Energy								
Lanka Indian Oil Company Limited	**370,000**	**14,740**		**17,668**	0	0		0
		14,740	**15.2**	**17,668**		0		0
Diversified Holdings								
Aiteken Spence & Company Limited	**33,200**	**9,896**		**12,616**	0	0		0
Hayleys Limited	**115,987**	**11,010**		**13,049**	69,989	9,125		8,136
Hemas Holdings Limited	**223,600**	**16,787**		**24,372**	210,800	15,554		18,603
John Keells Holdings Limited	**70,185**	**7,224**		**9,510**	4,125	44		458
Richard Peiris & Company Limited	**36,400**	**6,080**		**6,106**	0	0		0
		50,997	**53.0**	**65,653**		24,723	62.3	27,197
		96,010	**100.0**	**110,796**		39,687	100.0	41,375

* *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.

21.5 Unquoted Ordinary Shares

	31.03.2005				31.03.2004			
	Number of shares of Rs10 each	**Cost* Rs 000**	**% of total cost**	**Directors' valuation Rs 000**	Number of shares of Rs10 each	Cost* Rs 000	% of total cost	Directors' valuation Rs 000
Asiri Medical Services Limited	**0**	**0**	**0.0**	**0**	500,000	5,000	4.9	5,000
Associated Battery Manufacturers (Ceylon) Limited	**0**	**0**	**0.0**	**0**	792,000	100	0.1	14,454
Beico Link Carbons (Pvt) Limited	**328,500**	**2,190**	**2.7**	**2,191**	328,500	2,190	2.2	2,339
Browns Dimo Industrial Products (Pvt) Limited	**150,000**	**1,500**	**1.8**	**2,346**	150,000	1,500	1.5	1,500
Ceylinco Developers Limited	**250,000**	**2,500**	**3.1**	**42,515**	250,000	2,500	2.5	10,855
Credit Information Bureau of Sri Lanka**	**8,884**	**888**	**1.1**	**888**	8,884	888	0.9	888
Cyprea Lanka (Pvt) Limited	**1,500,000**	**15,000**	**18.3**	**15,000**	1,500,000	15,000	14.8	15,000
Fitch Ratings Lanka Limited	**62,500**	**625**	**0.7**	**625**	62,500	625	0.6	625
Hydrotech Lanka (Dickoya) Pvt Limited	**1,834,500**	**4,500**	**5.5**	**4,495**	1,834,500	4,500	4.5	4,500
Impressions (Pvt) Limited	**0**	**0**	**0.0**	**0**	333,333	6,667	6.6	13,727
Link Development (Pvt) Limited	**75,000**	**750**	**0.9**	**375**	75,000	750	0.7	750
Link Natural Products (Pvt) Limited	**0**	**0**	**0.0**	**0**	425,000	1,350	1.3	10,625
Plastipak Lanka Limited	**240,000**	**2,400**	**2.8**	**5,002**	240,000	2,400	2.4	3,060
Ranweli Resorts Limited	**1,616,193**	**10,748**	**13.2**	**29,851**	1,616,193	10,748	10.6	8,857
Sampath Centre Limited	**1,000,000**	**10,000**	**12.2**	**38,370**	1,000,000	10,000	9.9	11,900
Samson Reclaim Rubbers (Pvt) Limited	**116,700**	**2,334**	**2.9**	**2,334**	116,700	2,334	2.3	2,334
Sinwa Holdings Limited	**460,000**	**9,200**	**11.3**	**9,200**	460,000	9,200	9.1	9,200
The Video Team (Pvt) Limited	**30,000**	**300**	**0.4**	**300**	30,000	300	0.3	316
Wayamba Plantations (Pvt) Limited	**2,750,000**	**18,750**	**23.1**	**18,755**	2,750,000	25,000	24.8	25,000
Total unquoted ordinary shares - Bank		**81,685**	**100.0**	**172,247**		101,052	100.0	140,930
Investments in unquoted ordinary shares by subsidiaries		**65,585**				80,360		
Total unquoted ordinary shares - Group		**147,270**				181,412		

21.5.1 Investments in Unquoted Ordinary Shares by Subsidiaries

	31.03.2005			31.03.2004		
	Number of shares of Rs10 each	**Cost* Rs 000**	**% of total cost**	Number of shares of Rs10 each	Cost* Rs 000	% of total cost
Asia Soft (Pvt) Limited	**500,000**	**7,500**	**11.4**	500,000	7,500	9.3
Cabland Lanka Limited	**0**	**0**	**0.0**	500,000	5,000	6.2
Compak Morison (Lanka) Limited	**8,000**	**80**	**0.1**	8,000	80	0.1
Credit Information Bureau of Sri Lanka**	**300**	**30**	**0.0**	300	30	0.0
Durdans Heart Surgical (Pvt) Limited	**2,100,000**	**20,475**	**31.3**	3,000,000	29,250	36.4
Koolair Ventures (Pvt) Limited	**648,500**	**4,000**	**6.1**	648,500	4,000	5.0
Lankaclear (Pvt) Limited	**100,000**	**1,000**	**1.5**	100,000	1,000	1.3
Lanka Fastners (Pvt) Limited	**0**	**0**	**0.0**	100,000	1,000	1.3
Samson Reclaim Rubbers Limited	**100,000**	**2,500**	**3.8**	100,000	2,500	3.1
Samson Rajarata Tiles Limited	**3,000,000**	**30,000**	**45.8**	3,000,000	30,000	37.4
Spade Ceramics (Pvt) Limited	**840,000**	**0**	**0.0**	840,000	0	0.0
Surakum Limited	**38,320**	**0**	**0.0**	38,320	0	0.0
		65,585	**100.0**		80,360	100.0

* *Cost is reduced by write off, of diminution in value other than temporary in respect of Investments.*
** *Par value Rs100 each.*

21.6 Quoted Redeemable Cumulative Preference Shares

	31.03.2005 Number of shares of Rs10 each	31.03.2005 Cost* Rs 000	31.03.2005 % of total cost	31.03.2004 Number of shares of Rs10 each	31.03.2004 Cost* Rs 000	31.03.2004 % of total cost
Commercial Bank of Ceylon Limited - 13%	**5,000,000**	**50,000**	**50.0**	5,000,000	50,000	50.0
Commercial Bank of Ceylon Limited - 11.25%	**5,000,000**	**50,000**	**50.0**	5,000,000	50,000	50.0
Investments in quoted preference shares - Bank		**100,000**	**100.0**		100,000	100.0
Market value of quoted preference shares - Bank Rs 91.25m						
Investments in quoted preference by subsidiaries		**0**			0	
Total investments in quoted preference shares - Group		**100,000**			100,000	

21.7 Unquoted Preference Shares

21.7.1 Unquoted Redeemable Cumulative Preference Shares

	31.03.2005 Number of shares of Rs10 each	31.03.2005 Cost* Rs 000	31.03.2005 % of total cost	31.03.2004 Number of shares of Rs10 each	31.03.2004 Cost* Rs 000	31.03.2004 % of total cost
Carson Cumberbatch & Company Limited	**17,500,000**	**175,000**	**25.6**	17,500,000	175,000	23.3
Eden Hotels Lanka Limited	**1,000,000**	**100,000**	**14.7**	0	0	0.0
Heladanavi (Pvt) Limited	**20,000,000**	**200,000**	**29.4**	20,000,000	200,000	26.7
Holcim Lanka Limited	**1,250**	**125,000**	**18.4**	2,500	250,000	33.4
Plastipak Lanka Limited	**666,667**	**6,000**	**0.9**	1,000,000	10,000	1.3
Sampath Centre Limited	**7,500,000**	**75,000**	**11.0**	7,500,000	75,000	10.0
Volanka Limited	**0**	**0**	**0.0**	4,000,000	40,000	5.3
		681,000	**100,0**		750,000	100.0

21.7.2 Unquoted Irredeemable Preference Shares

	31.03.2005 Number of shares	31.03.2005 Cost* Rs 000	31.03.2004 Number of shares	31.03.2004 Cost* Rs 000
Arpico Finance Company Limited	**50,000**	**500**	50,000	500
Total investments in unquoted preference shares - Bank		**681,500**		750,500
Investments in unquoted preference shares by subsidiaries		**171,550**		148,550
Total investments in unquoted preference shares - Group		**853,050**		899,050

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

21.7.3 Investments in Unquoted Preference Shares by Subsidiaries

	31.03.2005			31.03.2004		
	Number of shares of Rs10 each	**Cost* Rs 000**	**% of total cost**	Number of shares of Rs10 each	Cost* Rs 000	% of total cost
Ceyquartz MBI (Pvt) Limited	**2,500,000**	**25,000**	**14.6**	2,500,000	25,000	16.8
Coco Lands Limited	**1,875,000**	**18,750**	**10.9**	1,875,000	18,750	12.6
E Services Limited	**2,500,000**	**25,000**	**14.6**	2,500,000	25,000	16.8
Lanka Fastners (Pvt) Limited	**0**	**0**	**0.0**	1,700,000	17,000	11.5
Nividhu (Pvt) Limited	**3,280,000**	**32,800**	**19.1**	3,280,000	32,800	22.1
Royal Fernwood Porcelain Limited	**2,500,000**	**30,000**	**17.5**	2,500,000	30,000	20.2
Tudawe Brothers Limited	**400,000**	**40,000**	**23.3**	0	0	0
		171,550	**100.0**		148,550	100.0

21.8 Quoted Debentures

	31.03.2005		31.03.2004	
	Cost* Rs 000	**% of total cost**	Cost* Rs 000	% of total cost
Sampath Bank Limited - 13.5%	**0**	**0.0**	10,000	8.8
Seylan Bank Limited - 13.35%	**0**	**0.0**	5,000	4.4
Suntel Limited - 22%	**98,470**	**100.0**	98,470	86.8
Total quoted debentures - Bank	**98,470**	**100.0**	113,470	100.0
Market value of quoted debentures - Bank Rs98.5.m				
Investments in quoted debentures by subsidiaries	**43,500**		36,781	
Total investments in quoted debentures - Group	**141,970**		150,251	

Market value of quoted debentures - Group Rs143.1m

21.8.1 Investment in Quoted Debentures by Subsidiaries

Commercial Bank of Ceylon Limited - 9.39%	**20,000**	**46.0**	20,000	54.4
Hatton National Bank Limited - 13.75.%	**7,500**	**17.2**	7,500	20.4
Hatton National Bank Limited - 12% (2002/7)	**6,000**	**13.8**	6,000	16.3
Hatton National Bank Limited - 10%	**10,000**	**23.0**	0	0.0
Sri Lanka Telecom Limited - 14.5%	**0**	**0.0**	3,281	8.9
	43,500	**100.0**	36,781	100.0

Market value Rs44.7m

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

21.9 Unquoted Debentures

	31.03.2005 Cost* Rs 000	31.03.2005 % of total cost	31.03.2004 Cost* Rs 000	31.03.2004 % of total cost
Ocean View Limited	**2,260**	**99.8**	2,260	99.7
Riverina Hotels Limited	**4**	**0.2**	6	0.3
Total investments in unquoted debentures - Bank	**2,264**	**100.0**	2,266	100.0
Investments in unquoted debentures by subsidiaries	**116,032**		216,396	
Total investments in unquoted debentures - Group	**118,296**		218,662	

21.9.1 Investments in Unquoted Debentures by Subsidiaries

	31.03.2005 Cost * Rs 000	31.03.2005 % of total cost	31.03.2004 Cost * Rs 000	31.03.2004 % of total cost
Alutec Extrusions (Pvt) Limited	**22,500**	**19.4**	28,125	13.0
Asiri Hospitals Limited	**0**	**0**	50,000	23.1
Cabland Lanka Limited	**0**	**0**	2,000	0.9
Ceylon Hospitals Limited	**6,857**	**5.9**	8,821	4.1
Coco Lands Limited	**20,000**	**17.2**	20,000	9.2
Coco Lanka Limited	**10,000**	**8.6**	0	0.0
Gas Auto Lanka Limited	**13,175**	**11.4**	14,450	6.7
Hatton National Bank Limited 10%	**0**	**0**	10,000	4.6
Koolair Ventures Power (Pvt) Limited	**30,000**	**25.9**	30,000	13.9
Lanka Transformers Limited	**13,500**	**11.6**	18,000	8.3
Link Natural Products (Pvt) Limited	**0**	**0**	35,000	16.2
	116,032	**100.0**	216,396	100.0

21.10 Investments in Unit Trusts

	31.03.2005 Number of units	31.03.2005 Cost Rs 000	31.03.2005 % of total cost	31.03.2005 Market value Rs 000	31.03.2004 Number of units	31.03.2004 Cost Rs 000	31.03.2004 % of total cost	31.03.2004 Market value Rs 000
NAMAL Growth Fund	**4,983,050**	**48,590**	**18.1**	**103.439**	6,193,050	61,500	22.9	102,990
NAMAL Income Fund	**10,721,154**	**107,500**	**39.9**	**109,249**	10,721,154	107,500	40.0	109,785
NAMAL Money Market Fund	**7,500,000**	**75,000**	**27.9**	**76,200**	0	0	0	0
National Equity Fund	**3,580,540**	**38,048**	**14.1**	**46,583**	9,380,540	99,679	37.1	111,347
Total investments in unit trusts by Bank		**269,138**	**100.0**	**335,471**		268,679	100.0	324,122
Investments in unit trusts by subsidiaries		**62,500**		**62,163**		58,889		59,784
Total investments in unit trusts by Group		**331,638**		**397,634**		327,568		383,906

21.10.1 Investments in Unit Trusts by Subsidiaries

NAMAL Income Fund	**4,873,740**	**50,000**	**80.0**	**49,663**	4,873,740	50,000	84.9	49,371
NAMAL Money Market Fund	**1,230,315**	**12,500**	**20.0**	**12,500**	0	0	0.0	0
National Equity Fund	**0**	**0**	**0.0**	**0**	877,250	8,889	15.1	10,413
		62,500	**100.0**	**62,163**		58,889	100.0	59,784

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

22 Investment in Associate Company

	Bank		Group	
	31.03.2005	31.03.2004	**31.03.2005**	31.03.2004
	Rs 000	Rs 000	**Rs 000**	Rs 000
As previously stated	**2,632,603**	1,810,356	**2,632,603**	1,810,356
Add: Consolidation adjustment	**0**	47,974	**0**	47,974
As restated	**2,632,603**	1,858,330	**2,632,603**	1,858,330
Share of profit after tax	**306,632**	235,658	**306,632**	235,658
Less: Goodwill written off in this financial year	**2,321**	1,161	**2,321**	1,161
Gain/(losses) not recognised in the Income Statement	**314,183**	(2,161)	**314,183**	(2,161)
Gain on deemed disposal	**58**	0	**58**	0
Investment in rights issue	**0**	541,937	**0**	541,937
Share of net assets and unamortised goodwill on 31 March 2005	**3,251,155**	2,632,603	**3,251,155**	2,632,603
Market value	**4,548,342**	3,048,399	**4,548,342**	3,048,399

Ownership 27.78% (voting and non-voting ordinary shares).

23 Investments in Subsidiary Companies

	DFCC Stock Brokers (Pvt) Limited Ownership 100% subsidiary	DFCC Vardhana Bank Limited Ownership 95% subsidiary	Lanka Industrial Estates Limited Ownership 50% subsidiary	Lanka Ventures Limited Ownership 59% subsidiary	National Asset Management Limited Ownership 80% subsidiary	Bank 31.03.2005	Bank 31.03.2004
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Balance as at 31 March	52,170	472,468	130,332	482,334	95,691	**1,232,995**	852,422
Less: prior year adjustment	0	0	0	0	0	**0**	194,236
As restated	52,170	472,468	130,332	482,334	95,691	**1,232,995**	658,186
Share of profit/(loss) after tax	7,119	(27,108)	(6,549)	23,108	(4,425)	**(7,855)**	34,181
Net assets on initial acquisition	0	0	0	0	0	**0**	(202,860)
Goodwill on initial acquisition	0	0	0	0	0	**0**	262,486
Net assets on additional acquisition	0	919	0	0	0	**919**	34,691
Goodwill on additional acquisition	0	180	0	0	0	**180**	20,218
Investment in rights issue	0	120,566	0	0	0	**120,566**	450,004
Less: Goodwill written off in this financial year	668	56,554	0	0	0	**57,222**	23,911
Share of net assets and unamortised goodwill on 31 March	**58,621**	**510,471**	**123,783**	**505,442**	**91,266**	**1,289,583**	1,232,995
Market value of quoted investments				**400,396**			

Bank increased the ownership in DFCC Vardhana Bank Limited from 94.17% to 94.46%.

Bank owns 50% of the ordinary shares in Lanka Industrial Estates Limited, comprising 49% direct ownership and a 1% indirect ownership via Lanka Ventures Limited.

Bank owns approximately 59% of the ordinary shares in Lanka Ventures Limited, comprising a 58% direct ownership and a 1% indirect ownership via National Asset Management Limited.

Investment in associate and subsidiary companies are accounted under equity method. If equity method of accounting was not adopted the carrying value of the investment in associate company would be decreased by Rs1,702m and the carrying value of the subsidiary companies would be decreased by Rs202m with the corresponding reduction in reserves and retained profits.

Reconciliation	Associate	Subsidiaries
	Rs million	Rs million
Post acquisition reserves		
Retaind profit - Note 41.4	53	145
Share premium - Note 41.2	0	52
Revenue reserves - Note 41.3	1,731	17
Unamortised negative goodwill arising on acquisition	0	3
	1,784	217
Reversal of:		
Goodwill amortised	(82)	(82)
Negative goodwill amortised	0	67
	1,702	202

	Bank		Group	
	31.03.2005 Rs 000	31.03.2004 Rs 000	**31.03.2005 Rs 000**	31.03.2004 Rs 000
24 Group Balances Receivable				
DFCC Stock Brokers (Pvt) Limited	**3,311**	1,366	**0**	0
DFCC Vardhana Bank Limited	**18,573**	2,001	**0**	0
Lanka Industrial Estates Limited	**7,045**	14,090	**0**	0
National Asset Management Limited	**2,037**	1,558	**0**	0
	30,966	19,015	**0**	0
25 Receivables				
Refundable deposits and advances	**96,649**	12,079	**118,875**	30,080
Dividend receivable	**14,922**	19,818	**14,922**	21,457
Exchange loss receivable from Government of Sri Lanka	**889,235**	319,285	**889,235**	319,285
Others	**194,922**	188,619	**514,173**	267,917
	1,195,728	539,801	**1,537,205**	638,739
26 Income Tax Refund due				
Income tax overpayment	**0**	0	**0**	4,188
27 Investment Property				
27.1 Balance on 31March				
Balance at beginning on 31 March	**12,180**	187,199	**145,234**	715,037
Less: Prior year adjustment	**–**	–	**–**	392,089
As restated	**12,180**	187,199	**145,234**	322,948
Add: Additions during the year	**0**	0	**3,846**	17,406
Less: Depreciation charge for the year	**0**	0	**5,244**	4,455
Disposals during the year	**0**	175,019	**0**	190,665
	12,180	12,180	**143,836**	145,234

27.2 List of investment properties	Building sq. ft.	Extent of Land perches	Market value Rs 000
586, Galle Road, Colombo 3		20	12,180
Pattiwila Road, Sapugaskanda, Makola	280,000	20,000	532,092*
			715,037

** Valuation on 27 March 2003*

	Group 31.03.2005 Rs 000	Group 31.03.2004 Rs 000
28 Goodwill on Consolidation		
Balance as at 31 March 2004	**260,851**	2,058
Arising on consolidation	**180**	282,681
Less: Goodwill written off	**57,222**	23,888
	203,809	260,851

29 Property and Equipment

29.1 Composition: Bank

	Land & building Rs 000	Office equipment * Rs 000	Furniture & fittings Rs 000	Motor vehicles owned Rs 000	Motor vehicles finance lease Rs 000	Total Rs 000
Cost as at 31.03.2004	251,320	476,785	35,636	97,240	3,689	864,670
Additions for the year	242 **	36,275	15,863	12,513	0	64,893
Less: Disposals during the year	0	0	186	4,175	0	4,361
Cost as at 31.03.2005	251,562	513,060	51,313	105,578	3,689	925,202
Accumulated depreciation as at 31.03.2004	76,381	176,083	29,329	64,201	2,214	348,208
Charge for the year	9,146	81,730	1,643	13,353	738	106,610
Less:Accumulated depreciation on disposal	0	0	186	4,175	0	4,361
Accumulated depreciation as at 31.03.2005	85,527	257,813	30,786	73,379	2,952	450,457
Net book value as at 31.03.2005	**166,035**	**255,247**	**20,527**	**32,199**	**737**	**474,745**
Net book value as at 31.03.2004	174,939	300,702	6,307	33,039	1,475	516,462

** Office equipment includes the cost of software.*

*** Includes improvement to building.*

29.1.1 Operating lease

	Rs 000
Cost as at 31 March 2005	23,593
Less: Accumulated depreciation as at 31 March 2005	23,593
Net book value as at 31 March 2005	0

Included under owned motor vehicles

29.1.2 List of freehold land and building

	Building sq. ft.	Extent of land perches	Cost Rs 000	Accumulated depreciation Rs 000	Net book value Rs 000
73/5, Galle Road, Colombo 3	57,200	104.45	53,052	40,377	12,675
5, Deva Veediya, Kandy	46,600	12.54	12,699	3,061	9,638
259/30, Kandy Road, Bambarakelle, Nuwara Eliya	0	28.72	7,279	0	7,279
73, W A D Ramanayake Mw., Colombo 2	21,400	45.00	175,932	42,089	133,843
4A, 4th Cross Lane, Borupana, Ratmalana	0	20.00	2,600	0	2,600
			251,562	85,527	166,035

Market value of properties

	Rs million	Date of valuation
73/5, Galle Road, Colombo 3	396	31.03.05
5, Deva Veediya, Kandy	32	31.03.05
73, W A D Ramanayake Mw., Colombo 2	235	31.03.05

Valued by Mr P B Kalugalagedera - Chartered Valuer

29.2 Composition: Group

	Land & building Rs 000	Plant & machinery Rs 000	Office equipment * Rs 000	Furniture & fittings Rs 000	Motor Vehicles - owned Rs 000	Motor Vehicles - finance lease Rs 000	Total Rs 000
Cost as at 31.03.2004	306,154	42,951	739,993	75,893	111,771	3,689	1,280,451
Consolidation Adjustment	0	0	(2,058)	(1,094)	0	0	(3,152)
Additions for the year	531**	76	61,899	25,180	15,238	0	102,924
Less: Disposals during the year	0	0	4,676	299	5,620	0	10,595
Cost as at 31.03.2005	**306,685**	**43,027**	**795,158**	**99,680**	**121,389**	**3,689**	**1,369,628**
Accumulated depreciation as at 31.03.2004	91,018	38,937	340,269	56,943	74,479	2,214	603,860
Less: Prior year adjustment	(35)	(2,256)	(2,842)	(33)	0	0	(5,166)
Less:							
As restated	90,983	36,681	337,427	56,910	74,479	2,214	598,694
Consolidation Adjustment	0	0	(1,312)	(1,094)	0	0	(2,406)
Charge for the year	8,502	5,576	139,914	6,748	16,084	0	176,824
Less: Accumulated depreciation on disposals	0	0	4,644	290	5,620	0	10,554
Accumulated depreciation as at 31.03.2005	99,485	42,257	471,385	62,274	84,943	2,214	762,558
Net book value as at 31.03.2005	**207,200**	**770**	**323,773**	**37,406**	**36,446**	**1,475**	**607,070**
Net book value as at 31.03.2004	215,171	6,270	402,566	18,983	37,292	1,475	681,757

** Office equipment includes the cost of software*

*** Includes improvement to building*

	Bank		Group	
	31.03.2005 Rs 000	31.03.2004 Rs 000	**31.03.2005 Rs 000**	31.03.2004 Rs 000
30 Deposits				
Demand deposits	**0**	0	**331,161**	218,206
Savings deposits	**0**	0	**400,953**	50,975
Fixed deposits	**3,663,403**	4,717,388	**5,546,359**	5,220,971
Certificates of deposits	**116,030**	226,273	**141,284**	231,836
Others	**0**	0	**6,773**	2,496
	3,779,433	4,943,661	**6,426,530**	5,724,484
Deposits from banks	**766,380**	228,000	**1,220,143**	404,191
Deposits from non-bank customers	**3,007,231**	4,715,661	**5,173,093**	5,236,307
Deposits from finance companies	**5,822**	0	**33,294**	83,986

31 Borrowing - Medium and Long-Term

31.1 Borrowing

	Bank 31.03.2005 Rs 000	Bank 31.03.2004 Rs 000	Group 31.03.2005 Rs 000	Group 31.03.2004 Rs 000
Government of Sri Lanka loans under foreign credit lines:				
Government of Sri Lanka / IDA loans	**669,910**	874,768	**669,910**	874,768
Government of Sri Lanka / ADB loans	**3,298,006**	3,099,224	**3,298,006**	3,099,224
Government of Sri Lanka / KFW loans	**1,751,643**	2,123,055	**1,751,643**	2,123,055
Government of Sri Lanka / GOI loans	**11,975**	16,689	**11,975**	16,689
European Investment Bank	**3,175,290**	1,178,605	**3,175,290**	1,178,605
Refinance borrowing:				
Central Bank of Sri Lanka refinance loans (secured)	**2,133,885**	2,228,415	**2,133,885**	2,228,415
Government of Sri Lanka / IDA and ADB refinance of SMI loans	**1,421,792**	1,058,460	**1,421,792**	1,058,460
Government of Sri Lanka / JBIC refinance	**1,167,868**	1,212,462	**1,167,868**	1,212,462
Government of Sri Lanka / KFW refinance	**6,667**	17,770	**6,667**	17,770
Direct foreign borrowings:				
Direct loans	**594,667**	879,376	**594,667**	879,376
Floating rate notes	**4,339,732**	4,339,732	**4,339,732**	4,339,732
Development bonds redeemable	**0**	0	**0**	0
Others	**4,048,550**	2,541,252	**4,048,550**	2,541,252
	22,619,985	19,569,808	**22,619,985**	19,569,808
Liabilities denominated in foreign currency:				
- US Dollars (US$)	**82,214**	77,609	**82,214**	77,609
- Euro Dollars (EUR)	**5,030**	8,136	**5,030**	8,136
- Japanese Yen (JPY)	**605,875**	605,875	**605,875**	605,875

31.2 Supplementary information

(as required under DFCC Act No. 35 of 1955)
Government of Sri Lanka has approved and guaranteed in terms of Section 14 of DFCC Act No. 35 of 1955 borrowing by the Bank from FMO, DEG and capital market sources.

Government of Sri Lanka has guaranteed the bi-annual interest payment to floating rate note holders for the entire 10 year period.

Government of Sri Lanka has issued a counter indemnity to ADB for the principal amount of floating rate notes guaranteed by ADB.

No new guarantees have been issued during year ended 31 March 2005.

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

31.3 Assets pledged as security

Nature	Amount Rs 000
Assignment in terms of Section 88A of the Monetary Law of loans refinanced by Central Bank	2,133,885

Acronyms:

ADB - Asian Development Bank
GOI - Government of India
IDA - International Development Association
JBIC - Japan Bank for International Cooperation Fund
KFW - Kreditanstalt fur Wiederaufbau
SMI - Small and Medium Industries

	Bank		Group	
	31.03.2005 Rs 000	31.03.2004 Rs 000	**31.03.2005 Rs 000**	31.03.2004 Rs 000

32 Borrowing - Short-Term

Borrowing under repurchase agreements	**198,000**	95,016	**373,951**	532,882
Bank overdrafts	**59,279**	132,150	**87,943**	137,179
Interbank borrowing	**1,130,000**	350,000	**1,339,922**	402,235
	1,387,279	577,166	**1,801,816**	1,072,296

33 Debentures

Unsecured debentures have been issued to corporate institutions and provident funds. These debentures have been issued in the ordinary course of business of the Bank to supplement other financial resources.

34 Obligation under Finance Leases

Total minimum lease payments outstanding	**2,279**	3,718	**2,279**	3,718
Less: Interest on lease payments	**364**	951	**364**	951
Present value	**1,915**	2,767	**1,915**	2,767

Maturity profile of total minimum lease payments

Up to 1 year	**1,439**
1 to 5 years	**840**
	2,279

Maturity profile of present value

Up to 1 year	**1,129**
1 to 5 years	**786**
	1,915

The monthly lease payments are fixed for 5 years, the duration of the contract. The contract does not have any restrictive covenant on dividend declaration, additional borrowing or leasing by the Bank and includes a purchase option in favour of the Bank.

35 Group Balances Payable

DFCC Consultancy (Pvt) Ltd	**2,446**	0	**0**	0

36 Taxation

Balance before set-off of notional credit	**284,310**	113,883	**290,806**	131,933
Less: Notional tax credit	**85,924**	61,062	**85,924**	61,062
Balance on 31 March	**198,386**	52,821	**204,882**	70,871
(Payable within one year from balance sheet date)				

Notional tax credit for withholding tax on treasury bills & bonds

The Inland Revenue Act No. 38 of 2000 as amended by subsequent legislation provides that a company which derives interest income from the secondary market transactions in Government Securities (on or after April 1, 2002) would be entitled to a notional credit (being one ninth of the net interest income) provided such interest income forms part of statutory income of the Company.

37 Deferred Taxation

Balance at beginning of period	**470,324**	347,377	**471,074**	347,867
Increase/(decrease) in provision	**(8,460)**	122,947	**(9,046)**	123,207
	461,864	470,324	**462,028**	471,074

	Bank		Group	
	31.03.2005 Rs 000	31.03.2004 Rs 000	**31.03.2005 Rs 000**	31.03.2004 Rs 000

38 Other Liabilities

38.1 Composition

	31.03.2005	31.03.2004	**31.03.2005**	31.03.2004
Accruals	**77,334**	78,114	**120,627**	100,925
Unclaimed dividends	**8,785**	7,153	**9,383**	7,825
Security deposit for leases	**17,984**	21,181	**59,817**	54,582
Provision	**65,541**	76,611	**73,528**	85,325
Account payables	**165,560**	166,775	**447,854**	259,898
	335,204	349,834	**711,209**	508,555

38.2 Movement in provision

	Bank		Group	
Balance on 31 March 2004	**76,611**		**85,325**	
Add: Provision for the year	**65,541**		**66,513**	
Less: Payments	**76,611**		**78,310**	
	65,541		**73,528** *	

** Includes gratuity provision of Rs334,000 of Bank and Rs7,986,932 of subsidiaries*

39 Negative Goodwill

	31.03.2005	31.03.2004	**31.03.2005**	31.03.2004
Balance at beginning of period	**5,489**	10,870	**5,489**	10,870
Adjustment	**0**	328	**0**	328
As restated	**5,489**	10,542	**5,489**	10,542
Less: Negative goodwill recognised as income	**2,130**	5,053	**2,130**	5,053
	3,359	5,489	**3,359**	5,489

40 Share Capital

40.1 Authorised share capital

	31.03.2005	31.03.2004	**31.03.2005**	31.03.2004
500,000,000 ordinary shares of Rs10 each	**5,000,000**	5,000,000	**5,000,000**	5,000,000
Issued share capital				
57,413,283 ordinary shares of Rs10 each	**574,133**	571,458	**574,133**	571,458
Alloted and fully paid:				
57,145,823 ordinary shares (42,311,111 shares in 2004)	**571,458**	423,111	**571,458**	423,111
Bonus share issue in February 2004, 1 for every 3 held, 14,286,456 ordinary shares	**0**	142,865	**0**	142,865
Issue under share option - 267,460 ordinary shares (548,256 shares in 2004)	**2,675**	5,482	**2,675**	5,482
57,413,283 ordinary shares	**574,133**	571,458	**574,133**	571,458

Ordinary shares held by associate on 31 March 2005
Commercial Bank of Ceylon Limited - 7,779,278

40.2 Employee Share Option Plan

40.2.1 Scope and excercise price

Shareholder approval date	-	28 June 2002		
Amendment to clarify adjustment for theoretical dilution in price from Bonus/Rights issue				
Shareholder approval date	-	12 February 2004		
Total options approved	-	4.5% of the ordinary shares in issue at any given time, over a period of 5 years commencing on 31 March 2002.		
Maximum allocation per year	-	1.5% of the ordinary shares in issue as at the end of that financial year excluding any fractional amount.		

Grant date	31.03.2004	31.03.2003	31.03.2002
Award date	1 July 2004	1 July 2003	20 July 2002
Option exercise dates	1 July 2005 to 30 June 2009	1 July 2004 to 30 June 2008	20 July 2003 to 19 July 2007
Exercise price			
- Pre-bonus issue	–	Rs135.51	Rs155.60
- Post-bonus issue	Rs211.55	Rs101.63*	Rs116.70*

* *Adjusted for the theoretical dilution arising from the bonus issue of shares to the shareholders approved by the shareholders on 12 February 2004.*

40.2.2 Movement in options granted

	Numbers
Options granted in respect of:	
Year to 31.3.2002	634,631
31.3.2003	634,628
31.3.2004	857,162
31.3.2005	Nil
Adjustment for theoretical dilution in price arising from bonus shares issue on 12.2.2004	230,906
Options lapsed year to 31.3.2003	(28,207)
Total granted as at 31.3.2005	2,329,120
Options excersised:	
During year to 31.3.2004	(548,256)
31.3.2005	(267,460)
Options outstanding on 31.3.2005	1,513,404
Composition:	
Options granted in year to 31.3.2002	58,475
31.3.2003	597,767
31.3.2004	857,162
	1,513,404

41 Reserve - Bank/Group

41.1 Reconciliation of movement in reserves

	Reserve fund Rs 000	Sinking fund Rs 000	Share premium Rs 000	Revenue reserve Rs 000	Profit & Loss Account Rs 000
Balance as at 31.03.2003 as previously stated	185,000	1,425,317	955,332	4,144,915	493,661
Prior year adjustment				(183,996)	(10,240)
Consolidation adjustment				132,015	(84,041)
As restated	185,000	1,425,317	955,332	4,092,934	399,380
Profit for the year					1,355,146
Transfers	60,000	361,141		157,721	(578,862)
First & final dividend approved on 30.06.2003					(232,711)
Capitalisation - Bonus issue			(142,865)		
Issue of shares under employee share option plan			79,826		
Gains & losses not recognised in the income statement				41,562	
Balance as at 31.03.2004	245,000	1,786,458	892,293	4,292,217	942,953
Profit for the year					1,349,955
Transfers	60,000	460,410		292,076	(812,486)
First & final dividend approved on 30.06.2004					(314,319)
Gains & losses not recognised in the income statement				314,183	
Issue of shares under employee share option plan			25,361		
Balance as at 31.03.2005	**305,000**	**2,246,868**	**917,654**	**4,898,476**	**1,166,103**

Reserve fund is a statutory reserve created as per direction issued by the Central Bank of Sri Lanka under Section 79(j)(I) of the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 33 of 1995.

Computation of transfers	Rs 000
Profit after tax of the Bank - Note 10	1,051,178
Exclusion - goodwill amortisation (net)	57,413
	1,108,591
Minimum amount to be transferred @ 5%	55,430

The sinking fund is for the purpose of repaying the principal amount of floating rate notes and loan of US$5m from Asian Development Bank. The amount in the fund is in accordance with the respective loan covenants.

41.2 Composition of share premium

	Bank		Group	
	31.03.2005 Rs 000	31.03.2004 Rs 000	**31.03.2005 Rs 000**	31.03.2004 Rs 000
Bank	**865,461**	840,100	**865,461**	840,100
Share of the share premium of subsidiary companies				
Lanka Ventures Limited	**48,693**	48,693	**48,693**	48,693
National Asset Management Limited	**3,500**	3,500	**3,500**	3,500
	917,654	892,293	**917,654**	892,293

	Bank		Group	
	31.03.2005 Rs 000	31.03.2004 Rs 000	**31.03.2005 Rs 000**	31.03.2004 Rs 000
41.3 Composition of revenue reserves				
Bank	**3,150,959**	3,153,278	**3,150,959**	3,153,278
Commercial Bank of Ceylon Limited	**1,730,988**	1,122,410	**1,730,988**	1,222,410
Lanka Industrial Estates Limited	**16,324**	16,324	**16,324**	16,324
Lanka Ventures Limited	**205**	205	**205**	205
Associate/subsidiary companies	**1,747,517**	1,138,939	**1,747,517**	1,138,939
Total	**4,898,476**	4,292,217	**4,898,476**	4,292,217
41.4 Composition of retained profit				
First and final dividend proposed - Note 41.5	**315,773**	314,319	**315,773**	314,319
Retained profit	**652,114**	434,795	**652,114**	434,795
Bank	**967,887**	749,114	**967,887**	749,114
Commercial Bank of Ceylon Limited	**53,315**	41,085	**53,315**	41,085
DFCC Vardhana Bank Limited	**(72,287)**	(45,179)	**(72,287)**	(45,179)
DFCC Stock Brokers (Pvt) Limited	**46,218**	39,099	**46,218**	39,099
Lanka Industrial Estates Limited	**23,929**	30,476	**23,929**	30,476
Lanka Ventures Limited	**153,848**	130,740	**153,848**	130,740
National Asset Management Limited	**(6,807)**	(2,382)	**(6,807)**	(2,382)
Associate/subsidiary companies	**198,216**	193,839	**198,216**	193,839
Total	**1,166,103**	942,953	**1,166,103**	942,953
41.5 Dividend proposed				
Net dividend	**315,773**	312,890	**315,773**	312,890
Tax deducted at source*	**0**	1,429	**0**	1,429
Gross dividend - 55%	**315,773**	314,319	**315,773**	314,319
Dividend per share, Rs	**5.50**	5.50	**5.50**	5.50

** Nil as dividend proposed would be distributed utilising dividend recieved.*

42 Contingent Liabilities and Commitments

	Bank		Group	
	31.03.2005 Rs 000	31.03.2004 Rs 000	**31.03.2005 Rs 000**	31.03.2004 Rs 000
42.1 Contingent liabilities				
Guarantees issued to:				
DFCC Vardhana Bank Limited in respect of the indebtedness of customers	**612,000**	308,150	**230,000**	203,150
Other banks in respect of indebtedness of customers of the Bank	**50,450**	80,900	**50,450**	80,900
Companies in respect of indebtedness of customers of the Bank	**668,735**	136,270	**814,669**	136,270
Principal collector of customs (duty guarantees)	**452**	833	**6,153**	9,380
Third parties as security for commercial paper issued by customers of the Bank	**546,154**	751,152	**1,191,680**	815,093
Documentary credits	**0**	0	**231,871**	586,993
Bills for collection	**0**	0	**244,372**	83,531
Income tax*	**0**	0	**156,874**	0
42.2 Commitments in ordinary course of business				
Commitments for unutilised credit facilities	**5,196,605**	5,633,379	**5,563,431**	5,926,779
Capital expenditure approved by the Board of Directors:				
and not contracted	**76,170**	0	**80,270**	9,976
contracted	**2,710**	0	**3,850**	0
	7,153,276	6,910,684	**8,573,620**	7,852,072

* *This relates to assessments issued on Lanka Ventures Limited in May 2005 for years of assessments 1994/95 to 2001/02 and includes a penalty of Rs52.57m. The Company has obtained legal opinion to the effect that no valid assessments can be issued for the aforesaid years.*

42.3 Litigation

42.3.1 Litigation against the Bank

Bank has appealed to the High Court to set aside the award made in favour of an ex-employee by the Labour Tribunal. No material losses are anticipated as a result of the above transactions.

43 Maturity Profile of Assets and Liabilities

43.1 Definition of maturity

43.1.1 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.

43.1.2 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.

43.2 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.

43.3 Profile

	Total	Up to 3 months		3 to 12 months		1 to 3 years		3 to 5 years		> 5 years	
	Rs 000	Rs 000	%	Rs 000	%	Rs 000	%	Rs 000	%	Rs 000	%
43.3.1 Bank											
Assets with contractual maturity											
(Interest bearing assets)											
Treasury bills & other securities	**2,337,761**	382,099	16	995,138	43	804,368	34	156,156	7	–	–
Securities purchased under resale agreements	**1,051,000**	1,051,000	100	–		–		–		–	
Placements with and loans to other banks and financial institutions	**302,457**	178,675	59	1,782	1	–		122,000	40	–	
Loans	**24,413,347**	2,147,829	9	4,322,841	18	9,717,636	40	5,923,456	24	2,301,585	9
Leases	**4,113,669**	382,616	9	1,199,985	29	2,207,986	54	323,082	8	–	
	32,218,234	4,142,219	13	6,519,746	20	12,729,990	40	6,524,694	20	2,301,585	7
Other assets											
(Non interest-bearing assets)											
Cash and short-term funds	**440,618**	321,273	73	119,345	27	–		–		–	
Interest receivable	**298,428**	298,428	100	–		–		–		–	
Investment securities											
Ordinary shares/Units	**850,818**	–		–						850,818	100
Preference shares	**781,500**	34,667	4	195,750	25	354,750	45	179,167	23	17,166	2
Debentures	**98,474**	–		98,474	100	–		–		–	
Investment in associate company	**3,251,155**	–		–		–		–		3,251,155	100
Investment in subsidiary companies	**1,289,583**	–		–		–		–		1,289,583	100
Group balances receivable	**30,966**	30,966	100	–		–		–			
Prepayments	**116,379**	–		29,095	25	58,190	50	29,094	25	–	
Receivables	**1,195,728**	1,118,524	94	–		–		–		77,204	6
Investment property	**12,180**	–		–		–		–		12,180	100
Property and equipment	**474,745**	–		–		–		–		474,745	100
	8,840,574	1,803,858	20	442,664	5	412,940	5	208,261	2	5,972,851	68
Total Assets	**41,058,808**	5,946,077	15	6,962,410	17	13,142,930	32	6,732,955	16	8,274,436	20
Liabilities with contractual maturity											
(Interest bearing liabilities)											
Deposits from customers	**3,779,433**	1,275,782	34	1,982,168	52	368,699	10	152,784	4	–	
Medium and long-term	**22,619,985**	961,354	4	4,649,066	20	3,315,133	15	7,231,289	32	6,463,143	29
Short-term	**1,387,279**	1,387,279	100	–		–		–		–	
Debentures	**1,500,000**	–		–		–		–		1,500,000	100
Obligation under finance leases	**1,915**	256	13	873	46	786	41	–		–	
	29,288,612	3,624,671	12	6,632,107	23	3,684,618	13	7,384,073	25	7,963,143	27
Other liabilities											
(Non-interest bearing liabilities)											
Group balances payable	**2,446**	2,446	100	–		–		–		–	
Interest accrued	**660,703**	660,703	100	–		–		–		–	
Taxation	**198,386**	198,386	100	–		–		–		–	
Deferred taxation	**461,864**	–		–		–		461,864	100	–	
Other liabilities	**335,204**	328,634	98	1,000	0	5,570	2	–		–	
	1,658,603	1,190,169	72	1,000	0	5,570	0	461,864	28	–	
Total Liabilities	**30,947,215**	4,814,840	16	6,633,107	21	3,690,188	12	7,845,937	25	7,963,143	26

43.3.2 Group

	Total	Up to 3 months		3 to 12 months		1 to 3 years		3 to 5 years		> 5 years	
	Rs 000	Rs 000	%	Rs 000	%	Rs 000	%	Rs 000	%	Rs 000	%
Assets with contractual maturity											
(Interest bearing assets)											
Treasury bills & other securities	**2,563,830**	480,739	19	1,122,567	44	804,368	31	156,156	6	–	
Securities purchased under resale agreements	**1,459,502**	1,444,653	99	14,849	1	–		–			
Placements with and loans to other banks and financial institutions	**278,015**	94,233	34	183,782	66	–		–			
Bills of exchange discounted	**77,080**	77,080	100	–		–					
Loans	**27,014,930**	3,547,099	13	5,269,249	20	9,942,652	37	5,950,274	22	2,305,656	9
Leases	**4,113,669**	382,616	9	1,199,985	29	2,207,986	54	323,082	8	–	
	35,507,026	6,026,420	18	7,790,432	22	12,955,006	36	6,429,512	18	2,305,656	6
Other assets											
(Non interest-bearing assets)											
Cash and short-term funds	**1,021,250**	901,905	88	119,345	12	–					
Balances with Central Bank of Sri Lanka	**136,466**	136,466	100	–		–					
Interest receivable	**284,138**	284,138	100	–		–					
Investment securities											
Ordinary shares/Units	**1,065,284**	–		5,850	1	37,584	4	149,905	14	871,945	82
Preference shares	**940,550**	34,667	4	225,750	24	354,750	38	235,417	25	89,966	10
Debentures	**228,006**	5,184	2	114,026	50	68,796	30	30,000	13	10,000	4
Investment in associate company	**3,251,155**	–		–		–		–		3,251,155	100
Prepayments	**116,379**	–		29,095	25	58,190	50	29,094	25	–	
Receivables	**1,537,205**	1,439,539	94	5,554	0	5,585	0	1,116	0	85,411	6
Investment property	**143,836**	–		–		–		–		143,836	100
Goodwill on consolidation	**203,809**	14,310	7	42,929	21	113,200	56	33,370	16	–	
Property & equipment	**607,070**	149	0	462	0	1,627	0	3,089	1	601,743	99
	9,535,148	2,816,358	30	543,011	5	639,732	7	481,991	5	5,054,056	53
Total Assets	**45,042,174**	8,842,778	20	8,333,443	19	13,594,738	30	6,911,503	15	7,359,712	16
Liabilities with contractual maturity											
(Interest bearing liabilities)											
Deposits from customers	**6,426,530**	3,019,518	47	2,832,949	44	399,229	6	174,834	3	–	
Medium & long-term	**22,619,985**	961,354	4	4,649,066	20	3,315,133	15	7,231,289	32	6,463,143	29
Short-term	**1,801,816**	1,801,816	100	–		–		–		–	
Debentures	**1,500,000**	0	0	0	0	0	0	0	0	1,500,000	100
Obligation under finance leases	**1,915**	256	13	873	46	786	41	–		–	
	32,350,246	5,782,944	18	7,482,888	23	3,715,148	11	7,406,123	23	7,963,143	25
Other liabilities											
(Non-interest bearing liabilities)											
Interest accrued	**687,353**	687,353	100	–		–		–		–	
Taxation	**204,882**	203,223	99	1,659	1	–		–		–	
Deferred taxation	**462,028**	–		–		–		462,028	100	–	
Other liabilities	**711,209**	652,036	92	8,312	1	14,058	2	–		36,803	5
	2,065,472	1,542,612	75	9,971	0	14,058	1	462,028	22	36,803	2
Total Liabilities	**34,415,718**	7,325,556	21	7,492,859	22	3,729,206	11	7,868,151	23	7,999,946	23

44 Concentration of Assets and Liabilities

44.1 Concentration in the distribution of assets

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

44.1.2 Industrywise distribution of main assets are given below:

Industry sector	%
Agriculture, forestry and fishing	11.8
Mining and quarrying	0.6
Manufacture of food, beverages and tobacco	12.3
Manufacture of textiles	1.0
Manufacture of wearing apparel excluding footwear	2.9
Manufacture of leather and leather products including footwear	0.5
Wood and manufacture of wood products	1.3
Manufacture of paper products, printing, publishing and packaging	3.6
Manufacture of chemical and chemical products	0.8
Manufacture of rubber products	3.0
Manufacture of plastic products	1.7
Manufacture of non-metallic mineral products	6.4
Basic metal products	0.7
Manufacture of fabricated metal products, machinery and equipment	3.6
Electricity, gas and water industries	8.0
Construction industries	4.4
Trade	13.4
Hotels and restaurants	3.6
Transport, storage and communications	7.5
Financing, insurance, real estate and business services	9.5
Community, social and personal services	3.4
	100.0

Composition of assets	Rsm
Loans*	24,576
Lease	4,114
Investment securities	1,731
	30,421

* *Including loans to banks & excluding staff loans*

44.2 Composition of liabilities is given in Note 31.

45 Non-Performing Loans, Leases and Bills

	Bank				Group			
	2005 Rs 000	%	2004 Rs 000	%	**2005 Rs 000**	%	2004 Rs 000	%
Loans and advances	**2,239,534**		2,323,179		**2,418,881**		2,421,211	
Finance leases	**385,052**		297,660		**385,052**		297,660	
Bills of exchange discounted	**12,642**		17,582		**12,642**		17,582	
Gross exposure	**2,637,228**	8.8	2,638,421	9.9	**2,816,575**	8.7	2,736,453	9.9
Less: Interest in suspense included in overdrafts	**0**		0		**43,272**		20,578	
Net non-performing loans, advances, leases and bills	**2,637,228**	8.8	2,638,421	**9.9**	**2,773,303**	8.5	2,715,875	9.9
Less: Provision for bad and doubtful debts	**742,080**		954,888		**811,870**		1,016,169	
Net exposure	**1,895,148**	6.6	1,683,533	6.6	**1,961,433**	6.2	1,699,706	6.5
Net of tangible securities	**394,204**		77,823		**448,703**		82,046	

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

The realisable 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 precribed discounts given below, to the forced sale value based on age arrears of the loans, Financial leases, bills of exchange and other credit facilities for the purpose of determining the net exposure at risk.

Age of Arrears	Applicable discount percentageon the forced sale value
6-30 months	25%
Over 30 months and below 42 months	40%
Over 42 months and below 54 months	50%
Over 54 months and below 66 months	60%
Over 66 months	At the discretion of the management

46 Directors’ Interest in Contracts with the Bank and Related Party Transactions

46.1 Directors' interest in contracts

46.1.1 Financial facilities contracts

The Bank has entered into contracts in the normal course of business with the following enterprises in which a Director of the Bank is also a Director and/or shareholder.

A N Fonseka	National Asset Management Limited*
T N Jinasena	DFCC Vardhana Bank Limited*
M L Mack**	Acme Printing and Packaging Limited
R T Wijetilleke	Hatton National Bank Limited Sithma Development (Pvt) Limited

** Representing the Bank*
***Ceased to be a Director on 22 January 2005.*

Facilities approved by the Board of Directors in prior years have been disclosed in the year in such contracts were executed.

46.1.2 Other contracts

The Bank has leased premises owned by the spouse of the Director/Chief Executive, Mr A N Fonseka. This is in discharge of a contractual obligation by the Bank to provide suitable accommodation for the Chief Executive and family. The annual lease contract was renewed on 1 April 2004 for a further period of one year at a rental of Rs90,000 per month.

The Bank paid Rs1,170,158 to Credit Information Bureau of Sri Lanka for services obtained in which Mr A N Fonseka and Mr S N P Palihena are Directors.

The Bank has entered into an agreement with Commercial Bank of Ceylon Limited to assist Bank’s customers to open letters of credit, through Commercial Bank of Ceylon Limited. The Bank received an income of Rs617,935. Bank has provided indemnities to Commercial Bank of Ceylon Limited in respect of such letters of credit; the indemnity is however limited to the amount of facilities approved to Bank’s customers net of partial disbursements against approved facilities.

In addition, the Bank has obtained an overdraft facility of Rs500m. The Bank paid Rs101,998 as interest. Also the Bank has paid Rs426,717 to Commercial Bank of Ceylon Limited as trustee fees. Mr M J C Amarasuriya, Mr A N Fonseka and Mr M L Mack are Directors of Commercial Bank of Ceylon Limited.

The Bank paid Rs587,686 as payments for consultancy services to Ernst & Young in which Mr G A E Gunatilleke is a Director.

The Bank paid Rs2,048,880 during the year to BOC Travels (Pvt) Limited in which Mr S N P Palihena is a Director.

The Bank paid Rs86,250 as annual listing fees to Colombo Stock Exchange in which Mr A N Fonseka and Mr R T Wijetilleke are Directors.

The Bank paid Rs100,000 as annual subscription fees to The Financial Ombudsman of Sri Lanka (Guarantee) Limited.

The Bank has obtained an overdraft facility of Rs475m from DFCC Vardhana Bank Limited on which Rs430,889 has been paid as interest.

The Bank purchased goods amounting to Rs121,895 during the year from Jinasena Limited in which Mr T N Jinasena is a Director.

The Bank paid Rs389,828 during the year to National Asset Management Limited as service charges in which Mr A N Fonseka is a Director.

46.2 Related party transactions

46.2.1 The Bank carries out transactions in the ordinary course of business on an arm's length basis with companies in which a Director of the Bank singly or with the spouse, has substantial shareholding of 10% or more of the paid-up capital.

These companies, names of Directors and the nature of transactions entered into are listed below:

Party accommodated	Name of Director/position	Aggregate amount of accommodation Approved Rs m	Outstanding as at 31.03.2005 Rs m	Nature of transaction	Security
Handrookanda (Pvt) Limited	T N Jinasena Chairman	2.98	2.27	Finance Lease	Lease assets
		2.98	2.27		
Jinasena Limited	T N Jinasena Managing Director	3.00	0.71	Finance Lease	Lease assets
		3.00	0.71		

46.2.2 The Bank carries out transactions in the ordinary course of its business on an arm's length basis with companies in which a Director of the Bank has a significant influence by representation on the Board of Directors without a substantial shareholding. These companies, names of Directors and nature of transactions are listed below:

Party accommodated	Name of Director/position	Aggregate amount of accommodation Approved Rs m	Outstanding as at 31.03.2005 Rs m	Nature of transaction	Security
Ace Power Embilipitiya (Pvt) Limited	J M S Brito Chairman	397.80	384.04	Term loan (US$)	Immovable & movable property
		85.95	Not issued *	Guarantee	Immovable & movable property
		483.75	384.04		
Ace Power Generation Horana (Pvt) Limited	J M S Brito Chairman	68.00	57.80	Debenture loan	Immovable & movable property
		68.00	57.80		
Ace Power Generation Matara (Pvt) Limited	J M S Brito Chairman	197.60	168.45 *	Guarantee	Immovable & movable property
		197.60	168.45		

Party accommodated	Name of Director/position	Aggregate amount of accommodation Approved Rs m	Aggregate amount of accommodation Outstanding as at 31.03.2005 Rs m	Nature of transaction	Security
Acme Printing and Packaging Limited	M L Mack Director	154.50	71.13	Term Loan	Immovable & movable property
		70.00	70.00 *	Guarantee	Immovable property
		48.00	24.00	Term Loan	** Immovable property
		272.50	165.13		
AEN Palm Oil Processing (Pvt) Limited	J M S Brito Chairman	60.00	Not disbursed	Term Loan	Immovable & movable property
		60.00	0.00		
Aitken Spence Hotel Holdings Limited	J M S Brito Managing Director	13.00	6.07	Term loan	Movable property
		13.00	6.07		
Browns Beach Hotels Limited	J M S Brito Director	36.63	12.18	Term loan	Immovable property
		36.63	12.18 ***		
Ceylon Glass Company Limited	M R Prelis Director	250.00	156.25	Debenture Loan	Immovable property
		150.00	141.43	Term Loan	Immovable property
		400.00	297.68		
Elpitiya Plantations Limited	J M S Brito Chairman	317.29	277.50	Term loan	Immovable property
		47.00	Not disbursed	Term loan	Immovable property
		364.29	277.50		
Loadstar (Pvt) Limited	T N Jinasena Chairman	600.00	415.00	Term Loan	Immovable & movable property
		600.00	415.00		
Orient Motor Company Limited	M J C Amarasuriya Director S B Hewage Chairman	61.10	42.30	Trust certificate guaranteed by the parent Company	
		61.10	42.30		
Palm Village Hotels Limited	J M S Brito Director	10.00	9.26	Term loan	Immovable property
		10.00	9.26		
Serendib Flour Mills (Pvt) Limited	M J C Amarasuriya Chairman	500.00	201.18	Term Loan	Immovable property
		500.00	201.18		
Sithma Development (Pvt) Limited	R T Wijetilleke Chairman	250.00	Not disbursed	Term loan	Immovable property
		250.00	0.00		
The Lanka Hospital Corporation (Pvt) Limited	S N P Palihena Director	268.40	268.40 *	Guarantee	Immovable & movable property
		268.40	268.40		

* *Only indirect accommodation.*

** *Agreement to mortgage.*

*** *Includes loan of Rs 1.04mn written off for accounting purposes only.*

Mr M R Prelis and Mr M L Mack ceased to be a Director on 30th June 2004 and 22nd January 2005 respectively.

46.2.3 Intra-group transactions - Financial accommodation

The Bank provides financial accommodation to its subsidiary DFCC Vardhana Bank Limited, in the ordinary couse of business on an arm's length basis. Such transactions, if eliminated when the financial statements of DFCC Vardhana Bank are consolidated with the Bank requires no disclosure as provided in paragraph 4(a) and (b) of Sri Lanka Accounting Standard No. 30 - Related Party Disclosure.

Details of transactions which have not been eliminated on consolidation due to the differences in the financial year between the subsidiary and Bank are given below:

Short term borrowing of Rs25m from DFCC Vardhana Bank Limited secured on treasury bills.

46.2.4 Intra-group transactions - others

DFCC Vardhana Bank Limited has opened branches at DFCC Bank premises at Matara, Kurunegala, Kandy, Gampaha, Ratnapura, Anuradhapura, Badulla and at DFCC Bank Head Office premises at No. 73/5, Galle Road, Colombo 3 for which a total rent of Rs3,412,990 was charged during the year

Chief operating officer of DFCC Vardhana Bank Limited & teller operators of branches are employees of the Bank seconded for services for which a fee of Rs9,752,630 was charged during the year.

DFCC Bank maintains a call deposit account with DFCC Vardhana Bank Limited (DVB) and the amount outstanding as at 31 March 2005 was Rs121m. The interest rate is comparable to the rate DVB would charge to a non-affliated customer.

46.2.5 Investment in companies where a Director of the Bank is a Director

		As at 31.03.2005		
Company	**Name of Director/Position**	**Ordinary Shares**		**Preference Shares**
		Quoted	Unquoted	Quoted
		Rs 000	Rs 000	Rs 000
Aitken Spence & Co. Limited	J M S Brito - Deputy Chairman/ Managing Director	40,902		
Credit Information Bureau of Sri Lanka	A N Fonseka - Director S N P Palihena - Director			
Lanka Aluminium Industries Limited	M L Mack* - Director	246		
Commercial Bank of Ceylon Limited	M J C Amarasuriya - Chairman		8,884	
	M.L. Mack* - Director			
	A N Fonseka - Directors			100,000
Hatton National Bank Limited - Non Voting	R T Wijetilleke - Chairman	12,678		

**Ceased to be a Director on 22 January 2005.*

46.2.6 Key Management personnel of the Bank

The Chief Executive, Executive Vice Presidents and the Secretary to the Board of Directors constitute the key management personnel of the Bank for purposes of Sri Lanka Accounting Standard on Related Party Disclosure. The Board of Directors or the Chief Executive nominates Executive Vice Presidents and Secretary to the Board of Directors for appointment as Nominee Directors of enterprises to which facilities have been granted. Their appointment is pursuant to an agreement subsequent to the grant of the initial facility. Their appointment and tenure of office is at the sole discretion of the Board of Directors or the Chief Executive.

Under the circumstances these enterprises are not deemed to be related parties of the Bank.

47 Business Segment Information

	Lending	Financial leasing	Investing in equity	Venture capital	Commercial Banking	Other	Unallocated	Elimina-tions	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
For the year ended 31 March 2005									
Revenue									
Interest income	3,028,955	615,893	–	52,032	224,971	22,244	–	(8,136)	3,935,959
Amortisation of negative goodwill							2,130	–	2,130
Other income	404,395	–	520,677	84,196	61,036	176,106	68,149	(83,243)	1,231,315
Income from external customers	3,433,350	615,893	520,677	136,228	286,007	198,350	70,279	(91,379)	5,169,404
Inter segment income							2,677	(2,677)	–
Total income	3,433,350	615,893	520,677	136,228	286,007	198,350	72,956	(94,056)	5,169,404
Percentage*	**66**	**12**	**10**	**3**	**6**	**4**	**3**	**–**	**100**
Expense									
Segment losses	239,607	10,168	6,250	(333)	(4,133)	327			251,885
Depreciation	–	–	–	746	57,647	17,064			75,457
Other operating & interest expenses	2,013,020	308,611	–	17,125	256,469	89,790		(8,136)	2,676,879
Inter segment expense				–		2,677		(2,677)	–
	2,252,627	**318,779**	**6,250**	**17,538**	**309,983**	**109,857**		**(10,813)**	**3,004,221**
Result	**1,180,723**	**297,114**	**514,427**	**118,689**	**(23,976)**	**88,493**			**2,165,183**
Unallocated expenses									385,381
Value Added Tax on financial services									227,715
									1,552,087
Associate company profit before tax									549,577
Profit on ordinary activities before tax									**2,101,664**
Income tax on profit on ordinary activities									680,392
Profit on ordinary activities after tax									**1,421,272**
Minority interest									71,317
Profit for the year									**1,349,955**
Assets	**26,435,038**	**4,113,669**	**1,730,792**	**871,354**	**3,978,100**	**608,727**	**4,432,305**	**(378,966)**	**41,791,019**
Percentage	**63**	**10**	**4**	**2**	**10**	**1**	**11**	**(1)**	**100**
Investment in associate company									3,251,155
									45,042,174
Liabilities	**21,861,573**	**3,702,302**	**–**	**10,404**	**3,653**	**184,406**	**9,032,346**	**(378,966)**	**34,415,718**
Capital expenditure - additions				**103**	**32,306**	**5,622**			
For the year ended 31 March 2004									
Revenue									
Interest income	2,924,581	536,843	–	53,773	26,048	22,322	–	(3,469)	3,560,098
Amortisation of negative goodwill							5,053		5,053
Other income	369,378	–	414,726	33,817	9,076	199,831	198,049	(106,469)	1,118,408
Income from external customers	3,293,959	536,843	414,726	87,590	35,124	222,153	203,102	(109,938)	4,683,559
Inter segment income	–	–	–	–	–	–	717	(717)	–
Total income	3,293,959	536,843	414,726	87,590	35,124	222,153	203,819	(110,655)	4,683,559
Percentage*	**70**	**11**	**9**	**2**	**1**	**5**	**7**	**–**	**100**
Expense									
Segment losses	265,510	34,734	8,367	(6,070)	(5,804)	(1,323)		–	295,414
Depreciation	–	–	–	949	22,727	15,633		–	39,309
Other operating & interest expenses	1,948,190	275,989	–	16,476	66,598	74,825		(3,469)	2,378,609
Inter segment expense	–	–	–	–	–	717		(717)	–
	2,213,700	**310,723**	**8,367**	**11,355**	**83,521**	**89,852**		**(4,186)**	**2,713,332**
Result	**1,080,260**	**226,120**	**406,359**	**76,235**	**(48,397)**	**132,301**			**1,970,227**
Unallocated expenses									264,863
Value Added Tax on financial services									182,895
									1,522,469
Associate company profit before tax									417,327
Profit on ordinary activities before tax									**1,939,796**
Income tax on profit on ordinary activities									478,147
Profit on ordinary activities after tax									**1,461,649**
Minority interest									106,503
Profit for the year									**1,355,146**
Assets	**22,232,377**	**3,567,320**	**1,703,798**	**825,974**	**1,572,292**	**575,857**	**4,170,138**	**(19,015)**	**34,628,741**
Percentage	**64**	**10**	**5**	**2**	**5**	**2**	**12**	**–**	**100**
Investment in associate company									2,632,603
									37,261,344
Liabilities	**19,290,583**	**3,210,588**	**–**	**8,263**	**1,346**	**144,998**	**5,370,177**	**(19,015)**	**28,006,940**
Capital expenditure - additions				**2,403**	**7,393**	**3,242**			

** Net of eliminations.*

47.1 Revenue and expenses attributable to the incorporated business segments of industrial estate management unit trust management and DFCC Stock Brokers (Pvt) Limited are included in the column for other.

47.2 Revenue and expenses attributable to the business segment of DFCC Vardhana Bank is included in the column for Commercial Banking

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

47.4 Dealing securities losses and goodwill written off of subsidiary company are included in unallocated expenses.

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

48 Events after Balance Sheet date

48.1 Social Responsibility Levy

Bank is liable to pay 0.25% of income tax as social responsibility levy effective from 1 April 2005.

48.2 Options exercised by employees

8,453 options have been exercised by the employees during the post balance sheet event period. The increase in ordinary share capital corresponding to the options exercised was Rs84,530 and the increase in the share premium was Rs774,548.

48.3 Notification of new capital requirements for banks

Central Bank of Sri Lanka increased the minimum tier one capital requirement for licensed specialized bank to Rs1,500m and to Rs2,500m for licensed commercial banks. In the event of a deficit such deficit is required to be met in two stages by 31 December 2006 and 31 December 2007. Both DFCC Bank and its associate company Commercial Bank of Ceylon Limited have already met this requirement whereas DFCC Vardhana Bank Limited would need additional capital infusion to meet this requirement.

48.4 Value Added Tax on financial services

Value Added tax expense on financial services is fully disallowed in computing the taxable profit for income tax with effect from April 2005. Previously only 75% of the expense was disallowed.

48.5 Tax assesments on subsidiary

Lanka Ventures Limited received notice of intention to issue assessments prior to 31 March 2005 followed by assessments issued in May 2005. The amount of the assessment is disclosed as a contingent liability.

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

49 Restatement of Comparative Figures

Comparative figures have been restated to conform to the year ended 31 March 2005 classification.

50 Employee population - Bank

As at 31 March 2005 - 340

As at 31 March 2004 - 305

CAPITAL ADEQUACY

Introduction

This term is used to describe the adequacy of Bank's aggregate capital in relation to the risks which arise from its assets and its off balance sheet transactions. The minimum risk sensitive capital required to be maintained by the Bank is prescribed by Central Bank of Sri Lanka and is consistent with the international standards of Basel Committee on Banking Capital Regulations and Supervisory Practices. The aim is to ensure minimum capital, commensurate with risks assumed by the Bank, is maintained as a buffer to absorb credit losses.

Basis of Computation

The risk weights assigned to the on and off balance sheet assets and composition of capital are prescribed by Central Bank of Sri Lanka. Consolidated financial statements are used for this computation.

Capital to Risk Weighted Assets Ratio

		Actual	
	Minimum Requirement	**31.03.2005**	31.03.2004
Tier 1 (%)	5.0	**25.1**	26.8
Tier 2 (%)		**0.4**	0.1
Tier 1 and Tier 2 (%)		**25.5**	26.9
Deductions (%)		**8.0**	8.3
Capital base (%)	10.0	**17.5**	18.6

Investments in the regulatory capital of other banks are deducted from the capital base. Consequently the ratio of capital base to risk weighted assets is lower than Tier 1 capital ratio.

Details of Computation

Capital Base	**31.03.2005**	31.03.2004
	Rs 000	Rs 000
Tier 1 : Core Capital		
Paid up ordinary shares	**574,133**	571,458
Share premium	**917,654**	892,293
Statutory reserve fund	**305,000**	245,000
Published retained profits	**1,166,103**	942,953
General & other reserves	**6,831,134**	6,078,676
Minority Interest	**514,863**	518,536
	10,308,887	9,248,916
Less: Deductions		
Goodwill	**203,809**	260,851
Total Tier 1 capital	**10,105,078**	8,988,065
Tier 2: Supplementary Capital		
Reveluation reserve (as approved by the Central Bank of SriLanka)	**137,190**	0
General provision	**36,999**	40,874
Tier 1 and Tier 2	**10,279,267**	9,028,939
Less: Deductions		
Investments in capital of other banks		
Commercial Bank	**3,174,131**	2,732,603
Other Banks	**52,074**	54,028
Capital base	**7,053,062**	6,242,308

Risk Weighted Assets and Off Balance Sheet Exposure

Balance Sheet Assets	31.03.2005 Rs 000	31.03.2004 Rs 000	Risk Weights %	Risk Weighted Balance 31.03.2005 Rs 000	Risk Weighted Balance 31.03.2004 Rs 000
Cash, treasury bills & other securities eligible for rediscounting with Central Bank	**2,688,820**	2,487,286	0	**0**	0
Securities purchased under resale agreements	**1,459,502**	852,684	0	**0**	0
Textile debt restructure fund	**155,799**	197,331	0	**0**	0
Balances due from Central Bank	**136,466**	50,309	0	**0**	0
Loans against cash deposits	**385,845**	151,384	0	**0**	0
Bank balances	**80,244**	204,927	20	**16,048**	40,985
Due from banks abroad	**302,998**	45,934	20	**60,600**	9,187
Placements with and loans to other banks and financial institutions	**789,080**	983,495	20	**157,816**	196,699
Loans guaranteed by SLECIC	**6,023**	1,088	50	**3,011**	544
Dealing securities	**0**	1,314	100	**0**	1,314
Other loans, bills of exchange, finance lease and interest receivable	**30,979,148**	25,597,694	100	**30,979,148**	25,597,694
Other investments (excluding items deducted from total capital)	**2,402,621**	2,211,132	100	**2,402,621**	2,211,132
Property and equipment	**607,070**	681,757	100	**607,070**	681,757
Prepayments and other receivables	**1,655,543**	788,401	100	**1,655,543**	788,401
Total assets	**41,649,159**	34,254,736		**35,881,857**	29,527,713

Off Balance Sheet Exposure	Credit Conversion Factor %	31.03.2005 Rs 000	31.03.2004 Rs 000	Risk Weights %	Risk Weighted Credit Equivalent 31.03.2005 Rs 000	Risk Weighted Credit Equivalent 31.03.2004 Rs 000
General guarantee of indebtness	100	**1,401,187**	1,024,153	100	**1,401,187**	1,024,153
Performance bonds, bid bonds and warranties	50	**294,003**	181,912	100	**147,002**	90,956
Shipping guarantees	20	**431,296**	8,547	100	**86,259**	1,709
Documentary letters of credit	20	**231,871**	586,993	100	**46,374**	117,399
Trade related acceptances	20	**166,465**	30,184	100	**33,293**	6,037
Others - Bills on collection	20	**244,372**	83,531	100	**48,874**	16,706
Undrawn term loans	50	**5,007,531**	5,482,515	100	**2,503,766**	2,741,258
Others - undrawn lease facilities	50	**264,074**	152,065	100	**132,037**	76,033
Undrawn overdraft facilities	0	**291,826**	162,550	100	**0**	0
Formal standby facilities and credit lines	0	**0**	129,646	100	**0**	0
Total off balance sheet exposure		**8,332,625**	7,842,096		**4,398,792**	4,074,251
Total risk weighted assets and off balance sheet exposure					**40,280,649**	33,601,964

Reconciliation with Balance Sheet

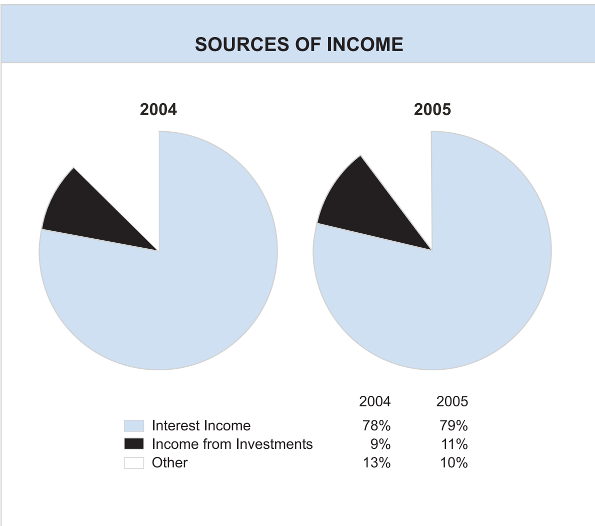
Capital excludes revaluation reserve of Rs314m and negative goodwill, a deferred income.

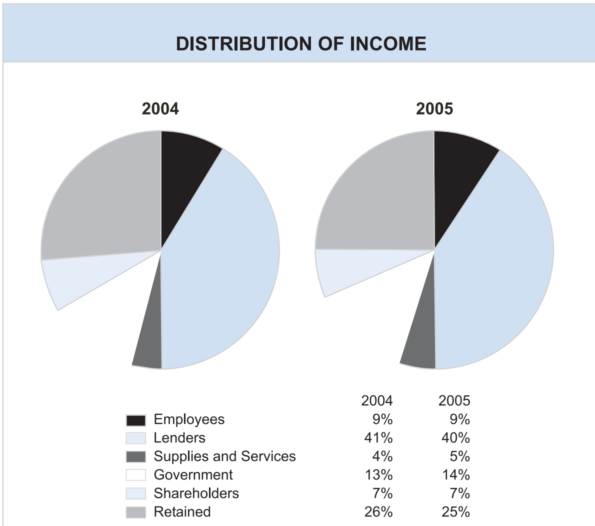
STATEMENT OF VALUE ADDED - BANK

For the year ended 31 March		**2005**			2004	
		Rs million	**%**		Rs million	%
Value Added						
Gross income		**4,641**			4,444	
Cost of borrowing and support services		**(2,103)**			(1,998)	
Provision for bad debts and investments		**(256)**			(308)	
		2,282			2,138	
Value Allocated						
To employees						
Salaries, wages and other benefits		**438**	**19**		394	19
To providers of capital						
Dividends to shareholders		**316**	**14**		314	15
To government						
Income tax on profit	**404**			385		
Value Added Tax on Financial Services	**225**	**629**	**28**	182	567	27
To expansion and growth						
Retained income	**792**			791		
Depreciation	**107**	**899**	**39**	72	863	39
		2,282	**100**		2,138	100

SOURCES AND DISTRIBUTION OF INCOME - BANK

For the year ended 31 March	2001	2002	2003	2004	**2005**
			Rupees million		
Sources of Income					
Interest income	3,177	3,844	3,495	3,461	**3,645**
Income from investments	313	280	354	414	**521**
Other	178	187	332	569	**475**
	3,668	4,311	4,181	4,444	**4,641**
Distribution of Income					
To employees as emoluments	215	257	313	394	**438**
To lenders as interest	1,935	2,200	2,091	1,819	**1,873**
To providers of supplies and services	129	132	192	179	**230**
To government as taxation	348	526	277	567	**629**
To shareholders as dividends	159	212	233	314	**316**
Retained in the business:					
Depreciation set aside	51	48	78	72	**107**
Provision for losses	618	516	374	308	**256**
Reserves	213	420	623	791	**792**
	3,668	4,311	4,181	4,444	**4,641**



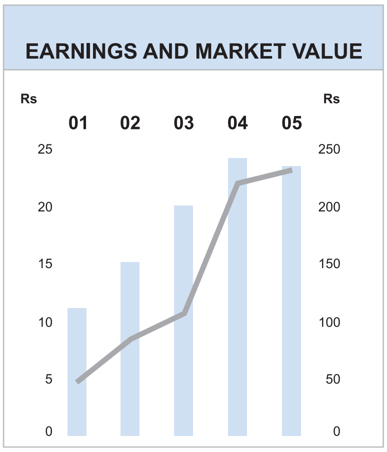


TEN YEAR SUMMARY

Bank *Year ended 31 March*	1996	1997	1998	1999	2000	2001	2002	2003	2004	**2005**
					Rupees million					
OPERATING RESULTS										
Total income (net of TT & NSL)	2,265	2,411	2,762	2,949	3,446	3,452	4,037	4,113	4,444	**4,641**
Profit before tax	818	622	942	913	733	818	1,259	1,459	1,872	**2,018**
Income tax	334	206	350	241	203	190	401	327	517	**668**
Profit after tax	484	416	592	672	530	627	857	1,131	1,355	**1,350**
BALANCE SHEET										
Assets										
Cash, short-term funds & securities	1,975	2,352	1,164	2,877	1,631	1,394	2,359	2,398	2,675	**2,778**
Dealing securities	0	0	0	0	0	3	4	3	1	**0**
Receivables	197	194	286	601	508	533	666	914	909	**1,642**
Placements with and loans to Banks and financial institutions	0	0	0	1,175	651	325	0	0	500	**302**
Securities purchased under resale agreement	0	0	0	0	23	288	569	48	26	**1,051**
Bills of exchange discounted	482	247	161	38	23	23	23	23	18	13
Loans	9,395	10,857	12,426	14,877	15,989	17,878	17,982	19,515	22,386	**25,213**
Finance leases	1,800	1,970	2,039	2,066	2,009	1,932	1,859	2,445	3,742	**4,296**
Provisions	(327)	(464)	(710)	(225)	(374)	(633)	(757)	(949)	(1,077)	**(995)**
Net of provisions	11,350	12,610	13,916	16,756	17,647	19,200	19,107	21,034	25,069	**28,527**
Investment securities	1,383	1,446	2,004	1,865	1,474	1,784	2,102	1,802	1,704	**1,731**
Investment in associate/subsidiary companies	396	344	1,525	1,695	1,851	2,104	2,351	2,663	3,866	**4,541**
Investment property	0	0	0	0	0	0	187	187	12	**12**
Property and equipment	64	75	100	265	285	277	265	378	516	**475**
	15,365	17,021	18,995	25,234	24,070	25,908	27,610	29,427	35,278	**41,059**
Negative goodwill	0	0	0	52	40	27	23	11	6	**3**
Liabilities										
Shareholders' funds	3,717	4,028	4,665	4,991	5,413	5,745	6,659	7,627	8,730	**10,108**
Medium/long-term borrowing and debentures	10,958	11,746	12,750	17,424	17,279	17,841	17,892	16,775	19,570	**24,120**
Customer deposits	0	0	0	555	314	558	1,562	2,868	4,944	**3,780**
Short-term borrowing	0	0	0	1,140	0	796	398	1,143	577	**1,387**
	10,958	11,746	12,750	19,119	17,593	19,195	19,852	20,786	25,091	**29,287**
Other liabilities	690	1,247	1,580	1,072	1,024	941	1,076	1,003	1,451	**1,661**
	15,365	17,021	18,995	25,234	24,070	25,908	27,610	29,427	35,278	**41,059**
Return on shareholders' funds, %	13.7	10.7	13.6	13.9	10.2	11.2	13.8	15.8	16.6	**14.3**
Return on total assets, %	3.6	2.6	3.3	3.0	2.1	2.5	3.2	4.0	4.2	**3.5**
Earnings per share, Rs	8.58	7.37	10.51	11.91	9.39	11.12	15.20	20.05	23.80	**23.56**
Market value per share, Rs	184.82	133.79	135.53	66.88	59.38	46.88	84.00	106.50	219.50	**231.75**
Price earnings ratio	21.5	18.2	12.9	5.6	6.3	4.2	5.5	5.3	9.2	**9.8**
Rate of dividend, %	35.0	35.0	35.0	40.0	40.0	45.0	50.0	55.0	55.0	**55.0**
Dividend cover, times	3.3	2.8	4.0	4.0	3.1	3.3	3.0	3.7	3.5	**3.5**
Gross dividend, Rsm	105.8	105.8	123.4	141.0	141.0	159.0	212.0	233.0	314.3	**315.8**
Liquid assets to liabilities %	0	0	0	0	0	0	0	0	28	**38**

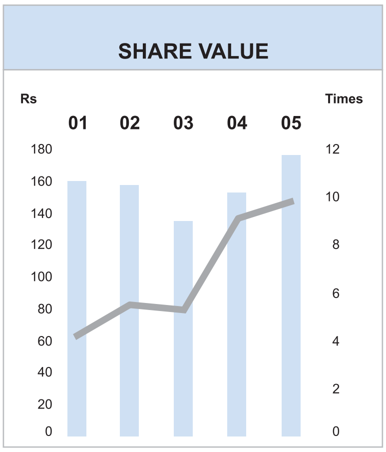
(as specified in the banking Act No. 30 of 1988).

PERFORMANCE OF THE SHARE



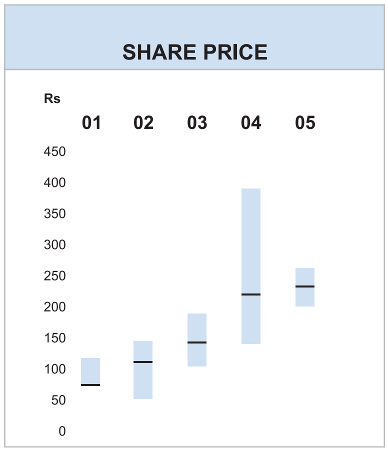
Year ended 31 March

Earnings per Share
Market Value per Share



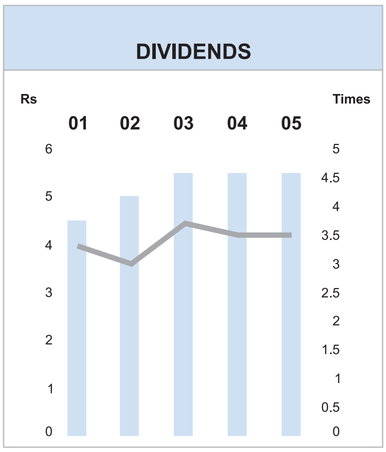
Year ended 31 March

Net Assets per Share
Price Earnings Ratio



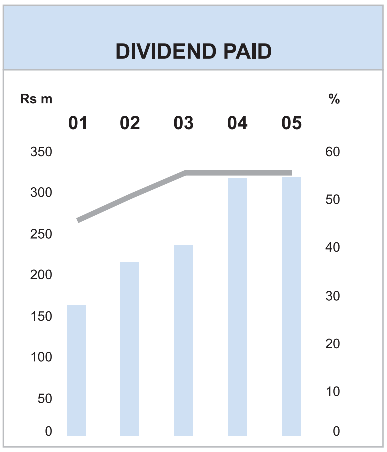
Year ended 31 March

Range
Price Last Transacted



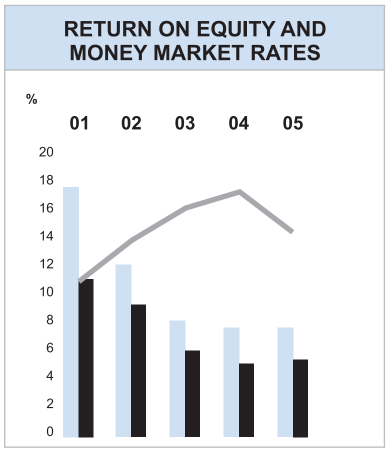
Year ended 31 March

Dividends per Share
Dividend Cover



Year ended 31 March

Gross Dividend
Rate of Dividend



Year ended 31 March

Average 12 Month Bill Rate
Average Commercial Bank Deposit Rate
DFCC Return on Shareholders' Funds

SHARE INFORMATION

Year ended 31 March	**2005**	2004
Earnings		
Earnings per share, Basic, Rs	**23.56**	23.80 *
Price earnings ratio, times	**9.8**	9.2 **
Dividends		
First and final dividend, Rs m	**315.77**	314.32
Rate of dividend, %	**55.00**	55.00
Dividend per share, Rs	**5.50**	5.50
Book Value - Bank		
Net assets per share on 31 March, Rs	**176.12**	152.87 ***
Price Indices		
CSE All Share Price Index	**1,751.88**	1,284.2
Milanka Price Index	**2,392.19**	2,021.0
Share Prices		
Lowest, Rs	**200.00 (06.04.04)**	140.00 (01.04.03)
Highest, Rs	**260.00 (30.03.05)**	385.50 (13.10.03)
Last transaction, Rs	**231.75 (31.03.05)**	219.50 (31.03.04)
Market Capitalisation		
Value, Rs m	**13,298**	12,544
% of market	**2.96**	3.99
Rank	**6**	4
Value of Shares Traded		
Value, Rs m	**889**	3,977
% of total trading	**1.20**	4.86
Rank	**20**	5
Days Traded		
Number of days traded	**226**	240
Total number of market days	**238**	241
% of market days traded	**94.96**	99.59
Frequency of Shares Traded		
Number of transactions	**1,915**	5,856
% of total frequency	**0.24**	1.07
Rank	**81**	24

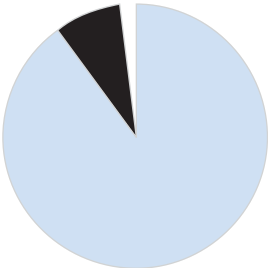
Note:

* *Restated figures for FYE 2003/2004 (Rs22.70 before restatement.)*

** *Restated figures for FYE 2003/2004 (9.7 times before restatement.)*

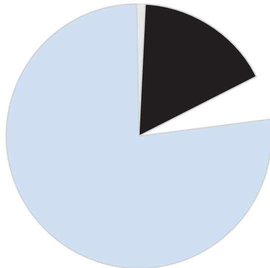
*** *Restated figures for FYE 2003/2004 (Rs154.35 before restatement.)*

SHAREHOLDERS	SHAREHOLDING	OWNERSHIP



1,000 shares or less	90%
1,000 - 5,000 shares	8%
Greater than 5,000 shares	2%

1,000 shares or less	3%
1,000 - 5,000 shares	2%
Greater than 5,000 shares	95%



Foreign Individuals	1%
Foreign Institutions	17%
Sri Lankan Individuals	5%
Sri Lankan Institutions	77%

Size-wise Distribution of Shareholding

Number of Shares	As at 31 March 2005			As at 31 March 2004		
	No. of Holders	**Total Holding**	**%**	No. of Holders	Total Holding	%
01 - 1,000	**6,172**	**1,613,552**	**2.81**	6,201	1,651,907	2.89
1,001 - 5,000	**539**	**1,107,472**	**1.93**	578	1,175,553	2.06
5,001 - 10,000	**75**	**516,261**	**0.90**	82	574,229	1.0
10,001 - 50,000	**62**	**1,162,492**	**2.02**	61	1,220,224	2.14
50,001 - 100,000	**8**	**571,201**	**0.99**	11	759,516	1.33
100,001 - 500,000	**12**	**2,908,012**	**5.07**	13	3,333,612	5.83
500,001 - 1,000,000	**1**	**995,800**	**1.73**	2	1,579,066	2.76
Greater than 1,000,000	**11**	**48,538,493**	**84.54**	8	46,851,716	81.99
Total	**6,880**	**57,413,283**	**100.00**	6,956	57,145,823	100.00

Ownership

Shareholding %	As at 31 March 2005			As at 31 March 2004		
	Foreign	**Sri Lankan**	**Total**	Foreign	Sri Lankan	Total
Individuals	**1.13**	**5.28**	**6.41**	0.07	6.81	6.88
Institutions	**16.57**	**77.02**	**93.59**	17.07	76.05	93.12
Total	**17.70**	**82.30**	**100.00**	17.14	82.86	100.00

As per the Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at 31.03.2005 was 37.82% (47.61% as at 31.03.2004).

Twenty Major Shareholders of the DFCC Bank as at 31 March 2005 are given below:

Name of Shareholder/Company Name as at 31 March 2005

	2005 No. of Shares	2005 %	Cumu-lative%	2004 No. of Shares	2004 %
Bank of Ceylon	**8,453,333**	**14.72**	**14.72**	8,453,332	14.79
Commercial Bank of Ceylon Limited A/c. No. 1	**7,770,278**	**13.53**	**28.26**	7,873,678	13.78
Hatton National Bank Limited A/c. No. 1	**7,054,025**	**12.29**	**40.54**	7,054,025	12.34
Sri Lanka Insurance Corporation Limited - Life Fund	**6,523,096**	**11.36**	**51.91**	6,523,096	11.41
Readywear Industries Limited	**5,861,100**	**10.21**	**62.11**	4,996,789	8.74
Distilleries Company of Sri Lanka Limited	**3,736,724**	**6.51**	**68.62**	3,736,724	6.54
Seafeld International Limited	**3,397,066**	**5.92**	**74.54**	–	–
HSBC Int. Nominees Limited/DEG - Deutsche Investitions - Und Entwicklungsgesellschaft M6	**2,462,572**	**4.29**	**78.83**	3,145,672	5.50
National Savings Bank	**1,766,533**	**3.08**	**81.91**	1,671,333	2.93
HSBC Intl Nom Limited - SSBT - Aberdeen Global Asia Pacific Fund QM11	**1,513,766**	**2.64**	**84.54**	455,200	0.81
HSBC Intl Nominees Limited - BPSS LDN - Aberdeen Far East - Emg Eco Unit Trust	**995,800**	**1.73**	**86.28**	990,800	1.73
Bank of Ceylon A/c. Ceybank Unit Trust	**442,214**	**0.77**	**87.05**	367,414	0.64
HSBC Intl Nominees Limited - SSBTL - Aberdeen Asia Smaller Co. Inv. Trust XC	**400,000**	**0.70**	**87.74**	400,000	0.71
HSBC Intl Nominees Limited - SSBTL - Aberdeen New Dawn Inv Trust XCC6	**400,000**	**0.70**	**88.44**	400,000	0.71
HSBC Intl Nominees Limited - BPSS LDN - Aberdeen Investment Fund ICVC Aberdeen Emerging Marke	**333,333**	**0.58**	**89.02**		
Sri Lanka Insurance Corp. Limited - General Fund	**276,400**	**0.48**	**89.50**	276,400	0.48
Hatton National Bank Limited A/c. No. 2	**229,225**	**0.40**	**89.90**	229,225	0.40
Hongkong and Shanghai Banking Corp. - Common Trust Equity Fund	**210,541**	**0.37**	**90.27**	210,241	0.37
National Development Bank of Sri Lanka A/c. No. 03	**133,333**	**0.23**	**90.50**	133,333	0.23
Trustees of the ANCL Provident Fund	**130,837**	**0.23**	**90.73**	130,837	0.22
	52,090,176			47,048,099	
Unregistered Shares				3,397,066	5.94
Other Shareholders	**5,323,107**	**9.27**	**100.00**	6,700,658	11.72
Total	**57,413,283**			57,145,823	100.00

NOTES

NOTES

NOTES

The Annual General Meeting will be held at the Galle Face Hotel, Colombo 3, on 30 June 2005.
Details of the business of the meeting and other information are contained in the booklet enclosed with this Annual Report.

NAME OF COMPANY
DFCC Bank

LEGAL FORM
A quoted public company with limited liability incorporated by Development Finance Corporation of Ceylon Act No. 35 of 1955.
A licensed specialised bank under the Banking Act No. 30 of 1988.

CREDIT RATING
The Bank has received AA (Sri) credit rating from Fitch Ratings Lanka Limited.

BOARD SECRETARY
T Wijemanna

LAWYERS
F J & G De Saram
Attorneys-at-Law

AUDITORS
KPMG Ford, Rhodes, Thornton & Co.
Chartered Accountants

BANKERS
Bank of Ceylon
Commercial Bank of Ceylon Ltd.
DFCC Vardhana Bank Ltd.

VAT REGISTRATION NO.
409000088 7000

HEAD OFFICE
DFCC Building, P O Box 1397
73/5, Galle Road, Colombo 3.
Telephone: 94-11-2442442
Fax: 94-11-2440376
E-mail: info@dfccbank.com
Website: http://www.dfccbank.com

DFCC BANK'S OTHER OFFICES

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249, Maithripala Senanayake Road
Anuradhapura.
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Fax: 025-2223417

Badulla
14, Udayaraja Mawatha
Badulla.
Telephone: 055-2230160
Fax: 055-2230163

Colombo
73, W A D Ramanayake Mawatha
Colombo 2.
Telephone: 2305560
Fax: 2305579

Gampaha
123, Bauddhaloka Mawatha
Gampaha.
Telephone: 033-2226104
Fax: 033-2226104

Kaduruwela
626, Main Street
Kaduruwela.
Telephone: 027-2225858
Fax: 027-2225858

Kalutara
270/1/1, Main Street
Kalutara South.
Telephone: 034-2236363
Fax: 034-2236364

Kandy
5, Deva Veediya
Kandy.
Telephone: 081-2234411
Fax: 081-2228460

Kurunegala
67, Colombo Road
Kurunegala.
Telephone: 037-2224142, 037-2224461/2
Fax: 037-2224142

Malabe
7, Athurugiriya Road
Malabe.
Telephone: 2442714
Fax: 2442713

Matara
26 1/1, Anagarika Dharmapala Mawatha
Matara.
Telephone: 041-2225500/1
Fax: 041-2222585

Ratnapura
46, Bandaranaike Mawatha
Ratnapura.
Telephone: 045-2223667/9
Fax: 045-2223670

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