DFCC BANK PLC

Annual Report

2015

DFCC BANK

Keep Growing

Vision

"To be the leading financial solutions provider sustainably developing individuals and businesses"

Mission

"To provide innovative and responsible solutions true to our Values with the expertise of our multidisciplinary team of professionals and synergies of our financial services group"

Our Values

Innovative
Customer Centric
Professional
Ethical
Accountable
Team Oriented
Socially Responsible

"The stylised 'V' in our new logo represents Vardhana, but it also stands for many other things. It stands for our values, our vision, our past and the future victories and in a slight marketing twist, a small 'tick' to remind people that DFCC Bank is always their right choice."

DFCC BANK

Keep Growing

About this Report

This is our fourth consecutive Integrated Annual Report, one which also builds further on the triple bottom line reporting we had adopted a few years earlier. As an integrated report, it is a concise communication about how our strategy, governance, performance and prospects, in the context of the external environment, lead to the creation of value over time.

Value Creation and Capital Formation

The ability of an organisation to create sustainable value for itself depends on the value it creates for its stakeholders, making value creation essentially a two-way process. In fact, the more value an organisation creates, the more value it is able to create for itself. Therefore firms spend substantial resources on creating and maintaining relationships with their stakeholders. Value creation leads to capital formation. As a store of value, capital takes on a broader meaning in integrated reporting and constitutes the resources and relationships used and affected by an organisation. We classify capital that is owned by the organisation as being ‘internal’ capital, while capital that is not owned as ‘external’ capital. Ownership is irrelevant here as long as the organisation has access to and uses all forms of its capital to create sustainable value for itself and its stakeholders.

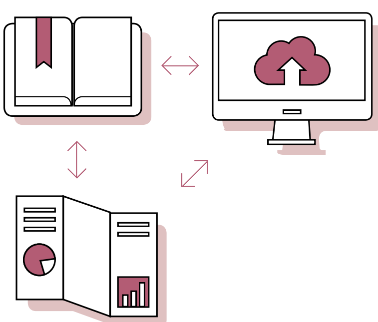
Our Management Discussion and Analysis is thus structured likewise, based on value creation and capital formation.

Comprehensive and Yet Concise

Taking forward the approach to reporting adopted last year, this report balances the need to communicate effectively through concise, relevant information (to a large and diverse stakeholder group), while at the same time providing comprehensive compliance-related disclosures (that would interest only a few). We are thus presenting our Annual Report 2015 in three primary formats:

- a concise report (what you are now reading) in print and CD formats which meets compliance requirements while communicating with an audience looking for the essentials in a nutshell;
- a comprehensive report for a universal audience in online html format *[http://dfcc2015.annualreports.lk];* and
- a condensed ‘annual snapshot’ in print and pdf formats that communicates across a broad spectrum of current and potential stakeholders.

Going beyond mere ‘annual’ reporting we are also striving for a more ‘current’ format for reporting and are upgrading our corporate website with a focus on investor relations, duly supplemented by an investor relations app for smart phones and other devices.



Reporting Period

Consequent to the change of the financial year-end to 31 December from 31 March following the amalgamation with DFCC Vardhana Bank PLC and obtaining the commercial banking license, this DFCC Bank Annual Report 2015 covers the nine month period from 1 April 2015 to 31 December 2015 (period under review) and is different from our usual annual reporting cycle for financial and sustainability reporting adopted up to 31 March 2015. The previous Annual Report covered the period 1 April 2014 to 31 March 2015 (previous year), and is available on our website (www.dfcc.lk) along with quarterly filings and older Annual Reports. Some of the consolidated entities have a 31 March financial year-end and they are consolidated with DFCC Bank’s reporting period with a three month time lag. A summary of the accounting periods covered by the Statement of Profit or Loss and Other Comprehensive Income in the Bank and the Group columns is given in the Financial Report (page 123).

Report Boundary

Consequent to the amalgamation, our reporting covers DFCC Bank PLC (‘DFCC Bank’ or ‘Bank’) and the DFCC Bank Group (‘Group’) comprising the Bank and its subsidiaries, a joint venture company and an associate company. The respective entities are duly identified where applicable.

Compliance

As declared on page 119 the Board of Directors of DFCC Bank, in the spirit of good governance, accepts responsibility for the entirety of this Annual Report 2015.

The information contained herein, as in the past, is in compliance with all applicable laws, regulations and standards. Additional details are given in the Corporate Governance Report (page 89), Financial Statements and the Notes thereon (page 122) and the Independent Auditors’ Report (page 121).

In addition, we have drawn on concepts, principles and guidance from the Global Reporting Initiative (GRI) Sustainability Guidelines G4, the International Integrated Reporting Framework and the Smart Integrated Reporting Methodology™ in producing this Report.

Precautionary Principle

We take due cognisance of the social and environmental consequences of our actions, both direct and indirect. The latter are more significant and they arise from our lending operations, which are addressed through credit policies, the Social & Environment Management System (SEMS), post-disbursement supervision and risk management processes.

Comparability

The basis for reporting on subsidiaries, joint ventures and other entities, leased facilities, outsourced operations as well as any restatements and significant changes from previous reporting periods in the scope, boundary or measurement methods are disclosed where appropriate. They are in compliance with the reporting standards disclosed in the Financial Reports.

Queries

We welcome your comments or questions on this Report. You may contact the Secretary to the Board at our Head Office via email or snail mail through the contact details given under Corporate Information.

SCAN to view the online version
http://dfcc2015.annualreports.lk

Highlights

Broadbased The Utility Payment Solution

More utility providers and corporates joined the payment scheme

Consolidated The Two Core Banking Solutions

The best of both systems were unified, thus achieving true synergy

Amalgamated DFCC Bank and DFCC Vardhana Bank

DFCC Bank PLC is the surviving entity

Celebrated DFCC Bank's 60th Anniversary

Events for customers and other stakeholders held in all the Regions

Launched The Tea Integrated Payment System

A groundbreaking supplier settlement system to serve Sri Lanka's large community of private tea manufacturers and tea leaf suppliers

Developed The Mobile Wallet Solution

A convenient electronic payment and fund management solution that allows users to send and receive funds through their mobile devices instantly

Established DFCC Bank's First Ever 'Automated Branch'

at the newly refurbished premises in Negombo

Upgraded Sri Lanka Postal Units

to fully-fledged branches

Financial Highlights

Group

LKR million	9 months ended 31 December 2015	Based on current SLFRS — Year ended 31 March 2015	2014	2013	2012
Operating Results					
Total income	**17,503**	20,094	20,376	16,630	12,231
Profit before tax	**2,553**	5,416	4,117	4,431	3,674
Tax expense	**912**	977	902	870	628
Profit attributable to equity holders of the Bank	**1,592**	4,362	3,151	3,494	2,966
Statement of Financial Position					
Assets					
Cash and short-term funds	**4,316**	6,855	8,043	11,625	5,054
Loans to and receivables from banks and other customers	**164,945**	138,887	117,716	102,477	87,827
Financial investments	**66,861**	56,699	40,976	27,648	24,433
Investments in associate and joint venture	**1,248**	1,188	1,029	901	950
Other assets	**9,739**	6,981	7,231	6,628	4,992
Total assets	**247,109**	210,610	174,995	149,279	123,256
Liabilities					
Due to other customers	**110,551**	92,712	80,917	62,878	45,682
Other borrowing	**87,381**	65,874	50,075	46,012	42,492
Other liabilities	**5,208**	3,761	3,549	3,265	2,317
Equity					
Total equity attributable to equity holders of the Bank	**43,716**	47,909	40,121	36,814	32,472
Non-controlling interests	**253**	354	333	310	293
Total equity and liabilities	**247,109**	210,610	174,995	149,279	123,256
Return on equity, %*	**5.6**	14.0	10.9	13.1	10.7
Return on total assets, %*	**0.8**	2.5	2.1	2.8	3.0
Earnings per share, LKR	**6.01**	16.46	11.89	13.18	11.19
Net asset value per share, LKR	**164.90**	180.72	151.34	138.87	122.49
Capital adequacy					
Core capital ratio, %	**15.39**	17.71	18.71	20.84	21.05
Total capital ratio, %	**15.32**	16.62	17.19	19.37	19.88

**After eliminating fair value reserve.*

Message from the Chairman

The amalgamation between DFCC and Vardhana has achieved a unique blending of a 60-year heritage in development banking skills with the energetic dynamism of Sri Lanka's fastest growing commercial bank. It has therefore created an entity that is far greater than the sum of its two parts making a larger bank, with a new dynamism and vision.

Dear Shareholders,

In my message last year, I said that the year 2015 would be special. It turned out to be just that – a year in which DFCC Bank underwent transformations and celebrated its Diamond Jubilee. DFCC Bank merged with DFCC Vardhana Bank on 1 October, coinciding almost to the day with our 60th Anniversary which fell on 4 October. The amalgamation of the Banks also entailed the advancement of the financial year-end from 31 March to 31 December.

Although both Banks were operationally merged in many areas prior to amalgamation, the amalgamation itself was a painstaking process and the fact that it was achieved on schedule speaks volumes for the commitment, co-operation and support extended by the various stakeholders involved. I must specially thank the employees of the two Banks, the regulators and you, our shareholders, who ensured that the amalgamation on the 1st of October took place almost seamlessly without disruption to customers of both banks.

Before commenting on what DFCC Bank will deliver, going forward, I would like to review our financial performance for the nine months ended 31 December, a full analysis of which is given in the section of this Report covering Value Creation and Internal Capital Formation.

As mentioned earlier, this year, as a result of our advancing the financial year-end to 31 December 2015, the reporting period for DFCC Bank has been reduced to nine months. The comparisons are between a nine month period along with the previous 12 month period. Net profit after tax for the nine months ended December 2015 was LKR 1,642 million at Group level and LKR 1,068 million at the Bank level as against LKR 4,439 million and LKR 3,240 million respectively for the 12 months ended 31 March 2015. The comparison is, however, distorted by the fact that FYE 31 March 2015 included some substantial one-off capital gains and impairment reversals and that the period ended 31 December 2015, encompasses significant non-recurrent costs incurred on account of the amalgamation. Taxation for the full year, even though results are for nine months, due to the change of the financial year and the non-receipt of substantial dividend income, which accrues in the first quarter of the calendar year, have also distorted the comparison. Total Group assets rose 17% as at 31 December 2015 to reach LKR 247,109 million against LKR 210,610 million as at 31 March 2015. This included a healthy 18% growth in the credit portfolio to LKR 171,111 million from LKR 144,896 million. During the period under review, DFCC Group paid LKR 811 million as Super Gains Tax, which related to the profit for the year ended 31 March 2014.

The amalgamation between DFCC and Vardhana has achieved a unique blending of a 60-year heritage in development banking skills with the energetic dynamism of Sri Lanka's fastest growing commercial bank. This has created a strong feeling of pride and mutual loyalty among the people of both

Banks, which is proving its worth, not only in achieving significant synergies, but also in acting as an incubator for innovation across all levels. Dynamism and innovation is feeding into the Bank's processes, most importantly in the areas of customer service and delivery. New thinking is pervading the internal mindset and a paradigm shift is taking place with regard to the customer experience. Some new innovations include novel electronic delivery channels such as Lanka Money Transfer and the Supplier Settlement Service. Mobile Wallet is an exciting new innovation, which we hope to roll out in the near future. With these and other initiatives planned, a 'new' DFCC Bank is being forged and is well-positioned to deliver exceptional value to all stakeholders.

The amalgamation with Vardhana also provided an ideal opportunity to rebrand and relaunch the Bank's brand. Although Vardhana Bank no longer exists, Vardhana Banking continues to flourish - every product and service provided by the Bank is now under the Vardhana brand. The stylised 'V' in our new logo represents Vardhana, but it also stands for many other things. It stands for our values, our vision, our past and future victories and in a slight marketing twist, a small 'tick' to remind people that DFCC Bank is always their right choice.

The amalgamation of the two banks has therefore, created an entity that is far greater than the sum of its two parts making a larger bank, with a new dynamism and vision. The year 2015, was one which laid the groundwork for the future. The DFCC Banking Business team worked with dedication and commitment, although results were to some extent impacted by the less than favourable interest rate scenario that prevailed in the market as well as the depreciation of the Rupee.

DFCC Bank, as a specialised bank, was unable to operate current accounts or retail savings accounts (CASA) and this was a serious impediment to lowering the Bank's cost of funds. Now that we are a fully-fledged commercial bank, every effort is being made to rapidly grow our CASA ratio, and lower the cost of funds, which will in turn, raise net interest margins. We will continue to provide long-term development finance to clients and our expert teams, the best in the business, stand ready to continue our dominance in this field in the years ahead, with the ability to now provide clients with the full gamut of services to cater to all their requirements, which we were unable to provide previously, unless they opened an account with Vardhana. Corporate and Retail banking, Trade Financing, PFS loans and other products and services will continue to be handled speedily and efficiently with the exceptional service standards provided in the past. Plans to increase fee based income have been put in place, to offset the lower net interest margins we foresee continuing in 2016 and a tight control of expenses will be maintained, while also concentrating on increasing efficiency and productivity.

We are poised to take advantage of this era of opportunity and our people are well equipped to meet the challenge. Working together, we will ensure our customers, you, our shareholders and other stakeholders keep growing. And DFCC Bank will grow with you, for we have always been a Bank that grew with our customers, rather than because of them.

Our subsidiaries and joint venture have contributed well in the period under review and I thank the CEO's and their teams for their dedication and hard work.

To the valued customers of DFCC and Vardhana, my thanks for your continued patronage and loyalty. We look forward to serving you and the host of new customers who have joined us, with a level of service that exceeds expectations.

I gratefully acknowledge the support of the officials of the Ministry of Finance and the Central Bank of Sri Lanka and thank them specially for the co-operation extended with regard to the amalgamation. My thanks also go out to the Registrar General of Companies and his staff for the assistance provided during the amalgamation.

I thank my colleagues on the Board for their invaluable contribution and counsel, especially in connection with the amalgamation. Their dedication and devotion to the Bank's progress is exemplary. The period under review saw Ms Shamalie Gunawardena resigning from the Board in June 2015 and Mr Gomin Dayasri retiring in July 2015 upon reaching the age of 70. I thank them both for the support and guidance they provided to the Board during their tenure.

In June, Mr Ranjith Asoka, joined the Board and Ms Vijayanthi Senaratne was appointed in July. In October 2015, Mr Lalit de S Wijeyeratne, Mr Nihal Fonseka and Mr Lakshman Silva, who were Directors of Vardhana (Mr Silva was also the CEO) were welcomed to the Board. The new Directors bring a multitude of skills and experience in their respective fields, which have strengthened the skills set of the Board and contributed significantly to our deliberations and decisions.

The Directors have approved a first and final dividend of LKR 2.50 per share. This represents a payout of 66% of distributable profits, in-line with the Bank's Dividend Policy.

On behalf of the Board of Directors, I assure our shareholders that we, together with the DFCC team, remain committed to add value to your shareholding in DFCC Bank. Rest assured, we will 'Keep Growing'. We are embarking on an ambitious new journey, which we hope will take us to the upper percentile of banks in Sri Lanka and we look forward to your continuing support and encouragement.

C R Jansz
Chairman

24 February 2016

Chief Executive's Review

The year 2015 was a period of transition for DFCC Bank, and its mixed performance should be viewed in the context of the transformation undergone by the Bank, namely the amalgamation with DFCC Vardhana Bank. In fact, I would like to think of it as a case of 'Form is temporary but Class is Permanent'.

A full analysis of DFCC Bank's performance for the period under review is given in the section on Value Creation and Internal Capital Formation. With the change in the financial year-end to 31 December from 31 March, the performance relates to the period of nine months from April 2015 to December 2015, which must be considered when attempting a comparison with that of the previous full year. Moreover, there were several exceptional items. FYE 31 March 2015 included substantial one-off capital gains and impairment reversals while the period ended 31 December 2015 entailed significant non-recurrent expenses incurred during the amalgamation for items such as systems integration and data migration. The change of the financial year meant that the Bank incurred an additional taxation charge based on the full year, even though results were for nine months. Also, substantial dividend income, which accrues in the first quarter of the calendar year, could not be included.

Net profit after tax for the period ended 31 December 2015 was LKR 1,642 million (Group) and LKR 1,068 million (Bank) while that for FYE 31 March 2015 was LKR 4,439 million and LKR 3,240 million respectively. Net interest income was LKR 6,385 million in the current period, while LKR 6,691 million was reported in the previous year.

The lower interest rates during the period meant that there was a drop in the interest margin to 3.1% from 3.6%, in line with the industry. Meanwhile, total assets grew by 17% to LKR 247,109 million as at 31 December 2015 from LKR 210,610 million as at 31 March 2015. This included a robust credit portfolio growth of 18% to LKR 171,111 million from LKR 144,896 million. Credit quality was not compromised. The ratio of impaired loans to total loans for 31 December 2015 was 5.1% compared to 6.1% for 31 March 2015, indicating a credit quality improvement. The cumulative allowance for impairment of loans and advances was maintained at a healthy level of 72.1% for 31 December 2015. Close monitoring drove down the Bank's ratio of impaired loans to total loans as well as its regulatory non-performing loan ratio, with the latter improving to 3.7% as at 31 December 2015 from 4.3% as at 31 March 2015. Its balance sheet strength is demonstrated by a Group Tier I Capital Adequacy Ratio of 15.4% and a total Capital Adequacy Ratio of 15.3% making DFCC Bank one of the highest capitalised banks in the industry.

Prior to October 2015, DFCC Bank's business was based on an operational merger between DFCC's development banking business and DFCC Vardhana Bank's commercial banking business. While this was a robust arrangement, the changing banking landscape required a paradigm shift in DFCC Bank's agility and thus the legal amalgamation with Vardhana Bank, which I am happy to report was achieved almost seamlessly and within the set timeline. Moreover, it was most fitting that this was accomplished at the time DFCC Bank celebrated its Diamond Jubilee. The outcome is that DFCC Bank is now a full-service commercial bank. It serves a variety of clients from individuals, professionals and entrepreneurs to SMEs and corporates across the country. It has a nationwide footprint through 137 branches in all districts. Importantly, it has been re-launched with a new brand, the significance of which I would like to explain.

Our brand promise is that we enable our customers and other stakeholders to 'Keep Growing' and this means a lifelong relationship of adding value. In fact, several enterprises, which are large businesses today, had their roots in the seed finance provided by DFCC Bank at their inception. A key component in delivering this promise is our employees. DFCC Bank has always been recognised for its development financing expertise driven by its highly skilled and professional workforce. The result is that the Bank remains the first choice for any new venture or expansion project. Following the amalgamation with Vardhana, a young and dynamic team has been added further enhancing the Bank's agility. The internal culture is changing smoothly with a cross fertilisation of skills and expertise. Also, new corporate initiatives were implemented. The corporate structure was redrawn and new business components and functions were added with equally important objectives. Firstly to instil a new internal culture that enables employees to learn, innovate and embrace change. Secondly, that the re-launched DFCC Bank provides a new and enriching experience to customers and that the change is not cosmetic but a paradigm shift.

While DFCC is now a licensed commercial bank, it will hold fast to its development banking mandate and expand this business. Its ability to provide downstream commercial banking products to development finance customers through the same legal entity based on one set of documentation has improved customer experience and reduced costs for both the Bank and its customers. Other amalgamation benefits are accruing. For instance, as two legal entities, DFCC and Vardhana had to duplicate some of their IT operations including disaster recovery sites. The new single entity is enabling a systems rationalisation, cost reduction and other efficiencies. As regards processes, customer focus is intensified and products and services are being shaped around their needs. An example is the ground breaking Supplier Settlement Service launched by DFCC Bank with its IT subsidiary Synapsys. Initially, it will serve the private tea manufacturer and tea leaf supplier community and later will be rolled out to other agricultural industries. It typifies financial inclusion by enabling suppliers to transfer sales proceeds directly to their bank accounts, which are accessible through more than 800 ATMs island-wide. Another example is the 'Mobile Wallet' developed by Synapsys with support from the Bank. This innovation offers many superior features when compared to other products in the market, as in addition to merchant transactions, it enables a far greater level of interaction with the bank payment and fund transfer systems.

Looking ahead, DFCC Bank will embark on an ambitious five-year strategic plan that will reposition it in the upper quartile of the banking industry. It will be a Blue Ocean Strategy based on sustainable new elements. These include a diversification of distribution channels, increased use of digital media and an expansion into foreign markets. While the international move will be challenging, the Bank has already established its overseas credentials through assignments in Oceania and East Africa. In this regard, several options would be considered including the setting up of representative offices and the acquisition of financial licenses or institutions. However, while embarking on the journey, DFCC Bank will not lose sight of its Sri Lankan roots or its development banking mandate, and the Sri Lankan market will remain its prime focus.

Besides banking, DFCC Group customers have access to an array of financial expertise including investment banking, wealth management, information technology, industrial park management and consultancy delivered through the subsidiaries – DFCC Consulting, Lanka Industrial Estates, Synapsys and the joint venture - Acuity Partners, which itself is the parent of financial services powerhouse encompassing corporate finance, stock-broking, fixed income trading, venture capital and asset management. All these businesses are synergised within the Group and differentiate DFCC Bank from the rest of the pack. Going forward, cross-selling of their products and services will be an important element in DFCC Group's value proposition. For example, DFCC Bank's Consumer Banking business will include investment advisory and wealth management services to a segmented clientele. Another would be the digitisation of distribution channels and creation of a virtual branch network.

In summary, while 2015 represented an aberration, we will strive to fulfil stakeholders' expectations in the journey through 2016 and beyond. While the repositioning of DFCC Bank will be a challenging task, the amalgamation with Vardhana has laid the foundation for the Bank to take on the bigger players in the market. I am therefore confident that we will attain our new vision to be the 'leading financial solutions provider sustainably developing individuals and businesses'.

To conclude, I wish to express my sincere gratitude to all stakeholders of DFCC Bank. I thank our loyal customers for their continued support through times good and bad. I thank officials of the Central Bank of Sri Lanka, the Ministry of Finance and other Government agencies and authorities for their cooperation. My special thanks go out to those regulators and other officials who helped facilitate the amalgamation with Vardhana Bank. I also thank the various international investment and lending institutions, our bondholders and debenture holders, and depositors for the confidence they place in DFCC Bank.

The fact that the amalgamation with Vardhana Bank was completed smoothly was largely due to the cooperation and commitment of the DFCC and Vardhana teams, who worked in a most collaborative manner. I am heartened by the family spirit evident at the various events held to commemorate DFCC Bank's 60th Anniversary and the amalgamation. I wish to express my heartfelt gratitude to them for a job well-done.

Finally, it is my fervent wish that all stakeholders of DFCC Bank will continue to 'Keep Growing'.

Arjun Fernando
Chief Executive/Director

24 February 2016

Board of Directors

C R Jansz

Chairman

Appointed to the Board of DFCC Bank PLC in July 2010 and appointed Chairman in March 2014.

Mr Jansz presently serves on the Board of Distilleries Company of Sri Lanka PLC, Melstacorp Limited and other companies in the Distilleries Group. He is a Director of Lanka Milk Foods (CWE) PLC, Lanka Dairies (Pvt) Limited and other companies in the Lanka Milk Foods Group.

Mr Jansz functioned as the Chairman of DFCC Vardhana Bank PLC from October 2014 until the amalgamation on 1 October 2015. He is a former Chairman of Sri Lanka Shippers Council and a former member of the National Trade Facilitation Committee of Sri Lanka. He has many years of experience in logistics and in documentation, insurance, banking and finance relating to international trade.

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

A R Fernando

Chief Executive

Appointed to the Board of DFCC Bank PLC as Chief Executive and Ex-Officio Director in October 2013.

Mr Fernando is the Chairman of DFCC Consulting (Pvt) Limited, Lanka Industrial Estates Limited and Synapsys Limited, subsidiary companies of DFCC Bank PLC and the Chairman of Acuity Partners (Pvt) Limited, joint venture company of DFCC Bank PLC and a Director of Lanka Ventures Limited and the Credit Information Bureau of Sri Lanka. He is also a member of the Board of Directors of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP). He was a former Director of DFCC Vardhana Bank PLC.

Mr Fernando is a career banker and holds 30 years experience in the banking and financial services industry. Prior to joining the Bank in August 2012, he was the Asia Pacific, Regional Head of Change and Delivery (commercial banking, trade and supply chain) of HSBC, Hong Kong.

Mr Fernando holds a BSc Engineering degree from the Southern Illinois University, USA and an MSc in Management from Clemson University, South Carolina, USA. He is also an Associate of the Institute of Financial Studies (Chartered Institute of Bankers), UK.

P M B Fernando

Senior Director

Appointed to the Board of DFCC Bank PLC in July 2013.

Mr Fernando is an Executive Director of Laugfs Lubricants Limited and an Independent Non-Executive Director of Asia Asset Finance PLC.

A former Partner of KPMG Ford, Rhodes, Thornton & Company, Mr Fernando has extensive experience in financial services. He has functioned as the Group Finance Director of Confifi Group and Finance Director – Asia Region Virtusa (Pvt) Limited. In 2005, he became the Managing Director of Capital Reach Group and was appointed as Director/Chief Executive Officer of Softlogic Finance PLC following the consolidation of activities of Capital Reach Group under Softlogic Finance PLC.

Mr Fernando is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka and a Fellow Member of the Chartered Institute of Management Accountants of UK. He holds a BSc (Applied Science) degree from the University of Sri Jayewardenepura.

T Dharmarajah

Director

Appointed to the Board of DFCC Bank PLC in July 2014.

Mr Dharmarajah is the Senior Partner (Audit & Assurance) at Messrs Amarasekera & Company and serves as a Director of Raigam Wayamba Salterns PLC, TKS Finance Limited and TKS Securities (Pvt) Limited.

He is a Member of the Council of the University of Sri Jayewardenepura and a Member of the Standing Committee on Management Studies of the University Grants Commission. He was a Director of DFCC Vardhana Bank PLC, a member of the Board of Management of the Postgraduate Institute of Management and the Curriculum Development Committee of the National Institute of Education. He was also a member of the Council of the Institute of Chartered Accountants of Sri Lanka.

Mr Dharmarajah holds a BSc degree in Management (Sp.) from the University of Sri Jayewardenepura and is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka, Association of Accounting Technicians of Sri Lanka and Institute of Public Finance & Development Accountancy.

Ms S R Thambiayah

Director

Appointed to the Board of DFCC Bank PLC in March 2015.

Ms Thambiayah is a Joint Managing Director of Renuka Hotels Limited and Renuka City Hotels PLC of which she was the General Manager from 2001 to 2010 prior to assuming the current position with the Company. She is also a Director of Cargo Boat Development Co. PLC, Crescent Launderers & Dry Cleaners (Pvt) Limited, Renuka Consultants & Services Limited, Renuka Properties Limited, Lancaster Holdings Limited, Portfolio Management Services (Pvt) Limited and Renuka Land (Pvt) Limited.

She was a Director of DFCC Vardhana Bank PLC during the period September 2012 to February 2015.

Ms Thambiayah holds a BA (Hons.) degree in Economics from the University of Nottingham, UK and a Master of Management degree in Hospitality from Cornell University's School of Hotel Administration, USA.

K P Cooray

Director

Appointed to the Board of DFCC Bank in March 2015.

Mr Cooray has held several executive positions in several companies including Ceylinco Group, Richard Peiris Group and the Maharaja Organisation.

He was instrumental in setting up Rivira Media Corporation (Pvt) Limited under the Richard Peiris Group and served there as founder Director and Chief Executive Officer. The two flagship newspapers launched under his direction, 'Rivira' and 'The Nation', continue to be widely read national newspapers in Sri Lanka. During his stint at the Maharaja Group, he worked as a Consultant, supervising, streamlining and ensuring executive co-ordination of news broadcasts by the TV and Radio stations belonging to the company.

Mr Cooray holds a BA (Hons.) degree in Political Science and Law from the University of Middlesex.

A W Atukorala
Director

Appointed to the Board of DFCC Bank PLC in April 2015.

He is the Deputy Chairman of UB Finance Company Limited and a Director of Orient Finance PLC, United Motors Lanka PLC, Pragnya Tech Parks Lanka (Pvt) Limited, TVS Lanka Limited, Unimo Enterprises Limited, Unawatuna Boutique Resort (Pvt) Limited and Arni Holdings & Investments (Pvt) Limited.

Mr Atukorala has served as Deputy General Manager, ANZ Grindlays Bank, Sri Lanka, Country Manager (Sri Lanka) of Mashreq Bank PSC and as a Director of Union Bank PLC covering a period of over 30 years in total.

He has also served as a member of the Presidential Commission on Finance and Banking and was a Director of Sri Lanka Banks Association (Gte) Limited and the Credit Information Bureau of Sri Lanka.

Mr Atukorala holds a BSc degree from the Leeds University, UK, an MTT degree from North Carolina State University, USA and an MBA.

K D N R Asoka
Director

Appointed to the Board of DFCC Bank PLC in June 2015.

Mr Asoka is presently the Director General – Department of Trade & Investment Policy, Ministry of Finance.

He has held several executive positions in the public sector. He has served as the Additional Secretary – Ministry of Vocational Training & Skills Development and Ministry of Education, Director General – Department of Manpower and Employment, Assistant Director and Deputy Director – Department of Fiscal Policy & Economic Affairs and as the Divisional Secretary – Weligama, Imbulpe.

Mr Asoka holds a B Com (Sp.) degree from the University of Colombo and a Postgraduate Diploma in Economics, Postgraduate Diploma in Devolution and Local Government Studies from the University of Colombo, an MBA in HRM from the Postgraduate Institute of Management, Masters in Economics from the Yokohama National University of Japan and is currently reading for a PhD at the Postgraduate Institute of Management of the University of Colombo.

Ms V J Senaratne
Director

Appointed to the Board of DFCC Bank PLC in July 2015.

Ms Senaratne presently holds the position of Chief Legal Officer and Company Secretary of Distilleries Company of Sri Lanka PLC and Company Secretary of Periceyl (Pvt) Limited. She is a Director of Paradise Resort Pasikudah (Pvt) Limited and Amethyst Leisure Limited and an Alternate Director of Melstacorp Limited and Distilleries Company of Sri Lanka PLC.

She has 37 years of professional experience and is well versed in the field of litigation, commercial law, conveyancing and company secretarial practices. She held the position of Company Secretary at Sri Lanka Insurance Corporation PLC from May 2003 to 2009 and served as a Legal Officer at the Central Bank of Sri Lanka.

Ms Senaratne is an Attorney-at-Law and Notary Public, Commissioner of Oaths having admitted to the Bar on 25 August 1977 and also a solicitor of England and Wales.

A N Fonseka

Director

Appointed to the Board of DFCC Bank PLC in October 2015.

Mr Fonseka is a Director of John Keells Holdings PLC, Chairman, Group Audit Committee of Brandix Lanka Limited and President of the Sri Lanka National Advisory Council of the Chartered Institute of Securities and Investments, UK. He is also a member of the Employees' Trust Fund Board and the National Procurement Commission set up under the Constitution.

He is the former Chief Executive Officer of DFCC Bank (until September 2013) and former Chairman of several DFCC Group Companies. He was a Director of Commercial Bank of Ceylon PLC from 2000 to 2008 and DFCC Vardhana Bank from February 2009 to September 2015. He was also a Past Chairman of the Colombo Stock Exchange and the Association of Development Financing Institutions of Asia and the Pacific (ADFIAP) and a member of the Presidential Commission on Taxation (2009).

Mr Fonseka holds a BSc degree from the University of Ceylon and is a Fellow of the Institute of Financial Studies (Chartered Institute of Bankers), UK and a member of the Chartered Institute of Securities and Investments, UK.

L H A L Silva

Director

Appointed to the Board of DFCC Bank PLC in October 2015.

Mr Silva is the Deputy Chief Executive of DFCC Bank PLC with effect from 1 October 2015. He was the Chief Executive Officer and Executive Director of DFCC Vardhana Bank PLC during the period January 2010 to September 2015. Mr Silva started his professional career with the Department of Inland Revenue of Sri Lanka and joined the DFCC Banking Group in 1987. He was seconded to the service of DFCC Vardhana Bank in 2003 from DFCC Bank and functioned as the Chief Operating Officer of DFCC Vardhana Bank from the year 2003 until his appointment as the Chief Executive Officer in January 2010.

He is a Director of Synapsys Limited and Lanka Financial Services Bureau Limited and also a Past President of the Association of Professional Bankers of Sri Lanka.

Mr Silva holds a Bachelor of Commerce special degree from the University of Kelaniya and a Master of Business Administration from the Postgraduate Institute of Management of the University of Sri Jayewardenepura.

L N de S Wijeyeratne

Director

Appointed to the Board of DFCC Bank PLC in October 2015.

Mr Wijeyeratne counts over 35 years of experience in Finance and General Management both in Sri Lanka and overseas. He was the former Group Finance Director of Richard Pieris PLC and also held senior management positions at Aitken Spence & Company, Brooke Bonds Ceylon Limited and Zambia Consolidated Copper Mines Limited. He also served as an Independent Director and Audit Committee Chairman of DFCC Vardhana Bank PLC during the period October 2008 to September 2015.

Mr Wijeyeratne is a member of the Quality Assurance Board and the Corporate Governance Committee of The Institute of Chartered Accountants of Sri Lanka and was a former member of the Sri Lanka Accounting and Auditing Standards Monitoring Board. He is presently an Independent Director and Audit Committee Chairman of several listed entities.

Mr Wijeyeratne is a Fellow of The Institute of Chartered Accountants of Sri Lanka.

Corporate Management

Arjun Fernando

Chief Executive Officer

Lakshman Silva

Deputy Chief Executive Officer

Tyrone de Silva

Executive Vice President (Investments, International Relations & Strategic Planning)

Trevine Fernandopulle

Executive Vice President (Chief Risk Officer)

Palitha Gamage

Executive Vice President (Integration)

Anomie Withana

Executive Vice President (Company Secretary/ Secretary to the Board)

Renuka Amarasinghe

Senior Vice President (Corporate Banking)

Nandasiri Bandara

Senior Vice President (Group Internal Audit)

Achintha Hewanayake

Senior Vice President (Chief Technology & Services Officer)

Ananda Kumaradasa

Senior Vice President
(Rehabilitation & Recoveries)

Kapila Nanayakkara

Senior Vice President
(Treasury & Resource Mobilisation)

Darshini Wettasinghe

Senior Vice President
(Chief Financial Officer)

Dharmasiri Wickramatilake

Senior Vice President
(Branch Banking & SME)

Gillian Edwards

Senior Vice President
(Retail Assets & Leasing)

Hemanatha Samaranayake

Head of
Business Development & Deposits

Management Team

Bhathiya Alahakoon

Vice President (Regional Manager – Regional Office 2)

Chinthika Amarasekara

Vice President (Accounting & Reporting)

Anton Arumugam

Vice President (Regional Manager – Regional Office 1)

Neville Fernando

Vice President (Business Systems)

Sonali Jayasinghe

Vice President (Human Resources)

Chanaka Kariyawasam

Vice President (Regional Manager – Regional Office 3)

Kennedy Michael

Head of Marketing

Jayangani Perera

Vice President (Branch Credit Management & Quality Assurance)

Wajira Punchihewa

Vice President (Regional Manager – Regional Office 5)

Sriyani Ranatunga

Vice President (Corporate Banking – Business Development)

Priyadarsana Sooriya Bandara

Vice President (Regional Manager – Regional Office 4)

Kapila Subasinghe

Vice President (Specialised Project Lending/ Head of Consulting)

Rohan Tillekeratne

Vice President (Compliance Officer)

Harsha De Alwis

Head of Remittances & Cash Management

Ravi Perera

Head of Financial Institution Relations

Pradeep Ariyaratne

Vice President (Branch Manager – Ratnapura)

Gunaratne Bandara

Vice President (Branch Manager – Nawala)

Subhashi Cooray

Vice President (Credit Administration)

Ravi Dassanayake

Vice President (Planning & Monitoring)

Pradeepa De Alwis

Vice President (Branch Manager – Matara)

Champal De Costa

Vice President (Branch Manager – Gampaha)

Ranjith Dissanayake

Vice President (Branch Manager – Kurunegala)

Terrence Etugala

Vice President (Branch Manager – Matale)

Chaminda Gunawardana

Vice President (Branch Manager – Kalutara)

Nalin Karunatileka
Vice President (Project Management & BCP)

Denver Lewis
Vice President (Services)

Thejaka Perera
Vice President (Litigation)

Prasanna Premaratne
Vice President (Trade Services)

Nimali Ranaraja
Vice President (Business Banking)

Sepali Ranawana
Vice President (General Legal)

Saravanapavan Raveendra
Vice President (Regional Manager – Regional Office 6)

Kapila Samarasinghe
Vice President (Business Banking)

Mangala Senaratna
Vice President (Corporate Banking)

Nishan Weerasooriya
Vice President (IT Operations)

Chandrin Wimaladharma
Vice President (Rehabilitation & Recoveries)

Indaka Weerasekera

Head of Remittances/FCBU & Transaction Processing

Iranga Amilana

Assistant Vice President (Private Banking & Wealth Management)

Shantha Atapattu

Assistant Vice President (Branch Manager – Kandy)

Priyadarshi Attanayake

Assistant Vice President (Business Banking)

Amanthi Balasooriya Dahanayake

Assistant Vice President (Risk Processes & Controls)

Channa Dayaratne

Assistant Vice President (Resource Mobilisation)

Neil De Rose

Assistant Vice President (Branch Manager –Kotahena/ Bandaranayake Mw)

Dilshan Dodanwela

Assistant Vice President (Foreign Exchange/ Money Markets)

Gaminda Fernando

Assistant Vice President (Services & Procurement)

Jayan Fernando

Assistant Vice President (Risk Policy & Modeling)

Chandana Garusinghe

Assistant Vice President (Branch Manager – Ampara)

Gemunu Gunasumana

Assistant Vice President (Card Operations)

Shan Heenkenda

Assistant Vice President (Employee & Industrial Relations)

Bhatika Illangarathne

Assistant Vice President (Branch Manager – Katugastota)

Gayan Jayatissa

Assistant Vice President (Information Systems Security)

Rasika Jayawardhana

Assistant Vice President (Innovation & Business Process Re-engineering)

Samathri Kariyawasam
Assistant Vice President (Business Legal)

Iresha Kumbukage
Assistant Vice President (Credit Administration)

Jayanath Liyanage
Assistant Vice President (Branch Manager – Malabe)

Kelum Perera
Assistant Vice President (Branch Manager – Galle)

Lakmal Rajasekara
Assistant Vice President (Branch Manager – Kaduruwela)

Ruwan Saram
Assistant Vice President (Branch Manager – Anuradhapura)

Kusumsiri Sathkumara
Assistant Vice President (Branch Banking & SME)

Sajith Silva
Assistant Vice President (Bancassurance)

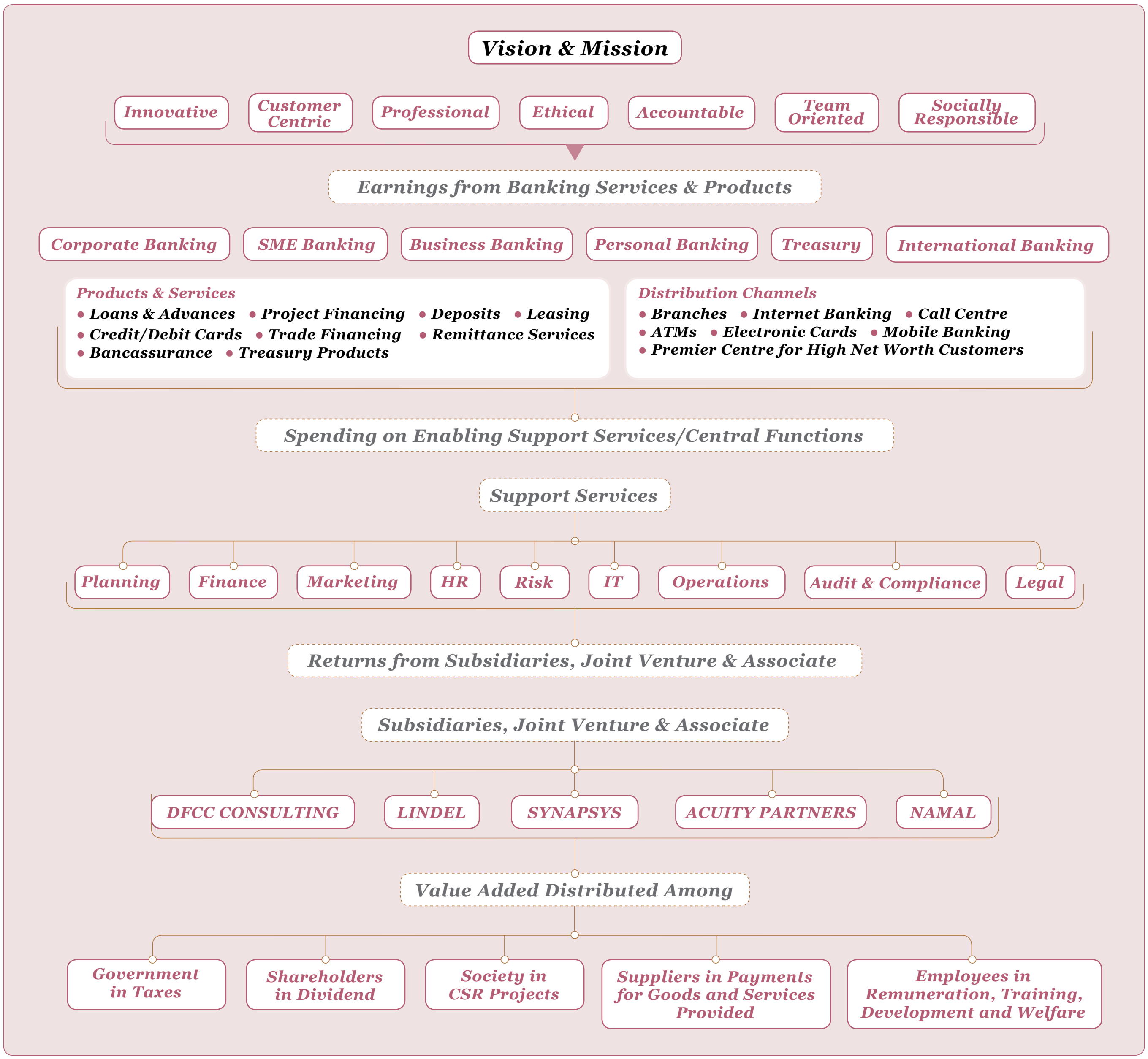
Duminda Silva
Assistant Vice President (Business Development & Deposits)

Dushan Weerakoon
Assistant Vice President (PFS Central Processing)

About DFCC Bank

Founded in 1955, DFCC Bank is one of the oldest development banks in Asia, and celebrated 60 years of prosperity in October 2015. The Bank possesses a proud heritage of achievements, which includes financing new economic sectors in the country and being the wind beneath the wings of many trail-blazing entrepreneurs especially in their early and risky start-up stages. Today these sectors have become mainstream businesses that support the national economy in many ways.

In a landmark event in Sri Lanka's banking and financial sector, DFCC Bank and its subsidiary, DFCC Vardhana Bank amalgamated to form DFCC Bank PLC, a fully-fledged Licensed Commercial Bank supervised by the Central Bank of Sri Lanka. This significant milestone coincided with DFCC Bank's 60th anniversary celebrations. The joint synergies and the combined development banking and commercial banking resources of the merged entities, strengthen and position DFCC Bank PLC as a force to be reckoned with in the financial services industry. The combined entity will continue to support individuals and businesses of all sizes, offering both development banking and commercial banking facilities. It will serve a variety of clients ranging from individuals, professionals and entrepreneurs to SMEs and corporates across the country, operating through 137 branches and service points. DFCC Bank remains committed to driving financial inclusion in the country.



Group Structure

	Subsidiary Companies	
Name	DFCC Consulting (Pvt) Limited	Lanka Industrial Estates Limited
Address	No. 73/5, Galle Road, Colombo 03	LINDEL Industrial Estate, Pattiwila Road, Sapugaskanda, Makola
Phone Nos.	+94 11 244 2318, +94 11 244 2442	+94 11 240 0318, +94 11 240 0319, +94 11 240 0320, +94 11 240 0532
Email	info@dfccbank.com	lindel@itmin.net
Incorporated On	9 September 2004	12 March 1992
DFCC's Interest	100%	51.15%
Principal Activity	Consultancy	Operating an industrial estate
Directors	A R Fernando – Chairman S E de Silva T W de Silva	A R Fernando – Chairman H A Samarakoon – CEO Mrs G M I U Bandara T W de Silva Dr R M K Ratnayake A D Tudawe

Financial Period/ Year-End	31 March		31 March	
Financial Year	2015/16	2014/15	2015/16	2014/15
Profit after Tax (LKR million)	6.6 (nine months ended)	(4)	88 (nine months ended)	137
Dividend per Share (LKR)	n.a.	nil	n.a.	7.00
ROE (%)**	44.2	n.a.	21.5	24

* Minority Interest
** Annualised

	Joint Venture	Associate Company	
Synapsys Limited	Acuity Partners (Pvt) Limited	National Asset Management Limited	**Name**
No. 540, Nawala Road, Rajagiriya	No. 53, Dharmapala Mawatha, Colombo 03	7th Floor, Union Bank Building, No. 64, Galle Road, Colombo 03	**Address**
+94 11 288 0702	+94 11 220 6206	+94 11 244 5911/12	**Phone Nos.**
contactus@synapsys.sg	info@acuity.lk	info@namal.lk	**Email**
11 October 2006	7 February 2008	28 September 1990	**Incorporated On**
100%	50%	30%	**DFCC's Interest**
Information technology services and IT enabled services	Investment banking and related activities such as corporate finance, debt structuring and IPOs	Management of unit trusts and private financial portfolios	**Principal Activity**
A R Fernando – Chairman D J P Fernandopulle – CEO G S Dewaraja T W de Silva L H A L Silva Ms A Withana	A R Fernando – Chairman M R Abeywardena – CEO A J Alles T W de Silva D A B Ellepola D P N Rodrigo Mrs I R D Thenabadu	A Lovell – Chairman A Herat – CEO Ms K S Bee W Dambawinne T W de Silva P Gamage S Madanayake M Samaratunga I Wickramasinghe	**Directors**

31 December		31 December		31 December		**Financial Period/ Year-End**
2015	2014	2015	2014	2015	2014	**Financial Year**
(12.5)	15	306 (Before MI*) 133 (After MI*)	448 (Before MI*) 276 (After MI*)	40	50	**Profit after Tax (LKR million)**
nil	nil	0.46	0.40	n.a.	3	**Dividend per Share (LKR)**
n.a.	46.6	8	13.3	18.3	25.3	**ROE (%)**

Our Portfolio

Operationally, the Bank's primary lines of business are Corporate Banking, SME Banking, Business Banking, Personal Banking, Treasury and International Banking. The business lines are complemented by its subsidiaries, a joint venture and an associate company for services in consultancy, information technology, industrial estate management, investment banking and fund management.

Our services are delivered through 79 branches and 58 DFCC Bank service points at Sri Lanka Post outlets. Customers also have access to over 800 ATMs across the country as well as zero cost cash withdrawals from ATMs that are shared with eight other banks. DFCC Bank also offers Internet and mobile banking services.

Product/Service	Target Segment
Project loans funded by credit lines	
Saubhagya	Small and Medium Enterprises (SMEs)
New Comprehensive Rural Credit Scheme	Short-term cultivation
Miridiya (Aquatic Resources Development Revolving Fund)	Freshwater fish and prawn production, nurseries, processing plants, ornamental fish, aquatic plants, tissue culture and ornamental aqua plants. Targeted Districts: Anuradhapura, Ampara, Badulla, Batticaloa, Hambantota, Kurunegala, Matale, Moneragala, Nuwara-Eliya, Polonnaruwa, Puttalam, Ratnapura, Trincomalee and Vavuniya
Self-employment Promotion Initiative Loan Scheme	Vocational qualification holders
Working capital loan scheme for registered tea factories	Registered tea factories
SMILE III Revolving Fund	SMEs
Commercial Scale Dairy Development Loan Scheme (CSDDLS)	Dairy sector
Dasuna Revolving Fund Phase II	SMEs in the Southern Province
Green Energy Global Loan	Corporates and SMEs
EIB Loan Scheme	SMEs
Other project loans	
Term loans	Corporates, SMEs, professionals and individuals
Working capital financing	
→ Short-term working capital financing – overdrafts, revolving credit or short-term working capital loans	Current account holders, corporates, SMEs and entrepreneurs
→ Medium long-term loans to finance permanent working capital requirements	Corporates, SMEs and entrepreneurs
Leasing facilities	
'Easy Leasing' facilities for brand new and unregistered/registered vehicles, machinery, plant and equipment	Corporates, SMEs, entrepreneurs, professionals and individuals
Hire purchase facilities	
Hire purchase facilities for vehicles	Corporates, SMEs, entrepreneurs, professionals and individuals

Product/Service	Target Segment
Guarantee facilities	
Bid bonds, advance payment bonds, performance bonds, bank guarantees for credit purchase of goods	Corporates, SMEs, entrepreneurs, professionals and individuals
Fixed deposits	
A wide range of tailor-made deposit products at competitive interest rates	Corporates, SMEs and individuals
Loan syndication	
Loans provided by a group of lenders which is structured, arranged and administered by one or several banks	Corporates
Consultancy and advisory services	
Provision of legal, tax, finance, market and other advisory services to start up a new business or revamp existing businesses	Corporates, SMEs and entrepreneurs
Savings facilities	
Supreme *Vaasi* – Offers a superior rate of interest	Businesses and individuals aged 18 years and above
Mega Bonus – Interest rates grow in tandem with the savings deposits	Businesses and individuals aged 18 years and above
Vardhana Junior – Children's savings account offering a range of gifts and support for higher education	Children below 18 years of age
Vardhana Junior Plus – Children's savings account with a higher interest rate	Children below 18 years of age
Vardhana *Garusaru* – Offers a higher interest rate with a range of other benefits	Senior citizens above 55 years of age
Personal loans	
A loan that helps to meet personal financing requirements to enrich one's life	Entrepreneurs, professionals and individuals
Pawning services	
Ranwarama Pawning – Gold-pledged loans	Mass market/individuals
Housing loans	
Sandella – Flexible and convenient housing loans at affordable rates	Entrepreneurs, young professionals and employed persons
Education loans	
Vardhana *Nenasa* – Flexible and convenient loan facilities for higher education	Individuals pursuing higher studies
Other facilities	
Includes a range of products and services including current accounts, overdraft facilities, foreign currency accounts, credit card facilities, gift certificates, international trade services, off-shore banking, international payments, bancassurance, foreign money transfer via Western Union/Lanka Money Transfer and local payments	Business community, entrepreneurs, professionals and individuals

Operating Environment

The Global Economy

Global growth in 2015 was at 3.1% compared to 3.3% in 2014. This is primarily attributed to the slow down in emerging markets and developing economies, a weaker than expected recovery in advanced economies, low commodity prices and weaker capital and trade flows. Growth projections for 2016 and 2017 are 3.4% and 3.6% respectively. (IMF, World Economic Outlook Update, January 2016).

Projected pickup in growth in the next two years is expected to come from the recovery in advanced economies relative to 2015 and a partial normalisation of conditions resulting in gradual improvement of growth rates in countries currently in economic distress such as Brazil and Russia, and some countries in the Middle East.

With rebalancing of economic activity away from investment and manufacturing towards consumption and services, China is projected to continue to gradually slow down further with its spillover effects on the rest of the world through trade and commodity prices. Projected growth may be further impacted by a gradual tightening in monetary policy in the United States and a persistent drop in commodity prices, spillover effects of the Trans-Pacific Partnership agreement on non-member countries due to diversion of trade and geo-political tensions.

The inflation has declined in advanced economies, mostly reflecting the decline in the prices of oil and other commodities. In emerging market economies, lower commodity prices have also contributed to lowering inflation, but sizeable currency depreciation has led to offsets on the upside in some economies.

Major global developments in 2015 included the establishment of the Asian Infrastructure Investment Bank; a new development bank promoted by the BRICS, the reaching of the Paris climate agreement and the Renminbi's admission to the basket of currencies that constitute the International Monetary Fund's reserve asset; Special Drawing Rights (SDRs).

The Sri Lankan Economy

With two main elections and the resulting political uncertainties leading to investors adopting a 'wait and see' approach for want of policy direction, economic activity slowed down during the year. Sri Lanka recorded a GDP growth of 5.2% for the first nine months in 2015 compared to 7.4% in 2014.

Inflation decreased to 4.2% in December 2015 from 4.8% in November 2015, on a year-on-year basis. Inflation on an annual average basis was 3.8% in December 2015.

The country's external sector performance contracted during November 2015, on a year-on-year basis, due to the decline in import expenditure at a higher rate than the reduction in export earnings. The workers' remittances declined by 7.2% year-on-year in November 2015. However, the tourist earnings continued to increase. The balance of payment has recorded an overall deficit of USD 1,274 million during the year up to November 2015 in comparison to a surplus of USD 1,628 million recorded in 2014. Sri Lanka's gross official reserves stood at USD 7.3 billion at the end of November 2015, with total foreign assets amounting to USD 9.1 billion, equivalent to 5.7 months of imports. The Sri Lankan Rupee depreciated against the USD by 9.03% during 2015. Over the year, based on cross currency exchange rate movements, the Sri Lankan Rupee appreciated against the Australian Dollar by 2.42% and the Euro by 1.30%, while depreciating against the Japanese Yen by 8.20%, the Pound Sterling by 4.46% and the Indian Rupee by 4.62%.

The Banking Sector

Sri Lanka's banking sector remained strong with healthy capital and liquidity levels. During the first eight months of 2015, deposits remained the main source of funding and represented 73% of the increase in assets. The cash and due from banks declined due to utilisation in lending and investments. Driven by the expansion of credit extended to both private and public sectors by the banking system, all loan products except pawning recorded an increase during the first three quarters of 2015 and term loans accounted for 61% of the increase in total loans. The Non-Performing Loans (NPL) in most of the sectors increased and the consumption sector which includes pawning, reported the highest increase in NPLs accounting for 39% of the increase.

The banking sector recorded an improvement in profitability due to increase in net interest income resulting from lower interest expenses due to the impact of declining interest rates on deposits.

Benefits of Amalgamation

- Institutional Strength of a Larger Balance Sheet
- 6th among Private Local Commercial Banks
- Staff Related Efficiencies
- Tax Efficiencies
- Systems Related Efficiencies
- Effective Utilisation of Branch Network
- Seamless Operations
- Favourable View by Rating Agencies
- Higher Growth Potential with a Full Range of Products and Services
- Better Positioned to meet ever Tightening Regulatory Requirements

Strategic Direction

Goal	Performance Highlights 2015	Future Strategies
Increasing market share in all key business segments	→ Corporate Banking portfolio expanded to 49,039 million → Branch Banking portfolio recorded an increase of 23% → Business Banking portfolio recorded a growth of 25% → Personal Banking including finance leases recorded a growth of 37% → Took part in a syndicated loan facility → Successful in off-shore asset financing → Optimised cross-selling by structuring the facilities for customer requirements → Set in place a cross functional structure encompassing all related functions to enhance the cross departmental processes → Revised exposure limits in line with emerging trends and developments and maintained NPL ratio at 3.7% → Carried out sector focused marketing campaigns by regions → Diversified personal banking with more products and new features → Improved positive customer experience through benchmarked standards → Developed a comprehensive 'SME strategy' incorporating the rural banking and micro financing sectors	→ Increase awareness levels of the corporate brand – enhance the brand through the use of personal relationships → Cross-sell the Group products and services → Organise regular relationship building events for top management and selected groups → Expand international operations and consultancy services → Regular entertainment of corporate clients: sponsorships, special events, etc. → Extension of premier banking services to selected high net worth branch banking customers → Corporate Banking: Focus on low margins and high volume strategy resulting in reduction in cost-per-delivery → Business Banking: Focus on medium margin and medium volume strategy to fit into risk return → Branch Banking: Aggressive pricing for acquiring new relationships and continue to focus on SMEs → Take anticipatory and preventive actions to maintain portfolio quality
Cost efficient funding	→ Increased customer deposit base by LKR 19,108 million → CASA improved to LKR 21 million as at 31 December 2015 from LKR 18 million as at 31 March 2015 → Raised LKR Five billion through a listed debenture issue → EIB, SME and Green Energy credit line of LKR 5,679 million as long-term funding lines	→ Negotiate for additional credit lines from FMO, EIB, DEG, ADB etc. → Improve the CASA ratio

Goal	Performance Highlights 2015	Future Strategies
Diversify income streams	→ Invested LKR Two billion during the period in listed debentures → LKR 20,777 million fee income from credit line management operations → USD 94,050 as consultancy income from international operations → Fee and commission income improved by 2% mainly through trade and remittance business	→ Invest in listed shares (increase trading portfolio) → Invest in listed debentures and unit trusts → Explore opportunities for off-shore operations → Promote insurance (bancassurance) products for new and existing customers → Create customer awareness on 'Lanka Money Transfer' remittance business → Increase utilisation of existing limits in trade businesses
Improving employee satisfaction index	→ Continued with initiatives on career development, rotations, rewards and recognition, transfers etc. → Maintained the staff attrition ratio below 8% during the period (excluding retirements/ contract expiries) → Organised quarterly meetings with department heads to share HR information and discuss issues → Developed training plans based on grade/ job specific training schedules and individual development plans → Formulated and disseminated training calendars to staff → Identified potential successors for critical positions and initiated development measures as appropriate → The HR teams visited 70% of the branch network during the period to meet the branch staff and discuss their issues and concerns	→ Continue to improve employee communications, transparency of processes and methods of addressing employee needs → Continue job rotation between support and front line staff at common branches → Re-skilling support staff → Continue the talent management process using the Nine Box model → Implement a resourcing strategy for sales staff → Review promotions framework – more focus on performance/competencies than qualifications, study industry practices → Develop leadership development programmes for senior and middle management
Improve business promotion and customer loyalty	→ Carried out marketing campaigns during the period → Continued customer training programmes → Sponsored a seminar on Export & Import Procedure conducted by the Ceylon Chamber of Commerce and other similar programmes → Organised customer events for key branches → Introduced customer survey forms at branches	→ Structure marketing campaigns – Street campaigns, Pocket meetings, CSR projects by branch etc. → Arrange continuous awareness programmes through print media → Focus more on business and customer orientation to capture more business → Continue customer training programmes → Diversify the customer base through relationship building

Stakeholders

Our stakeholders are various individuals and organisations we mutually interact with who are impacted in some way by our activities as a bank, an investor, an employer, a business partner etc. or whose actions can affect our business. Our adherence to the seven core values enables us to build healthy, sustainable relationships with them.

Stakeholder Engagement

As a responsible banking entity committed to sustainable value creation, we seek to proactively engage with our stakeholders and communicate with them throughout the year. It is integrated into our business decision-making processes as the relationship we foster with them has a direct impact on the Bank's success. The mode and frequency of engagement varies depending on the stakeholder group and nature of aspects to be addressed. These aspects are summarised below.

Investors

Given the ever-increasing capital requirements, banking is fast becoming a capital intensive business. It is our investors who provide us with equity and debt capital needed for expansion and growth of our business. In turn, we strive to offer them optimal returns on their investments through sustained profitable growth.

The Board-approved Corporate Communications Policy ensures that information relating to the financial performance and the progress of the Bank is made available to shareholders through the Colombo Stock Exchange (CSE). This information is communicated through the Annual Report, press and electronic media releases and on the Bank's website, providing context to and insights on the Bank's value creation enabling investors to make informed decisions about their investments in the Bank.

The primary modes of communicating with investors include annual reports, the Annual General Meeting, the corporate website, Stock Exchange announcements, press conferences and media releases, the investor relations hotline, meetings and teleconferences. Key topics discussed include Board governance, sustainable performance and plans to improve returns to shareholders.

Customers

Customers are the source of our earnings as well as learnings, and hence, our existence. We serve them through the provision of financial products and services to meet their diverse needs.

Their primary interests and concerns centre on our products and services, terms and conditions, tariff, corporate news, service standards, financial advice and convenience. Accordingly, we largely engage with them through front line staff, relationship managers, advertising and promotion, media releases, branches, the corporate website, other automated services, Facebook, surveys and the call centre. We leverage the insights gathered in the process to serve them better and build lasting relationships.

Employees

Employees form the backbone of our organisation and are the very essence of our competitive advantage. It is their energy, contribution and commitment that make our Bank high performing and sustainable. Hence, they are nurtured, developed and rewarded for their performance.

The Bank has an internally developed Code of Conduct for its employees, which is posted on the internal web and is accessible by all employees. This sets out in detail the business ethics in relation to avoidance of conflicts of interest, insider dealings, unfair business practices, maintenance of confidentiality of business information, etc. All employees are guided by the Bank's core values (see Institutional Capital, page 40). We also have in place a Whistle Blowing Policy to encourage employees to communicate legitimate concerns if they observe any illegal or unethical practices. A Board-approved Grievance Handling Policy and Procedure is in place to support sound employee relations and a fair, successful and productive environment at the workplace. The main modes of employee engagement are through meetings, performance reviews, the human resource intranet portal, email bulletins, weekly newsletters, training workshops and seminars, special events, employee surveys, the suggestion box and grievance procedure.

Business Partners

We understand that our efforts for sustainable value creation depend on the support and participation of our business partners throughout the value chain. Our key business partners are those who provide lines of credit (either to manage or to on-lend) as well as the regular suppliers of goods and services needed for business operations. These stakeholders are an important part of our value chain and share complementary business goals.

The primary topics of interest with international financiers hinge on sourcing of funds, the progress of programmes financed, social and environmental management practices, compliance, overall health of the Bank as well as new developments and opportunities. Our engagement includes electronic exchanges of information, teleconferences, participation in review missions and the like. We have put in place a Board-approved Procurement Policy; and our discussions with suppliers are mainly on quality, reliability and price while we seek mutually rewarding long-term relationships.

Regulators

Regulators contribute to the protection and enhancement of the stability of the country's financial system. Through rules and regulations they inter alia provide consumer protection, combat financial crime and create market confidence which benefits all. We reciprocate accordingly by conducting our business in an ethical, transparent and responsible manner while complying with all applicable legal and regulatory requirements.

We engage with regulators bilaterally as well as part of industry bodies through the timely submission of prescribed reports and returns, participation in meetings, forums, task forces and conferences as well as through media releases and the corporate website. The main topics discussed cover compliance with regulations, business operations and financial information pertaining to the Bank, voluntary guidelines and best practices, new legal and regulatory developments, financial inclusion and matters affecting the financial sector.

Society and Environment

The local communities in which we operate are a source of customers and employees, while they also effectively 'hold' our license to operate. We endeavour to understand their perceptions and expectations and tailor our business operations and CSR activities accordingly to create win-win solutions. We play an active role in building these communities, helping to raise their living standards by meeting urgent and essential needs.

We engage with local communities mainly through our branch network and public events. We support them through volunteerism as well as CSR activities that cover entrepreneur development, education, environment conservation, emergency relief and sponsorships of deserving causes. In addition we engage with the media through meetings, press conferences, press releases and our corporate website.

External Initiatives

DFCC Bank is a member of several associations and organisations, and staff actively participate in the activities of these institutions. Industry associations and organisations we have obtained membership in or established affiliations with, are listed on page 65 under Business Partner Capital.

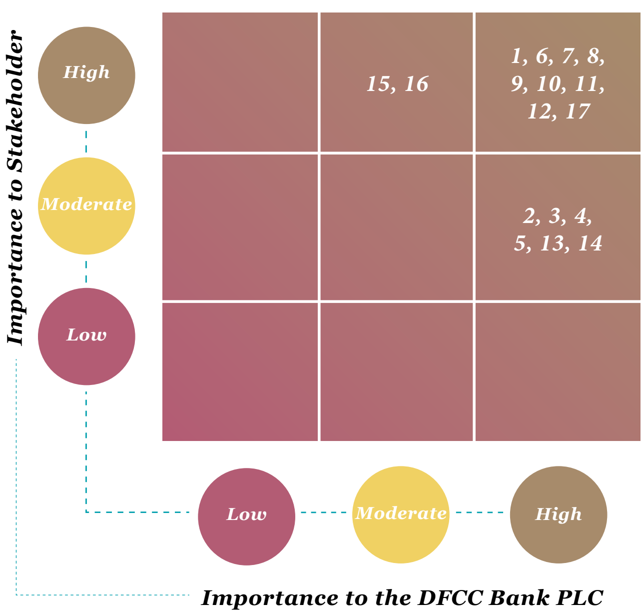
Materiality

Materiality and Value Creation

Materiality is about what matters most to our stakeholders and to the business operations of our Bank. These are economic, social and environmental topics and aspects that are of most concern to our stakeholders that may in turn impact our ability to create sustainable value. Hence, we take all such topics and aspects into consideration when formulating our strategic direction and strategic priorities. These aspects are analysed from the perspectives of importance to our stakeholders and importance to the Bank. An aspect is important (material) if it is both relevant and significant. Significance takes into account the magnitude of the impact as well the probability of its occurrence.

Materiality Matrix

Based on the materiality analysis, we have identified the aspects that are of importance to stakeholders and of importance to the Bank in the context of our economic, social and environmental agenda for sustainable value creation. To aid analysis and focus, these aspects have been mapped in a two-dimensional materiality matrix shown below, using GRI G4 Sustainability Reporting Guidelines. The insights from the materiality analysis and the materiality matrix help us in charting our course of sustainable value creation.



No.	Category/Aspect
	Economic
1.	Economic performance
2.	Indirect economic impacts
	Environmental
3.	Energy
4.	GHG emissions
5.	Products and services
	Social: Labour Practices and Decent Work
6.	Employment
7.	Occupational health and safety
8.	Training and education
9.	Diversity and equal opportunity
10.	Equal remuneration for women and men
11.	Labour practices grievance mechanisms
	Social: Human Rights
12.	Non-discrimination
	Social: Society
13.	Local communities
14.	Anti-corruption
	Social: Product Responsibility
15.	Product and service labelling
16.	Marketing communications
17.	Customer privacy

**Detailed GRI content Index will be online.*

Management Approach

Through thoughtful execution of a judiciously devised set of strategies, the Bank and the Group aim to generate and deliver value to all the stakeholders and derive value in turn from them, thereby achieving strategic goals to ensure sustainability of the Bank's and Group's operations. In the process, we build lasting relationships with customers, offer mutually rewarding careers to employees, generate steady returns for investors, establish profitable partnerships with business partners while dealing responsibly with the society and the environment.

Accordingly, the Management Discussion and Analysis that follows details our initiatives during the period under review to deliver value to the stakeholders and the value derived in turn for ourselves. They are accumulated in the form of internal and external capitals, all in the context of the operating environment and the strategic direction detailed above.

Details of the GRI content index are given in the online report [http://dfcc2015.annualreports.lk]

Value Creation and Internal Capital Formation

Internal capital is the value created by the Bank and the Group for themselves through their activities, relationships and linkages over the period of their existence. It consists of financial capital which is quantifiable and reflected in the financial statements and is available for investments in economic capital and the institutional capital comprising intangibles such as organisational knowledge, systems and processes, corporate culture and values, brand equity, business ethics and integrity and the like, a repository of tacit, explicit and embedded knowledge, which gives the Bank and the Group a competitive advantage in their respective markets. Both these forms of internal capitals help the Bank and the Group to deliver more value to the stakeholders and in return derive value from them, growing these internal capitals further.

FINANCIAL CAPITAL

Accounting Framework

The financial statements of DFCC Bank PLC and the Group have been prepared in conformity with the requirements of Sri Lanka Accounting Standards (SLFRSs and LKASs). The SLFRSs and LKASs are aligned with corresponding International Financial Reporting Standards (IFRSs).

Whenever new standards or amendments to existing standards are introduced by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), where appropriate, the Group changes existing accounting policies or introduces new accounting policies. In the event of a change of an existing accounting policy, the relevant accounting standard requires retrospective application of the amended accounting policy. Thus, in the period under review, due to the adoption of the Statement of Alternative Treatment (SoAT) on accounting for Super Gains Tax, the Super Gains Tax which was liable on profits for the year ended 31 March 2014 is deemed to be an expenditure for the year ended 31 March 2014 and as such the Statement of Equity as at 1 April 2015 has been adjusted in accounting for this expense. The impact to the equity due to this adjustment was LKR 777 million (Group LKR 811 million).

In accordance with the provisions of Part VIII of the Companies Act, DFCC Vardhana Bank PLC (DVB) has been amalgamated with DFCC Bank PLC with effect from 1 October 2015 and DFCC Bank survive as the amalgamated entity. Giving effect to the amalgamation, the Registrar General of Companies issued a Certificate of Amalgamation in accordance with the Section 244 (1) (a) of the Companies Act.

DVB was a 99.17% owned subsidiary of DFCC Bank and DFCC Bank consolidated the results of DVB up to the date of amalgamation.

The amalgamation between the two entities is considered as a common control transaction, as DFCC Bank continues to control the operations of DVB after the amalgamation. Thus, the results of amalgamation of the two entities are economically the same before and after the amalgamation as the amalgamated entity will have identical net assets. Therefore, DFCC Bank will continue to record the carrying values (book values) including the remaining goodwill that has resulted from the original acquisitions of DVB in the consolidated statement of financial position.

The legal form of the amalgamation is considered when preparing the separate financial statements of DFCC Bank as the surviving entity. Thus, the carrying values of the assets, liabilities and reserves of DVB is amalgamated with that of DFCC Bank with effect from 1 October 2015. Therefore, no goodwill is recognised in the separate financial statements. The difference between the total investment in subsidiary by DFCC Bank and the stated capital of DVB is adjusted in the Statement of Changes in Equity. Accordingly, on the date of the amalgamation, the investment in DVB of LKR 5,945 million including the balance payment to minority shareholders amounting to LKR 122 million has been set off against the equity of DVB.

Overview of Financial Performance of the Group

Currently, DFCC Group comprises DFCC Bank PLC, its subsidiaries, Lanka Industrial Estates Limited (LINDEL), DFCC Consulting (Pvt) Limited, Synapsys Limited, the joint venture company, Acuity Partners (Pvt) Limited (APL) and the associate company National Asset Management Limited (NAMAL).

Pursuant to the amalgamation, DFCC Bank changed its financial year end from 31 March to 31 December. As such the period results are reported from 1 April 2015 to 31 December 2015.

In the prior years, since the Bank's financial year ended on 31 March, the results of DVB, APL and Synapsys Limited were consolidated with a three-month gap.

Due to the change of the financial year, the results of these companies with a financial year end of 31 December has now been consolidated after closing the three month gap period of January to March. However, the results of DFCC Consulting (Pvt) Limited and LINDEL whose financial year ends on 31 March have been consolidated for a period of nine months ending on 31 December 2015.

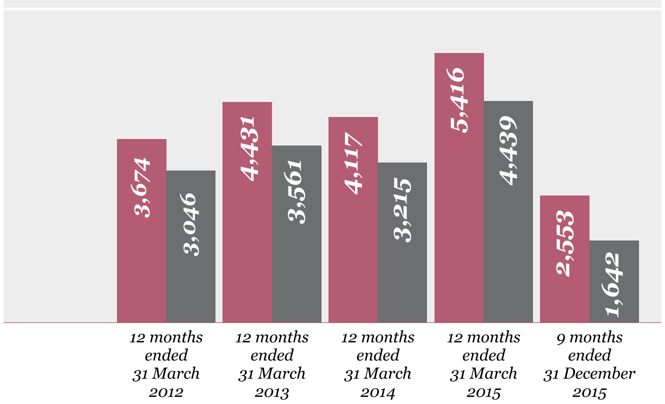
In this review, the period means the nine month period from 1 April to 31 December 2015 and previous year means the year ended 31 March 2015.

As the performance of the period consist of only a nine month period, the results cannot be directly compared with that of the previous year.

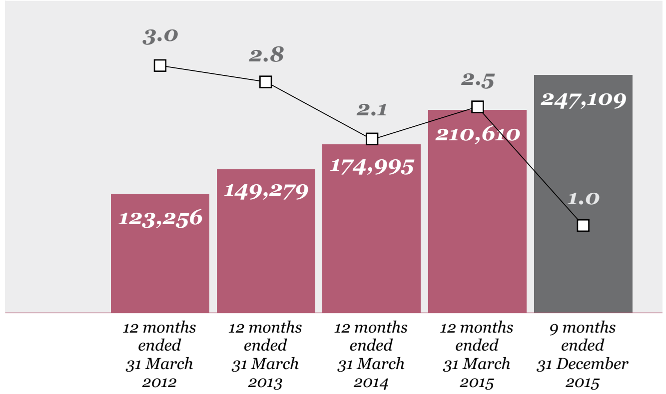
Composition of Group Profit Before Tax

	9 months ended 31.12.2015 LKR million		Year ended 31.03.2015 LKR million	
Profit before tax – banking business		2,450		5,176
Profit before tax – subsidiaries				
– LINDEL	118		150	
– APL (50% share)	67		138	
– Other subsidiaries	(6)		14	
Sub total	179		302	
– Consolidation adjustment	(88)		(77)	
Total, subsidiaries		91		225
Profit before tax, total		2,541		5,401
Income tax		(911)		(977)
Profit after tax – sub total		1,630		4,424
Share of profit – associate company, NAMAL		12		15
Profit after tax as reported		1,642		4,439

Group Profit Before and After Tax



Group Total Assets and Return on Assets



** After eliminating fair value reserve*

Due to the contracted reporting period, as a result of changing the accounting period to 31 December from 31 March, and the one-off amalgamated related expenses, Group profit before and after tax for the current period reduced to LKR 2,553 million and LKR 1,642 million respectively compared to LKR 5,416 million and LKR 4,439 million in the previous financial year. The Return on Assets (ROA) and Return on Equity (ROE) too decreased to 0.84% and 5.6% respectively in the current period, from 2.5% and 14% respectively compared to the previous year.

However, the total assets of the Group recorded a significant growth of 17% and stood at LKR 247,109 million as at 31 December 2015 compared to LKR 210,610 million on 31 March 2015. Within this growth, loans and receivables to customers grew by 18% over the previous year.

Financial Performance of DFCC Bank and DFCC Vardhana Bank (Banking Business)

By far the largest contribution to profits and assets was from the Banking Business (BB), and therefore, this review will mainly focus on the performance of the Banking Business which is our core business.

For comparison purposes a revised Income Statement and Statement of Financial Position is presented in Notes 61.1 and 61.2 to the financial statements prepared on the basis that the amalgamation took place prior to 1 April 2014.

Profit after tax of BB

The profit after tax of the Banking Business in the period was LKR 1,239 million, compared to LKR 4,501 million in previous year. This is not comparable due to the contracted financial period and the one-off items included in the two periods.

Revenue Mix of BB

Key Components of Income

	9 months ended 31.12.2015		Year ended 31.03.2015	
	LKR million	%	LKR million	%
Net interest income	**5,385**	**76.8**	6,929	63.9
Net fee and commission income	**843**	**12.0**	1,097	10.1
Net gain from trading	**172**	**2.5**	496	4.6
Gain on sale of equity securities	**37**	**0.5**	1,135	10.5
Dividend income	**308**	**4.4**	991	9.1
Fx income	**(40)**	**-0.6**	(113)	-1.0
Others	**306**	**4.4**	309	2.8
Total operating income	**7,011**	**100.0**	10,845	100.0

Total operating income was LKR 7,011 million in the nine months ended 31 December 2015, compared to LKR 10,845 million in the previous year.

The net interest income (NII) was LKR 5,385 million which translates to a 3.6% growth on an annualised basis, compared to LKR 6,929 million reported in the previous year. The Bank witnessed interest margin dropping to 3.1% during the nine months period ended 31 December 2015 from 3.6% in March 2015 due to lower interest rates prevailed in the environment. NII, which is the main source of income from the fund-based operations represent over 77% of the total operating income of the Banking Business.

In spite of the very healthy credit portfolio growth of over 15% achieved by the Banking Business during the current 9 month period, the NII growth was depressed due to the higher drop in lending rates in comparison to the drop in the deposit rates.

Net fee and commission income of BB in the period under review was LKR 843 million compared to LKR 1,097 million in the previous year. On an annualised basis, it translates to a marginal increase of 2.4% compared to the previous year. Fee and commission income is derived largely from the banking services provided to customers engaged in import and export business, fees from guarantees issued on behalf of customers engaged in trade and construction activities and commission income from other banking services.

Net gain from trading in the period under review was LKR 172 million compared to LKR 496 million reported in the previous year. Due to upward trend in the market interest rates for fixed income securities, less income was realised from fixed income capital gains during the period compared to the previous year.

Gain on sale of equity securities was LKR 37 million in the period under review compared to LKR 1,135 million in the previous year. The drop was mainly due to the adverse market conditions prevailed during that period. Previous year gains were significantly high due to one-off capital gain of LKR 829 million realised on the divestment of the entire holding of 9.92% ordinary voting shares of Nations Trust Bank PLC.

Dividend income received by the Bank makes a significant contribution to other income. This is derived largely from the investment in Commercial Bank of Ceylon PLC supplemented by dividend from other equity securities which classified as available-for-sale. However, due to the financial year end being advanced to 31 December 2015, dividend declared during the first quarter of 2016 is not included in the results of the period.

The forward exchange contracts are accounted as a derivative and its fair value changes are reported as net gain/(loss) from financial instruments at fair value through profit or loss in the income statement. Other forward exchange gains/losses are reported under other operating income.

Foreign exchange income too did not contribute positively towards the profit of the period under review due to the depreciation of the Sri Lankan Rupee against the US Dollar. However, the overall foreign exchange contribution reported a positive variance during the period compared to the previous year due to the reduction of the negative open exposure and the reduced cost from the foreign exchange swaps carried out in order to benefit from higher yielding Rupee assets.

Composition of Operating Expenses

	9 months ended 31.12.2015	Year ended 31.03.2015
	%	%
Personnel cost	**52.6**	50.8
Depreciation and amortisation	**6.9**	8.4
Others	**40.4**	40.8

Operating expenses of BB was LKR 3,883 million compared to LKR 4,218 million in the previous year. Approximately half of the operating expenses are on account of personnel compensation (current and deferred compensation relating to retirement). In common with the banking industry, personnel cost is a significant proportion of the operating expenses. Due to stringent cost management, operating expenses excluding personnel cost increase was not significant. This increase was largely due to costs associated with branch expansion, merger related expenses and general price increases. Due to the relatively young branch network the contribution from the new members in the network is lower compared to the more mature branches. These costs incurred on expansion of branch network will be eventually recovered by additional revenue generation by these new branches in the years to come.

Impairment allowance charge to the income statement is high in the period compared to what was reported in the previous year. This is mainly due to a reversal in impairment allowance in the previous year arising from a change to the impairment assessment process.

Income tax liability is based on the accounting profit computed under SLFRSs adjusted for disallowable expenses and exempt income as per the provisions of the Inland Revenue Act No. 10 of 2006 (as amended).

In common with Banks, DFCC Bank is liable for Value Added Tax (VAT) and Nation Building Tax (NBT) on financial services (effective rate 11.5%) and income tax (nominal rate 28%). The value addition from the supply of financial services is computed as the accounting profit plus salaries minus economic depreciation on assets replacing accounting depreciation. Value Added Tax and NBT on financial services are non-deductible expenses for computing the taxable profit for income tax purposes.

The Bank has received approval under Section 28(4) of the Inland Revenue Act, to adopt the calendar year (1 January to 31 December) as the basis of accounting year commencing from the Year of Assessment 2015 - 2016. Accordingly, the Bank has computed statutory income for Year of Assessment 2015 - 2016 including results for 12 months despite the reported results relate only to a period of nine months. As a result an estimated income tax liability of LKR 180 million is included under the current period tax on account of the change in the financial year.

The total of VAT and NBT on financial services and income tax expense as a percentage of profit before these taxes was 50% in the financial period compared with 31% in the previous financial year. The additional tax expense due to the change in financial year to December has resulted in a 8% increase in tax expense of the Bank for the period.

Credit Quality

Analysis of Impaired Loans

As at	9 months ended 31.12.2015	Year ended 31.03.2015
	LKR million	LKR million
Impaired loans to customers	**8,554**	8,658
Impairment allowance	**6,166**	6,010
Ratios:		
Impairment allowance/impaired loans (%)	**72.1**	69.4
Impaired loans/total loans (%)	**5.1**	6.1

The ratio of impaired loans to total loans on 31 December 2015 was 5.1% compared to 6.1% on 31 March 2015, indicating an improvement in credit quality. The cumulative allowance for impairment for loans and advances of BB was maintained at a healthy level of 72.1% as at 31 December 2015. The impairment allowance coverage for impaired loans is adequate when fair value of the underlying collateral is taken into account.

Due to the different computation methodologies, the ratios of NPL and provision coverage under regulatory regime are not comparable with SLFRSs regime.

The SLFRSs based impairment assessment, both individual and collective, is to a large extent based on historical evidence modified by an experience adjustment by management, to take into account current economic conditions. Interest income is recognised on an accrual basis and therefore, impairment allowance is for both principal and interest.

Aggressive recovery efforts throughout the year have consistently driven down the ratio of impaired loans to total loans as well as the regulatory NPL ratio of the Bank. Regulatory NPL ratio reported for the Bank as at end of December 2015 is 3.7% compared to 4.3% in the previous year.

Composition of Total Assets

As at	9 months ended 31.12.2015	Year ended 31.03.2015
	%	%
Earning assets		
Loans to and receivable from customers	**65.1**	64.1
Loans to and receivable from banks	**1.9**	1.8
Other interest-earning financial assets	**7.3**	7.7
Available-for-sale investments	**19.9**	21.2
Non-earning assets		
Property, plant and equipment	**0.4**	0.4
Intangible assets	**0.1**	0.1
Others	**5.3**	4.7
Total assets	**100.0**	100.0

Of the total assets 92% were denominated in Sri Lanka Rupees and the balance comprised mainly in US Dollar denominated assets. Total assets of BB recorded a healthy growth of 14% and amounted to LKR 246,151 million as at 31 December 2015 compared to LKR 215,919 million as at end of the previous year.

Gross loans and advances reported a significant growth of 15% recording LKR 171,085 million as at end of 31 December 2015 compared to LKR 148,433 million recorded in the previous year.

Listed shares are classified as available-for-sale and carried at fair value. Fair value changes that represent unrealised gains/loss are recognised in other comprehensive income. During the period ended 31 December 2015, due to adverse market conditions the available-for-sale securities recorded a fair value loss of LKR 3,158 million. In the comparable year, the fair value gain was LKR 5,595 million.

Composition of Interest-Bearing Liabilities

As at	9 months ended 31.12.2015		Year ended 31.03.2015	
	LKR million	%	LKR million	%
Borrowing sourced from:				
Multilateral lending agencies	**22,581**	**11.4**	18,949	11.5
Bilateral lenders	**4,162**	**2.1**	5,413	3.3
International capital market	**14,528**	**7.3**	13,746	8.4
Domestic capital market	**12,026**	**6.1**	6,810	4.1
Debenture issue private placement	**506**	**0.3**	526	0.3
Borrowing from banks	**13,345**	**6.7**	8,081	4.9
Customer deposits	**110,891**	**55.9**	91,782	55.8
Repos	**20,232**	**10.2**	19,248	11.7
Total	**198,271**	**100.0**	164,555	100.0

Liabilities are mainly in Sri Lanka Rupees but it also has foreign currency liabilities, mainly US Dollars. Remarkable growth of 21% was achieved in customer deposits during the nine months ended 31 December 2015 compared to the previous year.

In June 2015, DVB successfully raised funds with a tenor of five years by way of unsecured redeemable rated debenture, which was listed in the Colombo Stock Exchange. A significant feature of the issue was that there were two types of debt offered in the same issue (i.e., senior and subordinated). Accordingly, the Bank raised LKR 3 billion by way of senior debt and LKR 2 billion as subordinated debt. The issue was oversubscribed on the first day itself.

The USD 100 million five year notes issued to non-resident investors in October 2013 continues to be supported by the Government with a foreign exchange cover up to USD 75 million from the Central Bank of Sri Lanka (CBSL), to neutralise any change in exchange rates.

The accounting treatment is based on the recognition and measurement criteria of forward exchange USD purchase contract, a derivative asset and recognition and measurement of income grant by Government via CBSL.

Profit Contribution from Members of the Group

This comprises the profit contribution from LINDEL and DFCC Consulting (Pvt) Limited for the nine months ended 31 December 2015 and Synapsys Limited, APL and NAMAL for 12 months ended 31 December 2015. Amongst the subsidiaries, LINDEL continues to be profitable with a return on investment of 22% during the financial period compared with 24% during the previous financial year. The profit contribution from the other members was LKR 72 million.

Financial Assistance Received from Government

The Government has acted as a conduit for direct funds raised from multilateral and bilateral agencies for lending to eligible sectors. The amount outstanding on 31 December 2015 was LKR 23.2 million.

The exchange loss cover provided by the Central Bank of Sri Lanka is a de-facto grant to the extent of USD 75 million international note issue.

The Government does not own direct equity, but entities over which the Government exercises control have continued to own shares of DFCC Bank. As of 31 December 2015, the aggregate shareholding was approximately 35%.

Critical Accounting Policies and Estimation of Uncertainties

The results of DFCC Bank and the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of financial statements.

Directors have the responsibility to select suitable accounting policies and to make judgments and estimates that are reasonable and prudent. These accounting policies, judgments etc. are explained in the notes to the financial statements.

Current Year Changes and Impending Changes to Financial Reporting

These are disclosed in notes to the financial statements.

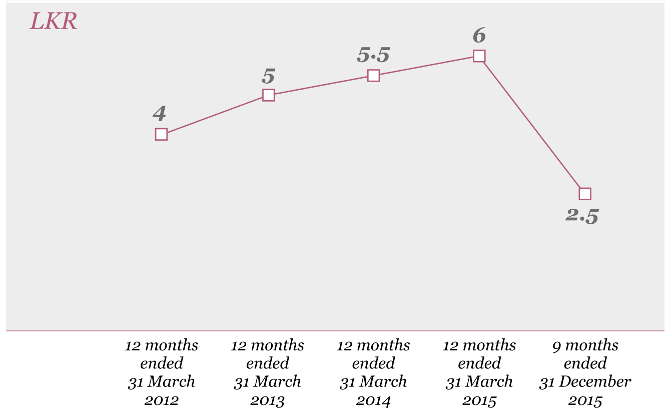
Management of Equity

Dividend Performance

The payout ratio based on the dividend approved by the Directors is 62% in the period under review compared to 49% in the previous year.

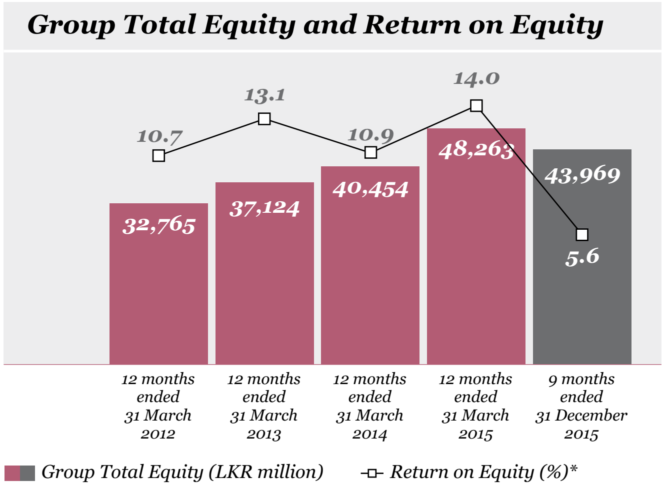
Dividend per share for the nine months ended 31 December 2015 is LKR 2.50 per share compared to LKR 6.00 per share in the previous year. The decrease in the dividend is mainly due to the financial results for the period being for a contracted period of nine months.

Dividend per Share



Return on Equity

Return on equity of the Group for the period was 4%. The equity of the Group is significantly augmented due to the recognition of unrealised gains on listed ordinary shares and Government Securities classified under available-for-sale as required under SLFRSs and the resultant increase in equity on 31 December 2015 is LKR 11,858 million. The return on equity will improve to 5.6% if this unrealised gain is not taken into account.



* After eliminating fair value reserve

Return on equity is expected to improve with expansion of earning assets financed with borrowing. DFCC Bank will balance higher risk associated with gearing with the need to hold capital cushion commensurate with risk and maintain a prudent dividend distribution policy.

Regulatory Minimum Capital Requirement

DFCC Bank's capital is well over the minimum requirement (refer page 208).

The regulatory capital computation excludes fair value changes of financial assets classified as available-for-sale. Bank continued to remain as one of the best capitalised Banks in the industry with Group Tier 1 capital adequacy ratio at 15.39% and total capital adequacy ratio at 15.32%.

Financial Value Added

The total value added by DFCC Bank during the nine months ended 31 December 2015 amounted to LKR 3,303 million (year ended 31 March 2015: LKR 5,440 million). Details of value added and distributed are given under Supplementary Information on page 213.

INSTITUTIONAL CAPITAL

Institutional capital entails a broad spectrum of non-financial intangible components of capital that are unique to DFCC Bank. It includes organisational knowledge, systems, processes and ICT, corporate culture and values, brand equity and business ethics and integrity, all of which are important elements in creating sustainable value for our stakeholders.

Organisational Knowledge

Being in operation for 60 years, we have been able to perfect our competencies in every area, especially when it comes to project financing. We have developed a team of diverse multi-skilled professionals, and our knowledge and expertise is one of the major value drivers of our business. The result has been, a strong reputation of being a comprehensive service provider and the first choice for any new venture or expansion project whether it is on a large or small scale.

We have used our expertise to provide sustainable development financing, especially in the rural areas, helping to transform rural economies and support and bolster livelihoods, generate employment and encourage capital formation in every district in Sri Lanka. The World Bank recognised DFCC Bank as being one of a small number of development finance institutions that was not only viable but also successful in transforming itself into a multi-product, strong financial institution in a changing international and local environment.

Today, we have amalgamated with our commercial banking subsidiary, DFCC Vardhana Bank, and have transformed into a fully-fledged commercial bank. We draw synergies from our complementary areas of business through our subsidiaries, joint venture and associate company. These services include consultancy, industrial estate management, IT services, investment banking, stockbroking and venture capital and management of unit trusts.

We will continue to develop capabilities and build stronger and more profitable relationships by providing customised solutions, leveraging synergies across our main businesses and capitalising on our core strengths whilst nurturing our most valued assets; our employees.

Systems, Processes and ICT

Our internal systems and processes are developed with a strong focus on innovation, and Information Technology plays a vital role in executing day-to-day operations of the Bank. As a result of the amalgamation, many of our systems and processes were revamped in order to increase efficiency. We are continuously improving our management information system in order to make sound strategic decisions.

The initiatives implemented during the period under review are as follows:

- Replacement of an old Lotus Note based Loan Origination system with a web based Facility Origination Workflow solution, to manage the credit approval workflow originating from the branch network and flowing up to the level of the Board of Directors.
- Broadbasing the utility payment solution with the addition of more utility providers and corporates, facilitating the island wide cash collections from consumers/agents to be transmitted online to their respective back-end systems. Moreover, the fund transfer capability of utility payments/agency collections through the Online Banking solution has enabled the customers to manage transactions from their desktops. Requests for Letters of Credit (LC) facilities have been enabled through the Online Banking solution for corporate clients facilitating a faster service.
- Successful consolidation of the two core banking solutions by migrating data from DFCC Bank to DFCC Vardhana Bank to facilitate the amalgamation of the two institutions into one commercial bank. Similarly the Oracle Financials ERP solution went through a consolidation process for financial reporting on the amalgamated entity.
- Launching a supplier settlement solution developed by Synapsys for a leading tea factory covering the automation of the entire life cycle from weighing of tea leaf collections from smallholders, and effecting tea leaf supplier payments through the Bank to facilitating cash withdrawals from the ATM network.
- Development of the Mobile Wallet solution developed by Synapsys, which will facilitate the management of wallet accounts by bank/non-bank customers using a mobile application. This mobile application will facilitate transfer/cash top-ups, merchant payments, fund transfers between wallet accounts, utility payments and a host of other features.

Corporate Culture and Values

With the launch of the new entity, a new vision, mission and a set of values were introduced. A cross-functional team was appointed to give in their recommendations to the Board in this regard, and a company-wide survey was also carried out. This demonstrates the Bank's team culture, where every individual is directly involved and accountable in realising the Bank's overall vision.

Our corporate culture and values are derived from our new vision which is 'to be the leading financial solutions provider sustainably developing individuals and businesses'. Ours is a culture that values professionalism, teamwork, openness, diversity, respect for individual values and recognition; each individual is respected, rewarded and recognised for his/her competence, capabilities and knowledge. We assess not just what people have achieved, but also how they have achieved it, in doing so encouraging sustainable performance.

Our core values are: being innovative, customer centric, professional, ethical, accountable, team oriented and socially responsible.

Brand Equity

The DFCC Bank brand is a heritage brand that has been established as a pioneer and risk taker, nurturing entrepreneurs, businesses and sectors in their early and risky start up stages. The Bank's clientele consisted of mainly businesses looking to fulfil their project financing needs.

Following the amalgamation, DFCC Bank updated its positioning as a comprehensive financial solutions provider that enables all its stakeholders to 'Keep Growing' by providing responsible and innovative financial solutions. Leveraging its development banking and commercial banking expertise, the Bank serves a variety of clients ranging from individuals, professionals and entrepreneurs to SMEs and corporates across the country, operating through 137 branches and service points, and is committed to driving financial inclusion. We are careful to maintain our brand equity at favourable levels and constantly monitor the performance of our brand. The DFCC Bank brand will keep evolving to stay relevant for the future, focusing on sustainable progress and prosperity for all.

Business Ethics and Integrity

DFCC Bank is uncompromising in its adoption of the highest ethics and integrity. Being ethical is one of our key values, and drives our every strategy and action. We have a comprehensive governance mechanism in place and the Corporate Governance Report appearing on page 89 explains these measures in detail.

Anti-Corruption

Given the negative consequences associated with corruption and also in the interest of our reputation and maintaining transparency, the Bank has a written Code of Conduct that, inter alia, includes provisions relating to anti-corruption. It is not just for legal compliance, but we view it as an ethical issue and a business imperative. In order to ensure collective action by all in the Bank, these provisions have been explained to all staff and are reinforced through updates and monitored throughout all business operations. We are a responsible corporate citizen. We are proud of our unblemished track record in this sphere and it aids our resolve to make our operations sustainable into the future.

Compliance

Being a financial service intermediary, the need to ensure full compliance with the applicable laws, rules and regulations cannot be overemphasised. All of us in the Bank and the Group understand our responsibility in this regard. Our policies and procedures in fact go beyond the legal/regulatory requirements and embrace broader standards of integrity and ethical conduct. Compliance is embedded into our organisational culture. We understand the gravity of non-compliance and the risks associated therewith. Measures taken to manage such risks are detailed under Operational Risk on page 82 of this Report.

In this sphere too, we maintain a clean scorecard. We have not been informed of any fines or actions by the regulators in relation to any incidents of non-compliance with laws and regulations pertaining to corruption, anti-competitive behaviour, anti-trust, monopoly practices, provision and use of products and services and similar infringements during the period under review.

Value Creation and External Capital Formation

External capital refers to the value of the various stakeholders to the Bank and the Group and comprises lasting relationships and profitable partnerships built over the years through the activities, interactions and linkages with them. Unlike the financial and institutional capitals, external capital 'resides' in the stakeholders – material ones being investors, customers, employees, business partners, society and environment and hence is 'external' to the Bank and the Group. But we have access to and make use of this external capital together with our internal capital in driving our business to deliver value to them and deriving value from them, thereby growing external and internal capitals further. In fact, the greater the external capital we will be able to build, the greater will be the value that we will be able to create for ourselves in future.

INVESTOR CAPITAL

The Bank's investors are persons, both institutional and individual, who provide equity or debt capital with the expectation of a superior return over the short, medium and long term. In turn, the Bank drives future earnings while operating within sound risk management and control frameworks to derive value for itself and to deliver value to its investors.

Shareholder Profile

The Bank had 8,640 shareholders on 31 December 2015 (March 2015: 8,443 shareholders), with the total number of shares in issue remaining unchanged at 265,097,688 ordinary shares. Around 86% of the Bank's share capital is held by institutions. Local shareholders, both institutional and individual, hold about 74% of the total number of shares in issue and account for 98% of all shareholders.

Return to Shareholders

Financial Return

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

Shareholders are primarily rewarded through dividends and share price appreciation. The Bank aims to provide consistently high total shareholder returns through profitable and sustainable performance. Dividends are determined based on growth in profits while taking into account future cash needs and the maintenance of prudent ratios. The Board of Directors has approved a first and final dividend of LKR 2.50 per share for the period under review (FY 2014/15: LKR 6.00).

The DFCC Bank share closed at LKR 168.90 on 31 December 2015. During the period the highest value of LKR 230.00 was recorded on 21 April 2015 and the lowest value was recorded on 3 December 2015 as LKR 155.00. Over the nine month period, the share posted a loss of LKR 36.10 (21.4%). The share price tracked the movement of the All Share Price Index (ASPI) closely during the period under review.

Additional details are given under the section Investor Relations (commencing on page 113).

CUSTOMER CAPITAL

Branch Network and Service Delivery

Details of the branch network are given in the online report [http://dfcc2015.annualreports.lk]

As we write, a lot of changes are taking place in the banking industry. These changes will fundamentally change the role of a bank and transform branch banking and retail service delivery in particular. DFCC Bank is gearing itself to greet these changes and make use of immense opportunities they will bring about, thereby staying relevant and benefiting therefrom. We will develop a much more complete understanding of the future customer and deliver a significantly enhanced customer experience by matching our value proposition with their preferences and offering it through channels of distribution that suit them best. All this calls for the optimal deployment of technology, suitably aligned with our chosen direction and strategic goals while keeping the operational risk low. We are working on it.

In this context, during the period under review, the Bank focused on value added initiatives, to improve customer centric services, centralise and increase efficiency and effectiveness of resource utilisation. As the year progressed, several key initiatives were implemented improving the overall customer experience, leading to cross-selling opportunities and customer retention.

The present day customers are tech-savvy and aspire to have prompt service and information at their fingertips. Conventional banking practices are overshadowed by the evolution of digital innovations.

The appetite for electronic banking continued to grow. The Bank's first ever 'Automated Branch' was established at the newly refurbished premises in Negombo. The Automated Counter is equipped with a personal computer enabled with online banking access, and in addition has a kiosk unit, ATM and courtesy phone. This trend setting practice is to be adopted in more branches in the future with a view to creating fast and easy access transaction capability so that customers can reap the benefits of a traffic free, convenient and speedier service.

In light of the competitive consumer banking environment, the Bank continued to consolidate the branch network with the Sri Lanka Postal unit conversions. The Weligama unit was converted to a fully-fledged branch whilst the Gangodawila and Kottawa units were refurbished in order to create a better ambience. The Negombo branch was relocated to the Bank's own newly constructed building. The Borella building was refurbished and more central processing teams were transferred into this space to enhance efficiency.

The Bank has 79 branches and 58 service points with a geographically dispersed network of 77 ATMs island-wide. The Bank's first off-site ATM was set up at Galpadithanna, Ratnapura in the premises of a tea factory and the Bank is optimistic of setting up a few more at identified areas for wider reach.

The Bank will continue to increase the placement of kiosk machines and the branches that have courtesy phones, currently 30, will be further increased.

The Mobile Teller concept continued to catch on. This is a mechanism used to collect cash deposits and respond to account balance inquiries of selected customers in the vicinity of the branch. An assigned permanent staff member is given a palm-top device and a portable printer in order to complete a transaction. This concept is currently being used by two branches and it will be further expanded.

Work on centralisation progressed during the period under review. The documentation for account opening and maintenance has been moved to an off-site storage facility freeing up space for more productive usage.

The Service Quality unit has engineered many studies of various branches and departments in order to streamline existing processes. The unit has been successful in executing process improvements through focused and gradual review of process flows. The unit studied current processes through which services are offered to customers, critically evaluated strengths and weaknesses, identified ways of improvement, conducted root cause analysis on failures, and redesigned processes to achieve efficiency and effectiveness. Service level agreements with specific turnaround times have been implemented in certain departments so that employee productivity can be improved and staff can be deployed as per the identified staff requirements to serve customers better.

The unit wears many hats from acting as a quality administrator and engaging in inspection of services to providing service related advice. The team conducts regular quality audits, sends out alerts on identified service gaps and reviews department manuals to identify any loopholes and bottlenecks.

In essence, most of the focus and efforts during the period revolved around the amalgamation, where the team spent considerable time planning, executing work assignments, changing processes, communicating changes, educating branches and changing customer facing forms and documents amongst others. All these were delivered well within the required time frames.

Corporate Banking

Following the amalgamation of DFCC Bank and DFCC Vardhana Bank, DFCC Bank's Corporate Banking function now seamlessly offers an all-encompassing range of products spanning development banking and commercial banking. The services offered cater to both the short-term and long-term financial requirements of corporate customers. Besides the broadening of the product range, the amalgamation has also achieved further synergies. Uniquely, it is now a 'One-Stop-Shop' offering a superior value proposition in terms of product and service quality.

Despite the sluggish credit conditions during the year and the general 'wait and see' attitude of the business and investor community, approvals during the period under review amounted to almost LKR 19,782 million. The total domestic loans and advances portfolio also experienced a growth to LKR 49,039 million from LKR 46,316 million during the period April 2015 to December 2015.

DFCC Bank continues to be in the forefront of project financing and despite the relatively low level of long-term investment activity, the Bank was able to grow its corporate project loan portfolio by almost 9%. Power and energy projects continued to account for a significant share of the new approvals accounting for almost 20%, further reinforcing the Bank's status as a leading lender to this sector. The finance and business service industry accounted for approximately 26% of new approvals. The growth in approvals to the finance and business service sectors were notable and due mainly to the issuance of debentures and other securities during the year by several non-banking financial institutions involved in the leasing industry. The Corporate Banking portfolio remained well diversified with the Bank financing other projects across the board in growth sectors such as transportation and logistics, tourism, trade, education and telecommunications.

Corporate Banking continued to pass the benefit of concessionary loan schemes to clients. In particular the European Investment Bank (EIB) credit line made available to the SME sector and the renewable energy sector since 2014 was proactively promoted during the period. The total quantum of loans approved under the EIB scheme by Corporate Banking since its launch amounted to LKR 5,500 million which is almost 50% of the total loan quantum granted under this concessionary scheme by DFCC Bank.

While the commercial banking funded portfolio witnessed a marginal decline of 4%, the non-funded portfolio grew to LKR 9,787 million from LKR 7,269 million during the period. Total approved limits as at 31 December 2015 amounted to LKR 34,603 million of which the utilisation amounted to LKR 20,133 million or 58% compared to 55% utilisation as at the beginning of April 2015. The increased utilisation of limits despite high volatility in short-term interest rates reflects the increasing success of the unit's relationship banking efforts.

As indicated by the insignificant non-performing loan ratio, asset quality continued to be maintained. DFCC Bank places great emphasis on effective appraisal and excellent post disbursement follow up and procedures, including adherence to both internal and external regulatory limits in terms of sector, group and client level exposures and this continues to underpin the high quality of the portfolio.

The low interest rate regime that prevailed during 2015 posed a significant challenge in maintaining interest margins owing to the lag effect in the re-pricing of various sources of funding. Therefore, in order to mitigate the negative impact of the decline in net interest income, a concerted effort was made to grow the non-funded income base and increase fee, commission and other income.

A substantial effort was also made in deposit mobilisation in order to grow the Bank's deposit and CASA base. DFCC Bank's strong corporate relationships and superior service levels enabled the Bank to mobilise a significant quantum of deposits, current and savings accounts within a short span of time.

Way Forward

Driving growth by seizing opportunities in growth sectors in the economy is one of the key strategies for 2016. In particular we see significant potential in the logistics, construction, tourism and agro business sectors as indicative from concessions granted to these sectors in the 2016 Budget and overall Government policy with regard to these industries. Sri Lanka is increasingly being promoted as a global logistics hub which provides significant lending opportunities to this sector. Likewise, the tourism sector which is actively being marketed as a MICE destination is likely to attract investor interest which the Bank is well positioned to harness. The traditional agriculture sector is rapidly transforming into an agro business and promises to be a key growth sector in the medium to long term. Further, Government plans such as developing the Western Province as a Megapolis, as well as rapid urbanisation which has seen a significant increase in condominium development is expected to boost the construction industry in the short to medium term.

Infrastructure development will continue to be a priority and with the Government's emphasis on public-private partnerships and private banks participation in these projects, the Bank sees significant scope to be a part of this development. Having funded a number of large scale infrastructure projects in the recent past DFCC Bank is well poised to take advantage of these opportunities.

We will continue to focus on the renewable energy sector, expanding our presence in areas such as solar, wind power and hydro power. With the Government seeking a contribution of at least 20% from small scale power producers by 2020, we see significant potential in this sector which we are well placed to harness considering our pioneering status.

Off-Shore lending and the growth of the Bank's FCBU clientele are other areas that will be focused on in the light of the Government's renewed emphasis on developing the export sector and attracting more foreign direct investments into the country.

Consolidating DFCC Bank's position as one of the key commercial banks in the country will continue to be a priority in 2016. We will continue to capitalise on our long-term banking relationships and leverage the synergies arising out of the amalgamation to grow the commercial banking portfolio.

Small and Medium Enterprises

Branch Banking

The branch network of DFCC Bank was a hive of activity during 2015 with the unit's involvement in the Bank's Diamond Jubilee Celebrations and the amalgamation of DFCC Vardhana Bank. The Bank's main objective was to make the transfer of operations seamless and hassle-free as far as our valued customers are concerned. Bringing the two operations onto a single IT platform, amalgamation of the customer databases, standardising the credit processing and streamlining the loan repayment and recovery procedures proved to be the critical aspects during the amalgamation. The Branch Banking unit was able to successfully complete the process and commence services as a fully-fledged commercial bank within the stipulated time frame. This would not have been possible without the commitment of the branch staff and the support and guidance extended by the Central Steering Committee and the support Committees.

The branches continued with normal business operations amidst all the energy and excitement. Project and SME financing remained the quintessence of branch lending activities while a substantial effort was made in the deposit mobilisation sphere to sustain the growth momentum experienced by the Bank in the recent past.

Capacity Development of SMEs in Sri Lanka

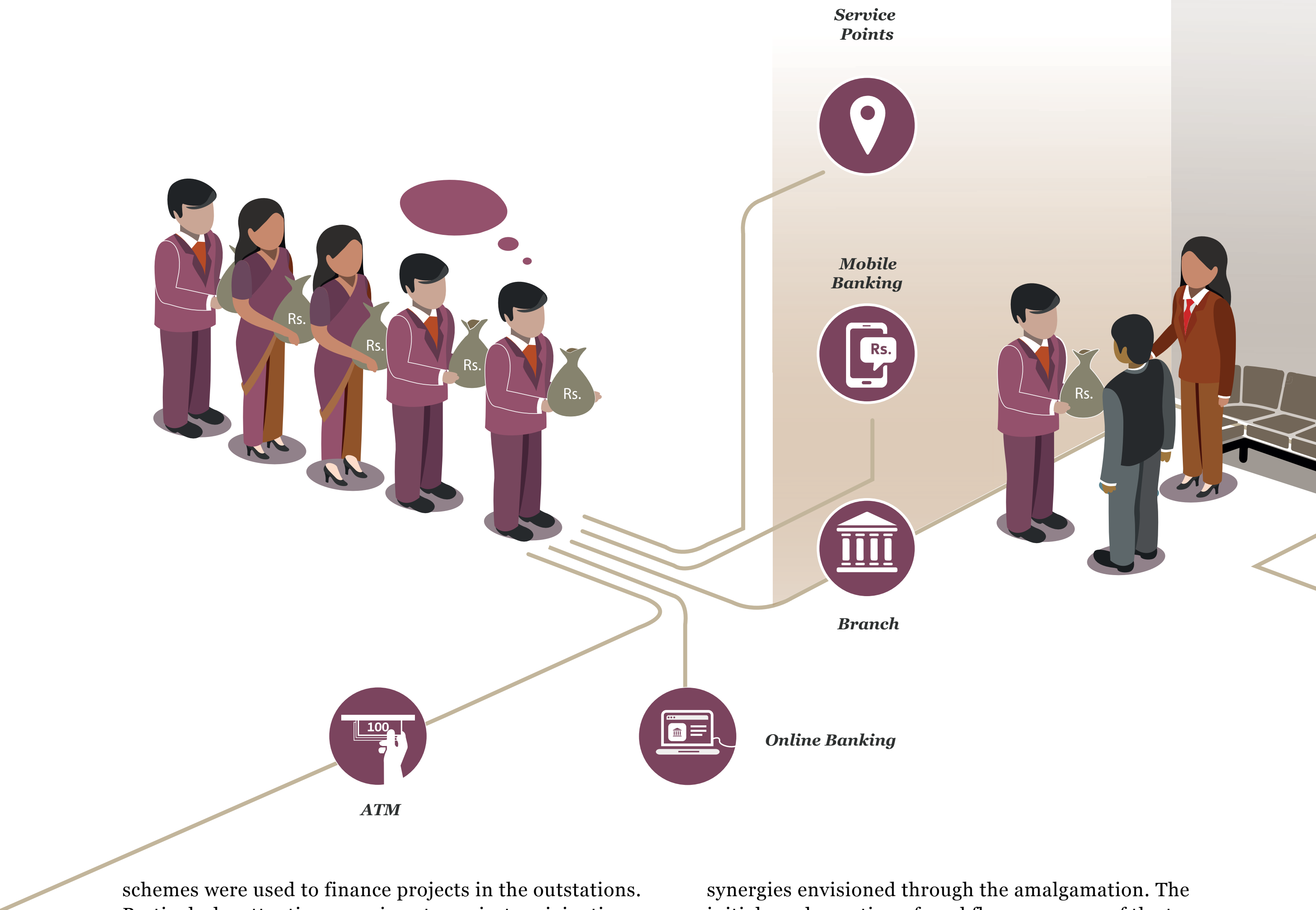
As Sri Lanka's premiere development financial institution, DFCC Bank has a rich heritage of equipping SMEs with the knowledge to face the challenges of a modern business environment. The Bank has been constantly reaching out to this critical sector with capacity development programmes on important areas such as entrepreneurship, management, modern business practices, etc.

Taking into consideration the emphasis placed on sustainability, renewable energy and energy efficiency in the modern globalised business environment, DFCC Bank teamed up with Deutsche Gesellschaft fur Internationale Zusammenarbeit (GIZ) of Germany and DFCC Consulting (Pvt) Limited to develop a framework to inculcate best practices in sustainability and energy efficiency in local SMEs. As part of this effort, the Bank organised nine training programmes for SMEs during the period with the assistance of DFCC Consulting (Pvt) Limited and the branch network. Technical assistance for these workshops was provided by GIZ through German and local energy consultants. Particular attention was given to emerging districts in the Northern, Eastern, Southern and Uva Provinces when selecting locations. Over 300 SMEs directly benefited from this initiative. In the second phase, the Bank will look at nurturing new initiatives by these SMEs, in the areas of sustainable energy and efficiency management, and provide financial assistance and guidance.

Performance During 2015

Branch Banking showed a robust performance during the period ended 31 December 2015. The advances portfolio of the branches increased to LKR 102,189 million from LKR 83,104 million showing a growth of 23%. A strong growth was observed in term loans, working capital loans and finance leases. The focus remained strong towards lending to Small and Medium Enterprises, fulfilling its mandate as the pioneer development bank in the country.

The branches proactively engaged in drawing down from several lines of credit available to the Bank for SME lending. Particular attention was given to the concessionary loan scheme available through the European Investment Bank (EIB). A total of 37 projects were financed by the branches amounting to LKR 2,570 million under this line of credit in 2015. The key sectors supported through the line included leisure, food and beverage, health and education services. Several other lines of credit that included Smile III (RF), *Saubhagya* and the Commercial Scale Dairy Development Loan Scheme were also utilised to finance loans to the SME sector. DFCC Bank's commitment to the development of Small and Medium Enterprises outside the Western Province is noteworthy. A substantial portion of these concessionary loan



schemes were used to finance projects in the outstations. Particularly, attention was given to projects originating from emerging provinces of the country including North, East, Uva and North-Central.

Non-performing advances ratio of the branches improved to 4.2% from 4.7% during the period amidst strong recovery and follow-up framework.

Roadmap for 2016

Branch Banking is highly optimistic about the prospects for 2016 even though the general forecast for the economy is mediocre. The unit has incorporated several new initiatives in the business plan for 2016 to optimise the operational efficiencies in the branch network and to drive business growth. These include:

→ **Restructuring and streamlining processes in the regions**

The transformation to a commercial bank on 1 October 2015 required substantial change to the organisational structure of the Branch Banking operation to reap the synergies envisioned through the amalgamation. The initial amalgamation of workflow processes of the two entities was successfully completed in three regions during the period. Restructuring and streamlining of processes among the balance regions will be completed during the first quarter of 2016.

→ **Expansion of the Branch Network**

DFCC Bank envisions a rapid expansion of its branch network in reaching out to the under-banked segments in the outstations. Thus, the Bank will look to convert outlets that have limited banking operations such as the Sri Lanka Post outlets into fully-fledged branches in stages. In order to optimise the span of control with the proposed expansion, the number of Regional Offices will be increased from the current six to seven in early 2016.

Enhancing project and SME lending capabilities

The Bank's project lending activities are currently concentrated mainly in 20 dedicated SME units. With the amalgamation of operations, the number of potential customer access points through which the Bank can provide SME products has considerably increased, and the Branch Banking unit is eager to enhance the project and SME lending capabilities of these units to reach a wider client base.

Development of specialised credit products

The Bank has identified a dearth in financial products in the market for emerging SMEs, especially those who are in transition stage from micro-scale to small enterprise category. This segment has unique requirements, and lenders need to identify the capabilities of these entrepreneurs in structuring products. DFCC Bank with its six decades of experience in development banking has the capacity to nurture these entrepreneurs. Therefore the Bank is in the process of developing specialised credit products for this segment and intends to launch them in 2016.

Providing comprehensive project financing solutions

The role of the Regional Offices will be enhanced in the future by establishing credit processing units in each Regional Office. These units will be staffed by Relationship Managers with wider experience in SME lending and project financing. The larger credit facilities (Specially project loan facilities) stemming from branches will be appraised through these units. In addition, any special projects or green-field projects tapped by the branches will be routed to a special unit established at the Bank's Head Office. Branch Banking expects to expand its sphere of operations beyond traditional boundaries and provide comprehensive project financing solutions through all its branches using this framework.

Expanding the scope of the Marketing Cell

The Marketing Cell concept introduced in 2014 has brought in rich rewards during 2015 and is expected to be further strengthened during 2016. The scope of the Marketing Cell has been expanded to include liability products as well, following the amalgamation.

Business Banking for High End SMEs

DFCC Bank's Business Banking offers the entire range of banking services inclusive of commercial banking counter operations and lending products. Positioned in-between Branch Banking and Corporate Banking, Business Banking combines the best of both ends of the spectrum, offering a professional service to clients as well as maintaining close and cordial relationships with them. The client portfolio is also diversified, with a mix of lower-end corporate clients, higher end SME clients and retail customers. The Bank strives to customise products to suit the requirements of customers. Business Banking products include project loans, term loans for financing of business assets and construction of commercial buildings, loans and overdrafts to finance working capital, trade finance to facilitate imports/exports, debenture investments, fee-based products such as letters of credit and guarantees to cover transaction-related contingencies as well as Personal Financial Services such as credit cards, leasing, personal loans and housing loans.

During the period under review, the Business Banking assets portfolio grew by 25% to LKR 19,088 million, which is a very impressive achievement given that the growth was only 13.8% during the year ended 31 March 2015. The major contribution for the growth of asset portfolio was given by the loan portfolio despite the very competitive market conditions and rising cost of funds. The liability base, showed a moderate growth of 7.3% to LKR 8,575 million. The unit has laid out solid plans for growing the liability base in 2016.

Personal Financial Services was an area which was keenly focused on, which yielded successful results. The retail asset portfolio at the end of the period was LKR 951 million. The combined renewals/approvals during the period under review amounted to LKR 15,083 million.

Personal Financial Services

DFCC Bank's Personal Financial Services (PFS) was launched in 2011 as a total solutions provider meeting the needs and wants of individual borrowers. A great deal of emphasis is placed on personal banking as it is a consistent contributor to the growth and profitability of the Bank. Being a late entrant to this segment, the Bank has been able to penetrate and fly high in the retail banking sector amidst severe competition.

Marketed under the brand name 'Vardhana Personal Plus' the product portfolio consists of asset and liability products comprising convenient deposits and lending options such as home loans, personal loans, vehicle leases, pawning and credit card facilities. PFS products are available through the Bank's multi channeled distribution network including the branches located island-wide, providing a seamless customer experience.

The individual borrower sector caters to both the fixed income earners as well as the self-employed, providing personalised solutions designed to meet the financial requirements of these individuals.

New heights were reached in terms of growth and process improvements. The bulk of PFS was generated from the outstations where the demand contributed mostly for the growth in 2015. This trend has continued for the past four years since the product initiation, and further it is the segment that is expected to shine in the coming years.

Also in the period under review, the Central Loan Processing unit was expanded and is now a fully-geared back-office service delivery unit, allowing the Bank to excel in service delivery for valued customers. Enabling customer acquisition, strengthening existing relationships and relentless focus on service delivery are the key features that the Bank follows to provide better financial services.

2015 was a momentous year for Personal Financial Services (PFS) with a remarkable 37% growth in the total PFS portfolio during the period under review. The retail asset portfolio at the end of the year reached LKR 24,922 million.

DFCC Bank is fully equipped to take its place among the front-runners in the industry. The Bank's aim and vision for 2016 is to be the 'Preferred Bank' in the mind of every Sri Lankan.

Personal Loans

Vardhana Personal Loans, introduced in 2013, is a product marketed under the umbrella of Personal Plus which is tailored with the objective of providing financial solutions to fulfill the varying requirements of individual borrowers. This loan scheme is primarily targeted to meet personal commitments of salaried employees of both the private and public sectors. The product is also extended to appeal to professionals and members of the defense forces. Loans can be obtained for education, home improvements, vehicle purchase or any other requirement that is deemed feasible by the Bank. Loans extended to professionals have proved to be a successful niche that contributed healthy volumes to the portfolio growth whilst enhancing the customer base.

During the period under review, Personal Loans recorded a notable growth of 54%. The strategy for success revolved around promoting the Personal Loans Scheme to employees of the existing corporate client base across the Bank's network, and also to employees of recognised corporate entities. The bulk of the Personal Loans booked during the period under review was generated from the outstations, a trend witnessed across all PFS products.

Within the highly competitive Personal Loan segment, the Bank differentiates itself by offering competitive and flexible interest rates, simplified documentation, tailor-made solutions and faster turnaround times.

A healthy growth has been witnessed during the short tenure since the product was launched and we see immense potential for growth in this segment. In 2016, DFCC Bank intends to have a series of product marketing promotions, specially focusing in the North and the East Regions where there is huge potential for growing this product.

Housing Loans

The *Sandella* Housing Loan, marketed under the umbrella of Vardhana Personal Plus with a promise to "Make Your Dream Home a Reality", is designed to cater to all avenues of home ownership, such as house purchase, land investment and condominiums. It also accommodates the construction of new housing units as well as renovation and extensions to existing houses. The product was introduced in 2010, and throughout the last five years there has been a phenomenal growth in the market, accounting for a significant portion in the retail assets portfolio of the Bank. This scheme is intended for a wide cross-section of demographic including persons from business and professional backgrounds, public and private sector employees, self-employed individuals as well as Sri Lankan citizens employed abroad. Loans under this scheme are priced at competitive rates and the tenor can be structured to suit the repayment capacity of individuals.

The increase in condominium developments in the country also led to a demand for such financing by high net-worth individuals and also by those employed abroad. The Bank's tie-up arrangements with the condominium developers led to mutual collaboration in business generation that also contributed to the overall housing growth.

During the year 2012, DFCC Vardhana Bank, subsidiary of DFCC Bank at the time, signed an agreement with the Asian Development Bank (ADB) to obtain a Credit Line of USD 15 million for housing finance with a view to reach out further to the developing housing market, increasing focus on regional geographies. The ADB Credit Line prioritises for first time homebuilders, young professionals, family borrowers, female entrepreneurs and middle and lower-middle income individuals. Further, indirect development in terms of contribution to the development of the country and employment generation within the sector is expected to be achieved through the Credit Line. DFCC Bank was the first to initiate such a credit scheme for the purpose of financing residential property.

The loans disbursed were partly funded by the ADB Credit Line. The first tranche amounting to USD 7.5 million was utilised since its inception in 2012, and the second tranche of USD 7.5 million was availed in April 2015.

During the period under review, a remarkable growth of 42% was recorded in the housing loans portfolio. The portfolio as at 31 December 2015 stood at LKR 5,602 million. The success was primarily from outstation branches which accounted for over 78% of the contribution. The ease of access to the Northern and the Eastern regions has phenomenally supported the growth.

With the amalgamation of DFCC Bank and DFCC Vardhana Bank, much attention has been given to growing the Retail Assets portfolio of the Bank. With the expanding branch network our services will have a wider reach, especially in the North and the East regions and much emphasis will be placed on vertical living financing whilst continuing to cater to the middle-income sector. DFCC Bank intends to continue promoting housing loans with appropriate advertising and a pool of 'foot soldiers' island-wide.

Finance Leasing

DFCC Bank is one of the pioneer facilitators in providing leasing in the banking sector in Sri Lanka. The Bank has provided lease facilities to customers from a wide spectrum of sectors such as industry, transport, tourism, agriculture, manufacturing and construction apart from catering to the needs of individuals. By providing lease facilities for these sectors, the Bank has immensely contributed to the development of the country in its long run; over the past six decades. In addition to providing financial assistance, the Bank has provided guidance to its customers leveraging the expertise available within the Bank, being the pioneering development bank in the country. By educating the clientele, the Bank has been able to build skilled entrepreneurs to lead in almost every sector in Sri Lankan enterprises.

The Bank offered the most competitive interest rates in the leasing market throughout the period under review, and promotional campaigns conducted jointly with motor vehicle suppliers were highly successful. The Bank has been able to reach a substantial customer base under different sectors and achieve a geographically well-diversified portfolio through the island-wide branch network. As part of product diversification, DFCC Bank introduced two stage lease facilities enabling customers to have an affordable monthly pay back rental by extending the lease period up to seven years.

DFCC Bank recorded 32% net growth in the collective leasing portfolio of the DFCC Banking Business (DFCC Bank and its subsidiary at the time, DFCC Vardhana

Bank) in 2015 which reached LKR 15,436 million by 31 December 2015. In the regional distribution for 2015, most of the facilities granted were out of Colombo. Also a substantial growth was seen in the North and the East regions compared to the previous year. Overall, 2015 was an excellent year for the Bank's leasing business and the Bank looks forward to enhancing the growth momentum in 2016.

Gold Pledge Lending

The Ranwarama Pawning product was introduced in 2008 as a convenient source of funding to meet the varying needs of customers. However, with the drastic downturn in the gold prices experienced in April 2013 the market has been very cautious and opportunity for growth has been limited. The year 2015 was challenging where there was a decline in the portfolio during the first two quarters. Nevertheless, the Bank continued to promote the product, offering customers an extremely competitive advance value at a low interest rate, through extended banking and weekend banking coupled with a friendly and efficient service, which has borne fruit.

Card Operations

Having launched the Visa international debit card in the year 2011, DFCC Bank ended the year 2015 with a base of over 84,500 debit cards in issue. During the period under review, over 18,000 Visa debit cards were issued. The DFCC Visa debit cards provide access to over 36 million Visa-accredited merchants globally for purchase of goods and services and can be used for cash withdrawals worldwide through a network of over 2.4 million ATMs.

The period under review saw debit card usage amount to LKR 1,974 million from 333,994 transactions at ATMs and LKR 272 million from 93,301 transactions at POS terminals. In addition to the standard Visa debit cards the Bank introduced three special Visa debit cards for DFCC Premier banking customers, namely, Premier plus, Premier and Prabhu.

The credit card range of DFCC Bank covers internationally valid Visa Classic, Gold and Platinum cards. The Platinum cards, with a number of value added features, are issued to key customers of the Bank, while corporate cards target corporate customers. All the credit cards issued by the Bank are chip based and provide enhanced protection against credit card frauds. This includes SMS alert messages relating to transactions and a 24-hour hotline.

The total credit exposure of the credit card portfolio stood at LKR 738 million as at 31 December 2015, with a card usage of LKR 357 million during the period under review.

DFCC Bank's credit card operation remains a viable business line despite its late entry into the market. The card portfolio is free of material infections due to prudent screening methods adopted at the time of issuing them.

The chip based multi currency Visa Global Travel card was introduced in 2015 replacing the magnetic stripe based single currency Global Travel card. The Global Travel card is a prepaid card which provides the choice of preloading and accessing four international currencies in one card at any given time, thus reducing additional costs arising from multiple currency conversions.

DFCC Bank has started providing card acceptance facilities to merchant establishments with the assistance of 'Global Payments' from the third quarter of 2015 and so far over 100 merchant establishments have been provided with card acceptance facilities.

Investment Banking and DFCC Bank's Investment Portfolio

Investment Banking services are offered through Acuity Partners (Pvt) Limited; a full service investment bank promoted as an equally owned joint venture between DFCC Bank and Hatton National Bank (HNB). It offers a comprehensive suite of products and services in Fixed Income Securities, Stock Brokering, Corporate Finance, Margin Trading, Asset Management and Venture Capital Financing.

DFCC Bank's Investment Portfolio

As at 31 December 2015, the aggregate cost of investment in DFCC Bank's portfolio of quoted shares [excluding the holding in Commercial Bank of Ceylon PLC (CBC) voting shares], unit holdings and unquoted shares amounted to LKR 1,658 million. The distribution of the aggregate investment portfolio is given below:

Investment Portfolio as at 31 December 2015:

	Cost (LKR million)	Market value (LKR million)
Quoted share portfolio (excluding CBC)	673.7	1,122.3
Unit Trust portfolio	836.5	995.0
Unquoted share portfolio	147.4	147.4
Total	1,657.6	2,264.7

The unquoted share portfolio is carried at cost in the balance sheet. The market value of the investment in CBC voting shares was LKR 17,001 million on 31 December 2015 as against the cost of LKR 3,290 million.

During the nine month period ended 31 December 2015, DFCC Bank carried out selected divestment of mature quoted shares and unit trust holdings, realising LKR 78 million in sales proceeds and LKR 37 million in capital gains.

Credit Line Management

EIB SME & Green Energy Global Loan

DFCC Bank was appointed by the Government of Sri Lanka to implement the EIB SME & Green Energy Global Loan credit line in March 2014. 70% of the credit line was allocated for SME projects and the balance 30% for renewable energy and energy efficiency projects. Attractive features of the credit line were the long repayment period offered at a low fixed interest rate and the relatively large loan amount.

The entire loan of Euro 90 million was fully allocated within the availability period, which ended on 13 November 2015. A total of 167 requests from three participating intermediary banks, including DFCC Bank, aggregating to approximately LKR 14.65 billion were allocated funds. Of the amount allocated, by the year-end, LKR 6.74 billion (Euro 42.46 million) or 47.2% of the total loan, had been disbursed to intermediary banks for the benefit of their customers. The balance funds will be disbursed during 2016.

SME projects in a variety of sectors were approved for funding. Prominent sectors were auto service & repair, bakery products, construction, education, healthcare, manufacturing including agro processing, printing, retailing, tourism and trading. Under 'Green Energy', 57.7 MW of renewable energy capacity will be added to the national grid. Notable features were the approval of a 10MW photo voltaic solar power plant and a 4 MW bio mass combined heat and power co-generation plant which will use fuel wood only from authenticated sustainably grown sources, benefiting over 12,000 farmers. In addition, two 10MW wind farms and numerous 'mini hydro' projects were approved for funding.

Treasury

The easing monetary policy stance of the Central Bank of Sri Lanka (CBSL), in the back drop of slow credit growth and low inflation that the country witnessed in the year 2014, continued to the early part of 2015 as well. The lackluster private sector credit growth that continued until the middle of the year was mainly attributable to political and policy uncertainties that prevailed during this period. However, at the latter part of the year an expansion of credit to both the private and public sectors was witnessed.

The policy rates [Standard Deposit Facility (SDF) and Standard Lending Facility (SLF)] that stood at 6.50% and 8.00% respectively at the beginning of the year closed at 6.00% and 7.50% at the end of the year. In the first half of the year, Interbank money market rates continued to decline amidst highly liquid market conditions, which on average maintained daily excess liquidity of approximately LKR 72,000 million. Nonetheless, the developments that took place globally and locally specially at the latter part of the year have shown signals of fuelling inflation and tight money supply. Government borrowing had increased during the period in the backdrop of expenditure related to elections and public welfare initiatives of the past and incumbent Governments. On the other hand, the continued US FED rate hike speculations in the global markets and eventual rate hike in December, fuelled a sense of risk averseness and resulted in the continued sell off in equities and debt by investors especially in the emerging and frontier markets. This had put further pressure on the Government's foreign reserves and cost of funding through foreign sources.

In a move that signals and acknowledges the impact of the above developments, the CBSL in December chose to increase the Statutory Reserve Ratio (SRR) applicable to all Rupee deposit liabilities of commercial banks by 1.50% to 7.50% effective from the reserve week commencing 16 January 2016.

In response to the above local and global trends, the benchmark Government Treasury Bill/Bond yields also gradually increased during the calendar year 2015, with 12 month Treasury bill rates rising to 7.30% from 6.00%, five year bonds rising to 9.53% from 7.50% and 10 year bonds rising to 10.20% from 8.30%. Under this challenging environment, the Fixed Income (FI) desk has made significant gains through trading activities. The FI portfolio witnessed a growth and stood at LKR 51,966 million while the encumbered portfolio (allocated for REPO transactions) alone was LKR 20,231 million at the end of the period.

Maintaining the targeted interest rate spreads between deposit liabilities and lending rates in the light of prevalent low interest rate sentiment, which bank's witnessed in the early part of 2015, was a challenge for all market players. This, coupled with high market liquidity, especially in the early part of 2015, prompted fierce competition among banks and non-banking financial institutions for growth in advances at the expense of margins. This scenario compelled bank treasuries to improve the efficiency of liquidity and interest rate management to a level never witnessed before.

In the local Foreign Exchange markets, the pressure on the LKR witnessed at the end of 2014, continued in 2015, mainly due to foreign outflows from the equity and debt markets, along with the gradual widening of the trade deficit. This had compelled the CBSL to revise its strategy in managing the USD/LKR exchange rate in the third quarter of the year, encouraging the market to find its equilibrium instead. The USD/LKR rate closed the year 2015 with a depreciation of approximately 9.2%. The rate as at 31 December 2015 was LKR 144.15 compared to LKR 131.95 quoted as at 31 December 2014. At the latter part of the year, we saw an upward movement in the USD/LKR premiums with the premiums settling at around LKR 2.00, LKR 3.50 and LKR 7.00 for three months, six months and 12 months respectively.

Amidst this challenging environment, DFCC Bank Treasury made LKR 118.9 million through FX trading activities while positively contributing to reduce the cost of funds through its FX swap operation.

As the economy slowly continued to expand, improvements in customer volumes were witnessed throughout the year resulting in a 22.6% year-on-year growth, while contributing LKR 212 million to the bottom line through FX customer transactions. During the period under review, the Treasury sales desk successfully organised several customer events including the annual DFCC Economic Forum in collaboration with market experts, economists and senior CBSL officials, with the objective of enhancing the knowledge on current economic trends and resultant opportunities.

The Group Treasury played a vital role in the process of amalgamation between DFCC Bank and DFCC Vardhana Bank in October 2015, ensuring all regulatory requirements of the new entity were met while operationally ready for the day of the amalgamation and beyond. At the same time certain functions within Treasury were amalgamated and streamlined to ensure greater efficiencies to meet the requirements of all external and internal customers.

Going forward, while maintaining the positive momentum built over the years, with customer service at its core, Treasury is focusing on a series of process improvements with the support of IT. The focus will be on upgrading existing systems in order to better handle growing volumes while improving efficiency in fund transfer pricing.

International Banking

Trade Services

With an excellent understanding of customers' need for quick service, the Trade Services unit efficiently handled the increased volumes, enhancing customer satisfaction and enabling the Bank to build a loyal customer base.

The country witnessed a considerable increase in the importation of vehicles during the first nine months of 2015, and in line with this, the Bank was able to increase the fee income by issuance of import LCs. However, the imposition of the margin requirement during the latter part of the last quarter impacted the business volumes and the fee income negatively.

Attracting new corporate and SME clients also contributed to the growth. Further, DFCC Bank was able to earn a considerable commission income from LCs issued for importation of machinery and equipment for the projects financed through project lending.

The Bank's continuous efforts to grow the correspondent banking network helped the customers to arrange advising of Letters of Credit to their suppliers in various countries which in turn enabled the Bank to increase the volumes of LCs issued and grow its fee income.

Business volumes handled by Trade Services consisting of import Letters of Credit, import collection bills, acceptances, shipping guarantees and export bills amounted to LKR 100,228 million which is an increase of 23% compared to 2014.

Remittance Services

The period under review was fruitful for Inward and Outward Telegraphic Transfer business. This was mainly due to the import customers opting to settle their suppliers through the Advance Payments and Open Account Payment mechanism. The budgeted income for the period under review from these transactions was achieved with a growth in excess of 30% over the preceding year.

The income generation from drafts and cheques continued to slide with the gradual extinction of these products from banking services due to the increasing use of electronic banking services and direct debits/credits, and the ever-increasing risks of frauds and manipulations associated with them. At present the drafts are requested mainly by BOI companies for settlement of their various suppliers who are also customers of other commercial banks' Foreign Currency Banking units.

The Bank's remittance business is promising with the widening of the network and the growing customer base. The superior customer service characterised by expeditious and meticulous delivery has contributed to enhancing customer satisfaction and confidence, enabling customer acquisition and retention.

EMPLOYEE CAPITAL

The Bank acknowledges that its human capital is a key enabler for executing its strategy and achieving goals. It is only when the employees, from the Chief Executive to the Office Assistant live the espoused values of the Bank and promote a culture of extraordinary customer care that our stakeholders, customers in particular, will have trust and confidence in the Bank. Consequently, the Bank attracts the best of talent, develops a professional and collaborative work environment, promotes a culture of diversity and inclusion and provides opportunities for employees to work to their full potential and realise their personal career goals. In turn, we reward their performance, in the form of compensation and benefits as well as recognition and appreciation.

Our reporting boundary on employee capital is the DFCC Bank, unless otherwise stated.

HR Challenges of Amalgamation

2015 was an exciting and challenging one for the Human Resource Department. After 12 years of separate operations, DFCC and DFCC Vardhana Bank amalgamated their enterprises to come under one umbrella – DFCC Bank PLC – with one collective vision of becoming the *'leading financial solutions provider sustainably developing individuals and businesses'*.

Legal and Statutory Concerns and Amalgamation of Remuneration Structures and Processes

From a Human Resource (HR) perspective, the amalgamation process necessitated multiple legal and statutory concerns to be addressed in consultation with regulatory authorities. Differences in certain HR policies and processes, which had developed over time due to the different business models of the two banks needed review and realignment to meet the needs of the amalgamated entity. The Board of Directors mandated that disparities in employment practices, remuneration and benefits between the two banks be addressed to the maximum possible extent at the outset. Accordingly, grade structures, designations, perquisites etc. were reviewed and standardised and in the process, grade placements of 84 non-executive employees were rectified. Following the amalgamation, HR policies were revised to cater to the demands of the new business environment.

External Consultants

To assist in the amalgamation process as well as in the interest of transparency and equality, the services of external consultants were engaged. Cerebrus Consultants came on board to design and develop a job evaluation scheme and conduct a job evaluation exercise covering all positions across the merged entity as well as provide insights on grade structures and designations. Another consultant was engaged to assist in the integration process particularly in relation to rationalisation of staffing requirements across the organisation and enhancing staff communication.

Communication

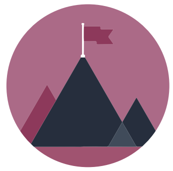
We used a range of internal communication tools and programmes to openly engage with our employees throughout the integration process. Regular updates on developments were shared with employees through the internal newsletter; the 'Weekly Roundup' as well as through formal notifications. Meetings were held with different staff groups to explain revisions to organisation structures, HR and business processes. Video communications by the CEOs of the two banks were disseminated regionally to ensure all employees received a consistent message. The external consultant engaged by the Bank also functioned as 'Ombudsman' to our employees to provide them with another avenue to raise any issues or queries they had pertaining to the amalgamation.

Another pre-amalgamation engagement and energising activity that was conducted encompassing all staff across the two banks, was the 'I Will Rise' series of programmes. These programmes were structured to ensure that each and every employee was aware of what our objectives were with the amalgamation and the contribution required from each of them to achieve the same.

An internal cross-functional team was set up to formulate the vision, mission and values for the merged entity. The team engaged with varied groups of staff across the two banks and incorporated feedback received when the new vision and mission statements and values of the Bank were developed.

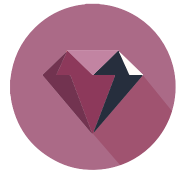
Our Vision

"To be the leading financial solutions provider sustainably developing individuals and businesses"



Our Mission

"To provide innovative and responsible solutions true to our Values with the expertise of our multidisciplinary team of professionals and synergies of our financial services group"



Our Values

We are;

- *Innovative*
- *Customer Centric*
- *Professional*
- *Ethical*
- *Accountable*
- *Team Oriented*
- *Socially Responsible*

Amalgamation of Human Resource

On 1 October 2015, a total of 958 employees were absorbed from DFCC Vardhana Bank to DFCC Bank PLC without any adverse impact to their employment terms and remuneration. It is noteworthy that this amalgamation was achieved within a span of four months primarily utilising internal resources. The integration teams took on a significant volume of additional tasks while handling their day-to-day responsibilities to ensure a successful amalgamation within a challenging time frame.

Staff Strength

At the year-end, the overall head count excluding outsourced staff for janitorial and security personnel etc. stood at 1,445 a growth of 1.3% over the previous year. 88% of the workforce are in the permanent cadre. Overall male female gender ratio of 50:50 is maintained.

Branches (excluding centralised operations and other business units) absorbed 67% of the total workforce. Within branches, proportionate to the large number of branches in the province, the Western Province accounted for 33.5% of employees, followed by Southern (14%) and Central (12%) provinces.

An age analysis of staff reveals that 59.2% are between 18-30 years. They belong to the 'new generation' of employees we refer to later and are the most 'volatile' in terms of retention.

Grade	2015	2014/15	2013/14
Management	78	82	76
Executives	419	413	384
Supervisory	243	199	185
Junior Staff	705	733	726
Total	1,445	1,427	1,371

Total Number of Permanent Employees by Employment Type and Gender

	December 2015			2014/15			2013/14		
Grade	Male	Female	Total	Male	Female	Total	Male	Female	Total
Management	51	15	66	53	17	70	48	17	65
Executive	210	171	381	203	165	368	193	157	350
Supervisory Staff	123	117	240	106	92	198	80	104	184
Junior	249	332	581	271	369	640	372	264	636
Total	633	635	1,268	633	643	1,276	609	626	1,235

Total Number of Employees by Employment Type/Contract and Gender

Grade	Permanent			Contract/Casual/Part time			Total Number of Employees		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Management	51	15	66	11	1	12	62	16	78
Executive	210	171	381	20	18	38	230	189	419
Supervisory Staff	123	117	240	1	2	3	124	119	243
Junior Staff	249	332	581	61	63	124	310	395	705
Total	633	635	1,268	93	84	177	726	719	1,445

Total Number of Employees by Employment Contract and Gender

Employee Type	No. of Employees			Composition of Employees (%)		
	2015	**2014/15**	2013/14	**2015**	**2014/15**	2013/14
Full-time – Male	**726**	**707**	690	**50**	**50**	50
Full-time – Female	**719**	**720**	681	**50**	**50**	50
Outsourced – Male	**0**	**0**	0	**0**	**0**	0
Outsourced – Female	**0**	**0**	0	**0**	**0**	0
Total	**1,445**	**1,427**	1,371	**100**	**100**	100

Staff Distribution by Grade and Age

Grade	Management		Executives		Supervisory		Junior Staff		Total Staff	
	Count	%	Count	%	Count	%	Count	%	Count	%
18-25	0	0	14	3	2	1	374	53	390	27
26-30	0	0	124	30	97	40	245	35	466	32
31-40	4	5	212	51	105	43	56	8	377	26
41-50	44	57	64	15	34	14	19	3	161	11
51-55	19	24	3	1	4	2	8	1	34	3
56+	11	14	2	0	1	0	3	0	17	1
Totals	78	100	419	100	243	100	705	100	1,445	100

As at 31 December 2015	Female	Male	Total
DFCC	719	726	1,445

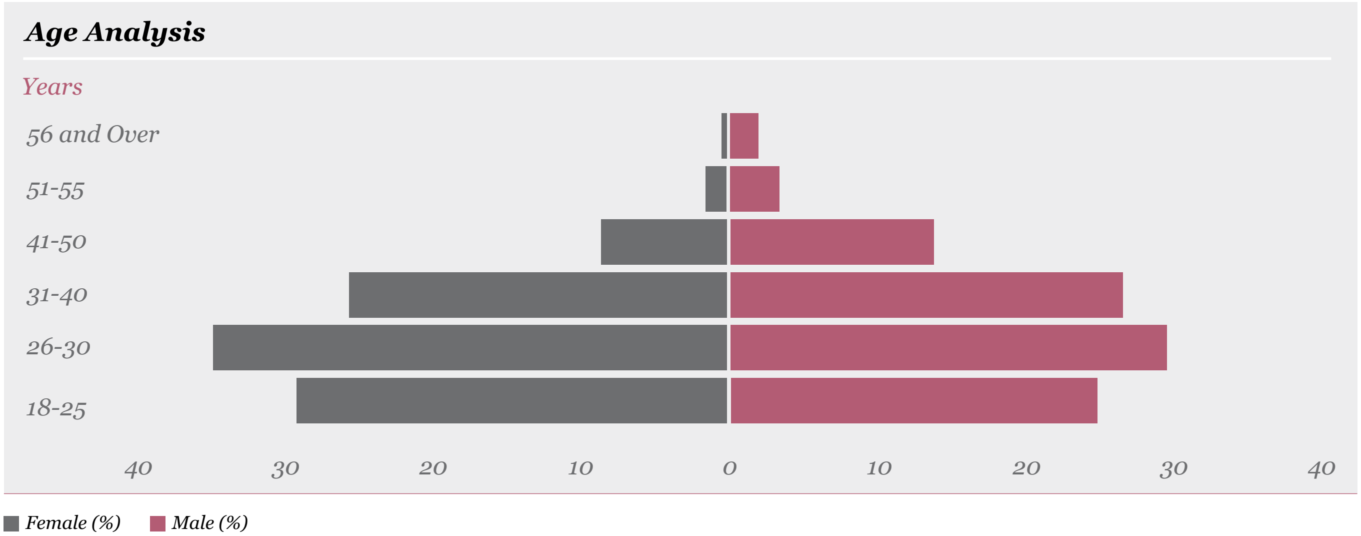
Breakdown of Employees by Province

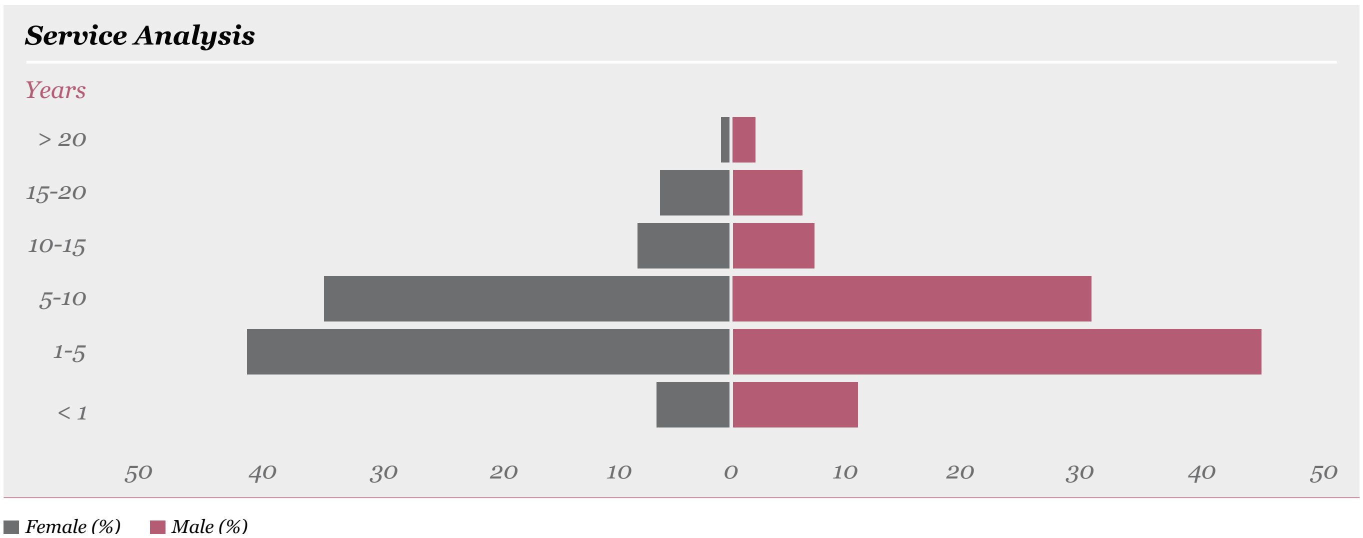
	Female	Male	Total	%
Central	47	69	116	8
Eastern	22	50	72	5
Northern	21	34	55	4
North Central	20	42	62	4
North Western	38	36	74	5
Sabaragamuwa	35	36	71	5
Southern	67	67	134	9
Uva	18	38	56	4
Western	451	354	805	56
Total	719	726	1,445	100

Total Workforce by Region and Gender

	2015 December					2014/15					2013/14				
			No. of employees					No. of employees					No. of employees		
Province/Departments and Other Business Units	No. of Branches	No. of SLP Units	Male	Female	Total	No. of Branches	No. of SLP Units	Male	Female	Total	No. of Branches	No. of SLP Units	Male	Female	Total
Central	10	4	69	47	116	10	4	62	47	109	9	5	57	47	104
Eastern	7	4	50	22	72	7	4	48	22	70	7	4	50	20	70
Northern	6	0	34	21	55	6	0	36	22	58	6	0	34	22	56
North-Central	3	6	42	20	62	3	6	39	23	62	3	6	39	20	59
North-Western	6	4	36	38	74	6	4	34	40	74	5	5	31	34	65
Sabaragamuwa	5	10	36	35	71	5	10	32	36	68	5	10	37	38	75
Southern	9	14	67	67	134	8	15	69	65	134	8	15	67	60	127
Uva	4	5	38	18	56	4	5	41	20	61	3	6	39	18	57
Western	29	11	146	176	322	29	11	144	175	319	28	11	140	169	309
Departments and Other Business Units	64	0	208	275	483	74	0	202	270	472	63	0	196	253	449
Total	79	58	726	719	1,445	78	59	707	720	1,427	74	62	690	681	1,371

Note: Number of staff attached to regional offices are included with respective province staff count.





Return to Work After Parental Leave

Indicator	Male	Female	Total
Number of employees entitled to parental leave during previous reporting period	n.a.	715	715
Number of employees who took parental leave during 2015	n.a.	60	60
Number of employees who returned to work after parental leave ended during 2015	n.a.	60	60
Number of employees who returned to work after parental leave during 2014	n.a.	44	44
Number of employees who returned to work after parental leave during 2014 who were still employed 12 months after return to work	n.a.	41	41
Retention rate	n.a.	87%	87%

Manpower Planning

Given the expansion and the market dynamics, manpower planning is a continuous process in the Bank. It entails estimation of future manpower requirements in both quantitative and qualitative terms, inventorying the existing workforce with regard to their characteristics, facilitating the selection and recruitment process, ensuring effective utilisation of human resources and undertaking programmes for their development.

Recruitment

The Bank recruited 122 employees during the period under review, of whom 70.5% were at the entry level/ in non-executive grades. Supporting opportunities for job rotation and enrichment and providing avenues for career advancement, the Bank gives priority to internal candidates to fill vacancies. For external recruitments, we largely rely on referrals and online advertising. We have also obtained the services of head hunting firms for sourcing senior candidates and recruitment of technical staff. Further, the Human Resources team participates in career fairs to source new talent in the market, as well as to provide career guidance to young job seekers as a part of our social responsibility focus.

Managing The Employee Exit Experience

The Bank accords equal importance to managing the employee exit experience as the entry process. We believe that a positive and professional cessation to an employment relationship goes a long way in assisting external branding of the Bank and its workplace culture, while feedback received at these interviews also surfaces valuable information towards required improvement of processes, policies, risk mitigants and managerial competencies. Feedback from exit interviews is shared with senior management as well as the Operational Risk Management Committee on a regular basis.

A total of 89 employees resigned during the period under review and it worked out to a turnover of 6.2%. Of the resignations, 54% were junior level employees. Migration is a key factor for resignation among young graduates and professionals.

Grade	Turnover by Age Group and Gender*						
	Age group				Gender		
	Less than 30 years	Between 30-50 years	Above 50 years	Total	Male	Female	Total
Management	0	1	1	2	1	1	2
Executive	11	13	0	24	12	12	24
Supervisory Staff	6	9	0	15	9	6	15
Junior Staff	46	2	0	48	19	29	48
Total	63	25	1	89	41	48	89

** Excluding Terminations/Contract Expiries/Retirements.*

Total Number and Percentage of Employee Turnover by Age Group and Gender

	2015				2014/15				2013/14			
	Employee Turnover*		(%)**		Employee Turnover*		(%)**		Employee Turnover*		(%)**	
Category	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Below 30 years	26	37	7	9	44	50	12	11	51	57	14	13
30 - 50 years	15	10	5	4	20	11	6	4	17	8	6	3
51 - 60 years	0	1	0	8	5	1	16	9	6	2	16	17
Above 60	0	0	0	0	0	0	0	0	2	0	40	0
Total	41	48	6	7	69	62	10	9	76	67	11	10

** Excluding retirements/Contract expiries/Terminations.*

***As a % of total male/female staff in each employee category.*

Parental Leave

As per the Shop and Office Act, female employees are entitled to parental (maternity) leave. We give them unhindered opportunity to avail of this benefit, while also encouraging and facilitating their return to work. We offer the same or an alternate position without any prejudice to their job security, remuneration or career path upon return. We take pride in our high return to work rate, that also serves to boost employee morale and productivity.

Return to Work

Employees who returned to work out of those due to return during 2015 was 100% (2014: 94%).

Retention Rate

Employees who stayed on at least 12 months out of those returning in 2014 was 87% (2013: 92%).

Maximising Talent Productivity

Through effective engagement, defining roles and responsibilities, bringing them to live the corporate values, aligning the corporate goals with theirs, empowerment, establishing mechanisms for feedback and rewarding and recognising them, the Bank constantly looks for ways to maximise talent productivity.

During the period under review, focus was accorded to ensure rationalising of resourcing towards optimising value generation from our human capital. Staffing structures across the branch network and departments are in the process of being reviewed and standardised. The Bank encourages internal mobility of staff and facilitates their move within and across divisions.

During the period, 122 employees were recruited of which 70% were for the business lines while others were for support services.

Recruitments by Age and Gender

	2015				2014/15				2013/14			
	New Employees Hired		(%)*		New Employees Hired		(%)*		New Employees Hired		(%)*	
Category	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Below 30 years	50	52	14	12	80	96	22	21	100	122	27	29
30 - 50 years	13	5	4	2	9	6	3	2	20	11	7	5
51 - 60 years	1	1	3	8	4	1	13	9	3	0	8	0
Above 60	0	0	0	0	0	0	0	0	0	0	0	0
Total	64	58	9	8	93	103	13	14	123	133	18	20

** As a % of total male/female staff in each employee category.*

New Hires by Age Group and Staff Category

Grade	New employees joining in the current Financial Year						
	Age group				Gender		
	Less than 30 years	Between 30-50 years	Above 50 years	Total	Male	Female	Total
Management	0	1	0	1	1	0	1
Executive	17	10	1	28	17	11	28
Non-Executive	2	5	0	7	4	3	7
Other/SLP	83	2	1	86	42	44	86
Total	102	18	2	122	64	58	122

Percentage of Leave during 2015

Leave Type	%
Vacation Leave	57.2
Medical Leave	25.2

Capacity Building and Talent Management

Approach to Talent Management

Over the years, the Bank has invested generously in the area of capability and capacity enhancement of its employees. The Bank adopts a four-pronged approach to talent management.

- The development and implementation of mechanisms for talent identification/differentiation
- A formal process for succession planning and building managerial and leadership competencies across the organisation
- Availability of standardised methodology for identification of strengths and development gaps of employees, and providing opportunities to employees to address the identified development needs
- Encouraging and facilitating employees to extend their horizons in terms of personal and professional growth.

The process of talent identification and differentiation at the Bank is based on the 'Nine Box' talent management methodology. Annually, the capabilities of all executives are assessed by the Management based on which individual development and career planning initiatives are designed and implemented.

Based on skilling requirements identified through the development planning discussions and also taking into consideration certain business objectives and priorities of the Bank, the annual training plan is prepared at the beginning of the year and shared across the Bank. While training is prioritised based on needs surfaced in the development plans, employees also have the option of requesting for specific additional programmes should they so wish.

Training and Development

During the period under review, 4,069 participants attended 234 programmes of which 112 were organised in-house. The total number of training hours provided reflected an increase of 12% over the previous year. The e-learning platform continued to more than justify its investment with usage increasing by 22%. During the period under review, 133 employees availed of the many attractive subsidised loan and grant schemes offered by the Bank to assist in furthering their education. Of the study programmes subsidised, 56% pertained to obtaining banking qualifications.

Training Hours 2015

	No. of person hours of training			Average training hours per employee		
	Male	Female	Total	Males	Female	Total
Management	998	285	1,283	15.84	16.75	16.04
Executives	7,601	6,330	13,931	33.34	33.76	33.54
Non-Executives	9,806	11,744	21,550	22.91	22.92	22.91
Total	18,406	18,359	36,764	25.60	25.60	25.60

Type of Training

	Total person hours	
Types of training	2015	2014
In-house	**34,275**	27,741
External	**2,393**	3,706
Foreign	**96**	1,384
Total	**36,764**	32,831

Number of Staff Members who Completed Banking Qualifications during year 2015

Qualification	No. of Staff
AIB	20
DBF	37
CBF	62

Other Initiatives

A mentoring programme and DFCC REDS projects, targeted towards assisting new recruits acclimatise with the culture of the Bank as well as amass the requisite skills to enable effective contribution to the Bank, continued during the period. Activities organised by the DFCC REDS Committee included two CSR projects, social events such as a quiz night, bowling tournament, an adventure-based development programme, as well as a field trip targeted towards recent executive recruits of the Bank.

To ensure that our employees are exposed to the functions of both development and commercial banking, a series of training opportunities to provide cross exposure were arranged. These programmes were a business imperative this year considering the amalgamation that was taking place. Skilling occurred through classroom-based training, e-learning and job rotations. During the latter part of the year, a structured re-skilling initiative was launched to fulfil job based skilling needs of staff whose job roles changed as a result of the amalgamation.

In tandem with the Bank's drive to canvass business more aggressively, this year too sales training continued to be an area of focus with most of the programmes pegged to specified ROI measures. Of special mention is the programme on Sales Excellence which is differentiated from many training initiatives as it focuses on continued development through a series of activities and performance monitoring and enhancement mechanisms driven by the participants themselves. The initiative is being further developed and expanded this year, incorporating continuous learning and development utilising multiple tools. This is also envisaged to provide a platform for sales staff to network, provide support and share vital market information amongst each other.

During the period, several overseas resource persons were engaged to conduct programmes on key account management, wallet sizing, ALM, credit appraisal etc.

Since 2014, mandatory product knowledge quizzes are conducted via e-learning on a quarterly basis for the frontline staff to ensure that they have the requisite knowledge to perform their job functions effectively. It is encouraging to note that over the period the number of employees passing the assessment has steadily increased.

A New Generation of Employees

We are aware that a new generation of employees who are well educated, skilled in technology, highly self-confident, able to multitask and have plenty of energy are now entering the workforce. Seeking challenge and with preference to work in teams, they have different expectations from employment and ways of working. We will require new methods of engaging them and will have to gear our systems and processes to encourage further collaboration and innovation. We will consider these dynamics in formulating our training and development initiatives going forward.

Performance Management

The Bank is committed to fair and equitable remuneration and follows a performance-based approach in determining annual staff emoluments. Strategic goals are cascaded down to the plans of the business unit, which in turn, lead to the formulation of personal accountabilities to be defined in respective scorecards of staff members. Performance against agreed targets is evaluated formally at mid-year and year-end by supervisors with one-on-one meetings with their staff, accompanied by constructive feedback on goal achievement and qualitative behavioural aspects, which could impact current job roles and future career advancement plans.

The Nine Box Framework that we follow since 2013 for talent identification and differentiation among Executives is an useful tool for targated retention and career planning. Constructive discussions are also held with those whose performance needs improvement.

Managing Remuneration

The Bank participates in periodic surveys to benchmark its remuneration levels against the industry, to ensure a competitive and an equitable reward system. Moreover, with the amalgamation, differences in remuneration structures of the two banks were reviewed and revised to ensure consistency across application among different staff levels of the merged entity.

Benefits Offered to Permanent Employees

The following are benefits offered to permanent employees that are not available to contract staff (barring some exceptions that are noted):

- Housing loan, vehicle loan, miscellaneous staff loan, MBA loan
- Also available for certain contract staff, Executive Trainees and Management Trainees: Reimbursement of examination fee, professional membership subscriptions, fitness and social club membership
- Also available for some contract staff based on contract: Holiday grant
- Only for Non-Executive permanent staff: Festival advance

Career Advancement

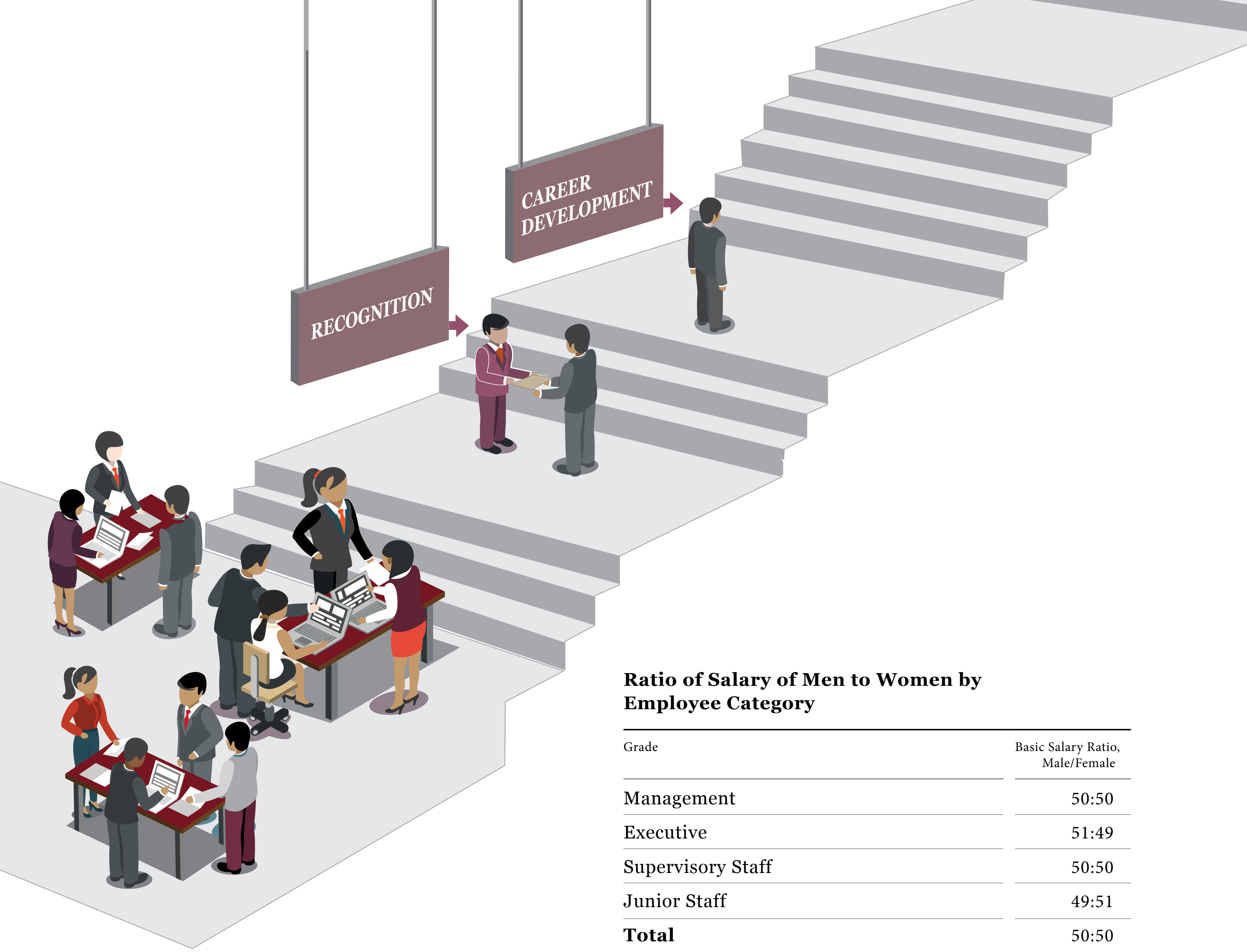
The annual career advancement programme which assists junior level staff to obtain entry into the executive cadre was held during the period. 59 employees applied for the programme at the conclusion of which 11 candidates were selected for higher level promotions and job roles.

The OIC Certification; a mandatory 12-day training programme and assessment for all staff functioning in the role of Officer in Charge, was held this year as well. A total of 54 staff underwent the programme and 32 successfully passed the intensive two-day assessment.

Embracing Diversity, Inclusion and Equality

We believe that a diverse and inclusive workforce helps us to build stronger relationships, maximise team performance, foster innovation and strengthen partnership and collaboration internally as well as with external stakeholders. It also reflects the changing needs and expectations of our stakeholders. Therefore, we actively promote diversity and inclusion in our workforce in terms of social strata, ethnicity, religion, exposure and knowledge and make every effort to appoint the best person for the job regardless of age, gender, disability or culture.

The high ethical standards of conduct expected of the employees is clearly communicated to them during on-boarding sessions and reinforced through meetings, specific classroom based training sessions and mandated training modules. We have a policy of zero tolerance towards harassment and victimisation and have instituted mechanisms for reporting such occurrences, if any, to relevant decision makers.



Ratio of Salary of Men to Women by Employee Category

Grade	Basic Salary Ratio, Male/Female
Management	50:50
Executive	51:49
Supervisory Staff	50:50
Junior Staff	49:51
Total	50:50

Minority ethnic communities accounted for 17 persons or 14% of new recruits during the period under review. In terms of gender, our workforce is equally divided. The return to work and retention rates of employees who availed of maternity leave are a high 100% and 87% respectively. The Bank ensures equitable remuneration based on merit and transparent procedures that take no account of caste, creed or gender. Each employment level has a specified salary range based on benchmarked industry data and employees placed at each grade receive a base pay within the established range. The benefits available are usually standardised by grade. In addition, certain job-specific benefits too are offered.

Staff Well-Being

Health and Wellness Programme

The programme to drive health and wellness among the staff gathered momentum during the period. Knowledge enhancing articles on physical and mental health and safety were regularly sent to staff via a number of communication methods. A number of wellness driven programmes were also arranged.

The weekly services of a doctor has been made available to staff at the main offices.

Employees also have the option of joining social clubs and gyms with full or part reimbursement of expenses. Several avenues to perform at mercantile level in relation to tennis, basketball, swimming and cricket are also available to them.

Occupational Health and Safety

The Bank places high importance to ensuring the safety of employees in terms of the physical environment as well as emotional aspects. No occupational incidents were reported during the period.

The Bank also has in place a disaster recovery team trained in varying aspects including first aid, evacuation and fire fighting to ensure that our employees are taken care of in an eventuality. Periodic drills and training of these teams are carried out based on an annual plan.

To ensure emotional well-being and freedom from harassment, a secure office environment policy has been implemented. The Bank places a high importance on respecting individuals and implements this policy strictly. No incidents of this nature were reported during the period.

All permanent staff are also entitled for medical leave, medical insurance and reimbursement of medical expenses up to predetermined limits.

Work/Life Balance

During the period under review, several social and fitness related events were organised for the staff. The annual staff trip was a family trip organised by the DFCC Welfare and Recreation Club and it was held in Singapore where 520 employees took advantage of the opportunity. In addition, the Club also organised sports and cricket events as well as other social engagement activities for the staff and their families. A new event, the 'DFCC Run', was also included in the annual schedule, which was a marathon in which our employees took part enthusiastically.

This year proved to be an exceedingly eventful year, with the Bank also celebrating its 60th Anniversary. In addition to a series of client events held across the country to mark the event, celebrations also included a gigantic event organised at Stein Studios, Ratmalana for all staff. The event had a two-pronged objective of marking the 60th anniversary of the Bank as well as introducing the new brand, vision, mission and values of the amalgamated entity to our workforce.

Employee Relations and Recognition

A formalised Grievance Policy is in place and accessible to all staff through the e-learning portal. During the period, regular communications continued to be shared with staff on the options available to them under the policy. The Grievance Committee, a cross-functional team, continued to be active through the year and provided another avenue for staff to surface concerns and issues. In addition, the Bank has in place a Whistle Blowing procedure, detailing the procedure by which issues of concern can be raised at the Bank.

Showing our appreciation for staff who go the extra mile continued to be a key HR initiative. As such, on a quarterly basis throughout the year, employees nominated by the supervisors, subordinates or peers were recognised for commitment and exceptional contribution made towards the Bank's success under the rewarding excellence scheme. During the period under review, 26 employees were recognised and appreciated through this scheme. In addition all department heads are provided an annual allowance to show appreciation to their staff as well as staff of other departments who have provided exceptional assistance. The period also saw 18 branch/team/individual awards being disbursed in recognition of outstanding performance during the past year.

BUSINESS PARTNER CAPITAL

DFCC Bank recognises that in order to accomplish our mission, we need the support and blessings of a wide range of trusted and committed partners. Accordingly, the Bank has partnered with reputed global and local organisations. They include multilateral and bilateral development institutions, local financial institutions, Government institutions, industry associations and suppliers of goods and services. All these business partners actively collaborate with us in our efforts to create value. We share complementary business goals with them and our interactions with them foster mutually beneficial long-term relationships.

Multilateral and Bilateral Institutions

Since its establishment in 1955, on the recommendation of the World Bank, DFCC Bank has developed and nurtured strong relationships with many multilateral and bilateral institutions that share similar goals. Our business partners in this context include The World Bank; the European Investment Bank (EIB); Asian Development Bank (ADB); Kreditanstalt für Wiederaufbau (KfW), Germany; Deutsche Investitions- und Entwicklungsgesellschaft (DEG), a subsidiary of KfW; Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO), Netherlands and Proparco, a subsidiary of Agence Francaise de Developement (AFD), France. Primarily our roles in these partnerships have been as an effective credit institution for on-lending funds to end users, or as the project manager in implementing credit programmes, administering grant funds and smart subsidiaries for market development, and capacity building.

Some of the recent programmes DFCC Bank has worked with these partners, as detailed elsewhere, bear testimony to the beneficial relationships the Bank has been able to build with them.

DFCC Bank implemented two successive renewable energy credit lines from The World Bank (1997-2011), playing an exemplary role in mainstreaming the renewable energy sector in Sri Lanka leading to landmark transformational impacts in the areas of technology, financing and regulation. On behalf of the Government of Sri Lanka and the EIB, the Bank is currently implementing the EUR 90 million EIB funded SME & Green Energy Global Loan scheme. Previously, the Bank implemented the EIB Post-Tsunami credit line and also disbursed two dedicated global loans from the EIB.

DFCC Bank is also currently implementing a dedicated housing loan credit scheme funded by ADB, and will also be a participating bank in a new ADB credit line for SMEs. The Bank previously implemented the credit component of the ADB funded Plantation Development Project (PDP) and managed the Plantation Trust Fund component of the PDP jointly with associate – National Asset Management Limited. The KfW DFCC V credit line for SMEs in the North and the East was also implemented by DFCC Bank.

DEG, FMO and Proparco promote private sector initiatives in developing and emerging countries. While DFCC Bank has ongoing loans from DEG and FMO, both institutions were former shareholders of the Bank and had representation on the Board. DFCC Bank established a relationship with Proparco in 2015 and is expecting to conduct transactions shortly.

Correspondent Banks

We have established correspondent banking relationships with the following banks in order to service transactions of our customers, which originate in or involve foreign countries. They also act as our agents in the respective countries.

Bank	Country	City	Length of Relationship
HSBC Bank	Australia	Sydney	12 Years
The Bank of Nova Scotia	Canada	Toronto	12 Years
Commerzbank AG	Germany	Frankfurt	12 Years
Bank of Ceylon (UK) Limited	UK	London	12 Years
Sumitomo Mitsui Banking Corporation	Japan	Tokyo	12 Years
Standard Chartered Bank PLC	Singapore	Singapore	12 Years
Deutsche Bank Trust Company Americas	USA	New York	12 Years
HSBC Bank USA NA	USA	New York	12 Years
Mashreq Bank PSC	USA	New York	12 Years
Standard Chartered Bank PLC	USA	New York	12 Years
Commonwealth Bank of Australia	Australia	Sydney	4 Years
Bank of China	China	Beijing	4 Years
Zurcher Kantonal Bank	Switzerland	Zurich	3 Years
HDFC Bank	India	Mumbai	3 Years
UniCredit Bank AG	Germany	Munich	12 Years

The Supply Chain

DFCC Bank's procurement policy requires that the selection of its suppliers and procurement of goods and services be done in a fair, transparent and economically effective manner. Selection of suppliers is through a rigorous evaluation process, which, inter alia, takes into account the price, quality, after sales support, satisfactory references, timely delivery and technical capacity. Previously registered suppliers who fail to qualify are subsequently reviewed once in every three years. We prefer to procure from local suppliers thereby helping them to establish themselves by associating with the Bank and receiving financial advice and assistance if required.

Industry Initiatives

Lanka Money Transfer

DFCC Bank's remittance system, Lanka Money Transfer (LMT) was launched in April 2015. LMT is unique in that other banks/financial institutions can have direct arrangements with it to receive direct remittances for their account holders. Currently, eight such establishments have signed up with LMT. Irrespective of the bank, LMT notifies the beneficiary via an SMS informing the receipt of the remittance. Work on many other value additions are in progress to be delivered in 2016. Seven exchange companies in the UAE and Qatar have already signed up with LMT and negotiations are underway with exchange companies in Saudi Arabia, Kuwait, Bahrain, Jordan, Italy and the UK to expand its global presence.

Tea Integrated Payment System

DFCC Bank together with Synapsys, launched a groundbreaking supplier settlement system to support Sri Lanka's large community of private tea manufacturers and tea leaf suppliers. Designed by Synapsys, the system gives suppliers the opportunity to have proceeds from their sales managed by a bank and have it transferred directly to their bank accounts. DFCC Bank launched the V Cash Card as part of this initiative, enabling tea leaf suppliers to withdraw cash from over 700 ATMs across the country. The system provides efficiency, visibility and greater accountability, resulting in tea leaf suppliers having greater confidence in the collection process and control over their receipts.

Mobile Wallet

The Vardhana Virtual Wallet® developed by Synapsys, is a convenient electronic payment and fund management solution that allows users to send and receive funds through their mobile devices instantly. The funds stored therein could be used to electronically pay for goods and services at selected merchant outlets, withdraw cash at designated outlets, pay utility bills and transfer to or receive funds from one's near and dear. Available round the clock, these services take place within a secure transaction network. This will reduce the need for customers and merchants to hold cash to carry out transactions. Vardhana Virtual Wallet® will be made available on Apple and Android devices free of charge. Retail customers and merchants will however be required to register with the Bank to avail this service.

Strategic Alliances

While organically growing through judicious management of its business, DFCC Bank diversified itself through a series of timely and prudent strategic acquisitions, alliances and partnerships over the years and immensely benefited from the resulting synergies. The DFCC Group today comprises its subsidiaries; Synapsys, DFCC Consulting, Lanka Industrial Estates Limited, its joint venture, Acuity Partners and associate company National Asset Management Limited, together providing the full gamut of services to the financial sector.

Acuity Partners

Acuity Partners, a joint venture by DFCC Bank and HNB, is a full service investment bank. It is the only integrated, full service investment bank in Sri Lanka offering a comprehensive suite of products and services in Fixed Income Securities, Stock Brokering, Corporate Finance, Margin Trading, Asset Management and Venture Capital Financing. Acuity is the successor to the investment banking related subsidiaries and divisions of DFCC Bank and HNB and was created through the consolidation of all Corporate Finance, Equities and Fixed Income Securities activities of the two banks.

The following subsidiaries/associates and business units come under the Acuity umbrella;

- Acuity Corporate Finance – Provides Corporate Finance and Advisory Services
- Acuity Securities Limited – A Primary Dealer for Government Securities
- Acuity Stockbrokers (Pvt) Limited – A member of Colombo Stock Exchange
- Lanka Ventures PLC – A Venture Capital Company
- Guardian Acuity Asset Management Limited – A dedicated fund management entity

Lanka Industrial Estates PLC (LINDEL)

Lanka Industrial Estates, better known as LINDEL, is located strategically in Sapugaskanda on 125 acres of land. With its close proximity to the Colombo Harbour (18 km) and to the International Airport (25 km), this industrial estate offers the most advanced infrastructure facilities available in Sri Lanka. Out of the 19 production facilities which are currently operational, five are run by Fortune 500 Companies. Out of the leasable land, 80% has been let to industries.

Memberships in Industry Associations

DFCC Bank has obtained membership in or established affiliations with the following industry associations and organisations. Our association with them provides opportunities for networking, contributing to development of standards and best practices for the industry and making a collective voice representing the industry with regard to issues relating to regulation and policy.

- Association of Development Financing Institutions in Asia & The Pacific (Adfiap)
- American Chamber of Commerce in Sri Lanka
- Association of Compliance Officers of Banks – Sri Lanka
- Chamber of Commerce & Industry of Central Province
- Cima Sri Lanka Division
- Colombo Stock Exchange
- Fitch Ratings Lanka Limited
- Genesiis Software (Pvt) Limited
- Lanka Business Coalition On HIV and Aids
- LankaClear (Pvt) Limited
- Sabaragamuwa Chamber of Commerce and Industry
- Sri Lanka Banks' Association (Guarantee) Limited
- Sri Lanka Forex Association
- Sri Lanka Interbank Payment System (Slips)
- The Association Of Banking Sector Risk Professionals
- The Ceylon Chamber of Commerce
- The Ceylon National Chamber of Industries
- The Employers' Federation of Ceylon
- The European Chamber of Commerce of Sri Lanka
- The Financial Ombudsman Sri Lanka (Guarantee) Limited
- The Institute of Bankers of Sri Lanka
- The Institute of Chartered Accountants of Sri Lanka
- The Mercantile Service Provident Society
- The National Chamber of Commerce of Sri Lanka

SOCIAL AND ENVIRONMENTAL CAPITAL

Society and environment has had an enormous bearing on our journey so far. Given the growing issues that the world is confronted with at present, it is expected to have an even greater relevance as we move forward. Hence, DFCC Bank has an unwavering commitment to the society and the environment, which is built into strategy. We use our financial and other resources to address social and environmental issues of the communities in which we operate. We encourage our staff to actively engage with members of the community in order to understand their concerns, extend a helping hand to them wherever possible and bring serious issues and concerns to the attention of the Management and the Board of Directors.

Social Capital

Socio-Economic Impact

DFCC Bank PLC has for 60 years, directly and indirectly contributed to the economic development of the country at a national, provincial and local community level. Being a net transferor of financial resources, especially in the provincial areas, the Bank has helped to transform rural economies, enhance livelihoods, generate employment and encourage capital formation in every district.

Over the years, the Bank has pioneered the financing of new economic sectors in the country which are now mainstream businesses. One of the earliest examples is when DFCC Bank financed Sri Lanka's first beach hotel in the 1960's. This set the stage for the many hotel projects that followed suit and helped develop the tourism sector in the nation, which today, is a thriving industry. The Bank also pioneered several other industries in the private sector namely apparel, aquaculture, ceramics, horticulture and renewable energy. Going beyond simply providing financial solutions, the Bank also provides advisory services and has catalysed the transformation of organisations, both locally and internationally.

Looking at the present, the Bank continues to be a pioneer and is committed to driving financial inclusivity particularly in the rural and economically backward areas. In this context, the reach of DFCC Bank's network in relation to the contribution of each province to national GDP indicates a high concentration of service centre's in the lower GDP-ranked areas.

These achievements indicate our long-term commitment and significant contribution to sector development and economic development of the country. We remain committed to rural economic development through providing loan, savings and investment products and other services that will stimulate capital formation and employment creation.

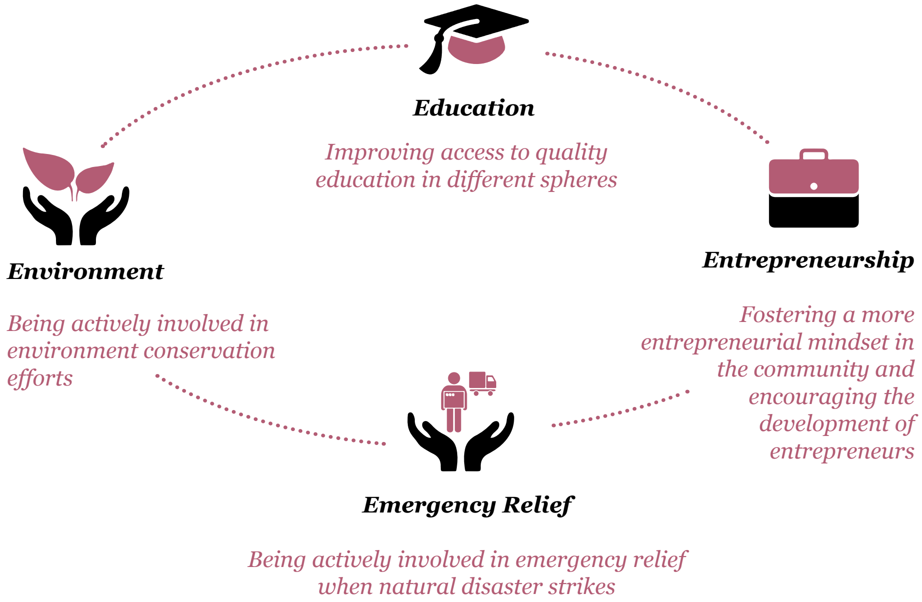
Province	GDP* LKR million (2013)	Provincial % of total GDP	No. of DBB service centres	DBB's provincial presence (%)
Western	3,643,241	42.0	38	27.7
Southern	954,518	11.0	23	16.8
Sabaragamuwa	526,155	6.1	15	10.9
Central	959,918	11.1	14	10.2
North-Western	887,083	10.2	12	8.8
Eastern	542,905	6.3	11	8.0
North-Central	438,896	5.1	9	6.6
Uva	409,972	4.7	9	6.6
Northern	311,542	3.6	6	4.4
Total	8,674,230	100	137	

Strategic CSR

Community development is an integral part of DFCC Bank's core value system, and employees at every level are encouraged to engage with local communities through varied community development projects. Our corporate social investment initiatives spread further than charitable donations, and what we aim to do is create long-term social value for the communities in which we operate.

The Bank has undertaken many initiatives in the past, one of our flagship projects being the 6S implementation in schools. This project was carried out under the theme 'Towards an exemplary society', making a difference in 100 schools across the country. This was a long-term project spanning four years and was aimed at educating children at primary school level on the 6S principles. Additionally, our branches have also engaged in many community upliftment projects, creating an impact in their localities.

This year DFCC Bank implemented a 4E Strategy, further strengthening its strategic CSR focus. This integrated approach is aligned with the Banks' brand values, strengths and processes. The 4E Strategic Theme Framework is as shown in the next page:



Initiatives in 2015

- **Northern Region's Flood Relief Initiative**

  DFCC Bank's team in the Northern Region provided assistance to families affected by floods in the Vatharavarai village. The village was severely affected and many people were displaced due to the flash floods caused by heavy rain. The team distributed food items, as many of the families, especially children were without food. They also distributed mosquito coils, and provided relief for about 100 families.

- **Nepal Disaster Relief**

  The staff of DFCC Bank contributed basic necessities to be sent to people affected by the Nepal earthquake. The Bank has had a close relationship with Nepal on development of renewable energy, and joined hands with the Sri Lanka Government to transport the relief goods to Nepal.

Community Based CSR Initiatives:

In addition to the Strategic CSR projects, employees across the Bank are encouraged to engage with the local communities through various other community development initiatives. The Bank aims to be a model corporate citizen and the Bank's head office, regional and branch level staff in fact undertook many initiatives in their respective communities during the period under review. Two noteworthy initiatives were –

1. Providing a Clean Drinking Water System for Bt/Koddamunai Kanishta Vidyalayam

The Batticaloa branch undertook a project to supply clean drinking water for nearly 800 students who attend Bt/Koddamunai Kanishta Vidyalayam in Batticaloa by setting up a hygienic drinking water station at the school premises. The opening ceremony was held on the 5th of November with the Regional Manager, the branch managers of Batticaloa, Kattankudy and Sainthamaruthu and other members of the team in attendance.

2. Reaching out to Health Care Institutions in the North

DFCC Bank assisted two health care institutions in the Jaffna and Vavuniya Regions, by providing them with essential equipment to cater to the needs of patients. The Bank donated 30 wheelchairs to the Jaffna Teaching Hospital fulfilling an urgent requirement. The Bank also donated 200 seats to be placed in the OPD patients waiting area at the Vavuniya General Hospital. The equipment was handed over to the Director of the Jaffna Teaching Hospital and the Director General of the Vavuniya General Hospital. These initiatives helped to enhance the service experience of needy patients during their visits to the respective hospitals.

Volunteerism

The DFCC REDS also engage in CSR activities every year. This group is one that comprises young recruits in the executive and management trainee cadres. Collectively they engage in CSR projects as a team building exercise. Two noteworthy initiatives by the REDS during the period were the contribution made towards renovating the Opatha Hospital in the Galle District and organisation of a blood donation campaign.

Sponsorships

The Bank funds and supports numerous events across the country through sponsorships which are approved based on internal policies on eligibility, transparency and due process. Approximately 60% of the support during the period was towards events organised by the business community with whom the Bank has built relationships. The balance was allocated for local communities, educational and professional institutions, and sports related events.

In return, these events enhance the Bank's visibility and goodwill while also providing opportunities for the Bank to build trust and establish rapport with existing and prospective stakeholders.

Environment Capital

DFCC Bank is a strong advocate of environment protection, and strives to minimise adverse impacts. As a financial services provider, our impacts on the environment are mostly indirect. However, we continually encourage our clients, employees and service providers to adopt environmentally responsible practices.

The direct environmental impacts we address include those associated with materials, energy, waste and transportation.

Managing Resource Consumption

We periodically review our resource consumption and look at innovative methods of conserving energy and providing business solutions in a proactive manner. The 3R concept – reduce, reuse, recycle – is strictly used when procuring and managing resources. Our work processes are extensively automated to minimise paper usage and all internal correspondence is electronic. Further, most management meetings are conducted through technological solutions which include video and voice conferencing. Waste paper and hazardous waste are sent to verified recyclers for disposal.

Measures taken to minimise electricity consumption include calibrating all air conditioning systems for optimal efficiency, shifting towards LED bulbs, retrofitting plant and equipment with energy efficient technologies and considering the energy labelling when procuring office equipment. These efforts and investments have borne fruit. The Bank's electrical energy consumption decreased from 4,915 MWh to 4,859 MWh during the year under review.

GHG Emissions

We are reporting our greenhouse gas (GHG) emissions on a voluntary basis for the fourth consecutive year. The boundary in the previous years was the 'DFCC Banking Business' which comprised DFCC Bank and DFCC Vardhana Bank. Following the amalgamation of these two entities with effect from 1 October 2015 our reporting has changed to DFCC Bank for the 12 months ending 31 December 2015 which includes 'pre and post-merger' DFCC Bank and the pre-merger DFCC Vardhana Bank for the nine months ending 31 October 2015. Hence, the physical boundary is effectively still the same for comparability, but the shift to a new timeframe brings about some overlaps over the previous accounting period.

As before, our calculations are based on the WBCSD/WRI Greenhouse Gas Protocol Corporate Standard and the most recent versions of applicable Calculation Tools. Our reporting under Scopes 1 and 2 is complete except for fugitive emissions from air conditioning plants, which are relatively insignificant. Reporting on Scope 3, which is optional, is selective based on significance and data availability.

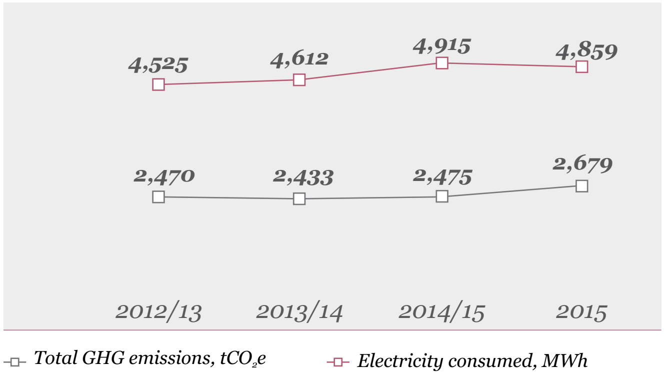
Carbon Footprint of the Bank

Scope	Source	GHG emissions			
		2015		2014/15	
		tCO_2e	%	tCO_2e	%
Scope 1 (direct)	Stationary combustion	**0.2**	**0**	11.6	0.5
	Mobile combustion	**215**	**8.0**	98.4	4.0
	Total Scope 1	**215.2**	**8.0**	110.0	4.5
Scope 2 (indirect)	Purchased electricity (CEB)	**988.2**	**36.9**	885.8	35.8
	Total Scopes 1 and 2	**1,203.4**	**44.9**	995.8	40.3
Scope 3 (indirect)	Stationary combustion	**47.1**	**1.8**	31.6	1.3
	Purchased electricity (CEB)	**1,423.6**	**53.1**	1,419.2	57.3
	Employee air travel	**5.1**	**0.2**	28.7	1.2
	Total Scope 3	**1,475.9**	**55.1**	1,479.5	59.8
	Total Scopes 1, 2 and 3	**2,679.3**	**100.0**	2,475.4	100.0

Note: Totals may not tally exactly due to rounding

The total GHG emissions during the period under review amounted to 2,679 tonnes carbon dioxide equivalent (tCO_2e), an increase of 8.2% over the previous year.

Managing Our Environmental Impact



Indirect GHG emissions from purchased electricity was by far the single largest contributor, accounting for 37% of the total in respect of Bank-owned premises (2014/15: 36%) and another 53% of the total in respect of rented premises (2014/15: 57%), bringing its total share to 90% (2014/15: 93%).

Given the nature of our business, the relatively high proportion of electricity in our total GHG emissions is to be expected.

However, it is noteworthy that total electricity consumption was well managed during the year, recording a 1.1% reduction compared to the previous reporting period. Nevertheless, this achievement was negated by a higher grid emission factor used for the period under review, which in turn impacted on the total GHG emissions.

Integration with Business Processes

Being fully aware that economic development creates an impact on the environment and social aspects of life, we give high priority to environmental and social appraisal in making investment decisions and managing internal operations.

Thus, we have established a Social & Environmental Management System (SEMS) which ensures that the performance of existing operations and environmental/social implications due to proposed projects are reviewed, and that subsequent monitoring is carried out to maintain stipulated environmental standards.

Staff Awareness

DFCC Bank educates staff on concepts related to sustainability and environment protection *via* a module on the Bank's e-learning portal as well as through regular articles featured in its weekly newsletter.

Supporting Environmental Initiatives

DFCC Bank plays an active role in supporting industry and Government initiatives related to protecting the environment. Further, employees were encouraged to buy energy efficient products by arranging for discounted prices during the period. These products included solar net metering, solar water heaters and pureit water filters.

Initiatives in 2015

- **Commemorating World Environment Day on 5 June 2015**

  A tree planting ceremony was held on 5 June 2015 to commemorate World Environment Day at the DFCC Bank Head Office. The two trees that will dominate the porch area of the Head Office in the future were jointly planted by Mr Arjun Fernando – CEO and Mr Palitha Gamage – Executive Vice President.

- **Global Climate March**

  The Global Climate March was organised by 'Earth Hour Sri Lanka' in Colombo on 29 November 2015, and DFCC Bank also joined the Climate March in support of this initiative.

- **Energy Efficiency Programmes for SMEs**

  DFCC Bank facilitated a workshop for SMEs on 'Financing Energy Efficiencies' in partnership with the Deutsche Gesellschaft fur Internationale Zusammenarbeit (GIZ) in various parts of the country. This workshop was conducted for SME customers of the Bank and members of the Chamber of Commerce. In addition, as a part of this initiative, the Bank part-financed Energy Audits on selected SMEs.

- **Earth Hour 2015**

  DFCC Bank supports Earth Hour every year, which is a global event organised by the World Wildlife Fund. The programme aims to create awareness on climate change by getting businesses and households to turn off non-essential lights and other electrical appliances for one hour.

  The Bank supports this initiative by switching off all signboard lights across all branches, serving as an example to the wider community to adopt a more responsible attitude towards the environment.

Awards and Accolades

Category	Awards	Area	Institution	Date
Rating Award 2014	Best Achiever of the Year	Credit Administration	Credit Information Bureau of Sri Lanka (CRIB)	May 2015
Outstanding Sustainable Project Finance Award	Merit	Sri Lanka's First Grid Connected Solar Power Project	Global Sustainable Finance Conference, City of Karlsruhe, Germany	June 2015
Excellence in Integrated Reporting Award	Ten Best Integrated Reports	DFCC Bank Annual Report 2014/15	Institute of Certified Management Accountants of Sri Lanka	July 2015
Best Corporate, Banking, Finance & Insurance	Merit	DFCC Bank Website	LK Domain Registry	August 2015
Best Tamil Website	Merit	DFCC Bank Website	LK Domain Registry	August 2015
Business Today – Top 25	Position-16	Corporate	Business Today Magazine	October 15
Financial Institution	Gold	DFCC Bank Annual Report 2014/15	The Institute of Chartered Accountants of Sri Lanka	December 2015

Integrated Risk Management

Risk Culture and Vision

DFCC Bank adopts a comprehensive and well-structured mechanism for assessing, quantifying and managing risk exposures which are material and relevant for its operations within a well-defined risk framework. The articulated set of limits explains the risk appetite of the Bank for all material and relevant risk categories and the risk capital position. Risk management is integrated with strategic, business and financial planning and customer/client transactions so that business and risk management goals and responsibilities are aligned across the organisation. Risk is managed in a systematic manner by focusing on a group basis as well as managing risk across the enterprise, individual business units, products, services, transactions and across all geographic locations.

Credit risk amounts to the highest quantum of quantifiable risk faced by the Bank based on the currently effective quantification techniques. In DFCC Bank credit risk accounted for 92% of risk-weighted assets. Additionally, the Bank takes necessary measures to proactively manage operational and market risk as very important risk categories. Operational risk incidents may be with high frequency but low impact or with low frequency but high impact all of which warrant being closely monitored and managed prudently.

Following broad risk categories are in focus:

- Business risk and strategic risk
- Credit risk including settlement risk in Treasury and international operations and credit concentration risk
- Interest rate risk in the banking book and the trading book
- Liquidity risk
- Foreign currency risk
- Equity prices risk
- Operational risk
- Legal risk
- Compliance risk
- Reputational risk

DFCC Bank's general policies for risk management are outlined as follows:

A. The Board of Directors' responsibility for maintenance of a prudent integrated risk management function in DFCC Bank.

B. Communication of the risk policies to all relevant employees of DFCC Bank.

C. Structure of 'Three Lines of Defence' in DFCC Bank for management of risks which consists of the risk-assuming functions, independent risk management and compliance functions and the internal and external audit functions.

D. Ensuring compliance with regulatory requirements and other laws underpinning the risk management and business operations of DFCC Bank.

E. Centralised Integrated Risk Management Function which is independent from the risk assuming functions.

F. Ensuring internal expertise, capabilities for risk management and ability to absorb unexpected losses when entering into new business, developing products or adopting new strategies.

G. An assessment of risk exposures on an incremental and portfolio basis when designing and redesigning new products and processes before implementation. Such analysis will include among other areas, business opportunities, target customer requirements, core competencies of the Bank and the competitors and financial viability.

H. Adoption of the principle of risk-based pricing. However, ALCO may consider shifting to market-based pricing approach based on the prevailing market conditions and business strategy.

I. Ensuring that the Board approved target capital requirements, which are more stringent than the minimum regulatory capital requirements, are not compromised. For internal purposes, economic capital is quantified using Basel II recommended guidelines in the Internal Capital Adequacy Assessment Process (ICAAP). A cushion for the regulatory capital over and above the economic capital requirement is maintained to cover for stress losses or losses caused by unquantifiable risks such as strategic risk, liquidity and reputation risk (risk categories which are not in Pillar I of Basel II). Under ICAAP capital is monitored on a quarterly basis based on certain stress scenarios which are subject to regular review based on macro-level anticipated developments.

J. Aligning risk management strategy to DFCC Bank's business strategy.

K. Ensuring comprehensive, transparent and objective risk disclosures to the Board, Corporate Management, Regulators, Shareholders and Other Stakeholders.

L. Continuous review of risk management framework and ICAAP to align with Basel II and III recommendations and regulatory guidelines.

M. Maintenance of internal prudential risk limits based on the risk appetite of the DFCC Bank wherever relevant, over and above the required regulatory limits.

N. Ensuring a prudent risk management culture within DFCC Bank.

O. Periodic review of risk management policies and practices to be in line with the developments in regulations, business environment and internal environment.

Risk Governance

Approach of 'Three Lines of Defence'

DFCC Bank advocates strong risk governance applied pragmatically and consistently with a strong emphasis on the concept of 'Three Lines of Defence'. The governance structure encompasses accountability, responsibility, independence, reporting, communication and transparency, both internally and with our relevant external stakeholders.

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

DFCC Bank exhibits an established risk management culture with effective risk management approaches, systems and controls. Policy manuals, internal controls, segregation of duties, clearly demarcated authority limits and internal audit form a part of key risk management tools. The Group Chief Risk Officer (CRO), who is an Executive Vice President functions on a Group basis with direct access to the BIRMC.

Governance Structure for Risk Management in DFCC Bank

The Concept of 'Three Lines of Defence' for Integrated Risk Management Function of DFCC Bank

First Line of Defence	*Second Line of Defence*	*Third Line of Defence*
Involvement by the Board, CEO, Senior Management Committees, accountability and responsibility of senior and middle management supported by internal controls, governance structure, processes and risk management.	*Oversight by the BIRMC and independent risk monitoring and compliance by IRM and Compliance and Legal.*	*Oversight by the Board's Audit Committee and independent check and quality assurance*
Strategy, Performance and Risk Management	*Policy, Monitoring and Oversight*	*Independent Assurance*
Board of Directors *Chief Executive Officer* *Senior Management Committees* *Corporate/ Business Banking* *Branch Banking* *Treasury* *Accounting and Finance* *General Operations* *IT* *HR* *Rehabilitation and Recoveries* *International Operations* *Personal Financial Services* *Credit Administration* *Branch Credit Management & Quality Assurance*	*Compliance and Legal* *Integrated Risk Management*	*Internal Audit* *External Audit*

Risk Policies and Guidelines

A set of structured policies and frameworks approved by the BIRMC and the Board forms a key part of the risk governance structure. Integrated Risk Management Framework stipulates, in a broader aspect, the policies, guidelines and organisational structure for the management of overall risk exposures of DFCC Bank in an integrated approach. This framework defines risk integration and the aggregation approaches for different risk categories. In addition, separate policy frameworks detail the practices for management of key specific risk categories such as credit risk, market risk, credit concentration risk, liquidity risk, operational risk. These policy frameworks are communicated across the Bank. Respective staff members are required to adhere to the specifications of these frameworks when conducting business transactions.

Risk Appetite

Risk appetite of DFCC Bank has been defined in the Overall Risk Limits System. It consists of risk limits arising from regulatory requirements, borrowing covenants and internal limits for prudential purposes. The limit system forms a key part of the key risk indicators and covers key risk areas such as credit, interest rate, liquidity, operational, foreign exchange, concentration and risk capital position amongst others. Lending limits cover the industry sectors and geographical regions as part of the prudential internal limits. These limits are monitored monthly and quarterly on a 'Traffic Light' system. These risk appetite limits are reviewed at least annually in line with the risk management capacities, business opportunities, business strategy of the Bank and regulatory specifications. Industry sector limits for the lending portfolio considers the inherent diversification within the sub-sectors and the borrowers within broader sectors.

Organisational Structure for Risk Management

Board Integrated Risk Management Committee (BIRMC)

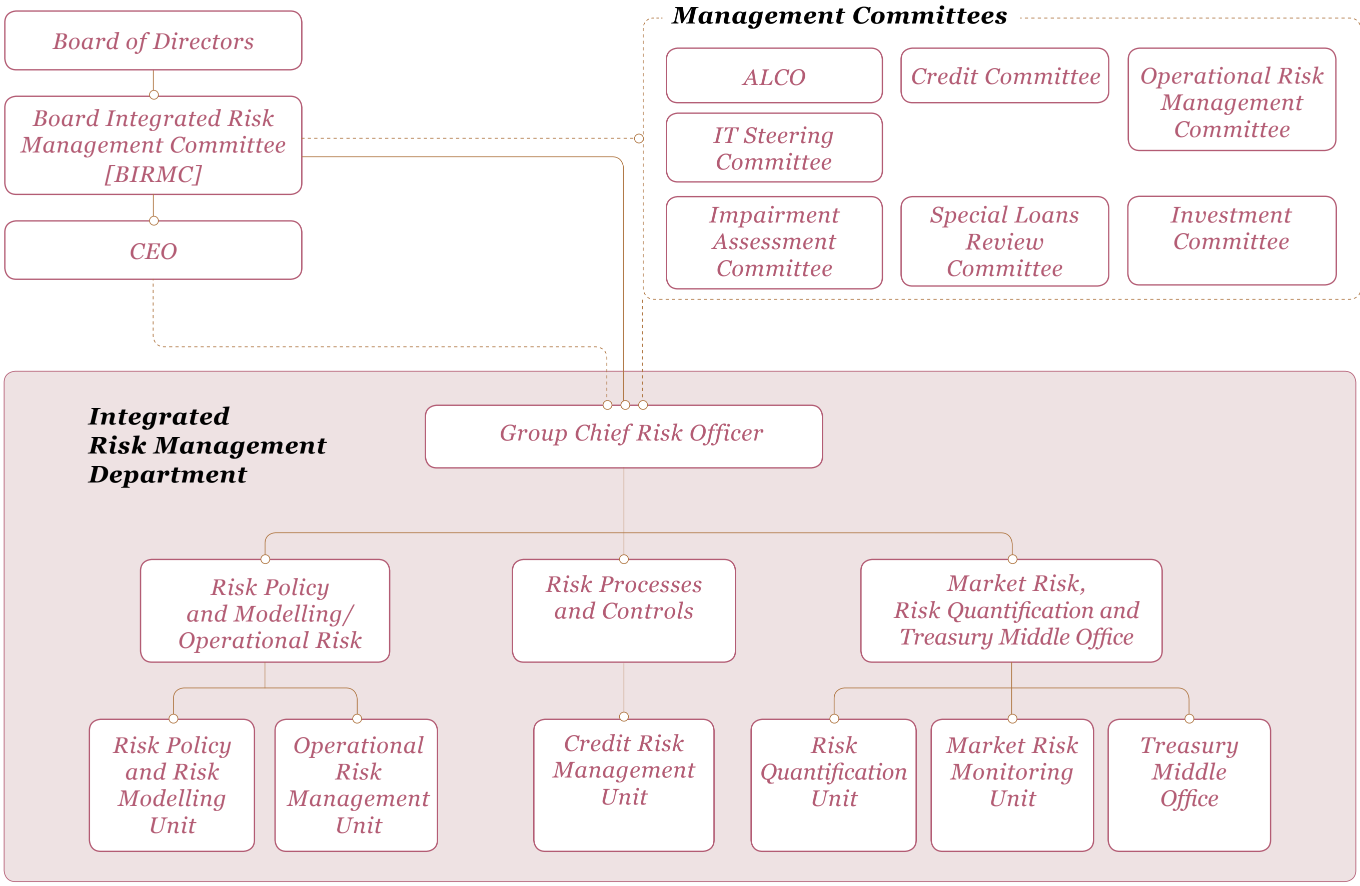
The BIRMC is a Board sub-committee, which oversees the risk management function and the provisions of Basel II and III implementation as required by the Regulator from time to time in line with Board-approved policies and strategies. The Central Bank has already implemented the liquidity standards (Liquidity Coverage Ratio) under Basel III while the minimum capital requirements including Capital Conservation Buffer and Countercyclical Buffer have been envisaged to be implemented on a phased in basis starting from 2016.

The BIRMC functions under the responsibilities set out in the Board-approved Charter for the BIRMC, which incorporates corporate governance requirements for Licensed Commercial Banks issued by the Central Bank of Sri Lanka (CBSL). BIRMC sets the policy and operations for bank-wide risk management including credit risk, market risk, operational risk and liquidity risk. In addition to the Board representatives, the BIRMC consists of the CEO and CRO as members. Further, Heads representing Credit, Finance, Treasury, Information Technology and Operations attend the meeting as invitees. A summary of the responsibilities and functions of the BIRMC is given in the Report on the Board Integrated Risk Management Committee on page 109 of this Annual Report.

Involvement of Management Committees

Management Committees such as Credit Committees(CC), Asset and Liability Management Committee (ALCO), Operational Risk Management Committee (ORMC), Special Loan Review Committee (SLRC) and Impairment Assessment Committee (IAC) are included in the organisational structure for integrated risk management function. The responsibilities and tasks of these committees are stipulated in the Board approved charters and TORs and the membership of each committee is defined to bring an optimal balance between the business and risk management.

Organisational Structure for Integrated Risk Management



Integrated Risk Management Department (IRMD)

IRMD is responsible for measuring and monitoring risk at operational levels on an ongoing basis to ensure compliance with the parameters set out by the Board/ BIRMC and other executive committees for carrying out the overall risk management function in DFCC Bank. It consists of six separate units such as Risk Policy and Modelling, Credit Risk Management, Market Risk Monitoring, Operational Risk Management, Risk Quantification and Treasury Middle Office. IRMD is involved with product or business strategy development or entering into new business lines from the initial design stage through input to the task/process from a risk management perspective. Credit Risk Management Unit of the IRMD carries out an independent review of the credit ratings of all corporates over a minimum threshold and also carries out random examination of other exposures. Treasury Middle Office which is functionally segregated from the Treasury Department, directly reports to the Group CRO and monitors the Treasury-related market risk limits.

Impact of the Amalgamation of DFCC Bank and DFCC Vardhana Bank on the Risk Management Function

As the risk management functions of DFCC Bank and DFCC Vardhana Bank were carried out on a group basis, but reported at entity level, the amalgamation did not have a material impact in terms of monitoring and reporting. The amalgamation has enabled the Bank to bring all customer databases onto a common IT platform.

Key Developments in Risk Management Function during the Period Under Review

During the period under review, several significant initiatives were undertaken paying continuous emphasis on regulatory developments and reassessing DFCC Bank's existing risk management policies, guidelines and practices for necessary improvements. In addition to these regulatory specifications, changes in business strategy, industry factors and international best practices were also considered during this improvement process. The following are the key initiatives during the period under review which brought improvements to the overall Integrated Risk Management Function:

Prudential risk limits were reviewed in order to reflect the current risk appetite of the Bank.

- Periodic validation of the credit rating models was carried out for better discriminatory power while new scorecards were introduced for other categories. As part of establishing an independent model validation process, the Bank has engaged the services of a foreign risk management consultancy firm to obtain an independent validation for its corporate banking and leasing rating models.
- The previous year saw the Credit portfolio segmentation which categorises the borrowers in a methodical manner being introduced across DFCC Bank and DFCC Vardhana Bank. During the concluding period, the segmentation process was pursued further, ensuring that loan clients of the Banks, pre and post merger, are subjected to segmentation. This categorisation is important in several aspects for credit risk management. Application of rating models is customised for differing borrower segments while depth and breadth of credit appraisals can vary based on borrower segments. This borrower segmentation is a prerequisite for DFCC Bank to obtain regulatory capital advantage from lending to SME and retail segments.
- IRMD as an independent unit detached from the business units, established close monitoring and watch listing of clients whereby arrears positions in loans are closely monitored to identify recurring incidents, possible trends inherent to business units/regions and/or industry segments with the view of minimising probable default risk incidents.
- Risk reporting process was improved during the period as per the requirements stated in ICAAP framework.
- Treasury Middle Office (TMO) uses a dashboard that facilitates the timely reporting of Treasury market positions independently to the management. During the period, the dashboard was further improved with more and timely information including information on Government security portfolios, stress testing results and limit positions.
- The Bank commenced computation and monitoring of the Liquidity Coverage Ratio (LCR) under Basel III as per the guidelines issued by the CBSL and implemented from April 2015. On a pre and post-amalgamation basis, DFCC Bank comfortably complied with the minimum requirements.
- From 2014, interest margins came under pressure with the sharp drop in the market rates, where lending rates dropped faster than the deposits rates. Scenario analysis and simulations by the ALM unit to assess the expected behaviour of interest margins enabled ALCO to take proactive measures to manage the erosion of margins. DFCC Bank, being net asset sensitive to interest rate changes was able to improve the interest margins from mid 2015, with the marginal increase in the market rates.
- IRMD continued to calculate Loss Ratios for key lending products using historical recovery data in support of impairment assessment under IFRS. During 2014, a review on the Loss Ratio Methodology was conducted in line with the historical evidence. The methodology was refined to incorporate the cash flow patterns and recovery experience of impaired assets of the Bank.
- IRMD continued to support the pawning business of the Bank through timely studies, research and providing necessary market information to the business. IRMD was actively engaged with the business of arriving at advance rates and interest rates for pawning products while managing the market and credit risk aspects.
- As part of the risk management practices, the Bank computed the key credit risk quantification parameters such as Probability of Default (PD), Loss Given Default (LGD) and the Loss Ratios which are defined and recommended under the Basel II and IFRS. The results indicated improvements in the credit risk rating process, rating models, recovery process and the collateral quality in DFCC Bank.
- DFCC Bank realigned the credit work flow in order to ensure that every credit proposal sent for approval is independently evaluated. The new work flow ensures that every credit proposal is independently evaluated by either the Quality Assurance Unit (QAU) or the IRMD based on the region/origination unit and approving authority.
- Having duly recognised the global trend on increasing threats on system and information security, the Bank paid increased attention to IT systems security under its operational risk management practices.
- All the Board approved Charters and TORs were reviewed during the period especially considering the changes required at the time of the amalgamation.

DFCC Bank's External Credit Rating

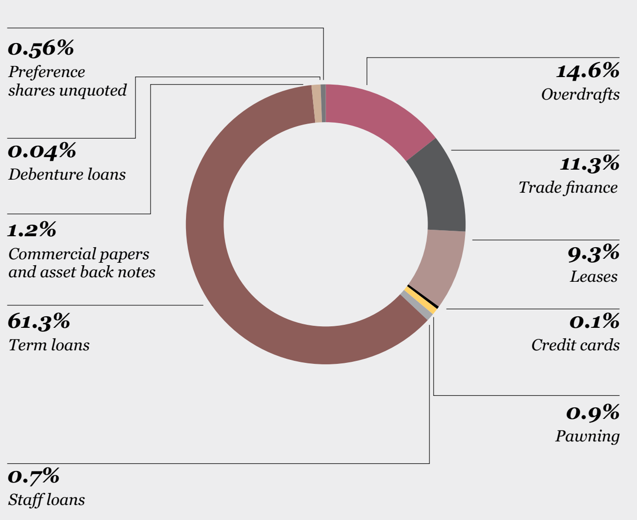
During the period under review, the DFCC Bank's local currency rating of 'AA-' was maintained while Fitch Ratings has affirmed that the rating of DFCC Bank PLC is unaffected by the merger of DFCC Bank and DVB, because DFCC Bank's rating was already based on the consolidated credit profile. The increased significance of Group's commercial banking business segment is a result of its business diversification strategy to bring earnings growth while managing the excessive dependence on the project lending business.

The Bank also continued to maintain its foreign currency credit rating of B+ (stable outlook) by Fitch Ratings and B (stable outlook) assigned by Standard & Poor's. The sovereign rating of BB- assigned for the Government of Sri Lanka is the benchmark for the foreign currency rating of other institutions within the country.

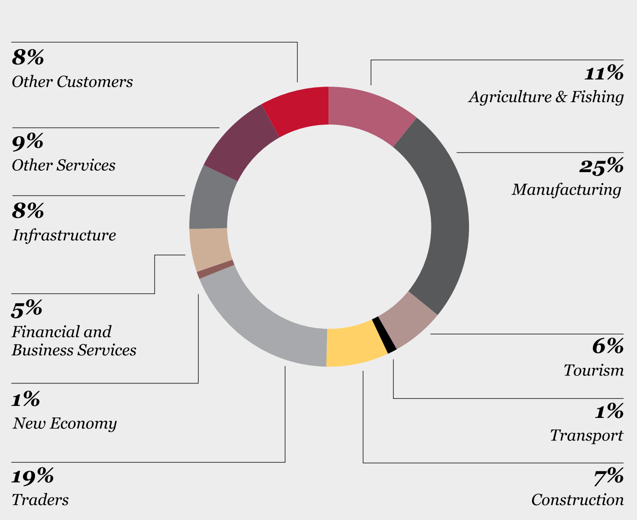
Credit Risk

Credit risk is the risk of loss to the Bank if a customer or counterparty fails to meet its financial obligations in accordance with agreed terms and conditions. It arises principally from On-Balance Sheet lending such as loans, leases, trade finance and overdrafts as well as through Off-Balance Sheet products such as guarantees and letters of credit. A deterioration of counterparty credit quality can lead to potential credit-related losses for a bank. Credit risk is the largest component of the quantified risk accounting for 92% of Risk-Weighted Assets at DFCC Bank.

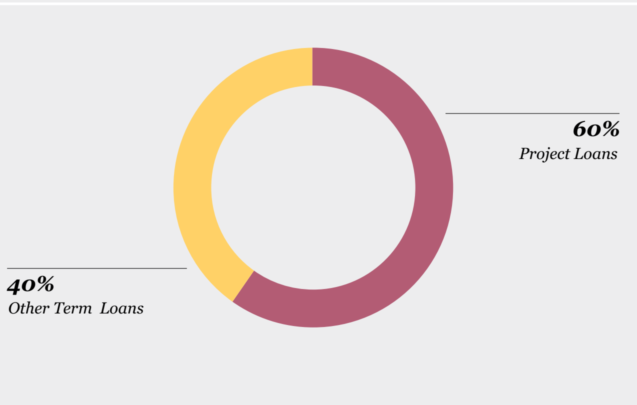
Product Composition



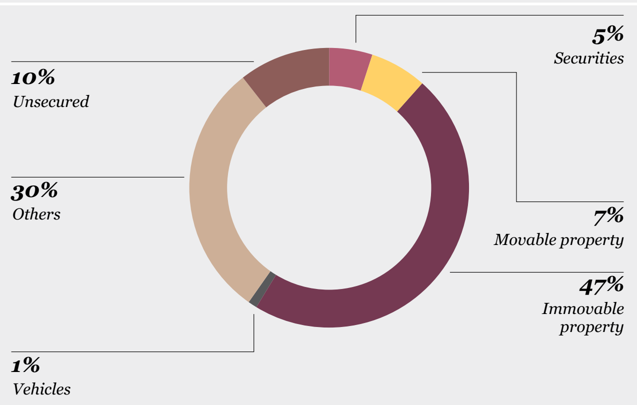
Sectorwise Distribution of the Lending Portfolio



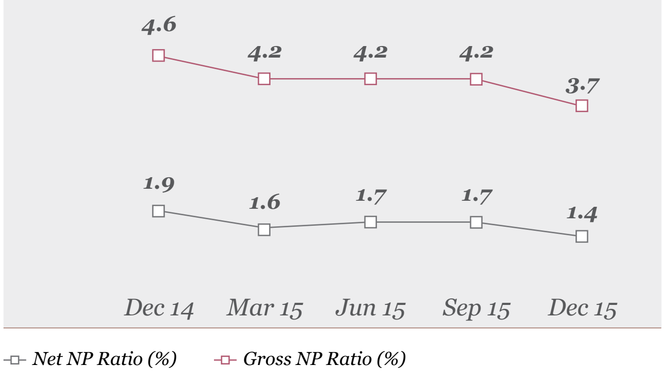
Term Loan Composition



Collateral Distribution of the Lending Portfolio



Movement of NPL



Along with the innumerable business opportunities that the larger merged entity is likely to get it is also likely to face increased credit risk events. The challenge of credit risk management is to maximise the risk adjusted rate of return by maintaining the credit risk exposure within acceptable levels.

Credit Risk Management Process at DFCC Bank

The DFCC Bank's Credit Policies approved by the Board of Directors define the credit objectives, outlining the credit strategy to be adopted at the Bank. The policies are based on CBSL Direction on Integrated Risk Management, Basel recommendations, business practices of DFCC Bank and former DFCC Vardhana Bank and risk appetite of DFCC Bank.

Credit risk management guidelines identify target markets and industry sectors, define risk tolerance limits and recommend control measures to manage concentration risk. Standardised formats and clearly documented processes and procedures ensure uniformity of practices across DFCC Bank.

Credit Risk Culture	→ Credit Risk Management Framework and Credit Policy
	→ Governance structure and specific organisational structure for credit risk management
	→ IRMD creates awareness of credit risk management through training programmes and experience sharing sessions
Credit Approval Process	→ Structured and standardised credit approval process as documented in credit manuals. The entire gamut of activities involving credit appraisal, documentation, funds disbursement, monitoring performance, restructuring and recovery procedure are described in detail in these manuals which are reviewed annually
	→ Standardised appraisal formats have been designed for each product type
	→ Clearly defined credit workflow ensures segregation of duties among credit originators, independent review and approval authority
	→ Delegation of Lending Authority sets out approval limits based on a combination of risk level, as defined by risk rating and security type, and loan size, proposed tenure, borrower and group exposure, IRM's involvement in independent rating reviews of borrowers above a defined threshold for credit proposals
	→ GCRO is a member of the Credit Committee, evaluates credit proposals from a risk perspective
	→ Risk based pricing is practiced at DFCC Bank, any deviations being allowed only for funding through credit lines and where strong justification is made due to business development purposes
Control Measures	→ Negative sectors and special clearance sectors are identified based on the country's laws and regulations, DFCC Bank's corporate values and policies and level of risk exposure. Negative sectors are recognised as industry sectors to which lending is disallowed while special clearance sectors are industry sectors and credit products to which DFCC Bank practices caution in lending
	→ Exposure limits on single borrower, group exposure, and advisory limits on industry sectors, large group borrowers and selected geographical regions are set by the Board of Directors on recommendation of IRMD

Credit Risk Management	→ Timely identification of problem credits through product-wise and concentration analysis in relation to industries, specific products and geographical locations such as branches/regions/provinces
	→ Industry reports/periodical economic analysis provide direction to lending units to identify profitable business sectors to grow the Group's portfolio and to identify industry related risk sources and their impact
	→ Evaluation of new products from a credit risk perspective
	→ Post sanction review of loans within stipulated time frame is in place in accordance with Loan Review Policy to ensure credit quality is maintained
	→ Independent rating review by Credit Risk Management Unit of IRMD ensures proper identification of credit quality at the time of credit origination and annual credit reviews
Credit Risk Monitoring and Reporting	→ Analysis of total portfolio in terms of NP movement, product distribution, industry sectors, Top 20 exposures, borrower rating distribution, region-wise portfolio distribution, collateral distribution is carried out periodically and reporting to BIRMC
	→ Watchlisting of significant arrears clients and receiving feedback from regional offices on recovery action taken to regularise the position
	→ Monitoring of potentially high risk advances of significant value, booked at branches and new advances where IRMD has instructed the business units to exercise extra caution
	→ Reporting quarterly to BIRMC on credit concentration risk positions with regards to regulatory limits such as single borrower and group exposure limits and internal advisory limits on industry sectors, large group borrowers and selected geographical regions as well as exposure based on credit rating grades
	→ Monthly reporting on Top Key Risks to BIRMC and the Board
Credit Risk Mitigation	→ Borrower's ability to pay is the primary source of recovery, whereas collateral acts as the secondary source in the event borrower's cash inflow is impaired

Market Risk

Market risk is the possibility of losses arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, equity prices and commodity prices. As a financial intermediary the Bank is exposed primarily to the interest rate risk and as an authorised dealer, commercial banking business is exposed to the exchange rate risk on foreign currency portfolio positions.

Market risk could impact DFCC Bank mainly in two ways; viz., loss of cash flows or loss of economic value. Market risk can be looked at in two dimensions; as traded market risk, which is associated with the trading book and non-traded market risk, which is associated with the banking book.

The ALCO oversees the management of both the traded and the non-traded market risks. The Treasury manages the foreign exchange risk with permitted hedging mechanisms. Trends in relevant local as well as international markets are analysed and reported by IRMD and the Treasury to ALCO and BIRMC. The market risks are controlled through various limits. These limits are stipulated by the Group's Investment Policy, Treasury Manual and Policy, and limits system of DFCC Bank.

Treasury Middle Office (TMO) is segregated from the Treasury Front Office (TFO) and Treasury Back Office (TBO) and reports to the CRO. The role of the TMO includes the day-to-day operational function of monitoring and controlling risks assumed in the TFO and TBO based on clearly defined limits and controls. Being independent of the dealers, the TMO provides an objective view on Front Office activities and monitors the limits. TMO has the authority to escalate limit excesses as per delegation of authority to the relevant hierarchy. The Treasury information management system maintained by TMO includes a dashboard that facilitates the timely reporting of Treasury market positions independently to management.

The strengthened Treasury and market risk management practices contribute positively to the overall risk rating of the Group and efficiency in the overall Treasury operations.

TBO which is reporting to Head of Finance is responsible for accounting, processing settlements and valuations of all Treasury products and transactions. The Treasury transactions related information is independently submitted by TBO to relevant authorities.

Interest Rate Risk

Interest rate risk can be termed as the risk of loss in the net interest income (earnings perspective) or the net worth (economic value perspective) due to adverse changes in the market interest rates. ALM unit routinely assesses the Bank's asset and liability profile in terms of interest rate risk and the trends in costs and yields are reported to ALCO for necessary realignment in the asset and liability structure and the pricing mechanism. ALM performed a number of scenario analysis and simulations on the effect of interest rate changes to the Bank's interest income during the period to facilitate pricing decisions taken at ALCO. The ALM function is planned to be transferred to the Finance Department subsequent to the amalgamation of the Banks.

Foreign Exchange Rate Risk

Foreign exchange rate risk can be termed as possibility of adverse impact to the Group's capital or earnings due to fluctuations in the market exchange rates. This risk arises due to holding of assets or liabilities in foreign currencies. Net Open Position (NOP) on foreign currency indicates the level of net foreign currency exposure that has been assumed by the Bank at a point of time. This figure represents the unhedged position of the Bank in all the foreign currencies. The Bank accrues foreign currency exposure through purchase and sale of foreign currency from customers in its commercial banking and international trade business and through borrowings and lendings in foreign currency.

DFCC Bank manages the foreign currency risk using a set of tools which includes limits for net unhedged exposures, hedging through forward contracts and hedging through creating offsetting foreign currency asset or liability. TMO monitors the end of the day NOP as calculated by the TBO, and the NOP movement in relation to the spot movement. The daily inter-bank foreign currency transactions are monitored for consistency with preset limits and any excesses are reported to the management and to BIRMC. The unhedged foreign currency exposure of the Bank is closely monitored and necessary steps are taken to hedge in accordance with the market volatilities.

In October 2013, the Bank issued its debut foreign currency international bond of USD 100 million with an original maturity of 5 years. The Bank actively manages the exchange risk arising from this transaction.

Indirect Exposures to Commodity Prices Risk – Gold Prices

DFCC Bank's pawning portfolio amounted to LKR 1,532 million at 31 December 2015, which was only 0.6% of total assets.

Equity Prices Risk

Equity prices risk is the risk of losses in the marked-to-market equity portfolio, due to the decline in the market prices. The direct exposure to the equity prices risk by the Bank arises from the trading and available-for-sale equity portfolios. Indirect exposure to equity prices risk arises through the margin lending portfolio of DFCC Bank in the event of crystallisation of credit risk of margin borrowers. The Investment Committee of DFCC Bank is responsible for managing equity portfolio in line with the policies and the guidelines set out by the Board and the BIRMC. Allocation of limits for equities taken as collateral for loans and margin trading activities of customers and for our investment/trading portfolio forms part of the tools for managing the equity portfolio. Rigorous appraisal, proper market timing and close monitoring of the portfolio performance in relation to the market performance facilitate the management of the equity portfolio within the framework of investment strategy and the risk policy. DFCC Bank's long-term investment horizon for equity investments smoothens out the adverse implications of the short-term market volatilities while enabling the Group to reap optimal benefits from the selected securities in the portfolio. Part of the Bank's investment portfolio is also outsourced to well established and reputed investment management companies through a stringent evaluation process.

The indirect exposure to equity prices risk arising from margin lending of DFCC Bank is managed through the specific margin trading policy framework under the supervision of the Credit Committee. Each margin lending customer is carefully appraised for his track record with the Bank and the financial strength to meet margin calls, if needed, while the equity exposure arising in terms of collateral is assessed under a structured process set out in the Margin Trading Policy before the origination of the facility. Fundamentals of the lodged shares, market liquidity of the share and the diversification of the portfolio are considered as part of the assessment. Margin lending is governed by proper documentation and daily monitoring and management reporting as specified in the Margin Trading Policy.

Liquidity Risk

Liquidity risk is the risk of not having sufficient funds to meet financial obligations in time and in full, at a reasonable cost. Liquidity risk arises from mismatched maturities of assets and liabilities. DFCC Bank has a well set out framework for liquidity risk management and a contingency funding plan. The liquidity risk management process includes regular analysis and monitoring of the liquidity position by ALCO and maintenance of market accessibility. Regular cash flow forecasts, liquidity ratios and maturity gap analysis are used as analytical tools by the ALCO. Any negative mismatches up to the next quarter revealed through cash flow gap statements are matched against cash availability either through incremental deposits or committed lines of credit. Whilst comfortably meeting the regulatory requirements relating to liquidity, for internal monitoring purposes, the Bank takes into consideration the liquidity of each eligible instrument relating to the market at a given point in time as well as undrawn commitments to borrowers when stress testing its liquidity position. The maintenance of a strong credit rating [AA- (LKA)] and reputation in the market enable the DFCC Bank to access domestic wholesale funds. For short-term liquidity support the Bank also has access to the money market at competitive rates.

The CBSL Direction No. 7 of 2011 specifies that liquidity can be measured through stock or flow approaches. Under the stock approach, liquidity is measured in terms of key ratios which portray the liquidity in the balance sheet. Under the flow approach banks should prepare a statement of maturities of assets and liabilities placing all cash inflows and outflows in the time bands according to their residual time to maturity in major currencies. DFCC Bank primarily used the flow approach in measuring and managing liquidity risk, until amalgamation while DVB used both the flow and stock approaches and the Bank will continue to adopt both the methods in combination to assess liquidity risk in the future. In line with the long-term project financing business, the Bank focuses on long-term funding through dedicated credit lines while its commercial banking business focuses on Current and Savings Accounts (CASA) and Term Deposits as the key source of funding for its lending.

The structure and procedures for asset and liability management at the Bank have been clearly set out in the Board approved ALCO Charter, which is reviewed on an annual basis.

In October 2014, the Central Bank issued consultative guidelines for implementation of the minimum liquidity standards (Liquidity Coverage Ratio) under Basel III, which was implemented from April 2015. Accordingly, banks will be required to maintain an adequate level of unencumbered High Quality Liquid Assets (HQLAs) that can be easily and readily converted into cash to meet their liquidity needs for a 30 calendar day time horizon under a significantly severe liquidity stress scenario. The computations of LCR performed for DFCC Bank, DVB and at Group level indicated that the Banks were comfortably in compliance with the Basel III minimum requirements having sufficient High Quality Liquid Assets well in excess of the minimum requirements specified by the Central Bank (The minimum requirement is 60% of HQLAs to be maintained over the immediate 30-day net cash outflow for the year 2015).

Operational Risk

Operational risk is defined as the potential risk of loss resulting from inadequate or failed internal processes, people, systems and external events. It covers a wide area ranging from losses arising from fraudulent activities, unauthorised trade or account activities, human errors, omissions, inefficiencies in reporting, technology failures or from external events such as natural disasters, terrorism, theft or even political instability. The objective of DFCC Bank is to manage, control and mitigate operational risk in a cost effective manner consistent with the Bank's risk appetite. The Bank has ensured an escalated level of rigor in operational risk management approaches for sensitive areas of its operations.

The Operational Risk Management Committee (ORMC) oversees and directs the management of operational risk of the Bank at an operational level with facilitation from the Operational Risk Management Unit of the IRMD. Active representation of the relevant departments and units of the Bank has been ensured in the process of operational risk management through the Operational Risk Coordination Officers.

Segregation of duties with demarcated authority limits, internal and external audit, strict monitoring facilitated by the technology platform and back-up facilities for information are the fundamental tools of operational risk management. Audit findings and management responses are forwarded to the Board's Audit sub-committee for their examination. Effective internal control systems, supervision by the Board, senior management and the line managers forms part of 'First Line of Defence' for operational risk management at DFCC Bank. The Bank demands high level of technical skills, professionalism and ethical conduct from its staff and these serve as insulators for many operational risk factors.

The Bank's Business Continuity Plan is in place as a contingency control measure and deals with natural/other catastrophes. The Bank carries out at least two disaster recovery drills every year. The loss of physical assets is mitigated through insurance.

The following are other key aspects of the operational risk management process in DFCC Bank:

- Monitoring of the Key Risk Indicators (KRIs) for the departments/functions under the defined threshold limits using a traffic light system.
- Operational risk incident reporting system and the independent analysis of the incidents by IRMD, and recognising necessary improvements in the systems, processes and procedures.
- Trend analysis on operational risk incidents and review at the ORMC and the BIRMC.
- Review of downtime of the critical systems and assess the reasons. The necessary risk and business impact is evaluated. Rectification measures are introduced once the tolerance levels are compromised.
- Review of HR attrition and exit interview comments in detail including a trend analysis with the involvement of the IRMD. The key findings of the analysis are evaluated at the ORMC and the BIRMC in an operational risk perspective.
- Establishment of Whistle Blowing process.
- Establishment of the complaint management process of the Bank under the Board approved complaints management policy. IRMD periodically evaluates on the effectiveness of the complaints management process and reports to the ORMC and the BIRMC.

Reputation Risk

Reputation risk is the risk of losing public trust or tarnishing of the DFCC Bank's image in the public eye. It could arise from environmental, social, regulatory or operational risk factors. Events that could lead to reputation risk events are closely monitored, utilising an early warning system that includes inputs from frontline staff, media reports and internal and external market survey results. Though all policies and standards relating to the conduct of the Bank's business have been promulgated through internal communication and training, a specific policy was established to take action in case of an event which hinders the reputation. DFCC Bank has zero tolerance for knowingly engaging in any business, activity or association where foreseeable reputational damage has not been considered and mitigated. While there is a level of risk in every aspect of business activity, appropriate consideration of potential harm to the Bank's good name is a part of all business decisions. The complaints management process and the Whistle Blowing process of the Bank include a set of key tools to recognise and manage reputation risk.

Business Risk

Business risk is the risk of deterioration in earnings due to the loss of market share, changes in the cost structure and adverse changes in industry or macroeconomic conditions. The Bank's medium term strategic plan and annual business plan form a strategic road map for sustainable growth. Continuous competitor and customer analysis, and monitoring of the macroeconomic environment enable the Bank to formulate its strategies for growth and business risk management. The processes such as Planning, ALM, IT and Product Development in coordination with business functions facilitate the management of business risk through recognition, measurement and implementation of tasks. Business risk relating to customers is assessed in the credit rating process and is priced accordingly.

Legal Risk

Legal risk arises from unenforceable transactions in a court of law or the failure to successfully defend legal action instituted against the Bank. Legal risk management commences from prior analysis, and a thorough understanding of, and adherence to, related legislation by the staff. Necessary precautions are taken at the design stage of transactions to minimise legal risk exposure. In the event of a legal risk factor, the legal unit of DFCC Bank takes immediate action to address and mitigate these risks. External legal advice is obtained or Counsel retained when required.

Compliance Risk

Compliance risk can be termed as the risk of legal or regulatory sanctions, financial losses or damages to the reputation of the Bank as a result of its failure to comply with all applicable laws, regulations, Codes of Conduct and Standards of good practice. The Bank ensures the effective compliance policies and procedures are followed and appropriate corrective actions are taken to rectify any breaches of laws, rules and standards if and when identified. A robust compliance culture has been established within DFCC Bank with processes and work flows designed with the required checks and balances to facilitate compliance. The compliance function works closely with the business and operational units to ensure the consistent management of compliance risk. Compliance is a key area of focus during the process of new product development and review. Head of compliance submits quarterly reports on the compliance status to the BIRMC and the Board to enable oversight to be exercised with the added safeguard of being subject to internal audit. A culture of compliance permeates all levels of DFCC Bank.

Anti-Money Laundering (AML)/Combating Terrorist Financing (CTF)

In response to international best practices, global standards on AML and CTF, Sri Lanka has enacted laws relating to AML and CTF. Further, the Financial Intelligence Unit, under the purview of the Central Bank, has issued rules for Know Your Customer (KYC), and Customer Due Diligence (CDD) to identify and report suspicious transactions. DFCC Bank has taken necessary measures to implement these regulatory and legislative requirements for AML and CTF. The steps taken in this respect include customer identification and verification, maintenance of records, ascertaining sources of funds, monitoring and maintenance of AML/CTF programmes. The customers of DFCC Bank are subject to KYC/CDD measures.

Business Continuity Management

The Business Continuity Plan (BCP) of DFCC Bank ensures timely recovery of critical operations that are required to meet stakeholder needs based on identified disruptions categorised into various severity levels. BCP has been designed to minimise risk to human resources and to enable the resumption of critical operations within reasonable time frames with minimum disruption to customer service and payment settlement systems. The BCP site, which is located in a suburb of Colombo, is prepared in line with the BCP Guidelines issued by the Central Bank and is tested regularly to establish its effectiveness. Training is carried out to ensure that all staff is fully aware of their role within the BCP.

The DFCC Group's Risk Capital Position and Financial Flexibility

The Group adopts a proactive approach to ensure satisfactory risk capital level throughout its operations. In line with its historical practice and the capital targets, the Group aims to maintain its risk capital position higher than the regulatory minimum requirements of 5% for Tier I and 10% for Total Capital. The risk capital position of the DFCC Group demonstrates the following key features:

DFCC Group Capital Adequacy Ratios

Under Simple Approaches of Basel II

Parameter	Tier I %	Total Capital %
Minimum regulatory requirement	5	10
DFCC Group capital position		
- 31 March 2010	26.2	23.1
- 31 March 2011	28.0	26.9
- 31 March 2012	21.0	19.9
- 31 March 2013	20.8	19.3
- 31 March 2014	18.7	17.2
- 31 March 2015	17.7	16.6
- 31 December 2015	15.4	15.3

A. DFCC Group maintains a healthy risk capital position based on the local regulatory guidelines. The capital position as at 31 December 2015, demonstrates a cushion of about 10.39% and 5.32%, respectively, for Tier I and total capital over the minimum regulatory requirements.

B. The Group's Tier I capital is higher than the total capital ratio, which reflects that its capital base mainly consists of equity capital, which has the higher risk absorption capacity.

C. Higher Tier I capital ratio, relative to the total capital ratio, ensures that Group carries flexibility for capital augmentation through mobilising qualifying Tier II capital, without a fresh issue of shares and without adversely impacting ROE, in case of a future portfolio growth or new business diversification.

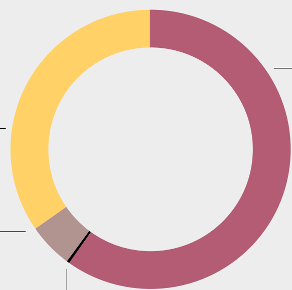
Capital Adequacy Management

Capital adequacy measures the adequacy of the Group's aggregate capital in relation to the risk it assumes. The capital adequacy of the Group has been computed under the following approaches of Basel II which are currently effective in the local banking industry.

- Standardised approach for credit risk
- Standardised approach for market risk
- Basic Indicator approach for operational risk

Graph below shows DFCC Group's capital allocation and available capital buffer as at 31 December 2015, based on the quantified risk as per the applicable regulatory guidelines. Out of the regulatory risk capital (total capital) available as at 31 December, credit risk accounts to 59.8% of the total capital while the available capital buffer is 34.7%.

Capital Distribution



Risk-Weighted Assets of DFCC Bank on a Solo and a Group Basis

Risk-weighted assets (quantified risk category as per the CBSL Guidelines)	**31 December 2015**		31 March 2015		31 March 2014	
	Bank	**Group**	Bank	Group	Bank	Group
Credit risk	**169,201**	**169,547**	86,158	150,641	73,852	125,745
Market risk	**1,218**	**1,218**	2,655	2,720	2,896	3,069
Operational risk	**14,395**	**14,385**	7,637	14,034	7,575	13,172
Total	**184,814**	**185,150**	96,450	167,395	84,323	141,986

Further, DFCC Bank develops an ICAAP report which is in compliance with Pillar II of the Basel II framework. It focuses on formulating a mechanism to assess the Bank's capital requirement covering all relevant risk and stress conditions in a futuristic perspective in line with the level of assumed risk exposures through its business operations. This ICAAP formulates the Bank's capital targets, capital management objectives and capital augmentation plans. It evaluates the capital adequacy covering both Pillar I and Pillar II risks as well.

Financial Flexibility in the DFCC Group's Capital Structure

Apart from the strong capital position reported on-balance sheet, the Group maintains a financial flexibility through the stored value in it its equity investment portfolio. The unrealised capital gain of the listed equity portfolio is included in the Fair Value Reserve and is currently not taken into consideration in the capital adequacy computation based on regulatory specifications.

Local Supervisory Background

Banking Supervision Department of the Central Bank of Sri Lanka (CBSL) has taken steps to strengthen the risk management aspects of the licensed banks in Sri Lanka by enforcing certain regulations, specifications, guidelines and recommendations from time to time, which are in line with the Basel II and Basel III recommendations. The following regulatory specifications are particularly crucial;

A. CBSL Direction No. 10 of 2007 on Maintenance of capital adequacy ratios. In this Direction, specifications were issued for the licensed banks to quantify and maintain the capital adequacy in line with the Basel II Standardized Approach for credit risk and market risk and Basic Indicator Approach for operational risk.

B. CBSL Direction No. 11 of 2007 on the Corporate Governance of Licensed Banks in Sri Lanka. In this Direction, the licensed banks are required to form a Board subcommittee on Integrated Risk Management with a defined scope of responsibilities.

C. CBSL Direction No. 7 of 2011 on Integrated Risk Management Frameworks of Licensed Banks issued in October 2011. This specifies the requirement for Integrated Risk Management Framework for the banks and issued specific guidelines for the structure, quantification and management of risk on an integrated approach.

D. CBSL Direction No. 5 of 2013 – Supervisory Review Process (Pillar 2 of Basel II) for Licensed Commercial Banks and the Licensed Specialised Banks.

E. CBSL Guidelines issued on 31 March 2014 on quantification of operational risk under the Standardised Approach of Basel II. Under this approach, the gross income of the banks will be recognised in 8 different business lines and different alpha factors (prescribed by the Basel II) will be applicable to quantify the operational risk exposures.

F. In October 2014, CBSL issued consultative guidelines for implementation of the minimum liquidity standards (Liquidity Coverage Ratio to be maintained by the banks) under Basel III. These guidelines were implemented from April 2015 through the CBSL Direction No 1 of 2015 on Liquidity Coverage Ratio under Basel III Liquidity Standards for LCBs and LSBs

G. Guidelines on Stress Testing of Licensed Commercial Banks and Licensed Specialised Banks were released by Bank Supervision Department in September 2014. The new direction has given recommendations for various sensitivity and stress test scenarios to be carried out to determine credit, exchange rate, interest rate, equity, liquidity, operational and other risks.

H. The regulation issued by CBSL in December 2014, requires LCBs and LSBs to increase their Core capital (equity capital) to LKR 10 billion and LKR 5 billion respectively, commencing 1 January 2016. This new CBSL direction will have no impact on DFCC Group.

I. Further consultative guidelines on implementation of Basel III, Minimum Capital Requirements and Leverage Ratio have been issued in June 2015. This Consultation Paper provided the proposed framework to implement the Basel III Minimum Capital Requirements across the banking sector with a view to further improving the quantity and quality of capital.

The bank has complied with all the currently applicable risk related regulatory requirements in addition to the internal requirements as given in the table below:

Risk Category	Impact	Key Risk Indicators	Statutory/ Internal Limit	Position as at 31.12.2015
Integrated Risk Management	An adequate level of capital is required to absorb unexpected losses without affecting the Bank's stability. (Total capital as a percentage of total risk-weighted assets)	Capital Adequacy Ratio (Core capital as a percentage of total risk-weighted asset)	Regulatory	Complied
		Capital Adequacy Ratio (Total capital as a percentage of total risk-weighted asset)	Regulatory	Complied
		Capital Adequacy Ratio (Tier I as a percentage of total risk-weighted assets) (Total capital as a percentage of total risk-weighted assets)	Internal	Complied
Concentration/ Credit Risk Management	When the credit portfolio is concentrated to a few borrowers or a few groups of borrowers with large exposures,there is a high risk of a substantial loss due to failure of one such borrower.	Single Borrower Limit – Individual (Amount of accommodation granted to any single company, public corporation, firm, association of persons or an individual/capital base)	Regulatory	Complied
		Single Borrower limit – Group	Regulatory	Complied
		Aggregate large accommodation (Sum of total of the outstanding amount of accommodation granted to customers whose accommodation exceeds 15% of the capital base/outstanding amount of accommodation granted by the Bank to total customers excluding the Government of Sri Lanka)	Regulatory	Complied
		Aggregate limits for related parties (Accommodation to related parties as per the CBSL Direction/Regulatory Capital)	Internal	Complied
		Exposure to agriculture sector (As per the CBSL Direction)	Regulatory	Complied
		Exposure to each industry sector (On-Balance Sheet exposure to each industry as a percentage of total Lending Portfolio)	Internal	Complied
		Exposure to selected regions (On-Balance Sheet exposure to the regions as a percentage of the Total Lending Portfolio)	Internal	Complied
		Leases Portfolio (On-Balance Sheet exposure to the leasing product as a percentage of Total Lending Portfolio Plus Securities Portfolio)	Internal	Complied
		Exposure to GOSL	Internal	Complied
		Non-Performing Ratio	Internal	Complied
		Industry HHI	Internal	Complied
		Maximum expected loss limits for each product line	Internal	Complied
		Loan & OD – Exposure in BB and below grades	Internal	Complied
		Loan & OD – Exposure in B and below grades	Internal	Complied
		Leasing – Exposure in BB and below grades	Internal	Complied
		Leasing – Exposure in B and below grades	Internal	Complied
		Target Rating-wise PDs and provisions	Internal	Complied
		Margin trading (Aggregate exposure of margin loans extended/ total loans and advances)	Internal	Complied
Liquidity Risk Management	If adequate liquidity is not maintained, the Bank will be unable to fund the Bank's commitments and planned assets growth without incurring costs or losses.	Liquid Asset Ratio for DBU (Average Monthly liquid assets/ total monthly liabilities)	Regulatory	Complied
		Liquid Asset Ratio for FCBU	Regulatory	Complied
		Liquidity Coverage Ratio (All Currencies & Rupee only)	Regulatory	Complied

Risk Category	Impact	Key Risk Indicators	Statutory/ Internal Limit	Position as at 31.12.2015
Market Risk Management		Forex Net Open Long Position	Regulatory	Complied
		Forex Net Open Short Position	Regulatory	Complied
		Limit for counter party Off-Balance Sheet Market Risk	Internal	Complied
		Net interbank borrowing exposure	Internal	Complied
		Limit for settlement risk arising from market risk	Internal	Complied
		Max holding period for trading portfolio	Internal	Complied
		Treasury trading securities portfolio	Internal	Complied
Investment Risk		Equity exposure – Individual (Equity Investment in a private OR public company/Capital fund of the Bank)	Regulatory	Complied
		Equity exposure – Individual (Equity investment in a private OR public company/Paid-up capital of the Company)	Regulatory	Complied
		Aggregate equity exposure in public companies (Aggregate amount of equity investments in public companies/capital fund of the Bank)	Regulatory	Complied
		Aggregate equity exposure in private companies (Aggregate amount of equity investments in private companies/capital fund of the Bank)	Regulatory	Complied
		Aggregate equity exposure in private and public companies (Total investments in private and public companies/capital fund of the bank)	Regulatory	Complied
		Equity exposure (Equity exposure as a percentage of Total Lending Portfolio plus Securities Portfolio)	Internal	Complied
		Equity exposure in each sector	Internal	Complied
		Single equity exposure	Internal	Complied
Operational Efficiency		Cost to income ratio (Solo) – Operational Cost/Operational Income	Internal	Complied
Operational Risk	Adequately placed policies, processes, and systems will ensure and mitigate against excessive risks arising. This will result in the stability of the Bank.	Reputation risk of the Bank and Group (Zero risk appetite)	Internal	Complied
		Significant regulatory breaches (Zero risk appetite)	Internal	Complied
		Inability to recover from business disruptions over and above the Recovery Time Objectives (RTO) as defined in the BCP of the Bank (Zero risk appetite)	Internal	Complied
		Mis-selling of financial products and services (Zero risk appetite)	Internal	Complied
		Failure to undertake risk-based customer due diligence (Zero risk appetite)	Internal	Complied
		Internal fraud (Zero tolerance for losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or bank policy, excluding diversity/ discrimination events, which involves at least one internal party).	Internal	Complied
		External fraud (Very low appetite for losses due to act of a type intended to defraud misappropriate property or circumvent laws, by a third party)	Internal	Complied
		Employee practices and workplace safety (Zero appetite for losses arising from acts inconsistent with employment, health or safety laws or agreements from payment of personal injury claims or from diversity/discrimination events)	Internal	Complied
		Client products and business practices (Zero risk appetite for losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements) or from the nature or design of a product).	Internal	Complied
		Damage to physical assets (Very low appetite for loss arising from loss or damage to physical assets from natural disaster or other events).	Internal	Complied
		Business disruption and systems failures (Very low appetite for business disruptions/system failures for more than 30 minutes during service hours).	Internal	Complied
		Execution, delivery and process management (Very low appetite for losses from failed transaction processing or process management).	Internal	Complied

Corporate Governance

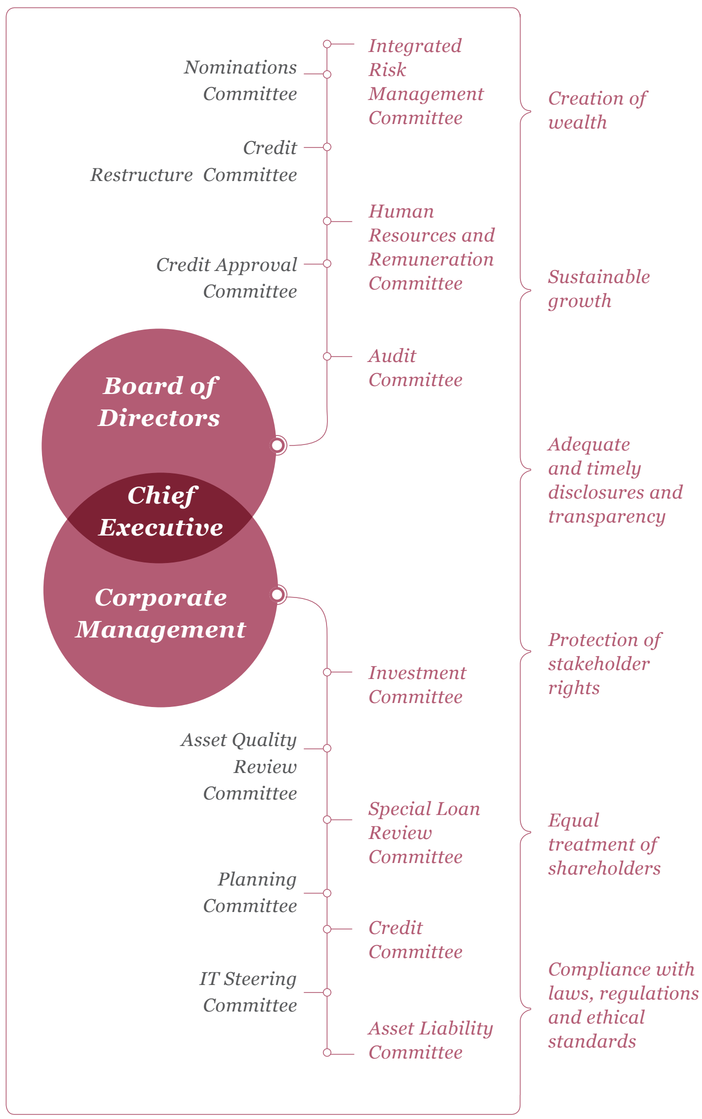
Good corporate governance is a mechanism that harmonises the interests of a wide range of stakeholders of an institution, while contributing to sustainable growth by attracting outside sources of capital. The corporate governance practices of DFCC Bank PLC (Bank) are in accordance with the Board-approved Corporate Governance Charter of the Bank.

The Bank practices high standards of corporate governance based on the OECD principles of good governance. OECD principles of good governance are based on the following six guidelines:

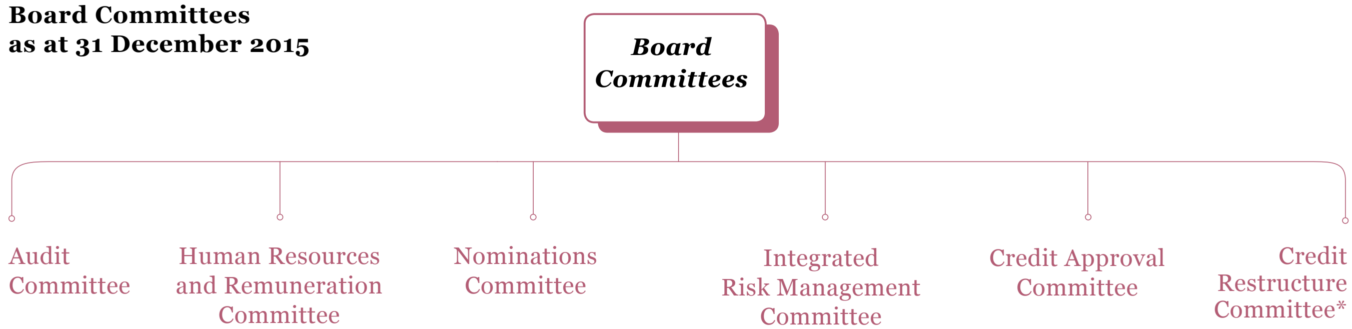
- Promoting transparency, being consistent with laws and clearly articulating division of responsibilities
- Protecting and facilitating the exercise of shareholder rights
- Equitable treatment of all shareholders
- Recognising the rights of stakeholders and encouraging co-operation between stakeholders in creating wealth and sustainability
- Timely and accurate disclosure on all material matters regarding the entity including financial situation, performance, ownership and governance
- Ensuring the strategic guidance of the entity, effective monitoring of management of the Board, and the Board's accountability to the entity and the shareholders

The key corporate governance practices of the Bank are given in this Report with specific disclosures relating to the status of compliance with the mandatory requirements of Direction No. 11 of 2007 of the Central Bank of Sri Lanka (as amended). In view of the application of these mandatory regulatory provisions and disclosures that are required to be made, the Colombo Stock Exchange has exempted licensed banks from the application of Section 7.10 of the Listing Rules of the Colombo Stock Exchange relating to corporate governance.

Our Goals of Good Corporate Governance



Board Committees as at 31 December 2015



**The Credit Restructure Committee approves papers by circulation.*

Attendance

	Attendance of Directors at Meetings					
Name of Director	Main Board	Audit Committee	Human Resources & Remuneration Committee	Nominations Committee	Integrated Risk Management Committee	Credit Approval Committee
Total No. of Meetings	13	12	3	4	3	6
K D N R Asoka	10/10	8/10				
A W Atukorala	11/13		3/3	3/3		4/5
K P Cooray	13/13			3/3		3/3
G K Dayasri	3/5					
T Dharmarajah	13/13	11/12			2/2	6/6
A R Fernando	12/13				3/3	
P M B Fernando	13/13	12/12		4/4	2/3	
A N Fonseka	3/3				0/1	
C R Jansz	13/13		3/3	4/4	3/3	6/6
J E A Perumal				1/1		1/1
Ms V J Senaratne	8/9		2/3			
L H A L Silva	3/3					
Ms S R Thambiayah	11/13	1/2		1/1		
L N de S Wijeyeratne	2/3	4/5			1/1	

Shareholder Rights

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

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

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

During the period under review, the Bank has shared a reasonable portion of its profit with shareholders in the form of a dividend while retaining the balance to support its growth and development.

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

Annual General Meeting

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

Annual Corporate Governance Report for the Period Ended 31 December 2015 Published in Terms of Section 3 (1) (xvi) of the Banking Act Direction No. 11 of 2007

Rule	Governance Principle	Compliance	Remarks
3.1 Responsibilities of the Board			
3.1 (i)	Safety and soundness of the Bank The Board has strengthened the safety and soundness of the Bank through the implementation of the following:		
	(a) Strategic objectives and corporate values	Compliant	The corporate values approved by the Board are posted on the internal web and all employees are guided by these values.
	(b) Overall business strategy	Compliant	The Bank's strategic plan for the medium term was approved by the Board in May 2015. The Board engages in the strategic planning and control of the Bank by overseeing the formulation of business objectives and targets and assessing risks by engaging qualified and experienced personnel, delegating them with the authority for conducting operational activities and monitoring the performance through a formal reporting process.
	(c) Principal Risks	Compliant	The identification of Principal Risks, approving of overall Risk Policy and Risk Appetite are carried out through the Board Integrated Risk Management Committee and these are reviewed annually.
	(d) Communication with stakeholders	Compliant	The Board approved Corporate Communications Policy ensures that information is made available to shareholders and other stakeholders through timely disclosures made to the Colombo Stock Exchange (CSE), publicity through press and electronic media and posts on the Bank's website. The Bank has an internally-developed Code of Conduct for its employees which is posted on the internal web and is accessible by all employees.
	(e) Bank's internal control and management information systems	Compliant	The Audit Committee assists the Board in reviewing and evaluating the effectiveness of the internal control system including the controls over financial reporting of the Bank. Internal Audit carries out periodic reviews to ensure that the internal control systems are functioning as appropriate. The Report by the Board of Directors on internal control over financial reporting is given on page 110 The Independent Assurance Report by the External Auditor on the Directors' Statement on Internal Control is given on page 112.
	(f) Key Management Personnel (KMP)	Compliant	The Board has identified and designated the Bank's Key Management Personnel.
	(g) Authority and responsibility	Compliant	The Board has identified matters reserved for the Board. The duties and responsibilities of other KMPs are formally documented in their job descriptions.
	(h) Oversight of the affairs of the Bank by KMPs	Compliant	Oversight exercised through Board Committees with reporting to the Board as appropriate.
	(i) Board's own governance practices	Compliant	The effectiveness of the Board's own governance practices is reviewed by the Board. An annual self-assessment is carried out on a structured format and areas for improvement are discussed for necessary action.
	(j) Succession plan for KMPs	Compliant	The Bank has in place a succession plan for senior management which is reviewed annually and approved by the Board.
	(k) Regular meetings with KMPs to monitor	Compliant	Meetings are attended by relevant executives when required. Additional information sought by Directors on papers submitted to the Board is clarified by the respective officers. The Board has free access to senior management.
	(l) Regulatory environment	Compliant	The Board Secretary provides all regulatory information required to Board members. The Chief Executive briefs the Board on specific issues. Senior management maintains continuous dialogue with the Regulator to ensure an effective relationship.

Rule	Governance Principle	Compliance	Remarks
	(m) Due diligence in hiring and oversight of External Auditor	Compliant	The primary responsibility for making recommendations on the appointment of the External Auditor rests with the Audit Committee. A formal policy approved by the Board on Engagement of External Auditor to perform non-audit services is in place.
3.1 (ii)	Appointment and segregation of the roles of the Chairman and CEO	Compliant	The Board elects the Chairman and appoints the Chief Executive, while the Chairman provides leadership to the direction, oversight and control process exercised by the Board. The CEO is responsible for management of the Bank.
3.1 (iii)	Board meetings	Compliant	The Board held 13 Board meetings during the period. The Directors actively participated in the Board decision-making process as evident from the Board minutes. Seeking approval of the Board by circulation of written circulars was done only in exceptional circumstances due to urgency.
3.1 (iv)	The Board to ensure that arrangements are in place for Directors to include items and proposals in the Agenda of Board meetings	Compliant	Whenever the Directors provide suggestions of topics for consideration at the Board meetings, they are included in the Agenda under 'open discussion' which is an integral part of every Board meeting and other supporting data, reports, documents etc., relevant for the subject matter are circulated among the Directors for information.
3.1 (v)	Notice of Board meetings – At least 7 days notice of regular meetings and reasonable notice of other meetings to be given	Compliant	Dates for the regular monthly Board meetings are agreed by the Directors at the commencement of each year and any changes to dates of scheduled meetings are decided well in advance. The Board circulars and other documents pertaining to meetings are made available well in advance to enable the Directors to participate in deliberations.
3.1 (vi)	Attendance at Board meetings	Compliant	All Directors attended more than two-thirds of Board meetings and no Director was absent for three or more consecutive meetings. Attendance details are given on page 90.
3.1 (vii)	Duties and qualifications of the Company Secretary	Compliant	The Company Secretary possesses the qualifications specified in Section 43 of the Banking Act. The Company Secretary while performing the secretariat services for the Board and shareholders' meetings is responsible for ensuring that Board procedures and applicable rules and regulations are followed. All new Directors are provided with the necessary documentation on Directors' responsibilities and specific banking-related directions/policies that are required to perform their function effectively.
3.1 (viii)	The Directors' access to the Company Secretary	Compliant	All Directors have access to the advice and services of the Company Secretary directly.
3.1 (ix)	The Company Secretary's duty to maintain minutes of the Board meetings and ensure the Directors have access to them	Compliant	The Company Secretary compiles the minutes of the Board meetings which are subject to approval of the Board and signed by the Chairman. Copies of minutes are provided and Directors have access to the original minutes at all reasonable times.
3.1 (x)	The form and contents of the minutes of Board meetings	Compliant	The Board minutes are drawn with reference to Board Circulars with sufficient details to indicate the decisions made by the Board of Directors. The information used in making such decisions, the reasons and rationale of making them and each Director's contribution if considered material is included in the minutes.
3.1 (xi)	Independent professional advice on request for Directors to perform their duties	Compliant	The Board has put in place a procedure where the Directors can obtain independent professional advice, at the Bank's expense, to perform their duties.
3.1 (xii)	The Directors' avoidance of conflict of interest	Compliant	The Companies Act No. 07 of 2007 required Directors who are directly or indirectly interested in contracts or a proposed contract with the Bank to declare the nature of such interest. The Directors have declared their interests in contracts involving the Bank and have not participated in the decision-making.
3.1 (xiii)	Schedule of matters specifically reserved for the decisions of the Board	Compliant	Schedule of matters reserved for the Board have been decided on.

Rule	Governance Principle	Compliance	Remarks
3.1 (xiv)	Reporting insolvency to the Director of Bank Supervision	Compliant	Solvency is a matter constantly monitored by the Treasury Department, Integrated Risk Management Committee and the Board of Directors. During the period under review, the Bank remained solvent and no event has or is likely to occur that would result in the Bank not being able to meet its obligations.
3.1 (xv)	Adequacy of capital	Compliant	The Bank is capitalised well above the minimum levels required by the Monetary Board in terms of the capital adequacy and minimum required capital.
3.1 (xvi)	Corporate Governance Report	Compliant	The annual Corporate Governance Report forms an integral part of the Directors' Report of the Bank's Annual Report.
3.1 (xvii)	Self-assessment of the Board of Directors	Compliant	The Board has a structured scheme of self-assessment which is carried out annually. The performance of the respective sub-committees is also evaluated by the other members who are not members of the respective sub-committees in order to ensure that they function effectively. The findings are discussed at the Board meetings and action is taken on areas identified for improvement. The performance assessment criteria of CEO are given in 3.5 (xi).
3.2 Composition of the Board			
3.2 (i)	Number of Directors	Compliant	The Board of Directors comprised twelve Directors at the end of the period under review.
3.2 (ii)	Period of service of a Director	Compliant	No Director has held the position of a Director of the Bank for more than nine years.
3.2 (iii)	Number of Executive Directors	Compliant	The Chief Executive and the Deputy Chief Executive are the only Executive Directors of the Board.
3.2 (iv)	Number of Independent Directors	Compliant	There were six Independent Directors at the end of the period under review.
3.2 (v)	Alternate Directors	Compliant	All persons who are appointed as Alternate Directors to existing Directors of the Board are subject to the same criteria applicable to Directors.
3.2 (vi)	The skills, experience and track records of Non-Executive Directors	Compliant	All Non-Executive Directors have professional backgrounds, strong track records and high level managerial experience in banking, business, industry, law, auditing or service sectors.
3.2 (vii)	Number of Non-Executive Directors required to form a quorum of Board meetings	Compliant	The Bank has been compliant with this rule at all times as monitored by the Company Secretary.
3.2 (viii)	Disclosure of Details of Directors	Compliant	The names and the composition of the Directors by category are disclosed in the Annual Report of the Board of Directors.
3.2 (ix)	Appointment of new Directors	Compliant	Appointment of all new Directors is formally evaluated by the Nominations Committee and recommended to the Board of Directors for approval.
3.2 (x)	Appointment of a Director to fill a casual vacancy	Compliant	The Articles of Association of the Bank provide that the Directors appointed by the Board of Directors hold office until the following AGM at which they have to be elected by the shareholders.
3.2 (xi)	Resignation or removal of a Director	Compliant	The retirement/resignation of Directors from office during the period under review are given in the Directors' Report. No Director was removed during the period under review. There were no matters that need to be brought to the attention of the shareholders as a consequence to the resignation of J E A Perumal as he resigned due to a personal reason.
3.2 (xii)	Appointment of a Director or an employee to another bank	Compliant	No Director or employee of the Bank is a Director of another bank as at the end of the period. Until the amalgamation of the subsidiary, DFCC Vardhana Bank PLC, some of the Directors were also Directors of DFCC Vardhana Bank PLC, which was a permitted exception.

Rule	Governance Principle	Compliance	Remarks
3.3 Fitness and Propriety of Directors			
3.3 (i)	Maximum age of Directors	Compliant	All Directors who reached the age of seventy have relinquished office.
3.3 (ii)	Holding of Director's position in more than 20 companies in all	Compliant	All Directors comply with this requirement.
3.4 Management Functions Delegated by the Board			
3.4 (i)	Delegation arrangements	Compliant	The Board of Directors has delegated authority to the management subject to specific criteria, limitations, safeguards and monitoring mechanisms.
3.4 (ii)	Extent of delegation	Compliant	The delegation of authority made by the Board is designed to facilitate efficient management of the affairs of the Bank and to aid the oversight role exercised by the Board. It is not of an extent to hinder the ability of the Board to discharge its functions. The Board retains the authority to expand, curtail, limit or revoke such delegated authority.
3.4 (iii)	Review of delegation process	Compliant	The delegation process is subject to periodic review by the Board in order to ensure that necessary amendments are approved to meet the requirements of the Bank. Material decisions made under delegated authority are reported to the Board for information.
3.5 The Chairman and Chief Executive			
3.5 (i)	Separation of the roles of the Chairman and CEO	Compliant	The Chairman and the Chief Executive are two separate individuals.
3.5 (ii)	The Chairman to be a Non-Executive Director	Compliant	The Chairman is a Non-Executive Director. The Board appointed an Independent Director as the Senior Director as disclosed in the Annual Report. The Board has approved terms of reference for the Senior Director.
3.5 (iii)	Disclosure of relationship between the Chairman, CEO and other Directors	Compliant	No relationships exist between the Chairman, CEO and the other Directors according to the declarations made by them except being Directors of subsidiaries and the Chairman and one other Director being on the Board of a Company outside the Group.
3.5 (iv)	Role of the Chairman	Compliant	The Chairman provides leadership to the Board and ensures that the Board discharges its responsibilities effectively and encourages members to actively participate and to raise their independent judgment on all key and appropriate issues in a timely manner.
3.5 (v)	Agenda of Board meetings	Compliant	The Agenda of each Board meeting is drawn by the Company Secretary under the direction of the CEO and Chairman and any matters relevant to the policies and operations of the Bank proposed by other Directors are included in the Agenda upon approval by the Chairman.
3.5 (vi)	Providing information to the Directors	Compliant	The Chairman ensures that all Directors are properly briefed on issues which arise at the Board meetings and that they receive adequate information in a timely manner.
3.5 (vii)	The Board to act in the best interest of the Bank	Compliant	The Chairman encourages exercise of independent judgment by the Directors on matters under consideration by the Board in order that the best interests of the Bank can be assured.
3.5 (viii)	Effective contribution of Non-Executive Directors	Compliant	The Chairman facilitates contributions by the Non-Executive Directors in making decisions.
3.5 (ix)	The Chairman not to engage in executive functions	Compliant	The Chairman is Non-Executive and does not supervise any management personnel of the Bank directly.
3.5 (x)	Communication with shareholders	Compliant	The Chairman has assigned the CEO/DCEO to maintain a dialogue with institutional investors and bring any matters of concern to the notice of the Board. During the period, the DCEO participated in an international forum which attracted a large number of participants including institutional and high net worth investors and fund managers and also had one-on-one meetings with 10 potential institutional investors and briefed the Board on the discussions held as appropriate.

Rule	Governance Principle	Compliance	Remarks
3.5 (xi)	CEO to be in charge of the management of operations and business	Compliant	The Chief Executive is the Head of the management team and is in charge of the day-to-day management of the Bank's operations and business. At the beginning of each year the Board discusses the business plan with the CEO and senior management and agrees on the medium and short-term financial and non-financial targets to be achieved and action plans to be implemented by the Bank. Progress is monitored on an ongoing basis and the assessment of the performance of the Bank is carried out by the Board at the end of each year based on the initiatives laid down in the business plan.
3.6 Board Appointed Committees			
3.6 (i)	Four Board appointed committees	Compliant	The Board has appointed the four committees required by the Direction. The reports on their duties, performance and roles are published in the Annual Report.
3.6 (ii)	Board Audit Committee –		Please refer page 104.
	(a) Chairman of the Committee	Compliant	During the period, the Audit Committee was chaired by an Independent Non-Executive Director who is a qualified Chartered Accountant.
	(b) Composition of the members	Compliant	All members of the Committee are Non-Executive Directors.
	(c) External Auditor	Compliant	The Audit Committee assists the Board in implementing a transparent process in the engagement and remuneration of External Auditor and assists in the general oversight of financial reporting, internal controls and compliance with laws, regulations and codes of conduct. The Committee ensures that the engagement of the audit partner does not exceed five years.
	(d) Independence and effectiveness of the audit process	Compliant	The Committee reviewed the statement issued by the External Auditor in pursuance to Section 163 (3) of the Companies Act No. 07 of 2007.
	(e) Non-audit services	Compliant	A formal policy approved by the Board on Engagement of External Auditor to perform non-audit services is in place.
	(f) Nature and scope of external audit	Compliant	The Committee met with the External Auditor to discuss and finalise the scope of the audit to ensure that it is in compliance with guidelines issued by the Central Bank.
	(g) Review of financial information of the Bank	Compliant	The Committee reviewed all quarterly non-audited interim financial statements and the financial statement for the period ended 31 December 2015.
	(h) Meetings with External Auditor	Compliant	The Committee met with the External Auditor on five occasions and two meetings without the presence of the management.
	(i) Review of management letter	Compliant	The Committee considered the management letter issued by the External Auditor for the year ended 31 March 2015 and the management responses thereto.
	(j) Internal audit function	Compliant	The Committee reviews the adequacy of the internal audit function to ensure that it is in conformity with the Audit Committee Charter. The annual audit plan and the annual performance appraisal of the Head of Internal Audit is reviewed by the Committee. The Committee with the approval of the Board continued to supplement the internal audit function by engaging two firms of chartered accountants to carry out the periodic audits of some business units. The internal audit function is independent of the activities it audits and the findings are reported directly to the Audit Committee.
	(k) Internal audit findings	Compliant	The Committee reviewed the internal audit reports and considered the findings, recommendations and corrective action.
	(l) Attendance of non-audit committee members	Compliant	Senior Vice President – Group Internal Audit attends all Committee meetings. Chief Financial Officer attends meeting where matters relating to finance are considered. The External Auditors attend meetings on invitation. During the period under review, the Committee met with the External Auditor on two occasions without the presence of the CEO.
	(m) Terms of reference	Compliant	The Committee is guided by the Audit Committee Charter.
	(n) Meetings	Compliant	During the financial period ended 31 December 2015, 12 meetings were held. Attendance of committee members is given in the table on page 90.

Rule	Governance Principle	Compliance	Remarks
	(o) Audit Committee activities	Compliant	Please refer Committee Report on page 104.
	(p) Secretary	Compliant	Senior Vice President – Group Internal Audit serves as the Secretary of the Committee.
	(q) Process of raising issues in confidence	Compliant	The Board has adopted a Whistle Blowing Policy to encourage employees to communicate legitimate concerns in case of any illegal or unethical practices. Arrangements are in place to ensure that all employees are duly informed of the effective use of this process.
3.6 (iii)	Board Human Resources and Remuneration Committee –		Please refer page 107.
	(a) Remuneration Policy	Compliant	A formal Remuneration Policy approved by the Board is in place.
	(b) Goals and Targets for KMPs	Compliant	The business plan which is approved by the Board encompasses the annual goals and targets of the CEO and other Key Management Personnel.
	(c) Review of performance of KMPs	Compliant	The Committee annually reviews the performance against set targets of the CEO and other KMPs and the remuneration levels of the CEO and KMPs, while ensuring appropriate compensation levels are maintained in order to retain and motivate staff.
	(d) CEO's presence	Compliant	The CEO attends meetings by invitation and participates in deliberations except when matters relating to him are discussed.
3.6 (iv)	Board Nominations Committee –		Please refer page 108.
	(a) Appointment of new Directors and KMPs	Compliant	During the period the Committee considered and recommended to the Board the appointment of six new Directors.
	(b) Re-election of Directors	Compliant	During the period, the Committee considered and recommended to the Board the re-election of the Directors retiring under Articles 44 and 46 (ii) while ensuring that they are fit and proper persons to hold such office.
	(c) Criteria relating to appointment of KMPs	Compliant	The Committee evaluates the qualifications, experience and key attributes required for eligibility for appointment of KMPs.
	(d) Fit and proper test	Compliant	The fitness and propriety of KMPs are monitored by the Committee.
	(e) Succession Planning	Compliant	The Committee evaluates the need for additional/new expertise to the Board and succession for retiring KMPs.
	(f) Composition	Compliant	The Committee consists of four Non-Executive Directors and is chaired by an Independent Director.
3.6 (v)	Board Integrated Risk Management Committee (BIRMC)		Please refer page 109.
	(a) Composition	Compliant	Please refer page 109.
	(b) Assessment of Risk	Compliant	The Committee has put in place a Board approved risk framework. The risk exposures of the Bank are assessed on a monthly basis through Key Risk Indicators. Until the amalgamation the risk exposures of its commercial banking subsidiary DFCC Vardhana Bank was also assessed monthly. Risk assessment of other subsidiaries, joint venture and the associate are reviewed quarterly.
	(c) Review of adequacy of Management Committees	Compliant	The Committee assessed the effectiveness of all Management Committees.
	(d) Controlling risks within prudent limits	Compliant	The Committee assesses possible risks, reviews and takes appropriate action to mitigate such risks.
	(e) Frequency of meetings	Compliant	The Committee met on a quarterly basis.
	(f) Corrective action on any management failure to identify risks	Compliant	Action is taken by the Committee on any officer responsible for failure to identify specific risks and appropriate corrective action is taken to remedy such situations.

Rule	Governance Principle	Compliance	Remarks
	(g) Submission of Risk Assessment Reports to the Board	Compliant	By submitting BIRMC minutes the Board is informed of proceedings. The required approvals are obtained through specific submissions to the Board.
	(h) Compliance function	Compliant	The compliance function is headed by a dedicated officer identified as a KMP in terms of the Corporate Governance Direction. The Compliance Officer reports to the BIRMC. The Committee overseas the function and reviews the quarterly reports on compliance.
3.7 Related Party Transactions			
3.7 (i) to (iii)	Avoidance of conflicts of interest and favourable treatment in transactions with related parties	Compliant	The Bank has adhered to the law as specified in the Banking Act and the Directions issued there under with regard to transactions with related parties. The Board ensures that no related party benefits from any favourable treatment except as indicated in Rule 3.7 (vi). The Bank has put in place a mechanism to obtain confirmation on a structured format from all KMPs on a quarterly basis, to assist in the process of collating related party transactions.
3.7 (iv)	Accommodation for Directors or their close relations	Compliant	The Bank complies with the law as specified in the Banking Act and the Directions issued there under in granting accommodation to the Directors and/or their close relations.
3.7 (v)	Accommodation granted to Directors prior to appointment	Compliant	The provisions of the Banking Act will be followed if such situations arise and public will be informed if not compliant by the specified date as he/she will cease to hold office. This situation did not arise.
3.7 (vi)	Avoidance of favourable treatment in accommodation to employees, close relations of employees and/or entities in which any employee or close relation of such employee holds substantial interest	Compliant	The accommodation to employees, close relations of employees and/or entities in which any employee or close relation of such employee holds substantial interest are subject to normal commercial terms applicable to such transactions and secured by security approved by the Monetary Board except in case of accommodation under approved schemes uniformly applicable to all or specific categories of employees.
3.7 (vii)	Not to remit part of accommodation or interest without prior approval of the Monetary Board	Compliant	No such situation has arisen.

Disclosure on Corporate Governance made in terms of Section 3 (8) of the Banking Act Direction No. 11 of 2007 of the Central Bank of Sri Lanka

(i) The Board shall ensure that:		
	The annual audited financial statements and quarterly financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards and that such statements are published in the newspapers in an abridged form in Sinhala, Tamil and English.	Complied with.
(ii) The Board shall ensure that the following minimum disclosures are made in the Annual Report:		
(a)	A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with. Please refer the Statement of Directors' Responsibility on page 119.

(b)	A Report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied with. Please refer to the Directors' Statement of Internal Control on page 110.
(c)	The External Auditor's Certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published.	Complied with. Please refer Assurance Report of the External Auditor on page 112.
(d)	Details of Directors, including names, fitness and propriety, transactions with the Bank and the total fees/remuneration paid by the Bank	Complied with. Please refer to page 100 and Notes 20 and 59.5 to the financial statements.
(e)	Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital	Complied with.

	31 December 2015	
Category of related party	LKR 000	%
Key Management Personnel & close family members	30,461	0.11
Subsidiaries	1,960	0.01
Total net accommodation	32,421	0.12
Regulatory capital – Solo basis	26,526,720	

The total net accommodation was 0.12% of the Bank's regulatory capital on solo basis. Maximum limit determined by Directors is 25% of the Bank's regulatory capital on solo basis.

(f)	The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration paid. Accommodation granted and deposits or investments made in the Bank.	Complied with. The aggregate value of compensation and transactions with the Bank by Key Management Personnel as defined by LKAS 24 for financial reporting purposes are given in Note 59.6 to the financial statements. Further in addition to the above, compensation, total deposits and investments made and accommodation obtained as at 31 December 2015 by the other Key Management Personnel (Officers Performing Executive Functions referred to in Banking Act Determination No. 3 of 2010) amounted to LKR 16.99 million, LKR 12.95 million and LKR 7.44 million respectively.
(g)	All findings of the 'Factual Findings Report' of the External Auditor to be incorporated in this Report.	Complied with.
(h)	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance.	Complied with. See Annual Report of the Board of Directors.
(i)	A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	The Monetary Board has not required any disclosure to be made.

Independent Assurance

The External Auditors have performed procedures set out in Sri Lanka Related Services Practice Statement 4750 (SLRSPS 4750) issued by The Institute of Chartered Accountants of Sri Lanka, to meet the compliance requirement of the Corporate Governance Direction. Their findings presented in their Report addressed to the Board are consistent with the matters disclosed above and did not identify any inconsistencies to those reported above by the Board.

Annual Report of the Board of Directors on the affairs of the Bank

Constitution

DFCC Bank was incorporated in 1955 under the DFCC Bank Act No. 35 of 1955 as a limited liability public company and the ordinary shares of the Bank were listed in the Colombo Stock Exchange.

Consequent to the enactment of the DFCC Bank (Repeal and Consequential Provisions) Act No. 39 of 2014, the DFCC Bank Act No. 35 of 1955 was repealed and with effect from 6 January 2015 the Bank was incorporated under the Companies Act No. 07 of 2007 as a public limited company listed in the Colombo Stock Exchange with the name 'DFCC Bank PLC'.

The shareholders at the Extraordinary General Meeting held on 28 August 2015 approved the amalgamation of DFCC Vardhana Bank PLC (DVB) with DFCC Bank PLC (DFCC). The Registrar General of Companies on 1 October 2015 issued the Certificate of Amalgamation in terms of Section 244 (1) (a) of the Companies Act No. 07 of 2007 that DVB has been amalgamated with DFCC in accordance with the provisions of Part VIII of the Companies Act, with DFCC Bank PLC surviving as the amalgamated entity.

DFCC Bank PLC also obtained a commercial banking license from the Monetary Board of the Central Bank of Sri Lanka in terms of the Banking Act No. 30 of 1988, as amended, and accordingly upon the amalgamation now operates as a licensed commercial bank with effect from 1 October 2015.

Going Concern

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

Financial Statements

The financial statements of the Bank and the Group are given on pages 122 to 208 of this Annual Report.

The financial statements of the Bank and the Group have been prepared in accordance with Sri Lanka Accounting Standards prefixed SLFRS and LKAS, the Banking Act No. 30 of 1988 and amendments thereto, the Companies Act No. 07 of 2007 and other applicable statutory and regulatory requirements.

During the period under review, subsequent to the amalgamation, the financial year of the Bank was changed to a calendar year commencing the year 2015, to fall in line with other licensed commercial banks. As such the Income Statement is in respect of the nine month period ending 31 December 2015.

Review of Business of the Period

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

Profit and Appropriations

9 months ended 31 December 2015	LKR 000
Profit for the period	1,068,350
Appropriations	
Transfer to:	
Reserve Fund (statutory requirement)	60,000
First and final dividend approved for financial period ended 31 December 2015	662,744
Unappropriated profit for the period	345,606

Accounting Policies

The accounting policies adopted in the preparation of the financial statements of the Bank and the Group are stated on pages 131 to 145 of this Annual Report.

There were no changes to the accounting policies of the Group in the period under review other than due to the adoption of Statement of Alternative Treatment on accounting for super gains tax.

Auditors' Report

The Auditors' Report on the financial statements, which is unqualified, is given on page 121.

Reappointment of Auditors

The present Auditors, Messrs KPMG have expressed their willingness to continue as Auditors of the Bank for the next financial year ending 31 December 2016. The Audit Committee has reviewed the effectiveness and the relationship with DFCC Bank including the fees paid to the Auditors and has concluded that they are suitable to continue in office. The Directors are satisfied that based on the written representation made by the Auditors, they have no relationship or interest with the Bank or with any of its subsidiaries which would impair the Auditor's independence. A Resolution pertaining to their reappointment and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting for adoption.

The Board of Directors

The Board of Directors of the Bank presently consist of 12 Directors with wide knowledge and experience in the fields of banking and finance, trade, law, commerce, manufacturing or services. Profiles of the Directors are given in pages 10 to 13. The following were the Directors of the Bank as at 31 December 2015 categorised in accordance with criteria specified in the Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka.

Non-Executive Directors

C R Jansz – Chairman
K D N R Asoka*
A N Fonseka
Ms V J Senaratne

Independent Non-Executive Directors

A W Atukorala
K P Cooray
T Dharmarajah
P M B Fernando
Ms S R Thambiayah
L N de S Wijeyeratne

Executive Directors

A R Fernando – Chief Executive
L H A L Silva – Deputy Chief Executive

* *Appointment in terms of Article 36 (ii) of the Articles of Association*

K D N R Asoka represents a specific stakeholder and as such does not qualify to be designated as an independent director. C R Jansz, Ms V J Senaratne and A N Fonseka also do not meet the criteria set out in the Direction to be designated as Independent Directors by virtue of the fact that Mr Jansz and Ms Senaratne are common directors of another company and Mr Fonseka was an employee of the Bank until 31 March 2014.

Senior Director

Upon the retirement of G K Dayasri on 14 July 2015, P M B Fernando was designated as the Senior Director in terms of the Central Bank of Sri Lanka Direction on Corporate Governance.

Resignation and Retirement of Directors

G K Dayasri retired from the Board with effect from 14 July 2015 upon reaching the age of 70. J E A Perumal and Ms H M N S Gunawardana resigned from the Board with effect from 30 April 2015 and 23 June 2015 respectively. The Directors' record their appreciation for the contributions made by them during their tenure as Directors.

Appointment and Re-election of Directors

A W Atukorala and Ms V J Senaratne were appointed as Directors on 23 April 2015 and 6 July 2015 respectively. K D N R Asoka was appointed to succeed Ms H M N S Gunawardana on 23 June 2015. L N de S Wijeyeratne, A N Fonseka and L H A L Silva were appointed as Directors with effect from 15 October 2015.

Ms V J Senaratne, L N de S Wijeyeratne, A N Fonseka and L H A L Silva will retire in terms of Article 46 (ii) of the Articles of Association and are offering themselves for re-election at the Annual General Meeting. The Nominations Committee has recommended their re-election and the Board having concluded that they are fit and proper persons to be Directors in terms of the provision of the Banking Act, unanimously endorsed the recommendation of the Nominations Committee.

Retirement by Rotation and Re-election of Directors

The Directors retiring by rotation in terms of Article 44 of the Articles of Association are P M B Fernando and T Dharmarajah, who offer themselves for re-election under the said Article with the unanimous support of the Directors.

Directors' Remuneration

The Directors' remuneration for the financial period ended 31 December 2015 is given in Note 20 of the financial statements.

Directors' Meetings

The Bank held 13 Board meetings during the nine month period. The attendance of Directors is shown in the table on page 90 of the Annual Report.

Directors' Interests in Shares

	No. of Shares* as at 31.12.2015	No. of Shares as at 31.03.2015
K D N R Asoka[1]	**Nil**	–
A W Atukorala[1]	**14,500**	–
K P Cooray	**Nil**	Nil
G K Dayasri[2]	–	1,036
T Dharmarajah	**500**	500
A R Fernando	**4,470**	4,470
P M B Fernando	**1,000**	1,000
A N Fonseka[1]	**142,006**	–
Ms H M N S Gunawardana[2]	–	Nil
C R Jansz	**1,000**	1,000
J E A Perumal[2]	–	42,475
V J Senaratne[1]	**1,296**	–
L H A L Silva[1]	**3,476**	–
Ms S R Thambiayah	**Nil**	Nil
L N de S Wijeyeratne[1]	**Nil**	–

Directors' Interests in Debentures

	31.12.2015 LKR 000	31.03.2015 LKR 000
A R Fernando	**5,000**	5,000
A N Fonseka[1]	**5,000**	–

1 Not a Director as at 31 March 2015
2 Not a Director as at 31 December 2015
** Includes shares held by the spouse*

No Director directly or indirectly holds options of the Bank.

Directors' Interests Register

An interest register is maintained by the Bank as required by the Companies Act, No. 07 of 2007. Directors have made the general disclosure as provided for in Section 192 of the Companies Act, No. 07 of 2007. The Directors have declared all material interests in contracts involving the Bank and have not participated in the decision-making related to such transactions. All related entries were made in the Interest Register during the nine months under review.

Directors' Interests in Transactions with the Bank

The Directors' interests in transactions with entities/ persons (other than subsidiaries, joint ventures and associate) is listed under each Director for the nine months ended 31 December 2015 as follows:

	LKR 000
A W Atukorala	
TVS Lanka Limited Aggregate amount of accommodation	354,800
United Motors Lanka PLC Aggregate amount of payments made for services	31
K D N R Asoka	
Postgraduate Institute of Management Aggregate amount of payments made for services	40
K P Cooray	
Sri Lanka Telecom PLC Aggregate amount of accommodation	USD 10 million
Aggregate amount of payments made for services	20,697
T Dharmarajah	
The Institute of Chartered Accountants of Sri Lanka Aggregate amount of payments made for services	647
A R Fernando	
Aggregate amount of accommodation	50,000
Credit Information Bureau of Sri Lanka Aggregate amount of payments made for services	3,070
Home Finance Company Limited-Fiji Aggregate amount of fee received for services	13,278
C R Jansz	
Distilleries Company of Sri Lanka PLC Aggregate amount of accommodation	1,000,000
Lanka Bell (Pvt) Limited Aggregate amount of payments made for services	1,878
Ms V J Senaratne	
Distilleries Company of Sri Lanka PLC Aggregate amount of accommodation	1,000,000
L N de S Wijeyaratne	
Kelani Valley Plantations PLC	
LB Finance PLC	
Talawakelle Tea Estates PLC	
Aggregate amount of accommodation	937,402

Messrs C R Jansz and A R Fernando are or have been Chairman/Director of one or more of the subsidiaries, joint venture or associate company. Details of transactions with subsidiaries, joint venture and associate company are disclosed in Notes 59.2-59.4 in the Notes to the financial statements.

Corporate Donations

During the period the Bank did not make any donations.

Board Committees

The following are the present members of the permanent committees of the Board. Changes to the composition during the period are set out in the respective committee reports in the Annual Report.

Audit Committee

P M B Fernando – Chairman
K D N R Asoka
T Dharmarajah
L N de S Wijeyeratne

Credit Approval Committee

C R Jansz – Chairman
T Dharmarajah
A W Atukorala
K P Cooray

Credit Restructure Committee

C R Jansz – Chairman
A W Atukorala
Ms S R Thambiayah

Human Resources and Remuneration Committee

C R Jansz – Chairman
A W Atukorala
Ms V J Senaratne

Nominations Committee

P M B Fernando – Chairman
C R Jansz
A W Atukorala
K P Cooray

Integrated Risk Management Committee

C R Jansz – Chairman
P M B Fernando
A N Fonseka
L N de S Wijeyeratne
A R Fernando

The Chief Risk Officer of the Bank is also a member of the Committee.

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

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

Dividend

The Directors have approved the payment of a first and final dividend of LKR 2.50 per share, (final dividend paid in the previous year, LKR 6/- per share). The total dividend for the period will amount to approximately LKR 663 million (LKR 1,591 million in the previous year), which amounts to 66% of the Bank's distributable profit.

The Directors unanimously declare that, DFCC Bank will satisfy the solvency test stipulated in Section 57 of the Companies Act No. 07 of 2007 immediately after the dividend payment is made and have obtained a certificate of solvency from its Auditor.

Property, Plant and Equipment and Leasehold Property

The total expenditure of acquisition on property, plant and equipment during the year amounted to LKR 119 million of which intangible assets amounted to LKR 36 million. Details of these are given in the Notes 40 and 41 to the financial statements.

Reserves

Total reserves and retained profit amounted to LKR 38,104 million.

Market Value of Freehold Properties

The information on market value of freehold properties are given in Note 40.1.2 to the financial statements.

Stated Capital and Subordinated Debentures

The stated capital as at 31 December 2015 was LKR 4,716 million. The number of shares in issue as at 31 December 2015 was 265,097,688. Further information is given on pages 179 and 180.

Share Information

Information relating to earnings, net asset and market value per share are given on pages 5 and 114 of the Annual Report and also contains information pertaining to the share trading during that period.

Shareholders

As at 31 December 2015, there were 8,640 registered shareholders and the distribution is indicated on page 115.

The 20 largest shareholders as at 31 December 2015 are listed on page 115.

Employment and Remuneration Policies

The policy of the Bank is to develop and maintain a dedicated and highly motivated group of employees who are committed to creating sustainable value through effective risk management and high quality service while supporting the public and private sector in its development efforts within the ambit of the Articles of

Association of the Bank. DFCC Bank continuously invests in training and development of its staff to meet these objectives. The Bank is an equal opportunity employer. Remuneration of employees consists of fixed and variable payments. Annual increments and pay awards are based on the performance of the Bank and the individual. It is DFCC Bank's policy to fix remuneration at a level which will attract, motivate and retain high quality employees.

Statutory Payments

The Directors, to the best of their knowledge and beliefs are satisfied that all statutory payments due to the Government and in relation to the employees have been made on time.

Compliance with Laws, Regulations and Prudential Requirements

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

Events Occurring after the Reporting Period

Subsequent to the date of the statement of financial position, no circumstances have arisen which would require adjustments to the accounts. Significant events occurring after the reporting period which in the opinion of Directors require disclosure are described in Note 63 to the financial statements.

Corporate Governance

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

The Directors' have obtained External Auditor's assurance on effectiveness of the internal control mechanism and compliance with the Direction 11 of 2007 of the Central Bank of Sri Lanka on Corporate Governance.

Details of governance practices and the required disclosures are given on pages 89 to 98. Rule 3 (8) of the Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka prescribes disclosures in the Annual Report. These disclosures have been made in this Annual Report as shown in the following Table:

The Table below provides cross references to facilitate easy reference:

Reference to Rule	Requirement	Reference to Annual Report
3 (8) (i)	Financial statements on prescribed format	Financial statements on pages 122 to 208
3 (8) (ii) (a)	Affirmative assurance of compliance with accounting standards and requirements	Directors' Responsibility Statement on page 119
3 (8) (ii) (b)	Affirmative assurance of the integrity of financial reporting system	Directors Statement of Internal Control on page 110
3 (8) (ii) (c)	Assurance report issued by the external auditor	Independent Assurance Report on page 112
3 (8) (ii) (d)	Information on Directors	Corporate Governance Report. Table on page 98
3 (8) (ii) (d)	Remuneration of Directors	Notes on the financial statements on page 149
3 (8) (ii) (e)	Net accommodation granted to each category of related party	Corporate Governance Report. Table on page 98
3 (8) (ii) (f)	Compensation and other transactions with Key Management Personnel	Corporate Governance Report. Table on page 98
3 (8) (ii) (h)	Compliance with prudential requirements and regulations	This report.

Acknowledgement of the Content of the Report

As required by Section 168 (1) (k) of the Companies Act, No. 7 of 2007, the Board of Directors does hereby acknowledge the contents of this Report.

For and on behalf of the Board of Directors,

C R Jansz
Chairman

A R Fernando
Director and Chief Executive

Ms A Withana
Company Secretary

24 February 2016

Report of the Audit Committee

The purpose of the Audit Committee is to assist the Board in its general oversight of financial reporting, internal controls and audit functions. The composition requirements and the terms of reference of the Audit Committee are set out in Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank of Sri Lanka. This is complementary to the Charter formulated by the Audit Committee.

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

Composition

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

The composition of the Committee during the nine months period ended 31 December 2015 is as follows:

- P M B Fernando – Chairman
- L N de S Wijeyeratne (from October 2015)
- T Dharmarajah
- K D N R Asoka (from June 2015)
- Ms S R Thambiayah (Up to May 2015)

L N de S Wijeyeratne was appointed a member with effect from October 2015, after the merger of DFCC Bank and DFCC Vardhana Bank. Mr Wijeyeratne served as the Chairman of the Audit Committee of DFCC Vardhana Bank before his appointment to the DFCC Bank Audit Committee. K D N R Asoka was appointed a member with effect from June 2015 in place of Ms S R Tambiayah who served the Audit Committee for an interim period. Senior Vice President – Group Internal Audit serves as the Secretary of the Committee. He has direct access to the members of the Audit Committee.

Meetings

During the nine months period ended 31 December 2015, twelve Audit Committee Meetings were held. Proceedings of the Audit Committee Meetings are reported regularly to the Board.

Attendance by the Committee members at the meetings is given in the table on page 90 of the Annual Report.

The Chief Executive and Chief Financial Officer attend the meetings by invitation. The Committee met with the External Auditor, KPMG on five occasions which included two meetings without management presence so as to provide the External Auditor an opportunity to have a frank dialogue with the Committee.

Mandate and Role

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

The Committee has discharged the responsibilities assigned by Rule No. 3 (6) (ii) of the Corporate Governance Direction No. 11 of 2007, issued by the Central Bank of Sri Lanka. Where appropriate more details are provided under separate headings in this Report.

Financial Reporting

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

The Committee reviewed all quarterly non-audited interim financial statements and financial statements for the nine months period ended 31 December 2015, together with supporting information that included significant assumptions and judgments made in the preparation of financial statements. The Committee also took into consideration the internal audit reports, management letter issued by the External Auditor and the responsibility statements in relation to the financial statements issued by the Chief Financial Officer and Chief Executive in making an overall assessment on the integrity of the Financial Reporting System.

The Annual Report of the Directors for the period ended 31 December 2015, includes a separate report on internal controls on page 110. This report is issued pursuant to Rule 3 (8) (ii) (b) of the Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks and includes inter alia an affirmative assurance on the integrity of Financial Reporting System to produce reliable financial statements that are true and fair.

The Committee confirms that to the best of its knowledge and belief the financial statements issued for external purposes by DFCC Bank complied with generally accepted principles of accounting as enunciated in Sri Lanka Accounting Standards and complies with the statutory provisions of Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988 and subsequent amendments thereto.

Internal Audit

With the concurrence of the Board of Directors, Audit Committee engaged the services of two firms of Chartered Accountants to supplement the Bank's Internal Audit Function in carrying out periodic audits at some of the business units of for the period ended 31 December 2015. Representatives from the Audit Firm were invited to the Audit Committee meetings convened to discuss their reports.

A Risk and Significance Based Internal Audit Plan for the period covering all significant operational areas was approved during the year and Audit Committee periodically evaluated the status of the audits carried out during the period.

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

Risks and Controls

The risk profile of the Bank with appropriate risk mitigation strategies has been developed and documented by the Integrated Risk Management Committee. Audit Committee has adopted a Risk Assessment Framework to identify and assess risks encountered during the internal audit work which is reviewed periodically.

All key controls of the Bank have been documented by the relevant process owners and the internal audit has introduced required audit procedures to relevant audit programmes to test the adequacy and effectiveness of internal controls. The Committee seeks and obtains the required assurance from the head of the business unit on the remedial action taken in order to maintain the effectiveness of internal controls. Any significant non-compliances are followed up by the Audit Committee and where necessary instructions were given to the management to enhance and strengthen the internal controls.

External Audit

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

In order to discharge its responsibilities the Audit Committee meets with the Auditor as and when it is necessary. During these meetings with the Auditor the Audit Committee; (1) reviews the non-audit services provided by the External Auditor to ensure that provision of such services are not in conflict with the guidelines issued by the Central Bank of Sri Lanka and that the remuneration for such services are not of such value so as to impair their independence; (2) request for information relating to the total remuneration of the External Auditor for audit and non-audit services provided to the Bank and Group; (3) discusses and finalises the scope of the audit to ensure that it is in compliance with the guidelines issued by the Central Bank of Sri Lanka.

In the context of determining the independence of the Auditor, the Committee reviewed the statements issued by the External Auditor pursuant to Section 163 (3) of the Companies Act No. 07 of 2007. As per this declaratory statement the Auditor has confirmed that they do not have any relationship that would impair their independence and has disclosed the total remuneration for the period ended 31 December 2015, for both audit and permitted non-audit services.

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

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

Regulatory Compliance

DFCC Bank's procedures in place to ensure compliance with mandatory banking and other statutory requirements were monitored on an ongoing basis. The compliance reporting is subject to internal audit verification on a sample basis. The Committee is satisfied that the Bank substantially complies with these requirements.

Evaluation

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

Reappointment of the External Auditor

The Audit Committee having evaluated the quality of audit service provided by the current Auditor has recommended to the Board of Directors that KPMG be reappointed as Auditors for the year ending 31 December 2016, subject to the approval of shareholders at the Annual General Meeting at a fee to be determined by the Board.

P M B Fernando
Chairman – Audit Committee

24 February 2016

Report of the Human Resources and Remuneration Committee

The Composition

The Human Resources and Remuneration Committee appointed by the Board of Directors, presently consists of three Non-Executive Directors. C R Jansz is the Chairman of the Committee. A W Atukorala and Ms V J Senaratne are the other members. G K Dayasri also functioned as a member of the Committee until his retirement in July 2015.

The Chief Executive attended meetings by invitation and participated in its deliberations except when his own evaluation and remuneration was under discussion. He also serves as the Secretary. The Group Vice President, Human Resources assisted the Committee by providing relevant information. The Committee obtains input from external specialists as and when required.

The Mandate

The Committee adopted as its mandate the tasks specified in Section 3 (6) (iii) of Direction No. 12 of 2007 of the Central Bank of Sri Lanka on Corporate Governance for licensed specialised banks until 30 September 2015 and Section 3 (6) (iii) of Direction No. 11 of 2007 of the Central Bank of Sri Lanka on Corporate Governance for licensed commercial banks with effect from 1 October 2015.

The Committee in determining the remuneration policy relating to Directors, Chief Executive and Key Management Personnel of DFCC Bank, in terms of Directions ensures appropriate compensation levels in order to attract, retain and motivate talented staff with the core capabilities matched to its strategy and also to ensure that the Bank consistently delivers value to all stakeholders and to make the organisation more competitive. To achieve this, the Committee uses a mixture of fixed and variable pay to reward employees. During the period under review, the Committee oversaw a review of the Bank's perquisite structure. The Committee also reviewed and recommended a revision to the staff grading structure and designations based on a study carried out by an external consultant.

The Procedure

Apart from the general review of remuneration, in keeping with the policy of pay for performance, the Committee reviewed the performance of DFCC Bank against the historical performance, key performance indicators agreed at the beginning of the year as well as against a peer group when determining and recommending to the Board the annual salary increment pool and the performance based variable pay pool for DFCC Bank. The Committee also appraised the performance of the Chief Executive based on the pre-agreed targets and desired skills and reviewed his remuneration.

In addition, the Committee considers and recommends to the Board of Directors from time to time, the requirements of additional/new expertise/skills and also salary revisions. The Committee periodically assesses the succession plan for key management positions and took appropriate steps to induct external skills to strengthen the management of the banking business of DFCC Group where it was deemed necessary.

Meetings

The Committee held three meetings during the financial period to carry out its task. The attendance by members is given on page 90 of this Annual Report.

C R Jansz
Chairman — Human Resources and Remuneration Committee

24 February 2016

Report of the Nominations Committee

Composition

The Nominations Committee of the Board of Directors consists of four Non-Executive Directors. P M B Fernando an independent Director is the Chairman with Messrs C R Jansz, A W Atukorala and K P Cooray serving as members.

J E A Perumal served as the Chairman until his resignation in April 2015. Messrs A W Atukorala and K P Cooray were appointed to the Committee in May 2015. Ms S R Thambiayah also functioned as a member of the Committee for a short period during September 2015 to 14 October 2015.

The Chief Executive attends the meeting by invitation, while the Secretary to the Board functions as the Secretary of the Committee.

Mandate

The Committee carried out the tasks set out in Section 3 (6) (iv) of Direction No. 12 of 2007 issued by the Central Bank of Sri Lanka on Corporate Governance in licensed specialised banks until 30 September 2015 and Section 3 (6) (iii) of Direction No. 11 of 2007 of the Central Bank of Sri Lanka on Corporate Governance in licensed commercial banks with effect from 1 October 2015.

In terms of this Direction the role of the Committee is to identify and evaluate persons with the required skills, knowledge, standing, fitness and propriety to join the Board of the Bank and to evaluate the suitability of Directors who are seeking re-election. The Committee is responsible for the task of putting in place a procedure for the appointment of the CEO and Key Management Personnel. During the period the Committee reviewed and revised the Policy on Board Composition, Appointments, Re-election and Resignation of Directors and succession to incorporate the changes in line with the Articles of Association of the amalgamated bank.

Procedure

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

Meetings

Four meetings were held during the nine month period ending in December 2015. During the period the Committee considered and recommended to the Board the appointment of four new Directors. The Committee also reviewed the list of Key Management Personnel of the amalgamated bank and assessed the fitness and propriety of Directors and Key Management Personnel, in terms of the requirements of the Banking Act. Individual Committee members do not participate in discussions in matters relating to them. The attendance by Directors at meetings is given on page 90 of the Annual Report. The Committee has recommended the re-election of the Directors offering themselves for re-election at the Annual General Meeting.

P M B Fernando
Chairman — Nominations Committee

24 February 2016

Report of the Board Integrated Risk Management Committee

Composition of Board Integrated Risk Management Committee

During the year, the Board Integrated Risk Management Committee (BIRMC) functioned on Group basis overlooking the integrated risk management of DFCC Bank and DFCC Vardhana Bank (DVB) until the amalgamation of the two banks. The Group BIRMC consisted of necessary representation from both the DFCC Bank and the DVB Boards with two Non-Executive Directors representing DFCC and DVB, one Non-Executive Director representing DFCC, one Non-Executive Director representing DVB, one Executive Director representing DFCC and one Executive Director representing DVB. The composition of the BIRMC was changed after the amalgamation of DFCC Bank and DVB, to four Non-Executive Directors including Chairman and one Executive Director. The Group Chief Risk Officer, who has the voting power, functions as the Secretary to the Committee. Heads of key functional areas such as lending, finance, treasury, operations, IT and internal audit attend the meetings on invitation. The membership of the BIRMC as at 31 December 2015 was as follows:

- C R Jansz – Chairman
- P M B Fernando – Non-Executive Director
- A N Fonseka – Non-Executive Director
- L N de S Wijeyaratne – Non-Executive Director
- A R Fernando – CEO/Director
- T S A Fernandopulle – Chief Risk Officer

Charter and the Responsibilities of the BIRMC

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

A. Integrity and adequacy of the risk management function of the Bank.

B. Adequacy of the Bank's capital and its allocation.

C. Risk exposures and risk profiles of the Bank are within acceptable parameters and to make recommendations to the Board of Directors on any action required.

D. The adequacy and effectiveness of the management committees through a set of defined tools.

E. Availability of a comprehensive and updated set of risk policies and guidelines covering overall operations of the Bank.

F. The compliance of the Bank's operations with relevant laws, regulations and standards including the adherence to the Direction on Corporate Governance issued by the Central Bank.

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

BIRMC Meetings

BIRMC meets on a quarterly basis. During the year, DFCC Bank convened four BIRMC meetings. The attendance of the members is listed on page 90 of the Annual Report. The Committee continued to review policy frameworks, risk management strategies, risk capital position and key risk indicators at these meetings and was satisfied that the risk exposures of the Bank were being appropriately managed. During the year, the following key initiatives were achieved by the Committee:

A. Review and approval of the prudential risk limits to reflect the current risk appetite of the Bank.

B. Review and approval of the Internal Capital Adequacy Assessment Process (ICAAP) of the Bank which was a regulatory requirement with effect from January 2014. As a part of the ICAAP, BIRMC monitored the risk capital forecast and capital cushion in line with the business strategy and industry positions.

C. The annual review of effectiveness and adequacy of the Management Committees were conducted by the BIRMC during the first quarter of 2015. The review results and recommendations of the BIRMC were shared with the respective committees for necessary improvements.

D. Close monitoring of the arrears positions in loans to identify recurring incidents, possible trends inherent to business units/regions and/or industry segments with the view of minimising probable default risk incidents.

E. Monitoring of the Liquidity Coverage Ratio (LCR) under Basel III as per the guidelines issues by the CBSL implemented from April 2015. The LCR is expected to strengthen the liquidity risk management ensuring that Banks have adequate stock of high quality liquid assets for 30 days that can be easily and immediately converted to cash even under a liquidity stressed scenario. On a pre and post-amalgamation basis DFCC Bank comfortably complied with the minimum requirements.

F. Review and approval of risk management policies and guidelines for the amalgamated entity

G. Having duly recognised the global trend on increasing threats on system and information security, BIRMC paid increased attention to IT systems security under its operational risk management practices

Reporting

The proceedings of the BIRMC meetings are reported to the Board through submission of the meeting minutes. Monthly Key Risk Indicators and other specific matters are submitted separately for the Board's approval on recommendation of the BIRMC. The recommendations made by the BIRMC during the year under review were approved by the Board.

C R Jansz
Chairman – Board Integrated Risk Management Committee

24 February 2016

Directors' Statement on Internal Control

Introduction

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

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

The subset of this wider internal control system is the internal controls designed and implemented to provide reasonable assurance regarding the reliability of the financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.

Responsibility

The Board of Directors acknowledge their responsibility for the adequacy and effectiveness of the Bank's system of internal controls which is designed to provide assurance on the maintenance of proper accounting records and the reliability of financial information generated, and safeguarding of the assets of the Bank.

However, such systems are designed to manage the Bank's key exposures to risk within acceptable risk parameters, rather than to eliminate the risk of failure to achieve the business goals and objectives of the Bank. Therefore, the system of internal controls can only provide reasonable and not absolute assurance against errors or material misstatement of management and financial information and records or against financial losses or fraud.

Framework for Managing Material Risks of the Bank

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

Key Internal Control Processes

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

- The Board has established Committees to assist the Board in exercising an oversight on the effectiveness of the Bank's daily operations and ensuring that they are in accordance with the corporate objectives, strategies and the budgetary targets as well as the policies and business directions that have been approved.
- The Internal Audit Department of the Bank verifies compliance of operations with policies and procedures and the effectiveness of the internal control systems and highlights significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which are determined by the level of risk assessed, to provide an independent and objective report on operational and management activities of these units and branches. The annual audit plan is reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review at their periodic meetings.
- The Audit Committee of the Bank reviews internal control issues identified by the internal audit, the External Auditors, regulatory authorities and management and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit function focusing on the scope of audits and the quality of reporting. The minutes of the Audit Committee meetings are tabled for the information of the Board on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report on page 104.
- The Board Integrated Risk Management Committee (BIRMC) is established by the Board to assist the Board to oversee the overall management of principal areas of risk of the Bank. The BIRMC includes representation from all key business and operations areas of the Bank and assists the Board in the implementation of policies, procedures and controls identified by the BIRMC.

- Operational Committees have also been established with appropriate mandates to ensure effective management and supervision of the Bank's core areas of business operations. These committees include the Management Committee, the Credit Committee, the Asset/Liability Committee, the Impairment Assessment Committee and the Information Technology Steering Committee.

Assessment of the Adequacy and Effectiveness of Internal Control

Although this process is carried out every year on a continuing basis, the Direction on Corporate Governance issued by the Central Bank of Sri Lanka requires the Board of Directors to provide a separate report on the Bank's Internal Control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements, supplemented with independent certification by the Auditor. The Auditors provide the independent Assurance Report in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) – 3050 issued by The Institute of Chartered Accountants of Sri Lanka.

In order to facilitate the tasks of the Auditors to issue the Independent Assurance Report, the SLSAE – 3050 requires documentation of all procedures and controls that are related to significant accounts and disclosures of the financial statements of the Bank with audit evidence of checks performed by the Bank on an ongoing basis.

The risk-based Internal Audit Plan implemented by the Internal Audit Department in consultation with the Board Committee on Audit specifically included on a sample basis, independent verification that the internal control process documented by the Bank and supported with audit evidence was in fact carried out on an ongoing basis.

Transition to New Sri Lanka Accounting Standards

Consequent to full convergence of Sri Lanka Accounting Standards with International Financial Reporting Standards and International Accounting Standards that became effective from the financial year to 31 March 2013, the bank implemented a process to make required adjustments to the financial statements prepared under the previous accounting standards. The process for making necessary adjustments continue to be made based on Excel software application. The process followed by the Bank for quantification of adjustments is continually reviewed and improved based on feedback received from the External Auditors and Internal Auditors. The testing of such process by the internal audit was carried out during the Period. These processes will be further improved on an ongoing basis.

Management Information

The comments made by the External Auditors in connection with internal control system in the financial year to 31 March 2015 were reviewed during the current period and appropriate steps have been taken to rectify them. The recommendations made by the External Auditor, KPMG for the 9 months ended 31 December 2015 in connection with the internal control system will be addressed in the future.

The Directors are of the opinion that these recommendations are intended to further improve the internal control system and they do not any way detract from the conclusion that the financial reporting system is reliable to provide reasonable assurance that the financial statements for external use are true and fair and complies with Sri Lanka Accounting Standards and the regulatory requirements of the Central Bank of Sri Lanka.

This assessment of internal control process is confined to the Bank including DFCC Vardhana Bank PLC up to September 2015 on a standalone basis and for the combined entity from October 2015 to 31 December 2015, and did not include its other subsidiaries.

Confirmation

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

Review of the Statement by External Auditors

The External Auditors have reviewed the above Directors' Statement on Internal Control for the 9 months ended 31 December 2015 and their Independent Assurance Report is on page 112 of the Annual Report.

By Order of the Board,

P M B Fernando
Chairman - Audit Committee

C R Jansz
Chairman - Board of Directors

A R Fernando
Chief Executive/Director

24 February 2016

Independent Assurance Report

KPMG
(Chartered Accountants)
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To the Board of Directors of DFCC Bank PLC

We were engaged by the Board of Directors of DFCC Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control ("Statement") included in the annual report for the period ended 31 December 2015 as set out on pages 110 to 111 in this Annual Report.

Management's Responsibility for the Statement on Internal Control

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

Scope of the Engagement in Compliance with SLSAE 3050

Our responsibility is to issue a report to the Board on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

Summary of Work Performed

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the system of internal control for the Bank.

To achieve this objective, appropriate evidence has been obtained by performing the following procedures:

(a) Enquired the Directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the Directors in the Annual Report.

(b) Reviewed the documentation prepared by the Directors to support their Statement made.

(c) Related the Statement made by the Directors to our knowledge of the Bank obtained during the audit of the Financial Statements.

(d) Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.

(e) Attended meetings of the audit committee at which the annual report, including the Statement on Internal Control is considered and approved for submission to the Board of Directors.

(f) Considered whether the Directors' Statement on Internal Control covers the period under review and that adequate processes are in place to identify any significant matters arising.

(g) Obtained written representations from Directors on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

Our Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the Annual Report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Bank.

KPMG

Chartered Accountants
Colombo

24th February 2016

Investor Relations

Investor Engagement

Listening to and maintaining a dialogue with the investors, both existing and potential, help us understand their expectations as well as concerns. That understanding in turn, helps us to fine-tune our engagement and structure reporting, so that information will be relevant to them, leading to building up mutual trust and a loyal following of investors who will take a long-term view of the value of their investments in the Bank, without being swayed by short-term fluctuations in performance. The section on Stakeholders (page 30), details various frameworks that govern our engagement process and how we communicate with our investors in general.

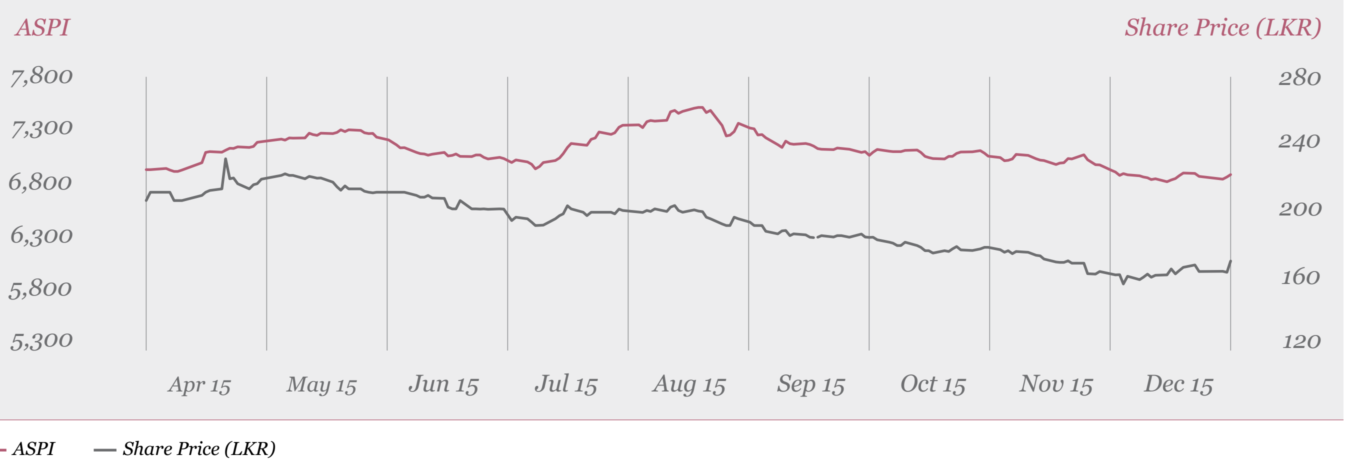
The Chief Executive and the Deputy Chief Executive, maintain a dialogue with key institutional investors and bring any matters of concern to the notice of the Board. Details of their participation in investor forums and meetings during the year, are given in the Corporate Governance report on page 94. In addition to the Annual General Meeting held on 30 June 2015, the Extra-ordinary General Meeting held on 28 August 2015 to obtain the approval of the shareholders for the proposal relating to the amalgamation with DFCC Vardhana Bank PLC, also gave an opportunity for the shareholders to interact with the Board and the Management.

Performance of the Share

The market value of the DFCC Bank PLC ordinary share on 31 December 2015 was LKR 168.90, compared to LKR 202.90 on 31 March 2015. During the nine months period, the highest price of LKR 230.00 was recorded on 21 April 2015. The lowest price for the period was recorded on 3 December 2015 as LKR 155.00.

The share price of DFCC Bank followed the movement of the All Share Price Index (ASPI) closely during the period under review.

Share Price Movement of DFCC Bank from April 2015 – December 2015



DFCC Bank Share Price Information

	9 months ended 31 December 2015	Period 1 April to 31 March		
		2015	2014	2013
Price Indices				
ASPI	**6,894.50**	6,820.34	5,968.31	5,735.68
S&P SL 20	**3,625.69**	3,852.43	3,279.92	3,293.57
Share Price				
Lowest Price (LKR)	**155.0 (03.12.2015)**	144.7 (01.04.2014)	115.0 (15.11.2013)	103.00 (07.06.2012)
Highest Price (LKR)	**230.0 (21.04.2015)**	239.0 (07.10.2014)	154.0 (13.01.2014)	131.80 (28.03.2013)
Closing Price (LKR)	**168.9 (31.12.2015)**	202.9 (31.03.2015)	143.0 (31.03.2014)	131.10 (28.03.2013)
Market Capitalisation				
Value (LKR million)	**44,775**	53,788	38,148	34,754
Percentage of total market cap	**1.52**	1.86	1.53	1.58
Rank	**14**	11	13	13
Value of Shares Traded				
Value (LKR million)	**1,717**	6,761	906	1,315
Percentage of total market turnover	**0.91**	1.91	0.46	0.69
Rank	**25**	9	45	26
Days Traded				
No. of days traded	**182**	239	241	239
Total No. of market days	**183**	239	243	239
Percentage of market days traded	**99.5**	100.0	99.2	100.0
Frequency of Shares Traded				
No. of transactions	**4,654**	9,020	5,444	5,171
Percentage of total frequency	**0.41**	0.45	0.37	0.32
Rank	**81**	78	82	99

Distribution of Shareholding

Categories of Shareholders

As at	31 December 2015			31 March 2015		
Shareholding, %	**Foreign**	Local	Total	Foreign	Local	Total
Individual	**5.78**	8.33	14.11	5.38	9.13	14.51
Institutional	**19.89**	66.00	85.89	20.49	65.00	85.49
	25.67	74.33	100.00	25.87	74.13	100.00

Public holding percentage and number of shareholders as at 31 December 2015 were 63.34% and 8,622 respectively.

Size-wise Distribution of Shareholding

Share range	31 December 2015			31 March 2015		
	No. of shareholders	Total holding	%	No. of shareholders	Total holding	%
01 - 1,000	**5,457**	1,763,749	0.66	5,285	1,744,865	0.66
1,001 - 5,000	**2,436**	5,002,934	1.89	2,420	4,986,874	1.88
5,001 - 10,000	**324**	2,336,279	0.88	314	2,256,205	0.85
10,001 - 50,000	**303**	6,522,498	2.46	303	6,818,222	2.57
50,001 - 100,000	**41**	2,929,838	1.10	41	2,872,994	1.08
100,001 - 500,000	**46**	9,261,557	3.49	46	8,725,933	3.29
500,001 - 1,000,000	**8**	5,509,745	2.08	9	5,740,741	2.17
1,000,000 & above	**25**	231,771,088	87.44	25	231,951,854	87.50
	8,640	265,097,688	100.00	8,443	265,097,688	100.00

Twenty Major Shareholders of the Bank as at 31 December 2015

Name of Shareholder/Company	31 December 2015		31 March 2015*	
	No. of Shares	%	No. of Shares	%
Bank of Ceylon A/c No. 2	**38,039,994**	14.35	38,039,994	14.35
Hatton National Bank PLC A/c No. 1	**32,396,140**	12.22	32,396,140	12.22
Sri Lanka Insurance Corporation Limited-Life Fund	**26,509,832**	10.00	26,509,832	10.00
Employees' Provident Fund	**24,368,995**	9.19	24,368,995	9.19
Mr M A Yaseen	**20,296,700**	7.66	19,246,700	7.26
Melstacorp Limited	**17,042,856**	6.43	17,042,856	6.43
Seafeld International Limited	**15,286,794**	5.77	15,286,794	5.77
HSBC Intl. Nom. Limited. – BPSS Lux-Aberdeen Global Asia Pacific Equity Fund	**12,216,146**	4.61	12,216,146	4.61
Renuka City Hotels PLC	**6,926,870**	2.61	6,926,870	2.61
HSBC Intl. Nom Limited. – BP2S LDN-Aberdeen Asia Pacific Equity Fund	**6,750,000**	2.55	6,750,000	2.55
HSBC Intl. Nominees Limited. -BP2S London-Edinburg Dragon Trust PLC	**5,620,164**	2.12	5,620,164	2.12
Renuka Hotels Limited	**4,073,360**	1.54	4,073,360	1.54
HSBC Intl. Nominees Limited. – BP2S London-Aberdeen Asia Smaller Companies Investment Trust	**3,889,870**	1.47	3,889,870	1.47
Employees Trust Fund Board	**3,599,793**	1.36	2,408,991	0.91
HSBC Intl. Nominees Limited. – BP2S Luxembourg-Aberdeen Globoal Frontier Markets Equity Fund	**2,284,584**	0.86	3,287,584	1.24
Cargo Boat Development Company PLC	**2,098,200**	0.79	2,098,200	0.79
Mrs L E M Yaseen	**2,000,000**	0.75	3,520,000	1.33
HSBC Intl. Nominees Limited. – BP2S-London-Aberdeen New Dawn Investment Trust XCC6	**1,800,000**	0.68	1,800,000	0.68
Akbar Brothers Pvt Limited A/c No. 1	**1,221,269**	0.46	536,709	0.20
Renuka Consultants & Services Limited	**1,097,992**	0.41	1,097,992	0.41
Total of the 20 Major Sahreholders	**227,519,559**	85.83		
Other Shareholders	**37,578,129**	14.17		
Total	265,097,688	100.00		

**Shareholding as at 31 March 2015 of the twenty largest shareholders as at 31 December 2015*

Financial Reports

Financial Calendar - 2015

LKR 6.00 per share Final Dividend for F/Y 2014/15 paid on	10 July 2015
Audited financial statements signed on	24 February 2016
60th Annual General Meeting to be held on	30 March 2016
LKR 2.50 per share Final Dividend for 2015 payable on	16 March 2016
1st Quarter Interim Results released on	12 August 2015
2nd Quarter Interim Results released on	13 November 2015

Proposed Financial Calendar - 2016

1st Quarter Interim Results to be released in	May 2016
2nd Quarter Interim Results to be released in	August 2016
3rd Quarter Interim Results to be released in	November 2016
61st Annual General Meeting to be held in	March 2017

Statement of Directors' Responsibilities in Relation to Financial Statements

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

The Directors are required by relevant statutory provisions to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank and the Group for that period. The statutory provisions are in the Companies Act, No. 07 of 2007 and the Banking Act, No. 30 of 1988 and amendments thereto. The application of principal qualitative characteristics and appropriate accounting standards and regulatory requirements inclusive of specific disclosures would result in financial statements that convey a true and fair view of financial information and financial position.

The Directors are satisfied that the Bank and the 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 financial statements for the nine month period ending 31 December 2015 and the comparative periods have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS).

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

The Board appointed Audit Committee chaired by an Independent Non-Executive Director who possesses qualifications and experience in accountancy and audit assists the Directors to discharge their responsibility on the integrity of financial reporting system and monitoring the effectiveness and adequacy of internal control system. This Committee has made an independent assessment of the financial reporting system of the Bank and confirmed that to the best of its knowledge and belief the financial statements issued for external purposes by the Bank complied with Sri Lanka Accounting Standards and complies with the statutory provisions of the Companies Act, No. 07 of 2007 and the Banking Act, No. 30 of 1988 as amended. The Report of this Committee is on pages 104 to 106.

The Directors are in agreement with the assessment of the Audit Committee on the reliability of financial reporting system of the Bank and confirm that the financial statements prepared for external use is in accordance with relevant accounting principles and regulatory requirements. As part of institutional checks and balances and accountability, in addition to this Statement of Directors' Responsibility, the Directors have included the Chief Executive's and the Chief Financial Officer's Responsibility Statement on page 120.

By Order of the Board,

Ms A Withana
Company Secretary

Colombo
24 February 2016

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

The financial statements are prepared in compliance with the Sri Lanka Financial Reporting Standards (SLFRS/LKAS) issued by The Institute of Chartered Accountants of Sri Lanka, Companies Act, No. 07 of 2007 and Banking Act, No. 30 of 1988 as amended and Directions issued thereunder relating to financial statement formats and disclosure of information.

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

The financial statements of the subsidiary, joint venture Company and the associate Company with a financial year end of 31 December were audited by KPMG. The subsidiaries with a financial year end of 31 March were subject to a limited review engagement by KPMG for nine months ended 31 December 2015.

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

A R Fernando
Director/Chief Executive

Ms D S J Wettasinghe
Chief Financial Officer

Colombo
24 February 2016

Independent Auditors' Report

KPMG
(Chartered Accountants)
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To the Shareholders of DFCC Bank PLC

Report on the Financial Statements

We have audited the accompanying financial statements of DFCC Bank PLC ("the Bank"), and the consolidated financial statements of the Bank and its subsidiaries ("Group"), which comprise the statement of financial position as at 31st December 2015, and the statements of income, profit or loss and other comprehensive income, changes in equity and, cash flows for the period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 122 to 208 of the annual report.

Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31st December 2015, and of its financial performance and cash flows for the period then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

(a) The basis of opinion and scope and limitations of the audit are as stated above
(b) In our opinion:
- we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank,
- The financial statements of the Bank give a true and fair view of its financial position as at 31st December 2015, and of its financial performance and cash flows for the period then ended in accordance with Sri Lanka Accounting Standards.
- The financial statements of the Bank and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 07 of 2007.

KPMG

Chartered Accountants
Colombo

24th February 2016

Income Statement

	Notes	Page No.	BANK 9 months ended 31 December 2015 LKR 000	BANK Year ended 31 March 2015 LKR 000	GROUP 9 months ended 31 December 2015 LKR 000	GROUP Year ended 31 March 2015 LKR 000
Income	11	146	**10,036,280**	10,394,085	**17,502,868**	20,093,711
Interest income			**8,918,343**	8,010,024	**15,308,568**	16,098,667
Interest expenses			**5,560,354**	4,675,447	**8,923,243**	9,407,584
Net interest income	12	146	**3,357,989**	3,334,577	**6,385,325**	6,691,083
Fee and commission income			**371,590**	167,995	**1,151,029**	1,137,267
Fee and commission expenses			**1,208**	–	**9,914**	17,303
Net fee and commission income	13	147	**370,382**	167,995	**1,141,115**	1,119,964
Net gain from trading	14	147	**87,062**	146,679	**215,575**	479,988
Net (loss)/gain from financial instruments at fair value through profit or loss	15	147	**(330)**	656,512	**74,583**	678,217
Net gain from financial investments	16	148	**640,637**	2,150,427	**507,528**	2,201,070
Other operating income/(loss) – net	17	148	**18,978**	(737,552)	**245,585**	(501,498)
Total operating income			**4,474,718**	5,718,638	**8,569,711**	10,668,824
Impairment charge/(write back) for loans and other losses	18	148	**224,939**	(307,564)	**795,327**	246,556
Net operating income			**4,249,779**	6,026,202	**7,774,384**	10,422,268
Operating expenses						
Personnel expenses	19	148	**1,212,541**	943,041	**2,559,350**	2,212,600
Other expenses	20	149	**1,105,475**	726,627	**2,150,927**	2,062,896
Operating profit before value added tax and nation building tax on financial services			**1,931,763**	4,356,534	**3,064,107**	6,146,772
Value added tax and nation building tax on financial services	21	150	**342,498**	585,244	**589,330**	884,072
Operating profit after value added tax and nation building tax on financial services			**1,589,265**	3,771,290	**2,474,777**	5,262,700
Share of profits of associate and joint venture			**–**	–	**78,693**	153,270
Profit before tax			**1,589,265**	3,771,290	**2,553,470**	5,415,970
Tax expense	22	150	**520,915**	530,942	**911,842**	977,358
Profit for the period			**1,068,350**	3,240,348	**1,641,628**	4,438,612
Profit attributable to:						
- Equity holders of the Bank			**1,068,350**	3,240,348	**1,592,303**	4,362,256
- Non-controlling interests					**49,325**	76,356
Profit for the period			**1,068,350**	3,240,348	**1,641,628**	4,438,612
Basic earnings per ordinary share (LKR)	23	152	**4.03**	12.22	**6.01**	16.46

The notes to the financial statements from pages 131 to 208 form part of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income

	BANK		GROUP	
	9 months ended 31 December 2015 LKR 000	Year ended 31 March 2015 LKR 000	**9 months ended 31 December 2015 LKR 000**	Year ended 31 March 2015 LKR 000
Profit for the period	**1,068,350**	3,240,348	**1,641,628**	4,438,612
Other comprehensive (expenses)/income for the period, net of tax				
Other comprehensive (expenses)/income to be reclassified to income statement				
Available for sale financial assets:				
Net change in fair value of available-for-sale financial assets	**(3,157,505)**	5,474,513	**(3,246,069)**	5,531,519
Net amount transferred to income statement on disposal of available-for-sale financial assets	**(36,682)**	(404,565)	**(56,933)**	(490,253)
Tax expense relating to available-for-sale financial assets	**(360)**	(163)	**30,108**	(17,892)
Share of other comprehensive income of equity accounted joint venture	**–**	–	**17,041**	8,378
Share of other comprehensive (expenses)/income of equity accounted associate	**–**	–	**(12)**	708
Total other comprehensive (expenses)/income to be reclassified to income statement	**(3,194,547)**	5,069,785	**(3,255,865)**	5,032,460
Other comprehensive expenses not to be reclassified to income statement				
Actuarial gains and losses on defined benefit plans	**(102,755)**	(171,807)	**(104,118)**	(187,912)
Tax expense relating to actuarial gains and losses on defined benefit plans	**1,112**	4,898	**1,553**	10,276
Total other comprehensive expenses not to be reclassified to income statement	**(101,643)**	(166,909)	**(102,565)**	(177,636)
Other comprehensive (expenses)/income for the period, net of tax	**(3,296,190)**	4,902,876	**(3,358,430)**	4,854,824
Total comprehensive (expenses)/income for the period	**(2,227,840)**	8,143,224	**(1,716,802)**	9,293,436
Total comprehensive (expenses)/ income attributable to:				
- Equity holders of the Bank	**(2,227,840)**	8,143,224	**(1,765,468)**	9,217,506
- Non-controlling interests			**48,666**	75,930
Total comprehensive (expenses)/income for the period	**(2,227,840)**	8,143,224	**(1,716,802)**	9,293,436

The notes to the financial statements from pages 131 to 208 form part of these financial statements.

Statement of Financial Position

As at	Notes	Page No.	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000
Assets						
Cash and cash equivalents	26	154	**4,305,247**	110,576	**4,314,777**	4,060,820
Balances with Central Bank of Sri Lanka	27	154	**5,553,809**	–	**5,553,809**	2,616,406
Placements with banks	28	155	**–**	716,622	**1,718**	1,324,892
Derivative assets held-for-risk management	29	155	**198,776**	29,335	**198,776**	89,861
Other financial assets held-for-trading	30	155	**–**	1,469,166	**–**	1,469,166
Loans to and receivables from banks	31	156	**4,574,319**	484,067	**4,602,263**	3,563,647
Loans to and receivables from other customers	32	156	**160,345,530**	73,448,705	**160,343,155**	135,322,723
Financial investments – available-for-sale	33	158	**48,957,015**	27,823,496	**48,957,015**	45,826,878
Financial investments – held-to-maturity	34	163	**17,903,885**	2,085,921	**17,903,885**	10,872,287
Investments in subsidiaries	35	164	**132,855**	5,957,564	**–**	–
Investment in associate	36	165	**35,270**	35,270	**66,980**	63,960
Investment in joint venture	37	166	**655,000**	655,000	**1,180,819**	1,124,025
Due from subsidiaries	38	167	**17,394**	135,091	**–**	–
Investment property	39	167	**–**	–	**195,732**	186,070
Property, plant and equipment	40	168	**943,017**	351,207	**1,042,301**	1,051,932
Intangible assets	41	169	**247,115**	82,380	**247,945**	280,196
Goodwill on consolidation	42	170	**–**	–	**156,226**	156,226
Government grant receivable	43	170	**539,758**	483,727	**539,758**	483,727
Deferred tax asset	44	171	**–**	–	**1,536**	1,562
Income tax refund due			**–**	–	**–**	1,178
Prepayments			**36,708**	26,342	**36,708**	26,342
Other assets	45	172	**1,705,379**	717,125	**1,765,199**	2,088,401
Total assets			**246,151,077**	114,611,594	**247,108,602**	210,610,299
Liabilities						
Due to banks	46	172	**24,364,403**	1,928,867	**24,365,653**	5,972,567
Derivative liabilities held-for-risk-management	29	155	**85,333**	1,737	**85,333**	37,153
Due to other customers	47	173	**110,890,685**	22,484,652	**110,551,220**	92,711,793
Other borrowing	48	173	**35,955,297**	24,361,797	**35,955,297**	38,846,172
Debt securities issued	49	174	**23,292,660**	19,445,924	**23,292,660**	19,445,924
Current tax liability			**251,551**	53,211	**266,723**	191,598
Deferred tax liability	44	171	**880,490**	486,855	**880,490**	642,021
Government grant – deferred income	43	170	**476,008**	303,727	**476,008**	303,727
Other liabilities	50	175	**3,368,558**	840,156	**3,500,012**	2,586,927
Due to subsidiaries	51	179	**–**	31	**–**	–
Subordinated term debt	52	179	**3,767,081**	609,373	**3,767,081**	1,609,664
Total liabilities			**203,332,066**	70,516,330	**203,140,477**	162,347,546

As at	Notes	Page No.	BANK **31.12.2015 LKR 000**	BANK 31.03.2015 LKR 000	GROUP **31.12.2015 LKR 000**	GROUP 31.03.2015 LKR 000
Equity						
Stated capital	53	180	**4,715,814**	4,715,814	**4,715,814**	4,715,814
Statutory reserve	54	180	**1,834,275**	1,545,000	**1,834,275**	1,545,000
Retained earnings	55	180	**8,203,426**	6,541,651	**11,506,206**	12,752,999
Other reserves	56	180	**28,065,496**	31,292,799	**25,659,404**	28,895,058
Total equity attributable to equity holders of the Bank			**42,819,011**	44,095,264	**43,715,699**	47,908,871
Non-controlling interests					**252,426**	353,882
Total equity			**42,819,011**	44,095,264	**43,968,125**	48,262,753
Total equity and liabilities			**246,151,077**	114,611,594	**247,108,602**	210,610,299
Contingent liabilities and commitments	57	181	**76,014,851**	40,979,686	**76,014,851**	75,072,548
Net assets value per share, LKR			**161.52**	166.34	**164.90**	180.72

The notes to the financial statements from pages 131 to 208 form part of these financial statements.

I certify that these financial statements comply with the requirements of the Companies Act, No. 07 of 2007.

Ms D S J Wettasinghe
Chief Financial Officer

For and on behalf of the Board of Directors,

C R Jansz
Chairman

A R Fernando
Director and Chief Executive

Colombo
24 February 2016

Statement of Changes in Equity

		Statutory reserves		Other reserves			
	Stated capital LKR 000	Reserve fund LKR 000	Investment fund account LKR 000	Fair value reserve LKR 000	General reserve LKR 000	Retained earnings LKR 000	Total equity LKR 000
Bank							
Balance as at 01.04.2014	4,715,814	1,380,000	1,001,648	12,443,175	13,779,839	4,089,601	37,410,077
Profit for the year	–	–	–	–	–	3,240,348	3,240,348
Other comprehensive income net of tax	–	–	–	5,069,785	–	(166,909)	4,902,876
Total comprehensive income for the year	–	–	–	5,069,785	–	3,073,439	8,143,224
Transfers	–	165,000	(1,001,648)	–	–	836,648	–
Transactions with equity holders, recognised directly in equity							
Final dividend approved on 30.06.2014	–	–	–	–	–	(1,458,037)	(1,458,037)
Total contributions from and distribution to equity holders	–	–	–	–	–	(1,458,037)	(1,458,037)
Balance as at 31.03.2015	4,715,814	1,545,000	–	17,512,960	13,779,839	6,541,651	44,095,264
Super gain tax (Note 22.4)	–	–	–	–	–	(776,593)	(776,593)
Adjusted Balance as at 01.04.2015	4,715,814	1,545,000	–	17,512,960	13,779,839	5,765,058	43,318,671
Balances transferred on amalgamation (Note 61.3)	–	229,275	–	(32,756)	–	3,122,247	3,318,766
	4,715,814	1,774,275	–	17,480,204	13,779,839	8,887,305	46,637,437
Total comprehensive (expenses)/income for the period							
Profit for the period	–	–	–	–	–	1,068,350	1,068,350
Other comprehensive expenses net of tax	–	–	–	(3,194,547)	–	(101,643)	(3,296,190)
Total comprehensive (expenses)/income for the period	–	–	–	(3,194,547)	–	966,707	(2,227,840)
Transfers	–	60,000	–	–	–	(60,000)	–
Transactions with equity holders, recognised directly in equity							
Final dividend approved on 30.06.2015	–	–	–	–	–	(1,590,586)	(1,590,586)
Total contributions from and distribution to equity holders	–	–	–	–	–	(1,590,586)	(1,590,586)
Balance as at 31.12.2015	4,715,814	1,834,275	–	14,285,657	13,779,839	8,203,426	42,819,011

	Attributable to the equity holders of the Bank									
		Statutory reserves		Other reserves						
	Stated capital	Reserve fund	Investment fund account	Fair value reserve	Exchange equalisation reserve	General reserve	Retained earnings	Total	Non-controlling interests	Total Equity
	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000
Group										
Balance as at 01.04.2014	4,715,814	1,380,000	1,001,648	10,079,975	–	13,779,839	9,163,494	40,120,770	333,728	40,454,498
Profit for the year	–	–	–	–	–	–	4,362,256	4,362,256	76,356	4,438,612
Other comprehensive income net of tax	–	–	–	5,032,886	2,358	–	(179,994)	4,855,250	(426)	4,854,824
Total comprehensive income for the year	–	–	–	5,032,886	2,358	–	4,182,262	9,217,506	75,930	9,293,436
Transfers		165,000	(1,001,648)	–	–	–	836,648	–	–	–
Transactions with equity holders, recognised directly in equity										
Change in holding through joint venture	–	–	–	–	–	–	28,632	28,632	–	28,632
Final dividend approved on 30.06.2014	–	–	–	–	–	–	(1,458,037)	(1,458,037)	–	(1,458,037)
Dividend distributed to non-controlling interest by subsidiaries	–	–	–	–	–	–	–	–	(55,776)	(55,776)
Total contributions from and distribution to equity holders		–	–	–		–	(1,429,405)	(1,429,405)	(55,776)	(1,485,181)
Balance as at 31.03.2015	4,715,814	1,545,000	–	15,112,861	2,358	13,779,839	12,752,999	47,908,871	353,882	48,262,753
Super gain tax (Note 22.4)	–	–	–	–	–	–	(794,705)	(794,705)	(16,663)	(811,368)
Adjusted balance as at 01.04.2015	4,715,814	1,545,000	–	15,112,861	2,358	13,779,839	11,958,294	47,114,166	337,219	47,451,385
Profit for the period	–	–	–	–	–	–	1,592,303	1,592,303	49,325	1,641,628
Other comprehensive income/(expenses) net of tax	–	–	–	(3,255,206)	19,552	–	(122,117)	(3,357,771)	(659)	(3,358,430)
Total comprehensive income/(expenses) for the period				(3,255,206)	19,552		1,470,186	(1,765,468)	48,666	(1,716,802)
Transfers	–	289,275	–	–	–	–	(289,275)	–	–	–
Transactions with equity holders, recognised directly in equity										
Increase in ownership interest by the Bank that does not result in change of control	–	–	–	–	–	–	(45,667)	(45,667)	(76,741)	(122,408)
Change in holding through joint venture	–	–	–	–	–	–	9,830	9,830	–	9,830
Final dividend approved on 30.06.2015	–	–	–	–	–	–	(1,590,586)	(1,590,586)	–	(1,590,586)
Preference share dividend paid by subsidiary of joint venture	–	–	–	–	–	–	(6,576)	(6,576)	–	(6,576)
Dividend distributed to non-controlling interest by subsidiaries	–	–	–	–	–	–	–	–	(56,718)	(56,718)
Total contributions from and distribution to equity holders	–	–	–	–		–	(1,632,999)	(1,632,999)	(133,459)	(1,766,458)
Balance as at 31.12.2015	4,715,814	1,834,275	–	11,857,655	21,910	13,779,839	11,506,206	43,715,699	252,426	43,968,125

Statement of Cash Flows

	BANK		GROUP	
	9 months ended 31 December 2015 LKR 000	Year ended 31 March 2015 LKR 000	**9 months ended 31 December 2015 LKR 000**	Year ended 31 March 2015 LKR 000
Cash flow from operating activities				
Interest receipts	**7,238,360**	6,873,761	**12,887,530**	13,921,453
Interest payments	**(5,375,259)**	(4,292,672)	**(8,432,834)**	(9,144,115)
Recoveries on loans previously written-off	**23,267**	42,471	**31,463**	46,244
Receipts from other operating activities	**2,237,257**	72,612	**3,556,605**	2,105,965
Cash payments to employees and suppliers	**(1,790,725)**	(1,405,580)	**(3,669,959)**	(3,562,254)
Value added tax and nation building tax on financial services	**(327,844)**	(600,176)	**(589,020)**	(871,983)
Other levies	**(29,199)**	(34,187)	**(37,844)**	(37,699)
Operating cash flow before changes in operating assets and liabilities	**1,975,857**	656,229	**3,745,941**	2,457,611
(Increase)/decrease in operating assets				
Deposits held for regulatory or monetary control purposes	**(2,308,744)**	–	**(2,937,403)**	254,086
Funds advanced to customers	**(12,925,166)**	(10,941,817)	**(27,448,299)**	(23,632,764)
Others	**576,482**	(229,292)	**660,963**	(321,067)
Increase/(decrease) in operating liabilities				
Deposits from customers	**13,298,437**	5,549,600	**17,122,636**	11,727,396
Negotiable certificates of deposit	**18,055**	–	**143,675**	(37,703)
Others	**135,829**	96,982	**137,817**	223,154
Net cash flow from/(used in) operating activities before income tax	**770,750**	(4,868,298)	**(8,574,670)**	(9,329,287)
Income tax paid	**(951,490)**	(576,581)	**(1,248,318)**	(810,755)
Net cash flow used in operating activities	**(180,740)**	(5,444,879)	**(9,822,988)**	(10,140,042)
Cash flow from investing activities				
Dividend received	**563,704**	1,565,746	**284,255**	1,383,206
Interest received	**1,104,679**	663,278	**1,398,108**	1,239,098
Government Securities – net	**(4,818,751)**	1,019,756	**(9,002,938)**	(2,707,313)
Proceeds from sale and redemption of securities	**558,085**	3,138,109	**558,085**	3,138,109
Purchase of securities	**(2,496,929)**	(2,451,221)	**(2,214,741)**	(10,920,313)
Purchase of property, equipment, intangibles and investment property	**(118,534)**	(60,774)	**(313,883)**	(389,311)
Proceeds from sale of equipment and investment property	**2,810**	1,940	**(1,445)**	1,962
Net cash (used in)/from investing activities	**(5,204,936)**	3,876,834	**(9,292,559)**	(8,254,562)

	BANK		GROUP	
	9 months ended 31 December 2015 LKR 000	Year ended 31 March 2015 LKR 000	**9 months ended 31 December 2015 LKR 000**	Year ended 31 March 2015 LKR 000
Cash flow from financing activities				
Payment to minority shareholders on amalgamation	**(122,408)**	–	**(122,408)**	–
Issue of debentures	–	4,963,600	–	4,963,600
Borrowing, medium and long term	**3,318,581**	2,662,392	**3,315,727**	2,662,392
Other borrowing – net	**7,094,903**	(3,552,000)	**20,167,940**	11,364,228
Repayment of borrowing, medium and long term	**(3,505,648)**	(3,798,259)	**(3,505,649)**	(3,801,057)
Dividends paid	**(1,572,012)**	(1,451,188)	**(1,628,735)**	(1,506,965)
Net cash flow from/(used in) financing activities	**5,213,416**	(1,175,455)	**18,226,875**	13,682,198
Net decrease in cash and cash equivalents	**(172,260)**	(2,743,500)	**(888,672)**	(4,712,406)
Cash and cash equivalents at the beginning of period	**498,619**	3,242,119	**5,205,167**	9,917,573
Cash and cash equivalents of DFCC Vardhana Bank PLC as at the date of amalgamation	**3,978,888**	–	–	–
Cash and cash equivalents at the end of period	**4,305,247**	498,619	**4,316,495**	5,205,167
Reconciliation of cash and cash equivalents with items reported in the statement of financial position				
Cash and cash equivalents (Note 26)	**4,305,247**	110,576	**4,314,777**	4,060,820
Bank overdrafts (Note 46)	–	(328,579)	–	(330,545)
Placements with banks (Note 28)	–	716,622	**1,718**	1,324,892
Government Securities – less than 3 months	–	–	–	150,000
	4,305,247	498,619	**4,316,495**	5,205,167

Reconciliation of profit for the period to net cash flows used in operating activities.

	BANK		GROUP	
	9 months ended 31 December 2015 LKR 000	Year ended 31 March 2015 LKR 000	**9 months ended 31 December 2015 LKR 000**	Year ended 31 March 2015 LKR 000
Profit for the period	**1,068,350**	3,240,348	**1,641,628**	4,438,612
Add/(deduct) items not using (providing) cash:	**326,785**	(143,036)	**798,376**	133,871
Depreciation – Property, equipment and investment property	**114,781**	116,673	**247,234**	279,899
Amortisation – Intangible assets	**42,538**	23,682	**102,158**	100,232
Unrealised gain on Treasury Bills and Bonds	**(95,558)**	(146,679)	**(96,659)**	(335,559)
Net loss/gain from financial instruments at fair value – Contracts with commercial banks	**14,368**	(81,577)	**(60,545)**	(96,819)
– CBSL Swap	**(14,038)**	(574,935)	**(14,038)**	(574,935)
Amortisation of deferred income on Government grant	**130,288**	376,185	**130,288**	376,185
Foreign exchange loss	**(17,139)**	500,677	**(77,984)**	465,807
Impairment for loans and other losses	**224,939**	(307,564)	**795,327**	246,556
Notional tax credit on Treasury Bills and Bonds	**(73,394)**	(49,498)	**(148,712)**	(174,225)
Share of profits of associate and joint venture	**–**	–	**(78,693)**	(153,270)
Deduct items reported gross under investing activities:	**(575,948)**	(2,128,729)	**(258,637)**	(1,913,934)
Dividend income	**(536,276)**	(991,958)	**(218,569)**	(777,803)
Gains on sale of financial investment	**(37,018)**	(1,135,054)	**(37,018)**	(1,135,054)
Gain on sale of equipment and investment property	**(2,654)**	(1,717)	**(3,050)**	(1,077)
Deduct changes in operating assets and liabilities:	**(995,429)**	(6,413,462)	**(12,004,255)**	(12,798,591)
Decrease/(increase) in account receivables	**99,234**	(1,300,683)	**(491,604)**	(1,749,264)
Increase in account payables	**540,522**	457,387	**1,143,801**	570,968
Increase in income tax payable	**(36,940)**	7,981	**(94,908)**	255,237
Decrease in deferred tax	**(393,634)**	(53,620)	**(241,568)**	(88,634)
Increase in operating assets	**(14,657,430)**	(11,171,109)	**(29,724,203)**	(23,699,745)
Increase in operating liabilities	**13,452,321**	5,646,582	**17,404,127**	11,912,847
Net cash used in operating activities	**(180,740)**	(5,444,879)	**(9,822,988)**	(10,140,042)

Notes to the Financial Statements

1 Reporting Entity

DFCC Bank PLC ('Bank') is a limited liability public company incorporated and domiciled in Sri Lanka.

The Bank was incorporated in 1955 under DFCC Bank Act, No. 35 of 1955 as a limited liability public company and the ordinary shares of the Bank were listed in the Colombo Stock Exchange.

Consequent to the enactment of the DFCC Bank (Repeal and Consequential Provisions) Act, No. 39 of 2014, the DFCC Bank Act, No. 35 of 1955 was repealed and the Bank was incorporated under the Companies Act, No. 07 of 2007 as a public limited company listed in the Colombo Stock Exchange with the name 'DFCC Bank PLC' with effect from 6 January 2015.

The Registrar General of Companies on 1 October 2015 issued the Certificate of Amalgamation in terms of Section 244 (1) (a) of the Companies Act, No. 07 of 2007 that DFCC Vardhana Bank PLC (DVB) has been amalgamated with DFCC Bank PLC in accordance with the provisions of Part VIII of the Companies Act, No. 07 of 2007 with DFCC Bank PLC surviving as the amalgamated entity.

DFCC Bank PLC (DFCC) also obtained a commercial banking license from the Monetary Board of the Central Bank of Sri Lanka in terms of the Banking Act, No. 30 of 1988, as amended, and accordingly upon the amalgamation now operates as a licensed commercial bank.

The registered office of the Bank is at 73/5, Galle Road, Colombo 3.

The Bank does not have a parent company.

The Bank's Group comprises subsidiary companies viz, DFCC Consulting (Pvt) Limited, Lanka Industrial Estates Limited and Synapsys Limited.

A joint venture company, Acuity Partners (Pvt) Limited which is equally owned by the Bank and Hatton National Bank PLC.

The Bank has one associate company viz, National Asset Management Limited.

Total employee population of the Bank and the Group on 31 December 2015 was 1,445 and 1,659 respectively (31 March 2015 - 495 and 1,611 respectively).

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

DFCC Bank PLC

Range of financial services such as accepting deposits, corporate credit and retail banking, personal financial services, project financing, investment banking, foreign currency operations, trade finance and dealing in Government Securities and treasury related products.

DFCC Consulting (Pvt) Limited

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

Lanka Industrial Estates Limited

Leasing of land and buildings to industrial enterprises.

Synapsys Limited

Information technology services and information technology enabled services.

National Asset Management Limited

Fund management.

Acuity Partners (Pvt) Limited

Investment banking related financial services.

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

2 Basis of Preparation

2.1 Statement of Compliance

The consolidated financial statements of the Bank (Group) and the separate financial statements of the Bank (Bank), which comprise the statement of financial position, income statement, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and notes thereto, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act, No. 07 of 2007 and the Banking Act, No. 30 of 1988 and amendments thereto.

2.2 Approval of Financial Statements by Directors

The financial statements are authorised for issue by the Board of Directors on 24 February 2016.

2.3 Consolidated and Separate Financial Statements

DFCC Bank PLC as the parent of subsidiaries under its control is required to present only the consolidated financial statements as per Sri Lanka Accounting Standard LKAS 27 – 'Consolidated and Separate Financial Statements'. However, in addition to the consolidated financial statements, separate financial statements are also presented as per the Companies Act, No. 07 of 2007 and Banking Act, No. 30 of 1988 and amendments thereto.

2.4 Common Control Transactions

All common control transactions are accounted using book value accounting. This is on the basis that the entities are part of a larger economic group, and that the figures from that larger group are the relevant ones. The assets and liabilities of the combined entity is accounted using the existing book values of pre merged entities. No new goodwill is recognised as a result of the merger. The only goodwill that is recognised is any existing goodwill relating to either of the combining entities. Any difference between the book values is reflected within equity.

2.5 Basis of Measurement

The consolidated and separate financial statements of the Bank are presented in Sri Lanka Rupees (LKR) being the, functional and presentation currency, rounded to the nearest thousand and, unless otherwise stated, have been prepared on the historical cost basis except for the following material items in the statement of financial position:

i. Assets held-for-trading are measured at fair value.

ii. Derivative assets and derivative liabilities held for risk management are measured at fair value.

iii. The liability/asset for defined benefit pension obligations is recognised as the present value of the defined benefit pension obligation less the net total of the pension assets maintained in DFCC Bank Pension Fund, a trust separate from the Bank.

iv. The liability for defined benefit statutory end of service gratuity obligations is recognised as the present value of the defined benefit gratuity obligation.

v. Financial assets available-for-sale are measured at fair value.

The Bank has not designated any financial instrument at fair value which is an option under LKAS 39 – 'Sri Lanka Accounting Standard - Financial Instruments: Recognition and Measurement', since it does not have any embedded derivative and the Bank considers that currently, there are no significant accounting mismatches due to recognition or measurement inconsistency between financial assets and financial liabilities.

2.6 Materiality and Aggregation

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

2.7 Critical Accounting Estimates and Judgments

2.7.1 General

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

Management discusses with the Board Audit Committee the development, selection and disclosure of critical accounting policies and their application, and assumptions made relating to major estimation uncertainties.

The use of available information and application of judgment are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared.

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

Management believes that Bank's critical accounting policies where judgment is necessarily applied are those which relate to impairment of loans and advances, financial leases and goodwill, the valuation of financial instruments, deferred tax assets and provisions for liabilities.

Further information about key assumptions concerning the future and other key sources of estimated uncertainty are set out in the notes to the financial statements.

2.7.2 Loan Losses

The assessment of loan loss as set out in Note 32.2 involves considerable judgment and estimation. Judgment is required firstly to determine whether there are indications that a loss may already have been incurred in individually significant loans and secondly to determine the recoverable amount.

2.7.3 Pension Liability

The estimation of this liability determined by an independent, qualified actuary, necessarily involves long-term assumptions on future changes to salaries, future income derived from pension assets, life expectancy of covered employees, etc. Key assumptions are disclosed in Note 50.1.3.8.

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

2.7.4 End of Service Gratuity Liability

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

Key assumptions are disclosed in Note 50.1.3.8.

2.7.5 Current Tax

The estimation of income tax liability includes interpretation of tax law and judgment on the allowance for losses on loans. The estimation process by the Bank includes seeking expert advice where appropriate and the payment of the current tax liability is on self-assessment basis. In the event, an additional assessment is issued, the additional income tax and deferred tax adjustment, will be recognised in the period in which the assessment is issued, if so warranted.

2.7.6 Impairment of Tangible and Intangible Assets

The assessment of impairment of tangible and intangible assets includes the estimation of the value in use of the asset computed at the present value of the best estimates of future cash flows generated by the asset adjusted for associated risks. This estimation has inherent uncertainties. Impairment losses, if any, are charged to income statement immediately.

2.8 Changes in Accounting Policies

Except for the change below, the Group has consistently applied the accounting policies for all periods presented in these consolidated and separate financial statements.

2.8.1 Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax

As per the provisions of Part III of the Finance Act, No. 10 of 2015 which was certified on 30 October 2015, the Bank is liable for Super Gain Tax of LKR 777 million. According to the Act, the Super Gain Tax shall be deemed to be an expenditure in the financial statements relating to the year of assessment which commenced on 1 April 2013. The Act supersedes the requirements of the Sri Lanka Accounting Standards, hence the expense of Super Gain Tax is accounted in accordance with the requirements of the said Act as recommended by the Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax issued by The Institute of Chartered Accountants of Sri Lanka, dated 24 November 2015.

This SoAT supersedes paragraph 46 of LKAS 12 – 'Income Taxes'. Further, this SoAT must be applied by all companies who are liable to pay Super Gain Tax as required under Part III of the Finance Act, No. 10 of 2015 without any option.

As per the SoAT, Super Gain Tax expense is deemed to be an expenditure for the year ended 31 March 2014, it should be recorded as an adjustment to the opening retained earnings reported in statement of changes in equity as at 1 April 2015.

3 Basis of Consolidation

3.1 General

The consolidated financial statements are the financial statements of the Group, prepared by consistent application of consolidation procedures, which include amalgamation of the financial statements of the parent and subsidiaries and accounting for the investments in associate company and joint venture company on the basis of reported results and net assets of the investee instead of the direct equity interest.

Thus, the consolidated financial statements present financial information about the Group as a single economic entity, distinguishing the equity attributable to the parent (controlling interest) and attributable to minority shareholders with non-controlling interest.

3.2 Transactions Eliminated on Consolidation

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

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

Audited financial statements are used for consolidation of companies which has a similar financial year end, as the Bank and for other a special review is performed.

Financial statements of DFCC Consulting (Pvt) Limited and Lanka Industrial Estates Limited included in the consolidation have financial years ending 31 March.

The financial statements of Acuity Partners (Pvt) Limited Synapsys Limited and National Asset Management Limited included in the consolidation have financial years ending on 31 December.

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

No adjustments to the results of subsidiaries, associate company and joint venture company have been made as there were no significant events or transactions.

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

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

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

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

4 Scope of Consolidation

All subsidiaries have been consolidated.

4.1 Subsidiary Companies

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

Acquisition method of accounting is used when subsidiaries are acquired by the Bank. Cost of acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of exchange. Acquisition-related costs are recognised as an amount of the expense in the profit or loss in the period of which they are incurred. The acquirees identifiable assets, liabilities and contingent liabilities are generally measured at their fair value at the date of acquisition.

Goodwill is measured as the excess of the aggregate consideration transferred, the amount of non-controlling interest and the fair value of banks previously held equity interest if any, over the net of the amount of the identifiable assets acquired and the liabilities assumed.

The amount of non-controlling interest is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

In a business combination achieved in stages, the previously held equity interest is remeasured at the acquisition date fair value with a resulting gain or loss recognised in the income statement.

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Note 35 contains the financial information relating to subsidiaries.

4.2 Associate Company

Associate company are those enterprises over which the Bank has significant influence that is neither a subsidiary nor an interest in a joint venture. The Bank has only one associate company, National Asset Management Limited. The consolidated financial statements include the Bank's share of the total comprehensive income of the associate company, on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

Note 36 contains financial information relating to associate company.

4.3 Joint Venture Company

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

Note 37 contains the financial information relating to joint venture company.

5 Principal Accounting Policies

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

5.1 Revenue and Expense Recognition

5.1.1 Interest Income and Expense

Interest income and expense for all interest-bearing financial instruments are recognised in 'Interest Income' and 'Interest Expense' in the income statement, using the effective interest rate of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments earned or paid on a financial asset or financial liability through its expected life (or, where appropriate, a shorter period) to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, bank estimates future cash flows considering all contractual terms of the financial instruments but not future credit losses.

The calculation of the effective interest includes all transaction cost, premiums or discounts and fees paid or received by the Bank that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income on individually significant impaired financial assets (viz, loans and advances, and held-to-maturity debt instruments listed in the Colombo Stock Exchange) whose impairment is assessed individually, is calculated by applying the original effective interest rate of the financial asset to the carrying amount as reduced by any allowance for impairment. Thus, changes in impairment allowances assessed individually and attributable to time value are reflected as a component of interest income.

Interest income includes income from finance leases, dividend from preference shares and notional tax credit on interest income from Treasury Bills and Bonds.

Finance lease income is recognised on a pattern reflecting a constant periodic rate of return on the Bank's net investment in the finance lease.

5.1.2 Fees and Commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Fees for guarantees and trade related commissions are recognised on a straight line basis over the period of the contract. Other fees and commission expense relate mainly to transaction and service fees, which are expensed, as the services are received.

5.1.3 Net Gain/(Loss) from Trading

This comprises all gains less losses from changes in fair value of financial assets held-for-trading (both realised and unrealised) together with related dividend and foreign exchange differences.

5.1.4 Net Gain/(Loss) from Financial Instruments at Fair Value Through Profit or Loss

Bank has not chosen the option to designate financial instruments at fair value through profit or loss as a compensatory mechanism for accounting mismatches that would otherwise arise from measuring assets or liabilities or recognising gains or losses on them on different bases.

The Bank however, has non-trading derivatives held for risk management purposes (e.g., forward foreign exchange purchase or sale contracts) that do not form part of qualifying hedge relationship, that are mandatorily fair valued through profit or loss. In respect of such financial instruments, all realised and unrealised fair value changes and foreign exchange differences are included.

5.1.5 Net Gain/(Loss) from Financial Investments

This includes realised gain or loss on sale of available-for-sale securities (e.g., Treasury Bills and Bonds, ordinary shares -both listed in the Colombo Stock Exchange and unlisted) and dividend income from ordinary shares classified as available-for-sale.

Where the dividend clearly represents a recovery of part of the cost of the investment, it is presented in other comprehensive income. Dividend income is recognised when the right to receive payment is established. Dividend income are presented in net gains/(loss) from trading and net gains/(loss) from financial investment, based on underlying classification of the equity investment.

5.1.6 Foreign Exchange Gain/(Loss)

Items included in the financial statements of the Bank are measured in Sri Lankan Rupees denoted as LKR which is the currency of the primary economic environment in which the Bank operates ('the functional currency') as well as the presentation currency.

Transactions in foreign currencies are recorded in the functional currency at the average exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the average exchange rate ruling at the reporting date (viz. date of the statement of financial position) and consequently recognised in the 'other operating income' in the income statement of the Bank. The average exchange rate used is the middle rates quoted by commercial banks for purchase or sale of the relevant foreign currency.

The Bank does not have any non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency.

Foreign exchange income recognised in the income statement is presented as follows, based on the underlying classification:

i. Foreign exchange gain/(loss) which is part of a trading activity comprising profit or loss from the sale and purchase of foreign currencies for spot exchange is included as net gain/(loss) from trading.

ii. Foreign exchange income or loss on derivatives held-for-risk management purposes and mandatorily measured at fair value through profit or loss is recognised as net gain/(loss) from financial instruments at fair value through profit or loss (Note 15).

The Bank does not have any foreign operation that is a subsidiary, associate, joint venture or a branch and therefore, there is no exchange differences recognised in other comprehensive income.

5.1.7 Premises Rental Income

Rent expenses are accounted on a straight-line basis over the entire period of the tenancy incorporating predetermined rent escalation during the period of the tenancy.

5.1.8 Value Added Tax on Financial Services (VAT)

VAT on financial services is calculated in accordance with Value Added Tax Act, No. 14 of 2002 and subsequent amendments thereto.

The value base for computation of VAT is the operating profit before value added tax and nation building tax on financial services adjusted for emoluments of employees and depreciation computed as per prescribed rates.

5.1.9 Nation Building Tax on Financial Services (NBT)

NBT on financial services is calculated in accordance with Nation Building Tax Act, No. 09 of 2009 and subsequent amendments thereto. NBT is chargeable on the same base used for calculation of VAT on financial services as explained in Note 5.1.8 above.

5.1.10 Withholding Tax on Dividend Distributed by Subsidiaries, Associate Company and Joint Venture Company

Dividend distributed out of the taxable profit of the subsidiaries, associate company and joint venture 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 companies, the associate company and joint venture company in the Group financial statements as a consolidation adjustment.

5.1.11 Tax Expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the income statement except to the extent that they relate to items recognised directly in equity and other comprehensive income.

Current tax is the amount of income tax payable on the taxable profit for the financial year calculated using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

5.1.12 Other Expenses

All other expenses are recongised on an accrual basis.

5.2 Financial Assets

5.2.1 Recognition and Measurement

The financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction cost that are directly attributable to its acquisition.

Loans and advances are initially recognised on the date at which they are originated at fair value which is usually the loan amount granted and subsequent measurement is at amortised cost.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

All other financial assets are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

5.2.2 Classification

At the inception, a financial asset is classified and measured at amortised cost or fair value:

→ **Loans and receivables** – at amortised cost.

→ **Held-to-maturity** – non-derivative financial assets with fixed or determinable payments and fixed maturity (for example, bonds, debentures and debt instruments listed in the Colombo Stock Exchange) that the Bank has the positive intent and ability to hold to maturity are measured at amortised cost.

→ **Held-for-trade** – financial assets held-for-trade measured at fair value with changes in fair value recognised in the income statement.

→ **Designated at fair value** – this is an option to deal with accounting mismatches and currently the Bank has not exercised this option.

- **Available-for-sale** – this is measured at fair value and is the residual classification with fair value changes recognised in other comprehensive income.
- **Derivative assets** – are mandatorily measured at fair value with fair value changes recognised in the income statement.

5.2.3 Reclassification

- Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be reclassified out of the fair value through profit or loss category, in the following circumstances:
- Financial assets that would have met the definition of loans and receivables at initial recognition (if the financial asset had not been required to be classified as held-for-trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity;
  and
- Financial assets except financial assets that would have met the definition of loans and receivables at initial recognition may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

5.2.4 Derecognition of Financial Assets

Financial assets are derecognised when the contractual right to receive cash flows from the asset has expired; or when Bank has transferred its contractual right to receive the cash flows of the financial assets, and either –

- Substantially all the risks and rewards of ownership have been transferred;
  or
- Bank has neither retained nor transferred substantially all the risks and rewards, but has not retained control of the financial asset.

5.2.5 Fair Value Measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active, if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

5.2.6 Identification and Measurement of Impairment

At each reporting date, the Bank assesses whether there is an objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) that can be estimated reliably.

5.2.6.1 Loans and Advances and Held-to-Maturity Investment Securities

Objective evidence that loans and advances and held-to-maturity investment securities (e.g., debt instruments quoted in the Colombo Stock Exchange, Treasury Bills and Bonds) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group or economic conditions that correlate with defaults in the Group.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific and collective level.

5.2.6.1.1 Individually Assessed Loans and Advances and Held-to-Maturity Debt Instruments

These are exposures, where evidence of impairment exists and those that are individually significant meriting individual assessment for objective evidence of impairment and computation of impairment allowance. The factors considered in determining that the exposures are individually significant include –

- the size of the loan; and
- the number of loans in the portfolio.

Loans considered as individually significant are typically to corporate and commercial customers and are for larger amounts.

For all loans and held-to-maturity debt instruments that are considered individually significant, Bank assesses on a case by case basis, whether there is any objective evidence of impairment. The criteria used by the Bank to determine that there is such objective evident include –

- contractual payments for either principal or interest being past due for a prolonged period;
- the probability that the borrower will enter bankruptcy or other financial realisation;
- a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees, where the concession is not insignificant; and
- there has been deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.

For those loans and held-to-maturity investment securities where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- Bank's aggregate exposure to the customer;
- Thee viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of or *pari passu* with, the Bank and the likelihood of other creditors continuity to support the Company;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession or enforcement of security;
- the likely deduction of any costs involved in recovery of amounts outstanding.

Impairment allowance on loans and advances and held-to-maturity investment securities measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

5.2.6.1.2 Collective Assessment, this includes:

All loans and advances of smaller value where there is no evidence of impairment and those individually assessed for which no evidence of impairment has been specifically identified on an individual basis.

- Import loans
- Export loans
- Corporate term loans
- Overdraft
- Personal loans
- Finance leases

These loans and advances are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective impairment.

In assessing collective impairment, the Bank uses statistical modelling of historical trends of the default rates, the timing of recoveries and the amount of loss incurred, adjusted for experience adjustment by the management, where current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Default rates, loss rates and the expected timing of future recoveries will be regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Individually assessed loans for which, no evidence of impairment has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective impairment. This reflects impairment losses that Bank has incurred as a result of events occurring before the reporting date which the Bank is not able to identify on an individual basis and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans and held-to-maturity investment securities within the Group, these are removed from the Group and assessed on an individual basis for impairment. The collective impairment allowance is based on historical loss experience adjusted by management's experienced judgment.

Impairment allowance on loans and advances and held-to-maturity investment securities measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

5.2.6.1.3 Reversals of Impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written-back by reducing the loan impairment allowance accordingly. The write-back is recognised in the income statement.

5.2.6.1.4 Renegotiated Loans

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as up-to-date loans for measurement purposes once a minimum number of payments required have been received.

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired. The carrying amounts of loans that have been classified as renegotiated retain this classification until maturity or derecognition.

5.2.6.1.5 Write-off of Loans and Advances

Loans (and the related impairment allowance) are normally written-off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

5.2.6.1.6 Asset-Backed-Securities

These are included in loans and advances. When assessing for objective evidence of impairment, Bank considers the performance of underlying collateral.

5.2.6.2 Available-for-Sale Financial Assets

At each date of statement of financial position an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

5.2.6.3 Available-for-Sale Debt Securities

When assessing available-for-sale debt securities for objective evidence of impairment at the reporting date, Bank considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial recognition, or the disappearance of an active market for the debt security.

These types of specific events and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

5.2.6.4 Available-for-Sale Equity Securities

Objective evidence of impairment for available-for-sale equity securities may include specific information about the issuer and information about significant changes in technology, markets, economics or the law that provide evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

Once an impairment loss has been recognised on an available-for- sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, a decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement. If there is no longer objective evidence that the debt security is impaired, the impairment loss is also reversed through the income statement.
- For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated asa revaluation and are recognised in other comprehensive income. Impairment losses recognised on the equity security are not reversed through the income statement. Subsequent decreases in the fair value of the available- for-sale equity security are recognised in the income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

5.2.6.5 Impairment of Intangible Assets - Computer Application Software and Goodwill on Consolidation

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

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

5.2.7 Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under SLAS or for gains and losses arising from a group of similar transaction.

5.2.8 Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with three months or less than three months' maturity from the date of acquisition.

Cash and cash equivalents include cash and short-term Treasury Bills with maximum three months' maturity from date of acquisition.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

5.2.9 Derivative Financial Instruments Held-for-Risk Management Purposes

Derivative assets held-for-risk management purposes include all derivative assets that are not classified as trading assets and are measured at fair value in the statement of financial position.

Bank has not designated any derivative held-for-risk management purposes as a qualifying hedge relationship and therefore the Bank has not adopted hedge accounting.

Derivatives are classified as assets, when their fair value is positive or as liabilities, when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset, if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

5.2.10 Government Grants Receivable

Government grants are recognised initially as deferred income at fair value, when there is a reasonable assurance that they will be received and Group will comply with the conditions associated with the grant, and are then recognised in profit or loss as other income on a systematic basis in the period in which the expenses (losses) are recognised.

5.2.11 Loans and Advances to Banks and Customers

Loans and advances to banks and customers include loans and advances and finance lease receivables originated by the Bank.

The carrying amount includes interest receivable from the customers and banks on these loans. This also includes investment by the Bank in any debentures, bonds, commercial paper or any other debt instrument which is not listed in the Colombo Stock Exchange or in any recognised market. The amount includes the principal amount and interest due and/or accrued on the date of the statement of financial position.

Principal amount of loans and advances (for example, over drawn balances in current account) are recognised when cash is advanced to a borrower. They are derecognised when either the borrower repays its obligations, or the loans are written-off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less any reduction for impairment or uncollectibility.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risk and rewards incidental to the ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

5.2.12 Financial Investments – Available-for-Sale

Available-for-sale investments are non-derivative investments that were designated as available-for-sale or not classified as another category of financial assets. These include Treasury Bills, Bonds, Debt Securities and unquoted and quoted equity securities. They are carried at fair value except for unquoted equity securities whose fair value cannot reliably be measured and therefore carried at cost.

Interest income is recognised in profit or loss, using the effective interest method. Dividend income was recognised in profit or loss when the Bank become entitled to the dividend.

Fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as are classification adjustment.

5.2.13 Financial Investments –Held-to-Maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Bank positively intends, and is able, to hold to maturity. Held-to-maturity investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses.

A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all investment securities as available-for-sale for the current and the subsequent two financial years.

However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- Sales or reclassifications after the Bank has collected substantially all of the asset's original principal; and
- Sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

5.2.14 Subsidiaries, Associates and Joint Ventures

Bank's investments in subsidiaries are stated at cost less impairment losses. Reversals of impairment losses are recognised in the income statement, if there has been a change in the estimates used to determine the recoverable amount of the investment.

Investments in associate and joint venture are recognised using the equity method, initially stated at cost, including attributable goodwill, and are adjusted thereafter for the post-acquisition change in Bank's share of net assets.

Unrealised gains on transactions between Bank and its associates and joint ventures are eliminated to the extent of Bank's interest in the respective associate or joint venture. Unrealised losses are also eliminated to the extent of Bank's interest in the associate or joint venture.

5.2.15 Property, Plant and Equipment

5.2.15.1 Recognition and Measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the income statement.

5.2.15.2 Subsequent Costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance costs are expensed as incurred.

5.2.15.3 Depreciation

Items of property, plant and equipment are depreciated from the month they are available-for-use. Depreciation is calculated to write-off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods of significant items of property, plant and equipment are as follows:

	Years
Buildings	20
Office equipment and motor vehicles	5
Fixtures and fittings	10

5.2.15.4 De-recognition

The carrying amount of property and equipment is de-recognised on disposal or when non future economic benefits are expected from its use of the gain or loss arising from the de-recognition (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the income statement.

5.2.16 Investment Properties

Investment property of the Group (held by Subsidiary Lanka Industrial Estates Limited) is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business. The Group has chosen the cost model instead of fair value model and therefore investment property is measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the income statement.

5.2.17 Goodwill or Negative Goodwill on Consolidation

Goodwill arises on the acquisition of subsidiaries, when the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest and the fair value of any previously held equity interest in the acquiree exceed the amount of the identifiable assets and liabilities acquired. If the amount of the identifiable assets and liabilities acquired is greater, the difference is recognised immediately in the income statement. Goodwill arises on the acquisition of interests in joint ventures and associates when the cost of investment exceeds Bank's share of the net fair value of the associate's or joint venture's identifiable assets and liabilities.

5.2.18 Intangible Assets – Computer Application Software

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

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

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

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

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use and subsequent disposal.

5.2.19 Balances with Central Bank of Sri Lanka

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain cash deposits with the Central bank of Sri Lanka as a reserve against all deposit liabilities denominated in Sri Lankan Rupees. The details of reserve requirements are given in Note 27. There are no reserves requirement for deposit liabilities of the Foreign Currency Banking Unit and foreign currency deposit liabilities in the Domestic Banking Unit.

5.2.20 Fiduciary Assets

Assets held in a fiduciary capacity are not reported in these financial statements as they do not belong to the Bank.

5.3 Financial Liabilities

5.3.1 Recognition and Initial Measurement

Deposits, borrowing from foreign multilateral, bilateral sources and domestic sources, debt securities issued and subordinated liabilities are initially recognised on the date at which they are originated.

A financial liability is measured initially at fair value plus, transaction costs that are directly attributable to its acquisition or issue.

Subsequent measurement of financial liability is at amortised cost. The amortised cost of a financial liability is the amount at which the financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount.

5.3.2 Derecognition of Financial Liabilities

Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

5.3.3 Due to Banks, Customers, Debt Securities Issued and Other Borrowing

Financial liabilities are recognised when Group enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurement of financial liabilities is at amortised cost, using the effective interest method to amortise the difference between proceeds received, net of directly attributable transaction costs incurred, and the redemption amount over the expected life of the instrument.

5.3.4 Deferred Tax Liabilities/Assets

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

Deferred income tax assets are recognised for tax losses carry-forwards, and impairment allowances that exceed 1% of the loans and advances on date of the statement of financial position only to the extent that the realisation of related tax benefit through future taxable profits is probable.

5.3.5 Pension Liability Arising from Defined Benefit Obligations

5.3.5.1 Description of the Plan and Employee Groups Covered

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

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

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

5.3.5.2 Funding Arrangement

The Bank's contributions to the trust fund are made annually based on the recommendation of an independent actuary. The employees make no contributions to qualify for the basic pension, which is therefore a non-contributory benefit to the employees.

Eligible employees who desire to provide for the payment of pension to spouse and minor children, who survive them are however, required to contribute monthly, an amount based on a percentage of gross emoluments, excluding bonus, if they joined the Bank on or after 31 August 1998 and prior to 1 May 2004.

5.3.5.3 Recognition of Actuarial Gains and Losses

The net actuarial gains or losses arising in a financial year is due to increases or decreases in either the present value of the promised pension benefit obligation or the fair value of pension assets.

The causes for such gains or losses include changes in the discount rate, differences between the actual return and the expected return on pension assets and changes in the estimates of actual employee turnover, mortality rates and increases in salary.

The Bank recognises the total actuarial gains and losses that arise in calculating the Bank's obligation in respect of the plan in other comprehensive income and the expense under personnel expenses in the income statement during the period in which it occurs.

5.3.5.4 Recognition of Past Service Cost

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

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

5.3.6.1 Description of the Plan and Employee Groups Covered

The Bank provides for the gratuity payable under the Payment of Gratuity Act, No. 12 of 1983 as amended for all employees who do not qualify under the pension scheme. Therefore, this applies to employees recruited to the permanent cadre on or after 1 May 2004 on tenured or fixed term contract employment in the Bank. The subsidiary companies, which do not have a non-contributory pension scheme provide for the gratuity payable under the Payment of Gratuity Act, No. 12 of 1983 for all employees. The promised benefit is half a month pre-termination salary for each completed year of service, provided a minimum qualifying period of 5 years is served prior to termination of employment.

The Bank however, recognises the liability by way of a provision for all employees in tenured employment from the date they joined the permanent cadre, while fixed term employees liability is recognised only if the fixed term contract of service provides for unbroken service of 5 years or more either singly or together with consecutive contracts.

5.3.6.2 Funding Arrangement

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

5.3.6.3 Recognition of Actuarial Gains and Losses

The Bank recognises the total actuarial gains and losses in the other comprehensive income during the period in which it occurs.

5.3.6.4 Recognition of Past Service Cost

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

5.3.7 Defined Contribution Plans

This provides for a lump-sum payment on termination of employment by resignation, retirement at the age of 55 years or death while in service.

Lump sum payment is by an outside agency to which contributions are made.

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

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

5.3.8 Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation.

5.3.9 Contingent Liabilities and Commitments

Contingent liabilities, which include guarantees are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

5.3.9.1 Financial Guarantees

Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee received or receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

5.3.10 Sale and Repurchase Agreements

When securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the statement of financial position and a liability is recorded in respect of the consideration received.

Securities purchased under commitments to sell ('reverse repos') are not recognised on the statement of financial position and the consideration paid is recorded in 'loans and advances to banks', 'loans and advances to customers' as appropriate. The difference between the sale and repurchase price is treated as interest and recognised over the life of the agreement for loans and advances to banks and customers.

5.3.11 Stated Capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets.

6 Cash Flow

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

7 Business Segment Reporting

Business segment results include items directly attributable to a business segment as well as those that can be allocated on a reasonable basis. Unallocated items include corporate assets, head office expenses, and tax assets and liabilities.

8 Directors' Responsibility

The Directors acknowledge the responsibility for true and fair presentation of the financial statements in accordance with Sri Lanka Accounting Standards.

9 New SLFRS Issued and Not Yet Effective

9.1 SLFRS Applicable for Financial Periods beginning on or after 1 January 2016

9.1.1 SLFRS 9 – 'Financial Instruments'

SLFRS 9 - 'Financial Instruments' replaces the existing guidance in LKAS 39 - 'Financial Instrument: Recognition and Measurement'. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets.

SLFRS 9 is effective for annual period beginning on or after 1 January 2018 with early adoption permitted.

9.1.2 SLFRS 15 – 'Revenue from Contracts with Customers'

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 – 'Revenue' and LKAS 11 – 'Construction Contracts' and IFRIC 13 Customer Loyalty Programmes.

SLFRS 15 is effective for annual period beginning on or after 1 January 2018 with early adoption permitted.

9.2 Possible Impact on the Application of the new SLFRS on the Group's Financial Statements

The Bank has not yet assessed the impact on the application of the above standards.

10 The Effect to the Period Results of the Group Due to Change in Financial Year End

DFCC Bank PLC had an annual year end of 31 March up to financial year ended 31 March 2015, and its subsidiaries, DFCC Vardhana Bank PLC, Synapsis Limited, Joint venture Acuity Partners (Pvt) Limited and associate company National Asset Management Limited, year end as at 31 December. Accordingly, each year the consolidated financial statements were prepared using financial information as at 31 December for the subsidiaries with 31 December year end, adjusted for any significant transactions from 1 January to 31 March.

As explained in Note 62.1, DFCC Bank PLC changed its financial year end to 31 December. Accordingly, the consolidated financial statements for period ended 31 December 2015 include the results of the DFCC Bank PLC and subsidiaries with year ending 31 March for the nine months to 31 December 2015, and results of 31 December financial year ending subsidiaries, associate and joint venture company for 12 months to 31 December 2015.

	BANK		GROUP	
	9 months ended 31 December 2015 LKR 000	Year ended 31 March 2015 LKR 000	**9 months ended 31 December 2015 LKR 000**	Year ended 31 March 2015 LKR 000

11 Income

Interest income	**8,918,343**	8,010,024	**15,308,568**	16,098,667
Fee and commission income	**371,590**	167,995	**1,151,029**	1,137,267
Net gain from trading	**87,062**	146,679	**215,575**	479,988
Net (loss)/gain from financial instruments at fair value through profit or loss	**(330)**	656,512	**74,583**	678,217
Net gain from financial investments	**640,637**	2,150,427	**507,528**	2,201,070
Other operating income/(loss) – net	**18,978**	(737,552)	**245,585**	(501,498)
	10,036,280	10,394,085	**17,502,868**	20,093,711

12 Net Interest Income

Interest income				
Placements with banks	**37,700**	82,130	**42,536**	52,860
Loans to and receivables from banks	**79,630**	88,969	**190,431**	205,776
Loans to and receivables from other customers	**7,843,674**	7,235,442	**13,498,498**	14,240,041
Other financial assets held-for-trading	**101,665**	93,128	**211,877**	140,765
Financial investments – available-for-sale	**466,404**	388,312	**748,920**	1,331,350
Financial investments – held-to-maturity	**388,080**	118,039	**615,116**	123,871
Others	**1,190**	4,004	**1,190**	4,004
	8,918,343	8,010,024	**15,308,568**	16,098,667

	BANK		GROUP	
	9 months ended 31 December 2015 LKR 000	Year ended 31 March 2015 LKR 000	**9 months ended 31 December 2015 LKR 000**	Year ended 31 March 2015 LKR 000
Interest expenses				
Due to banks	**404,237**	110,795	**628,280**	189,818
Due to other customers	**2,665,807**	1,485,318	**5,584,815**	6,026,658
Other borrowing	**879,155**	1,341,627	**879,155**	1,341,627
Debt securities issued	**1,611,155**	1,737,707	**1,830,993**	1,849,481
	5,560,354	4,675,447	**8,923,243**	9,407,584
Net interest income	**3,357,989**	3,334,577	**6,385,325**	6,691,083
Interest income on Sri Lanka Government Securities	**733,936**	494,982	**1,487,117**	1,742,249

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

13 *Net Fee and Commission Income*

Fee and commission income	**371,590**	167,995	**1,151,029**	1,137,267
Fee and commission expenses	**1,208**	–	**9,914**	17,303
Net fee and commission income	**370,382**	167,995	**1,141,115**	1,119,964
Comprising:				
Loans and advances	**173,721**	100,212	**374,073**	503,530
Credit cards	**958**	–	**22,634**	24,641
Trade and remittances	**34,248**	–	**319,599**	326,306
Guarantees	**66,992**	27,743	**139,268**	145,090
Management and consulting fees	**94,463**	40,040	**285,541**	120,397
Net fee and commission income	**370,382**	167,995	**1,141,115**	1,119,964

14 *Net Gain from Trading*

Foreign exchange from banks	**(8,496)**	–	**118,916**	144,429
Fixed income securities	**95,558**	146,679	**96,659**	335,559
	87,062	146,679	**215,575**	479,988

15 *Net (Loss)/Gain from Financial Instruments at Fair Value through Profit or Loss*

Forward exchange fair value changes				
– Contracts with commercial banks	**(14,368)**	81,577	**60,545**	96,819
– Contract with CBSL (Note 43.1)	**14,038**	574,935	**14,038**	574,935
Realised gain on gold put option	**–**	–	**–**	6,463
	(330)	656,512	**74,583**	678,217

	BANK		GROUP	
	9 months ended 31 December 2015 LKR 000	Year ended 31 March 2015 LKR 000	**9 months ended 31 December 2015 LKR 000**	Year ended 31 March 2015 LKR 000

16 Net Gain from Financial Investments

Assets available-for-sale				
Gain on sale of equity securities	**37,018**	1,135,054	**37,018**	1,135,054
Gain on sale of Government Securities	**424**	–	**774**	4,909
Dividend income	**218,249**	777,536	**218,569**	777,803
Dividend income from subsidiaries, joint venture and associate	**318,027**	214,422	**–**	–
Net gain from repurchase transactions	**66,919**	23,415	**251,167**	283,304
	640,637	2,150,427	**507,528**	2,201,070

17 Other Operating Income/(Loss)-Net

Premises rental income	**41,577**	62,820	**162,661**	205,997
Gain on sale of property, plant and equipment	**2,654**	1,717	**3,050**	1,077
Foreign exchange gain/(loss)	**17,139**	(500,677)	**77,984**	(465,807)
Recovery of loans written-off	**23,267**	42,471	**31,463**	46,244
Amortisation of deferred income on Government grant – CBSL Swap (Note 43.2)	**(130,288)**	(376,185)	**(130,288)**	(376,185)
Others	**64,629**	32,302	**100,715**	87,176
	18,978	(737,552)	**245,585**	(501,498)

18 Impairment Charge/(Write Back) for Loans and Other Losses

Loans to and receivables from other customers				
Specific allowance for impairment (Note 32.2.1)	**325,635**	556,493	**757,051**	1,143,903
Collective allowance for impairment (Note 32.2.2)	**(104,907)**	(887,547)	**23,483**	(957,842)
Impairment (recoveries)/charge - other debts	**(3,034)**	8,355	**918**	11,775
Impairment charge – Investment in subsidiaries (Note 35.1)	**1,681**	11,000	**–**	–
Write-offs – Loans to and receivables from other customers	**5,564**	4,135	**13,875**	48,720
	224,939	(307,564)	**795,327**	246,556

19 Personnel Expenses

Salaries and other benefits	**1,012,764**	752,623	**2,237,739**	1,900,124
Provision for staff retirement benefits (Note 19.1)	**199,777**	190,418	**321,611**	312,476
	1,212,541	943,041	**2,559,350**	2,212,600

	BANK		GROUP	
	9 months ended 31 December 2015 LKR 000	Year ended 31 March 2015 LKR 000	**9 months ended 31 December 2015 LKR 000**	Year ended 31 March 2015 LKR 000

19.1 Provision for Staff Retirement Benefits

19.1.1 Amount Recognised as Expense

19.1.1.1 Funded Pension Liability

Current service cost	**58,048**	77,397	**58,048**	77,397
Interest on obligation	**144,561**	167,979	**144,561**	167,979
Expected return on pension assets	**(139,779)**	(177,105)	**(139,779)**	(177,105)
	62,830	68,271	**62,830**	68,271

19.1.1.2 Unfunded Pension Liability

Interest on obligation	**4,569**	6,187	**4,569**	6,187
	4,569	6,187	**4,569**	6,187

19.1.1.3 Unfunded end of Service Gratuity Liability

Current service cost	**12,404**	8,221	**28,636**	23,359
Interest on obligation	**6,960**	4,392	**14,517**	10,965
	19,364	12,613	**43,153**	34,324
Total defined benefit plans	**86,763**	87,071	**110,552**	108,782

19.1.1.4 Defined Contribution Plan

Employer's contribution to Employees' Provident Fund	**94,178**	86,123	**175,314**	169,192
Employer's contribution to Employees' Trust Fund	**18,836**	17,224	**35,745**	34,502
Total defined contribution plans	**113,014**	103,347	**211,059**	203,694
Total expense recognised in the income statement	**199,777**	190,418	**321,611**	312,476

20 Other Expenses

Directors' remuneration	**48,690**	45,398	**95,107**	87,502
Auditors' remuneration				
Audit fees and expenses	**4,723**	4,032	**6,270**	6,023
Audit related fees and expenses	**1,733**	2,389	**2,145**	4,334
Fees for non-audit services	**–**	455	**–**	479
Depreciation – Investment property	**–**	–	**9,706**	11,285
– Property, plant and equipment	**114,781**	116,673	**237,528**	268,614
Amortisation- Intangible assets	**42,538**	23,682	**102,158**	100,232
Expenses on litigation	**2,254**	–	**2,379**	179
Premises, equipment and establishment expenses	**401,246**	219,355	**960,535**	823,994
Other overhead expenses	**489,510**	314,643	**735,099**	760,254
	1,105,475	726,627	**2,150,927**	2,062,896

	BANK		GROUP	
	9 months ended 31 December 2015 LKR 000	Year ended 31 March 2015 LKR 000	**9 months ended 31 December 2015 LKR 000**	Year ended 31 March 2015 LKR 000

21 Value Added Tax (VAT) and Nation Building Tax on Financial Services

21.1 Value Added Tax on Financial Services

Financial services VAT – Current period	**294,804**	499,986	**493,857**	741,924
– (Over)/under provision in respect of previous year	**(4,732)**	106	**6,236**	7,353
	290,072	500,092	**500,093**	749,277

21.2 Nation Building Tax on Financial Services

Nation building tax on financial services - Current period	**53,601**	85,152	**90,412**	134,795
- Over provision in respect of previous year	**(1,175)**	–	**(1,175)**	–
	52,426	85,152	**89,237**	134,795
	342,498	585,244	**589,330**	884,072

22 Tax Expense

22.1 Composition

Current tax	**341,911**	449,555	**624,801**	841,269
Under provision in previous years	**11,070**	22,868	**16,885**	54,183
Deferred tax - origination and reversal of temporary differences	**167,934**	58,519	**270,156**	81,906
	520,915	530,942	**911,842**	977,358

22.2 Current Tax

Current tax is the amount of income tax payable in respect of the taxable profit for the nine months ended 31 December 2015. Taxable profit is determined in accordance with the provisions of Inland Revenue Act, No. 10 of 2006 as amended.

22.2.1. Reconciliation of Effective Tax Rate with Income Tax Rate

	BANK				GROUP			
	9 months ended 31 December 2015		Year ended 31 March 2015		**9 months ended 31 December 2015**		Year ended 31 March 2015	
	%	**LKR 000**	%	LKR 000	**%**	**LKR 000**	%	LKR 000
Tax using 28% tax rate on profit before tax (PBT)	**28.00**	**444,994**	28.00	1,055,962	**28.00**	**714,972**	28.00	1,516,472
Non-deductible expenses	**17.78**	**282,581**	7.16	270,050	**18.18**	**464,095**	9.65	522,895
Allowable deductions	**(8.89)**	**(141,310)**	(3.93)	(148,355)	**(13.50)**	**(344,652)**	(7.30)	(395,287)
Dividend income	**(10.06)**	**(159,887)**	(8.11)	(305,851)	**(5.15)**	**(131,526)**	(5.65)	(305,851)
Tax incentives	**(7.76)**	**(123,382)**	(10.32)	(389,159)	**(5.13)**	**(131,092)**	(7.53)	(407,895)
Taxable timing difference from capital allowances on assets	**(6.27)**	**(99,645)**	(0.88)	(33,092)	**(1.67)**	**(42,566)**	(0.61)	(33,100)
Tax losses from prior year	**(2.66)**	**(42,320)**	–	–	**(1.67)**	**(42,591)**	(0.01)	(507)
Taxed at different rates	**–**	**–**	–	–	**–**	**–**	0.08	4,237
Adjustments	**11.38**	**180,880**	–	–	**5.41**	**138,161**	(1.10)	(59,695)
Current tax expense	**21.51***	**341,911**	11.92	449,555	**24.47**	**624,801**	15.53	841,269

** Effective tax rate is computed including the additional tax arising on financial year change.*

22.3 Deferred Tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled. Deferred tax assets and liabilities are offset, if there is a legally enforceable right to offset current tax liabilities and assets.

As proposed in the budget 2016 current income tax rate of 28% will be increased to 30%. However, the Bank has considered tax rate at 28% as at 31 December 2015 as the new rate is not substantially enacted.

22.4 Super Gain Tax

	BANK		GROUP	
	9 months ended 31 December 2015 LKR 000	Year ended 31 March 2015 LKR 000	**9 months ended 31 December 2015 LKR 000**	Year ended 31 March 2015 LKR 000
Related to the taxable profits for the year of assessment 2013/2014	**776,593**	–	**811,368**	–

As per the provisions of part III of finance Act, No. 10 of 2015 which was certified on 30 October 2015, the Bank and Group were liable for Super Gain Tax. The method of accounting is explained in Note 2.8.1.

23 Basic Earnings per Ordinary Share

Basic earnings per ordinary share of the Bank has been calculated by dividing the profit after income tax by the number of shares as at 31 December 2015.

Basic group earnings per share has been calculated by dividing the profit after income tax attributable to the equity holders of the Bank by the number of shares as at 31 December 2015.

	BANK		GROUP	
	9 months ended 31 December 2015	Year ended 31 March 2015	**9 months ended 31 December 2015**	Year ended 31 March 2015
Profit attributable to equity holders of the Bank (LKR '000)	**1,068,350**	3,240,348	**1,592,303**	4,362,256
Number of ordinary shares (Note 53)	**265,097,688**	265,097,688	**265,097,688**	265,097,688
Basic earnings per ordinary share – LKR	**4.03**	12.22	**6.01**	16.46

24 Dividend per Share

Dividend per share (LKR)	**2.50**	6.00	**2.50**	6.00

The Board of Directors of the Bank has approved the payment of a first and final dividend of LKR 2.50 per share for the nine months ended 31 December 2015.

25 Analysis of Financial Instruments by Measurement Basis

25.1 Bank

As at 31 December 2015	Fair value through profit or loss mandatory LKR 000	Fair value held-for-trading LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Held-to-maturity LKR 000	Total LKR 000
Financial Assets						
Cash and cash equivalents	–	–	–	**4,305,247**	–	**4,305,247**
Balances with Central Bank of Sri Lanka	–	–	–	**5,553,809**	–	**5,553,809**
Derivative assets held-for-risk management	**198,776**	–	–	–	–	**198,776**
Loans to and receivables from banks	–	–	–	**4,574,319**	–	**4,574,319**
Loans to and receivables from other customers	–	–	–	**160,345,530**	–	**160,345,530**
Financial investments	–	–	**48,957,015**	–	**17,903,885**	**66,860,900**
Government grant receivable	**539,758**	–	–	–	–	**539,758**
Other assets	–	–	–	**1,705,379**	–	**1,705,379**
	738,534	–	**48,957,015**	**176,484,284**	**17,903,885**	**244,083,718**
Financial Liabilities						
Due to banks	–	–	–	**24,364,403**	–	**24,364,403**
Derivative liabilities held-for-risk management	**85,333**	–	–	–	–	**85,333**
Due to other customers	–	–	–	**110,890,685**	–	**110,890,685**
Other borrowing	–	–	–	**35,955,297**	–	**35,955,297**
Debt securities issued	–	–	–	**23,292,660**	–	**23,292,660**
Subordinated term debt	–	–	–	**3,767,081**	–	**3,767,081**
Other liabilities	–	–	–	**2,977,560**	–	**2,977,560**
	85,333	–	–	**201,247,686**	–	**201,333,019**

As at 31 March 2015	Fair value through profit or loss mandatory LKR 000	Fair value held-for-trading LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Held-to-maturity LKR 000	Total LKR 000
25.2 Bank						
Financial Assets						
Cash and cash equivalents	–	–	–	110,576	–	110,576
Placements with banks	–	–	–	716,622	–	716,622
Derivative assets held-for-risk management	29,335	–	–	–	–	29,335
Other financial assets held-for-trading	–	1,469,166	–	–	–	1,469,166
Loans to and receivables from banks	–	–	–	484,067	–	484,067
Loans to and receivables from other customers	–	–	–	73,448,705	–	73,448,705
Financial investments	–	–	27,823,496	–	2,085,921	29,909,417
Government grant receivable	483,727	–	–	–	–	483,727
Other assets	–	–	–	717,125	–	717,125
	513,062	1,469,166	27,823,496	75,477,095	2,085,921	107,368,740
Financial Liabilities						
Due to banks	–	–	–	1,928,867	–	1,928,867
Derivative liabilities held-for-risk management	1,737	–	–	–	–	1,737
Due to other customers	–	–	–	22,484,652	–	22,484,652
Other borrowing	–	–	–	24,361,797	–	24,361,797
Debt securities issued	–	–	–	19,445,924	–	19,445,924
Subordinated term debt	–	–	–	609,373	–	609,373
Other liabilities	–	–	–	595,469	–	595,469
	1,737	–	–	69,426,082	–	69,427,819

As at 31 December 2015	Fair value through profit or loss mandatory LKR 000	Fair value held-for-trading LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Held-to-maturity LKR 000	Total LKR 000
25.3 Group						
Financial Assets						
Cash and cash equivalents	–	–	–	**4,314,777**	–	**4,314,777**
Balances with Central Bank of Sri Lanka	–	–	–	**5,553,809**	–	**5,553,809**
Placements with banks	–	–	–	**1,718**	–	**1,718**
Derivative assets held-for-risk management	**198,776**	–	–	–	–	**198,776**
Loans to and receivables from banks	–	–	–	**4,602,263**	–	**4,602,263**
Loans to and receivables from other customers	–	–	–	**160,343,155**	–	**160,343,155**
Financial investments	–	–	**48,957,015**	–	**17,903,885**	**66,860,900**
Government grant receivable	**539,758**	–	–	–	–	**539,758**
Other assets	–	–	–	**1,765,199**	–	**1,765,199**
	738,534	–	**48,957,015**	**176,580,921**	**17,903,885**	**244,180,355**
Financial Liabilities						
Due to banks	–	–	–	**24,365,653**	–	**24,365,653**
Derivative liabilities held-for-risk management	**85,333**	–	–	–	–	**85,333**
Due to other customers	–	–	–	**110,551,220**	–	**110,551,220**
Other borrowing	–	–	–	**35,955,297**	–	**35,955,297**
Debt securities issued	–	–	–	**23,292,660**	–	**23,292,660**
Subordinated term debt	–	–	–	**3,767,081**	–	**3,767,081**
Other liabilities	–	–	–	**3,083,161**	–	**3,083,161**
	85,333	–	–	**201,015,072**	–	**201,100,405**

As at 31 March 2015	Fair value through profit or loss mandatory LKR 000	Fair value held-for-trading LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Held-to-maturity LKR 000	Total LKR 000
25.4 Group						
Financial Assets						
Cash and cash equivalents	–	–	–	4,060,820	–	4,060,820
Balances with Central Bank of Sri Lanka	–	–	–	2,616,406	–	2,616,406
Placements with banks	–	–	–	1,324,892	–	1,324,892
Derivative assets held-for-risk management	89,861	–	–	–	–	89,861
Other financial assets held-for-trading	–	1,469,166	–	–	–	1,469,166
Loans to and receivables from banks	–	–	–	3,563,647	–	3,563,647
Loans to and receivables from other customers	–	–	–	135,322,723	–	135,322,723
Financial investments	–	–	45,826,878	–	10,872,287	56,699,165
Government grant receivable	483,727	–	–	–	–	483,727
Other assets	–	–	–	2,088,401	–	2,088,401
	573,588	1,469,166	45,826,878	148,976,889	10,872,287	207,718,808
Financial Liabilities						
Due to banks	–	–	–	5,972,567	–	5,972,567
Derivative liabilities held-for-risk management	37,153	–	–	–	–	37,153
Due to other customers	–	–	–	92,711,793	–	92,711,793
Other borrowing	–	–	–	38,846,172	–	38,846,172
Debt securities issued	–	–	–	19,445,924	–	19,445,924
Subordinated term debt	–	–	–	1,609,664	–	1,609,664
Other liabilities	–	–	–	2,239,917	–	2,239,917
	37,153	–	–	160,826,037	–	160,863,190

	BANK		GROUP	
As at	**31.12.2015 LKR 000**	31.03.2015 LKR 000	**31.12.2015 LKR 000**	31.03.2015 LKR 000

26 Cash and Cash Equivalents

Cash in hand	**2,330,722**	378	**2,330,827**	1,752,387
Balances with banks	**1,550,457**	110,198	**1,559,882**	2,308,433
Money at call and short notice	**424,068**	–	**424,068**	–
	4,305,247	110,576	**4,314,777**	4,060,820

27 Balances with Central Bank of Sri Lanka

Statutory balances with Central Bank of Sri Lanka	**5,553,809**	–	**5,553,809**	2,616,406

As required by the provisions of Section 93 of the Monetary Law Act, a minimum cash balance is maintained with the Central Bank of Sri Lanka. The minimum cash reserve requirement on Sri Lankan Rupee deposit liabilities is prescribed as a percentage of Sri Lankan Rupee deposit liabilities. Applicable minimum rate was 6%. There are no reserve requirement for deposit liabilities of the Foreign Currency Banking Unit and foreign currency deposit liabilities in the Domestic Banking Unit.

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000

28 *Placements with Banks*

Placements with Banks	–	716,622	**1,718**	1,324,892
	–	716,622	**1,718**	1,324,892

29 *Derivatives Held-for-Risk Management*

29.1 Assets

Forward foreign exchange contracts - Currency Swaps	**143,233**	28,672	**143,233**	83,271
- Others	**55,543**	663	**55,543**	6,590
	198,776	29,335	**198,776**	89,861

29.2 Liabilities

Forward foreign exchange contracts - Currency Swaps	**13,377**	124	**13,377**	29,204
- Others	**71,956**	1,613	**71,956**	7,949
	85,333	1,737	**85,333**	37,153

30 *Other Financial Assets Held-for-Trading*

Government of Sri Lanka Treasury Bonds	–	1,469,166	–	1,469,166
	–	1,469,166	–	1,469,166

These financial assets held-for-trading are carried at fair value.

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000

31 Loans to and Receivables from Banks

Gross loans and receivables	**4,574,319**	484,067	**4,602,263**	3,563,647
Allowance for impairment	–	–	–	–
Net loans and receivables	**4,574,319**	484,067	**4,602,263**	3,563,647

31.1 Analysis

31.1.1 By Product

Securities purchased under resale agreements	–	–	**27,944**	281,234
Refinanced loans – Plantation development project	**142,593**	314,517	**142,593**	314,517
KFW* DFCC (V) SME in the North and the East	**59,535**	169,550	**59,535**	169,550
Sri Lanka Development Bonds	**4,372,191**	–	**4,372,191**	2,798,346
Gross loans and receivables	**4,574,319**	484,067	**4,602,263**	3,563,647

** KFW – Kreditanstalt Fur Wiederaufbau*

31.1.2 By Currency

Sri Lankan Rupee	**202,128**	484,067	**230,072**	765,301
United States Dollar	**4,372,191**	–	**4,372,191**	2,798,346
Gross loans and receivables	**4,574,319**	484,067	**4,602,263**	3,563,647

32 Loans to and Receivables from Other Customers

Gross loans and receivables	**166,511,168**	76,350,160	**166,508,793**	141,332,579
Specific allowance for impairment (Note 32.2.1)	**(4,240,756)**	(1,932,635)	**(4,240,756)**	(4,001,868)
Collective allowance for impairment (Note 32.2.2)	**(1,924,882)**	(968,820)	**(1,924,882)**	(2,007,988)
Net loans and receivables	**160,345,530**	73,448,705	**160,343,155**	135,322,723

32.1 Analysis

32.1.1 By Product

Overdrafts	**24,272,954**	–	**24,272,954**	20,426,827
Trade finance	**18,742,710**	–	**18,742,710**	15,317,135
Lease rentals receivable (Note 32.1.1.1)	**15,436,155**	8,250,091	**15,433,780**	10,962,838
Credit cards	**204,406**	–	**204,406**	172,537
Pawning	**1,532,181**	–	**1,532,181**	1,720,937
Staff loans	**1,241,687**	583,621	**1,241,687**	1,028,735
Term loans	**102,135,760**	63,282,363	**102,135,760**	86,715,802
Commercial papers and asset back notes	**1,934,126**	2,385,756	**1,934,126**	2,385,756
Debenture loans	**71,189**	577,347	**71,189**	577,347
Preference shares unquoted	**940,000**	1,270,982	**940,000**	1,270,982
Securities purchased under resale agreements	–	–	–	753,683
Gross loans and receivables	**166,511,168**	76,350,160	**166,508,793**	141,332,579

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000

32.1.1.1 Lease Rentals Receivable

Gross investment in leases:				
Lease rentals receivable				
- within one year	**6,756,288**	4,062,394	**6,756,288**	5,239,805
- one to five years	**11,546,339**	5,733,058	**11,543,964**	7,879,730
	18,302,627	9,795,452	**18,300,252**	13,119,535
Less: Deposit of rentals	**15,932**	7,297	**15,932**	15,272
Unearned income on rentals receivable				
- within one year	**1,371,442**	796,299	**1,371,442**	1,079,721
- one to five years	**1,479,098**	741,765	**1,479,098**	1,061,704
	15,436,155	8,250,091	**15,433,780**	10,962,838

32.1.2 By Currency

Sri Lankan Rupee	**152,436,592**	70,819,394	**152,434,217**	128,625,376
United States Dollar	**13,399,942**	5,530,766	**13,399,942**	12,257,859
Great Britain Pound	**495,468**	–	**495,468**	324,472
Australian Dollar	**20,568**	–	**20,568**	14,688
Euro	**158,598**	–	**158,598**	110,184
Gross loans and receivables	**166,511,168**	76,350,160	**166,508,793**	141,332,579

32.1.3 By Industry

Agriculture and fishing	**17,644,788**	3,738,938	**17,644,788**	12,504,037
Manufacturing	**39,710,497**	21,971,033	**39,710,497**	36,744,877
Tourism	**8,905,273**	6,911,685	**8,905,273**	8,560,968
Transport	**5,723,242**	3,315,608	**5,723,242**	4,939,098
Construction	**15,699,860**	9,145,886	**15,699,860**	13,193,926
Trading	**35,994,005**	11,774,943	**35,994,005**	30,172,954
Financial and business services	**7,440,214**	6,347,630	**7,437,839**	7,349,374
Infrastructure	**10,855,351**	6,973,946	**10,855,351**	8,464,095
Other services	**15,751,910**	5,788,567	**15,751,910**	9,644,160
Consumer durables	**4,211,387**	–	**4,211,387**	7,705,195
New economy	**1,257,448**	72,782	**1,257,448**	991,070
Others	**3,317,193**	309,142	**3,317,193**	1,062,825
Gross loans and receivables	**166,511,168**	76,350,160	**166,508,793**	141,332,579

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000

32.2 Movement in Specific and Collective Allowance for Impairment

32.2.1 Specific Allowance for Impairment

Balance as at 1 April	**1,932,635**	1,486,838	**4,001,868**	3,794,550
Balance transferred on amalgamation	**2,278,723**	–	–	–
Charge to income statement	**325,635**	556,493	**757,051**	1,143,903
Effect of foreign currency movement	**7,471**	–	**22,591**	1,884
Write-off loans and receivables	**(303,708)**	(110,696)	**(540,754)**	**(938,469)**
Balance on 31 December/March	**4,240,756**	1,932,635	**4,240,756**	4,001,868

32.2.2 Collective Allowance for Impairment

Balance as at 1 April	**968,820**	1,905,442	**2,007,988**	3,097,218
Balance transferred on amalgamation	**1,114,051**	–	–	–
(Write-back)/charge to income statement	**(104,907)**	(887,547)	**23,483**	(957,842)
Effect of foreign currency movement	**791**	–	**1,155**	(53)
Transfer to dues on terminated leases	**(16,037)**	(17,016)	**(16,037)**	(17,016)
Write-off of loans and receivables	**(37,836)**	(32,059)	**(91,707)**	(114,319)
Balance on 31 December/March	**1,924,882**	968,820	**1,924,882**	2,007,988
Total	**6,165,638**	2,901,455	**6,165,638**	6,009,856

33 Financial Investments – Available-for-Sale

Government of Sri Lanka Treasury Bills	**20,856,663**	4,051,126	**20,856,663**	20,030,203
Government of Sri Lanka Treasury Bonds	**8,833,930**	1,497,382	**8,833,930**	3,516,272
Equity securities				
Quoted ordinary shares (Note 33.1)	**18,123,603**	21,136,695	**18,123,603**	21,136,695
Unquoted ordinary shares (Note 33.2)	**147,374**	141,959	**147,374**	147,374
Preference shares (Note 33.3)	**500**	500	**500**	500
Quoted units in Unit Trusts (Note 33.4)	**197,759**	190,153	**197,759**	190,153
Unquoted units in Unit Trusts (Note 33.5)	**797,186**	805,681	**797,186**	805,681
	48,957,015	27,823,496	**48,957,015**	45,826,878

All the financial investments are carried at fair value except for unquoted equity securities and irredeemable preference shares whose fair value cannot be reliably measured, is carried at cost

As at	31.12.2015			31.03.2015		
	Number of ordinary shares	Cost* LKR 000	Fair value LKR 000	Number of ordinary Shares	Cost* LKR 000	Fair value LKR 000
33.1 Quoted Ordinary Shares						
Banks, Finance and Insurance						
Commercial Bank of Ceylon PLC – voting	121,005,515	3,290,259	17,001,276	119,806,122	3,074,609	19,887,816
Commercial Bank of Ceylon PLC – non-voting	227,045	17,838	27,949	224,143	17,434	29,408
National Development Bank PLC	2,000,000	352,369	392,000	2,000,000	352,369	497,000
		3,660,466	17,421,225		3,444,412	20,414,224
Beverages, Food and Tobacco						
Ceylon Tobacco Company PLC	59,532	3,360	59,234	59,532	3,360	59,472
Distilleries Company of Sri Lanka PLC	417,485	69,829	102,701	417,485	69,829	100,405
		73,189	161,935		73,189	159,877
Chemicals and Pharmaceuticals						
Chemical Industries (Colombo) PLC – voting	247,900	14,131	24,864	247,900	14,131	18,840
Chemical Industries (Colombo) PLC – non-voting	389,400	15,577	31,619	389,400	15,577	22,391
		29,708	56,483		29,708	41,231
Construction and Engineering						
Access Engineering PLC	400,000	8,010	9,280	400,000	8,010	7,680
Colombo Dockyard PLC	160,000	22,645	24,480	160,000	22,645	26,480
		30,655	33,760		30,655	34,160
Diversified Holdings						
Carson Cumberbatch PLC	46,967	13,635	16,204	46,967	13,635	17,847
Hayleys PLC	7,333	2,225	2,262	7,333	2,225	2,200
Hemas Holdings PLC	496,560	16,297	46,131	496,560	16,297	36,994
John Keells Holdings PLC	144,294	10,080	25,756	126,258	10,080	25,138
John Keells Holdings PLC – Warrants	8,016	–	258	14,028	–	374
Richard Pieris & Co PLC	1,000,000	8,234	8,500	1,000,000	8,234	7,300
		50,471	99,111		50,471	89,853

Sector classification and fair value per share are based on the list published by Colombo Stock Exchange, as at the reporting date.

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

As at	31.12.2015			31.03.2015		
	Number of ordinary shares	Cost* LKR 000	Fair value LKR 000	Number of ordinary Shares	Cost* LKR 000	Fair value LKR 000
Healthcare						
Ceylon Hospitals PLC – voting	**100,000**	**2,306**	**10,100**	100,000	2,306	11,500
Ceylon Hospitals PLC – non-voting	**240,000**	**4,167**	**18,072**	240,000	4,167	18,024
		6,473	**28,172**		6,473	29,524
Hotels and Travels						
Dolphin Hotels PLC	**100,000**	**964**	**5,420**	**400,000**	**3,857**	22,760
		964	**5,420**		**3,857**	22,760
Investment Trusts						
Ceylon Guardian Investment Trust PLC	**152,308**	**5,918**	**26,639**	150,688	5,616	27,727
Ceylon Investment PLC	**288,309**	**9,429**	**22,921**	485,592	15,587	44,189
		15,347	**49,560**		21,203	71,916
Telecommunications						
Dialog Axiata PLC	**2,050,000**	**18,860**	**21,935**	2,050,000	18,860	21,730
Manufacturing						
Ceylon Grain Elevators PLC	**48,997**	**1,297**	**4,483**	48,997	1,297	1,862
Chevron Lubricants Lanka PLC	**330,814**	**11,020**	**114,131**	330,814	11,020	130,010
Piramal Glass Ceylon PLC	**7,500,000**	**21,036**	**45,750**	7,500,000	21,036	42,750
Royal Ceramics Lanka PLC	**139,800**	**16,996**	**15,518**	139,800	16,996	15,797
Tokyo Cement Company (Lanka) PLC – non-voting	**1,127,096**	**21,040**	**44,520**	1,127,096	21,040	42,041
		71,389	**224,402**		71,389	232,460
Power and Energy						
Vallibel Power Erathna PLC	**2,400,000**	**6,400**	**21,600**	2,400,000	6,400	18,960
		6,400	**21,600**		6,400	18,960
Total Quoted Ordinary Shares – Bank/Group		**3,963,922**	**18,123,603**		3,756,617	21,136,695

Sector classification and market value per share are based on official valuations list published by Colombo Stock Exchange, as at the reporting date.
**Cost is reduced by write-off of diminution in value other than temporary in respect of Investments.*

As at	31.12.2015		31.03.2015	
	Number of ordinary shares	Cost* LKR 000	Number of ordinary Shares	Cost* LKR 000

33.2 Unquoted Ordinary Shares

Credit Information Bureau of Sri Lanka	**9,184**	**918**	8,884	888
Durdans Medical and Surgical Hospital (Private) Limited	**1,273,469**	**16,029**	1,273,469	16,029
Fitch Ratings Lanka Limited	**62,500**	**625**	62,500	625
Lanka Clear (Private) Limited	**100,000**	**1,000**	–	–
Lanka Financial Services Bureau Limited	**100,000**	**1,000**	–	–
Plastipak Lanka Limited	**240,000**	**2,400**	240,000	2,400
Sampath Centre Limited	**1,000,000**	**10,000**	1,000,000	10,000
Samson Reclaim Rubber Limited	**116,700**	**2,334**	116,700	2,334
Sinwa Holdings Limited	**460,000**	**9,200**	460,000	9,200
Society for Worldwide Interbank Financial Telecommunication	**6**	**3,385**	–	–
Sun Tan Beach Resorts Limited	**9,059,013**	**90,433**	9,059,013	90,433
The Video Team (Private) Limited	**30,000**	**300**	30,000	300
Wayamba Plantations (Private) Limited	**2,750,000**	**9,750**	2,750,000	9,750
Total unquoted ordinary shares – Bank		147,374		141,959
Investments in unquoted ordinary shares by subsidiaries (Note 33.2.1)		–		5,415
Total unquoted ordinary shares – Group		147,374		147,374

As at	31.12.2015		31.03.2015	
	Number of ordinary shares	Cost* LKR 000	Number of ordinary Shares	Cost* LKR 000

33.2.1 Investments in Unquoted Ordinary Shares by Subsidiaries

Credit Information Bureau of Sri Lanka	–	–	300	30
Lanka Clear (Private) Limited	–	–	100,000	1,000
Lanka Financial Services Bureau Limited	–	–	100,000	1,000
Society for Worldwide Interbank Financial Telecommunication	–	–	6	3,385
				5,415

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

As at	31.12.2015			31.03.2015		
	Number of ordinary shares	Cost LKR 000	Fair value LKR 000	Number of ordinary shares	Cost LKR 000	Fair value LKR 000
33.3 Unquoted Irredeemable Preference Shares						
Arpico Finance Company PLC	**50,000**	**500**	**500**	50,000	500	500
Total investments in unquoted irredeemable preference shares – Bank/Group		**500**	**500**		500	500
33.4 Quoted Units in Unit Trusts						
NAMAL Acuity Value Fund	**2,112,810**	**106,070**	**197,759**	2,112,810	106,070	190,153
Total investments in quoted units – Bank/Group		**106,070**	**197,759**		106,070	190,153

As at	31.12.2015			31.03.2015		
	Number of units	Cost LKR 000	Fair value LKR 000	Number of units	Cost LKR 000	Fair value LKR 000
33.5 Unquoted Units in Unit Trusts						
NAMAL Growth Fund	**2,125,766**	**251,539**	**272,481**	155,000	251,539	266,465
NAMAL Income Fund	**11,162,129**	**113,961**	**139,080**	14,012,129	143,059	169,687
NAMAL Money Market Fund	**11,085,879**	**112,239**	**116,512**	10,030,193	107,391	111,723
National Equity Fund	**250,000**	**2,657**	**8,495**	500,000	5,313	16,315
Guardian Acuity Equity Fund	**9,052,504**	**150,000**	**155,341**	9,052,504	150,000	147,917
JB Vantage Value Equity Fund	**5,224,660**	**100,000**	**105,277**	5,224,660	100,000	93,574
Total investments in unquoted Unit Trusts – Bank/Group		**730,396**	**797,186**		757,302	805,681

	Ordinary Shares		Preference	Unit Trusts		Total	
	Quoted LKR 000	Unquoted LKR 000	Unquoted LKR 000	Quoted LKR 000	Unquoted LKR 000	**31.12.2015 LKR 000**	31.03.2015 LKR 000
33.6 Equity Securities							
33.6.1 Composition*							
33.6.1.1 Bank							
Performing investments	18,123,603	44,491	500	197,759	524,705	**18,891,058**	21,664,149
Non-performing investments	–	102,883	–	–	272,481	**375,364**	610,839
	18,123,603	147,374	500	197,759	797,186	**19,266,422**	22,274,988
33.6.1.2 Group							
Performing investments	18,123,603	44,491	500	197,759	524,705	**18,891,058**	21,666,179
Non-performing investments	–	102,883	–	–	272,481	**375,364**	614,224
	18,123,603	147,374	500	197,759	797,186	**19,266,422**	22,280,403

** Disclosure as per the Direction on the prudential norms for classification, valuation and operation of the Bank's investment portfolio.*

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000

34 Financial Investments – Held-to-Maturity

Quoted debentures (Note 34.1)	**5,356,587**	2,085,921	**5,356,587**	3,124,755
Sri Lanka Government Securities				
Treasury Bills	**–**	–	**–**	6,977,913
Treasury Bonds	**12,547,298**	–	**12,547,298**	769,619
	17,903,885	2,085,921	**17,903,885**	10,872,287

34.1 Quoted Debentures

As at	31.12.2015 Number of debentures	31.12.2015 Cost of investment LKR 000	31.03.2015 Number of debentures	31.03.2015 Cost of investment LKR 000
Abans PLC – Type B	**2,500,000**	**268,053**	2,500,000	258,631
Access Engineering PLC	**2,500,000**	**252,958**	–	–
Alliance Finance Company PLC – Type B	**1,500,000**	**162,099**	–	–
Alliance Finance Company PLC – Type C	**4,221,693**	**461,737**	4,221,693	431,682
Central Finance Company PLC – Type A	**134,400**	**14,325**	134,400	13,864
Central Finance Company PLC – Type B	**281,800**	**30,062**	–	–
Central Finance Company PLC – Type C	**1,793,900**	**191,663**	1,793,900	185,263
Commercial Credit & Finance PLC	**4,500,000**	**461,549**	–	–
HDFC Bank	**532,200**	**55,232**	–	–
Hemas Holdings PLC - Type A	**827,900**	**85,080**	827,900	87,330
Lanka ORIX Leasing Company PLC	**3,000,000**	**306,805**	–	–
Lion Brewery (Ceylon) PLC – Type C	**1,412,500**	**144,049**	1,412,500	144,712
Lion Brewery (Ceylon) PLC – Type F	**21,300**	**22,025**	–	–
Lion Brewery (Ceylon) PLC – Type G	**21,300**	**22,038**	–	–
Lion Brewery (Ceylon) PLC – Type H	**28,400**	**29,402**	–	–
People’s Leasing & Finance PLC – Type B	**748,500**	**81,203**	748,500	77,878
People’s Leasing & Finance PLC – Type B	**577,800**	**76,698**	328,800	33,633
People’s Leasing & Finance PLC – Type C	**2,000,000**	**234,000**	–	–
People’s Leasing & Finance PLC – Type C	**10,000,000**	**999,469**	–	–
Richard Pieris and Company PLC – Type A	**1,201,000**	**123,347**	1,201,000	126,536
Singer (Sri Lanka) PLC – Type C	**2,533,900**	**274,386**	1,267,000	129,200
Singer (Sri Lanka) PLC – Type C	**3,941,900**	**411,090**	–	–
Siyapatha Finance Limited	**2,000,000**	**217,809**	2,000,000	204,242
Softlogic Finance PLC – Type A	**706,500**	**72,479**	418,200	42,851
Vallibel Finance PLC	**3,500,000**	**359,029**	3,500,000	350,099
Total investments in quoted debentures – Bank		5,356,587		2,085,921

As at	31.12.2015		31.03.2015	
	Number of debentures	**Cost of investment LKR 000**	Number of debentures	Cost of investment LKR 000
Investments in quoted debentures by subsidiaries:				
People's Leasing and Finance PLC	–	–	2,249,000	259,528
Lion Brewery (Ceylon) PLC	–	–	71,000	73,347
Alliance Finance Company PLC	–	–	1,500,000	161,654
HDFC Bank	–	–	532,200	55,128
Central Finance Company PLC	–	–	281,800	30,004
Lanka ORIX Leasing Company PLC	–	–	3,000,000	302,704
Singer (Sri Lanka) PLC	–	–	1,266,900	126,938
Softlogic Finance PLC	–	–	288,300	29,531
		–		1,038,834
Total investments in quoted debentures – Group		5,356,587		3,124,755

35 *Investments in Subsidiaries*

	DFCC Consulting (Pvt) Limited Ownership 100% LKR 000	DFCC Vardhana Bank PLC Ownership* 99.17% LKR 000	Lanka Industrial Estates Limited Ownership 51.16% LKR 000	Synapsys Limited Ownership 100% LKR 000	BANK	
					31.12.2015 LKR 000	31.03.2015 LKR 000
Balance at beginning	5,000	5,823,028	97,036	70,000	**5,995,064**	5,995,064
Adjustment on amalgamation	–	(5,823,028)	–	–	**(5,823,028)**	–
Balance before impairment	5,000	–	97,036	70,000	**172,036**	5,995,064
Less: Allowance for impairment (Note 35.1)				39,181	**39,181**	37,500
Balance net of impairment	5,000	–	97,036	30,819	**132,855**	5,957,564

35.1 Movement in Impairment Allowance

	31.12.2015	31.03.2015
Balance at beginning	**37,500**	26,500
Charge to income statement	**1,681**	11,000
Balance on 31 December/March	**39,181**	37,500

**Amalgamated on 1 October 2015.*

35.2 Non-Controlling Interest (NCI) in Subsidiaries

	Percentage of Ownership Interest held by NCI	Percentage of Voting Rights held by NCI	Share of Total Comprehensive Income of NCI for the Period ended		NCI as at		Dividends Paid to NCI for the period ended	
	31.12.2015 %	31.03.2015 %	**31.12.2015 LKR 000**	31.03.2015 LKR 000	**31.12.2015 LKR 000**	31.03.2015 LKR 000	**31.12.2015 LKR 000**	31.03.2015 LKR 000
DFCC Vardhana Bank PLC	–	0.83	**5,642**	8,777	–	73,217	**2,119**	1,176
Lanka Industrial Estates Limited	**48.84**	48.84	**43,024**	67,153	**252,426**	280,665	**54,599**	54,600
			48,666	75,930	**252,426**	353,882	**56,718**	55,776

35.3 Summarised Financial Information of Subsidiaries

Lanka Industrial Estates Limited

As at	**31.12.2015 LKR 000**	31.03.2015 LKR 000
Assets	**629,868**	674,782
Liabilities	**113,071**	100,169
Equity	**516,797**	574,613
For the period ended		
Revenue	**191,567**	210,734
Profit after tax	**88,085**	137,314
Other comprehensive income	**–**	170
Total comprehensive income	**88,085**	137,484

	BANK		GROUP	
As at	**31.12.2015 LKR 000**	31.03.2015 LKR 000	**31.12.2015 LKR 000**	31.03.2015 LKR 000

36 Investments in Associate (Unquoted)

National Asset Management Limited (Ownership 30%)				
Balance at beginning	**35,270**	35,270	**63,960**	54,164
Share of profit after tax	**–**	–	**12,032**	14,967
Share of other comprehensive (expenses)/income	**–**	–	**(12)**	829
Dividend received – Elimination on consolidation	**–**	–	**(9,000)**	(6,000)
Balance on 31 December/March	**35,270**	35,270	**66,980**	63,960

As at	**31.12.2015 LKR 000**	31.03.2015 LKR 000

36.1 Summarised Financial Information of Associate

National Asset Management Limited		
Assets	**241,052**	247,641
Liabilities	**17,837**	34,494
Equity	**223,215**	213,147
For the year ended		
Revenue	**133,565**	141,886
Profit after tax	**40,107**	49,890
Other comprehensive (expenses)/income	**(39)**	2,763
Total comprehensive income	**40,068**	52,653

As at	31.12.2015 Cost of Investment LKR 000	31.03.2015 Cost of Investment LKR 000

37 Investments in Joint Venture (unquoted)

37.1 Investments in joint venture – Bank

Acuity Partners (Pvt) Limited (Ownership 50%)	**655,000**	655,000
	655,000	655,000

As at	31.12.2015 LKR 000	31.03.2015 LKR 000

37.2 Investment in Joint Venture – Group

Share of identifiable asset and liabilities of joint venture as at the beginning of the period	**1,308,713**	1,159,599
Share of unrealised profit on disposal of investments	**(184,688)**	(184,688)
Balance at beginning	**1,124,025**	974,911
Share of profit net of tax	**66,661**	138,303
Share of other comprehensive income	**17,041**	8,378
Change in holding – through subsidiary of joint venture	**9,830**	28,632
Preference share dividend paid by the subsidiary of joint venture	**(6,576)**	–
Dividend received during the period	**(30,162)**	(26,199)
Group's share of net assets	**1,180,819**	1,124,025

37.3 Summarised Financial Information of Joint Venture – Acuity Partners (Pvt) Limited

For the year ended	31.12.2015 LKR 000	31.03.2015 LKR 000
Revenue	**576,723**	916,313
Depreciation	**34,163**	30,958
Income tax expense	**68,748**	70,658
Profit after tax	**305,979**	448,246
Other comprehensive income	**64,450**	19,345
Total comprehensive income	**370,430**	467,591

As at	31.12.2015 LKR 000	31.03.2015 LKR 000
Current assets	**5,487,054**	7,000,804
Non-current assets	**3,629,739**	3,299,730
Current liabilities	**4,348,748**	5,915,668
Non-current liabilities	**945,056**	575,605

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000

38 Due from Subsidiaries

DFCC Consulting (Pvt) Limited	**452**	–
DFCC Vardhana Bank PLC	**–**	122,712
Synapsys Limited	**16,942**	12,379
	17,394	135,091

As at	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000

39 Investment Property

Cost		
Balance at beginning	**294,541**	280,467
Acquisitions	**19,368**	14,074
Cost as at 31 December/March	**313,909**	294,541
Less: Accumulated Depreciation		
Balance at beginning	**108,471**	97,186
Charge for the year	**9,706**	11,285
Accumulated depreciation as at 31 December/March	**118,177**	108,471
Net book value as at 31 December/March	**195,732**	**186,070**

39.1 Details of Investment Property

As at 31 December 2015	Buildings Sq. Ft.	Extent of land Perches*	Cost LKR 000	Accumulated depreciation/ impairment LKR 000	Net Book value LKR 000	Fair value LKR 000
Pattiwila Road, Sapugaskanda, Makola	293,680	20,000	313,909	118,177	195,732	1,096,558
			313,909	118,177	195,732	1,096,558

1 Pearch = 25.2929m^2; 1 sq. ft. = 0.0929m^2

The fair value of investment property as at 31 December 2015 situated at Pattiwila Road, Sapugaskanda, Makola was based on market valuation carried out in April 2014 by P B Kalugalagedara Chartered Valuer Fellow Member of Institute of Valuers (Sri Lanka).

Rental income from investment property of Group for the 9 months ended 31 December 2015 – LKR 137 million (year ended 31 March 2015 – LKR 173 million).

Operating expenses on investment property of Group for the 9 months ended 31 December 2015– LKR 15 million (year ended 31 March 2015 – LKR 18 million).

40 Property, Plant and Equipment

40.1 Composition: Bank

	Land & buildings LKR 000	Office equipment LKR 000	Furniture & fittings LKR 000	Motor vehicles LKR 000	**Total 31.12.2015 LKR 000**	Total 31.03.2015 LKR 000
Cost as at 1 April	299,610	627,469	243,744	239,113	**1,409,936**	1,395,125
Balance transferred on amalgamation	165,000	769,636	503,996	40,843	**1,479,475**	–
Acquisitions	3,211	44,065	35,253	–	**82,529**	14,940
Less: Disposals	–	19,180	–	4,863	**24,043**	129
Cost as at 31 December/March	467,821	1,421,990	782,993	275,093	**2,947,897**	1,409,936
Accumulated depreciation as at 1 April	181,150	532,514	158,767	186,298	**1,058,729**	942,110
Balance transferred on amalgamation	3,107	546,519	270,193	35,438	**855,257**	–
Depreciation for the period	11,054	51,607	27,111	25,009	**114,781**	116,673
Less: Accumulated depreciation on disposals	–	19,024	–	4,863	**23,887**	54
Accumulated depreciation as at 31 December/March	195,311	1,111,616	456,071	241,882	**2,004,880**	1,058,729
Net book value as at 31 December/ March	272,510	310,374	326,922	33,211	**943,017**	351,207

40.1.1 List of Freehold Land and Buildings

As at 31 December 2015	Buildings Sq. Ft.	Extent of land Perches*	Cost LKR 000	Accumulated depreciation/ impairment LKR 000	Net Book value LKR 000
73/5, Galle Road, Colombo 3	57,200	104.45	85,478	65,217	20,261
5, Deva Veediya, Kandy	4,600	12.54	16,195	7,059	9,136
73, W A D Ramanayake Mawatha, Colombo 2	21,400	45.00	191,268	118,374	72,894
4 A, 4th Cross Lane, Borupana, Ratmalana	–	20.00	2,600	–	2,600
454, Main Street, Negombo	19,087	29.00	165,001	4,661	160,340
259/30, Kandy Road, Bambarakelle, Nuwara-Eliya	–	28.72	7,279	–	7,279
			467,821	195,311	272,510

** 1 perch = 25.2929m²; 1 sq ft = 0.0929m²*

40.1.2 Market Value of Properties

	LKR million	Date of valuation
73/5, Galle Road, Colombo 3	946	31.03.2014
5, Deva Veediya, Kandy	72	31.03.2014
73, W A D Ramanayake Mawatha, Colombo 2	440	31.03.2014
4 A, 4th Cross Lane, Borupana, Ratmalana	10	31.03.2014
454, Main Street, Negombo	250	05.05.2015
259/30, Kandy Road, Bambarakelle, Nuwara-Eliya	80	26.05.2015

(Valued by A A M Fathihu – Former Government Chief Valuer and J S M I B Karunatilaka Associate Member of the Institute of Valuers of Sri Lanka.)

40.1.3 Fully Depreciated Property, Plant and Equipment – Bank

The initial cost of fully depreciated property, plant and equipment which are still in use as at the reporting date is as follows:

	BANK	
As at	**31.12.2015 LKR 000**	31.03.2015 LKR 000
Land & buildings	**58,571**	58,571
Office equipment	**813,158**	425,422
Furniture & fittings	**102,096**	21,064
Motor vehicles	**187,386**	47,606
	1,161,211	552,663

40.2 Composition: Group

	Land & buildings LKR 000	Office equipment LKR 000	Furniture & fittings LKR 000	Motor vehicles LKR 000	Capital work-in-progress LKR 000	**Total 31.12.2015 LKR 000**	Total 31.03.2015 LKR 000
Cost as at 1 April	568,065	1,371,719	719,213	316,783	80,341	**3,056,121**	2,827,190
Acquisitions	45,813	95,459	78,196	9,255	–	**228,723**	232,093
Transfers	65,095	13,169	2,077	–	(80,341)	–	–
Less: Disposals	–	20,625	3,523	5,958	–	**30,106**	3,162
Cost as at 31 December/March	678,973	1,459,722	795,963	320,080	–	**3,254,738**	3,056,121
Accumulated depreciation as at 1 April	303,343	1,042,210	411,887	246,749	–	**2,004,189**	1,738,002
Depreciation for the period	22,399	118,217	63,184	33,728	–	**237,528**	268,614
Less: Accumulated depreciation on disposal	–	20,466	2,856	5,958	–	**29,280**	2,427
Accumulated depreciation as at 31 December/March	325,742	1,139,961	472,215	274,519	–	**2,212,437**	2,004,189
Net book value as at 31 December/March	353,231	319,761	323,748	45,561	–	**1,042,301**	1,051,932

41 *Intangible Assets*

	BANK		GROUP	
As at	**31.12.2015 LKR 000**	31.03.2015 LKR 000	**31.12.2015 LKR 000**	31.03.2015 LKR 000
Cost as at 1 April	**426,807**	383,225	**1,246,674**	1,105,782
Balance transferred on amalgamation	**851,004**	–	–	–
Acquisitions	**36,005**	45,834	**69,907**	143,144
Less: Write-off*	–	2,252	–	2,252
Cost as at 31 December/March	**1,313,816**	426,807	**1,316,581**	1,246,674
Accumulated amortisation as at 1 April	**344,427**	322,847	**966,478**	868,348
Balance transferred on amalgamation	**679,736**	–	–	–
Amortisation for the period	**42,538**	23,682	**102,158**	100,232
Less: Write-off*	–	2,102	–	2,102
Accumulated amortisation as at 31 December/March	**1,066,701**	344,427	**1,068,636**	966,478
Net book value as at 31 December/March	**247,115**	82,380	**247,945**	280,196

** Software not in use.*

As at	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000

42 Goodwill on Consolidation

DFCC Vardhana Bank PLC	**146,603**	146,603
Lanka Industrial Estates Limited	**9,623**	9,623
	156,226	156,226

In accordance with the provisions of part VIII of the Companies Act, DFCC Vardhana Bank PLC (DVB) has been amalgamated with DFCC Bank PLC with effect from 1 October 2015. The amalgamation between two entities is considered as a common control transaction, as DFCC Bank continues to control the operations of DVB after amalgamation. Thus the results of amalgamation of two entities are economically the same before and after the amalgamation as the entity will have identical net assets. Therefore DFCC will continue to record carrying values including the remaining goodwill that resulted from the original acquisition of DVB in the consolidated financial status.

43 Government Grant Receivable/Deferred Income – CBSL Swap

	BANK		GROUP	
As at	**31.12.2015 LKR 000**	31.03.2015 LKR 000	**31.12.2015 LKR 000**	31.03.2015 LKR 000
43.1 Government Grant – Receivable				
Fair value at the beginning of the period	**483,727**	276,878	**483,727**	276,878
Change in fair value on the renewal of contract	**41,993**	(368,086)	**41,993**	(368,086)
Change in fair value during the period (Note 15)	**14,038**	574,935	**14,038**	574,935
Fair value as at 31 December/March	**539,758**	483,727	**539,758**	483,727
43.2 Government Grant – Deferred Income				
Fair value at the beginning of the period	**303,727**	295,628	**303,727**	295,628
Change in fair value on the renewal of contract	**41,993**	(368,086)	**41,993**	(368,086)
Change in fair value during the period	**14,038**	574,935	**14,038**	574,935
Foreign exchange gain/(loss) on revaluation	**116,250**	(198,750)	**116,250**	(198,750)
Amortisation of deferred income on Government grant – CBSL Swap (Note 17)	**130,288**	376,185	**130,288**	376,185
Fair value as at 31 December/March	**476,008**	303,727	**476,008**	303,727

DFCC Bank PLC in October 2013 raised USD 100 million by Issue of Notes abroad repayable in October 2018. The proceeds of this Note Issue are to be deployed predominantly in LKR denominated monetary assets. In order to hedge the resulting net open foreign currency liability position, DFCC Bank PLC has entered into a annually renewable currency SWAP arrangement with Central Bank of Sri Lanka (CBSL) for 75% of the US Dollar (USD) denominated liability. Accordingly, this contract was renewed in November 2015.

The currency SWAP arrangement, pursuant to Government policy for the principal amount only is designed to reimburse DFCC Bank by CBSL for any exchange loss incurred and conversely for DFCC Bank to pay CBSL any exchange gain arising from depreciation of LKR vis-à-vis USD or appreciation of LKR vis-à-vis USD respectively.

Although, USD denominated Notes are repayable at the end of 5 years, the currency SWAP arrangement contract is renewed annually up to the date of repayment of the Notes so as to exchange cash flow arising from movement in USD/LKR spot exchange rate that occurs at the time of renewal of the annual contract.

The currency SWAP arrangement with CBSL provides for SWAP of LKR to USD at the end of the contract at the same spot rate as the initial SWAP of USD to LKR at the commencement of the annual contract (i.e., CBSL SWAP arrangement amounts to a full discount to USD LKR spot rate at the end of the contract).

The hedging instrument for currency SWAP is deemed to be a derivative asset recognised at the fair value at the inception of the contract. The fair value of this derivative asset is measured by reference to forward exchange quotes for USD purchase contracts by commercial banks, who are the normal market participants. Thus, the fair value gain at the inception of the contract is the full amount of the forward premium quote at the end of one year.

The subsequent change in fair value is recognised in the income statement.

CBSL normally does not enter into forward exchange contracts with market participants, providing 100% discount to the USD LKR spot rate at the time of the maturity of the contract. Thus, this arrangement has features of both derivative instrument and Government grant through the agency of CBSL.

The initial gain by reference to forward price of an equivalent forward exchange Dollar purchase contract is recognised as a Government grant and deferred income.

The deferred income is amortised on a systematic basis over the period in which the Bank recognises the fall in value of derivative which the grant is intended to compensate.

	BANK		GROUP	
As at	**31.12.2015 LKR 000**	31.03.2015 LKR 000	**31.12.2015 LKR 000**	31.03.2015 LKR 000

44 Deferred Tax Asset/Liability

Deferred tax liability (Note 44.1)	**880,490**	486,855	**880,490**	642,021
Deferred tax asset (Note 44.2)	**–**	–	**1,536**	1,562
Net total	**880,490**	486,855	**878,954**	640,459

44.1 Deferred Tax Liability

Balance at beginning	**506,553**	445,367	**742,729**	589,884
Balance transferred on amalgamation	**394,498**	–	**–**	–
Recognised in income statement	**120,693**	61,024	**309,571**	134,953
Recognised in other comprehensive income	**360**	163	**(30,108)**	17,892
	1,021,744	506,554	**1,022,192**	742,729
Transferred from deferred tax asset	**(141,614)**	(19,699)	**(141,702)**	(100,708)
	880,490	486,855	**880,490**	642,021

44.2 Deferred Tax Asset

Balance at beginning	**19,699**	12,297	**102,270**	38,947
Balance transferred on amalgamation	**168,044**	–	**–**	–
Recognised in income statement	**(47,241)**	2,504	**39,415**	53,047
Recognised in other comprehensive income	**1,112**	4,898	**1,553**	**10,276**
	–	–	**–**	–
	141,614	19,699	**143,238**	102,270
Offset against deferred tax liability	**(141,614)**	(19,699)	**(141,702)**	(100,708)
	–	–	**1,536**	1,562

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000

44.3 Recognised Deferred Tax Assets and Liabilities

	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000
Assets				
Property, equipment and software	–	–	–	35
Gratuity liability and actuarial losses on defined benefit plans	**50,445**	19,698	**52,429**	44,182
Fair value of available-for-sale financial assets	**12,515**	–	**12,515**	–
Unutilised tax losses – Finance leases	**78,294**	–	**78,294**	–
Excess of 1% ceiling on bad and doubtful debts	–	–	–	24,842
Tax losses on finance leases	–	–	–	33,211
	141,254	19,698	**143,238**	102,270
Liabilities				
Property, equipment and software	**136,954**	41,175	**137,402**	128,431
Finance leases	**884,790**	465,215	**884,790**	596,406
Fair value of available-for-sale financial assets	–	163	–	17,892
	1,021,744	506,553	**1,022,192**	742,729

44.4 Unrecognised Deferred Tax Assets

	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000
Accumulated tax losses		
DFCC Consulting (Pvt) Limited – Subsidiary	**6,022**	16,187
Synapsys Limited – Subsidiary*	**3,968**	21,670
	9,990	37,857

**Tax effect at 10%*

45 *Other Assets*

	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000
Refundable deposits and advances	**169,712**	57,024	**171,501**	211,775
Dividends due	**24,068**	435,050	**24,068**	435,050
Debtors	**565,639**	225,051	**623,670**	513,117
Clearing account balances	**945,960**	–	**945,960**	928,459
	1,705,379	717,125	**1,765,199**	2,088,401

46 *Due to Banks*

	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000
Balances with foreign banks	**75,369**	–	**75,369**	1,003,855
Borrowing – local banks	**13,269,916**	–	**13,271,166**	1,886,673
Borrowing – other local sources	–	1,600,288	–	1,600,288
Securities sold under repurchase (Repo) agreements	**11,019,118**	–	**11,019,118**	1,151,206
Bank overdrafts	–	328,579	–	330,545
	24,364,403	1,928,867	**24,365,653**	5,972,567

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000

47 *Due to Other Customers*

Balance as at 31 December/March	**110,890,685**	22,484,652	**110,551,220**	92,711,793

47.1 Analysis

47.1.1 By Product

Demand deposits (current accounts)	**3,705,529**	–	**3,705,529**	3,605,464
Savings deposits	**17,374,347**	–	**17,337,514**	15,650,249
Fixed deposits	**88,854,449**	22,484,652	**88,551,817**	72,682,602
Certificate of deposits	**699,080**	–	**699,080**	546,523
Other deposits	**257,280**	–	**257,280**	226,955
	110,890,685	22,484,652	**110,551,220**	92,711,793

47.1.2 By Currency

Sri Lankan Rupee	**100,056,541**	22,484,652	**99,721,458**	84,178,004
United States Dollar	**6,766,779**	–	**6,762,397**	5,096,847
Great Britain Pound	**1,110,474**	–	**1,110,474**	831,443
Others	**2,956,891**	–	**2,956,891**	2,605,499
	110,890,685	22,484,652	**110,551,220**	92,711,793

48 *Other Borrowing*

Repayable in foreign currency				
Borrowing sourced from				
Multilateral institutions	**3,540,230**	3,645,633	**3,540,230**	3,645,633
Bilateral institutions	**3,124,940**	4,001,694	**3,124,940**	4,001,694
	6,665,170	7,647,327	**6,665,170**	7,647,327
Repayable in Rupees				
Borrowing sourced from				
Multilateral institutions	**18,648,230**	14,814,449	**18,648,230**	14,814,449
Bilateral institutions	**1,036,860**	1,411,145	**1,036,860**	1,411,145
Central Bank of Sri Lanka – refinance loans (secured)	**392,314**	488,876	**392,314**	488,876
Securities sold under repurchase (Repo) agreements	**9,212,723**	–	**9,212,723**	14,484,375
	29,290,127	16,714,470	**29,290,127**	31,198,845
	35,955,297	24,361,797	**35,955,297**	38,846,172

48.1 Assets Pledged as Security

Nature	31.12.2015 LKR 000
Assignment in terms of Section 88 A of the Monetary Law of Loans refinanced by Central Bank of Sri Lanka	392,314

49 *Debt Securities Issued*

Year of issuance	Face value LKR 000	Interest rate %	Repayment terms	Issue date	Maturity date	BANK/GROUP 31.12.2015 LKR 000	BANK/GROUP 31.03.2015 LKR 000
Issued by Bank							
i. Debenture issue (LKR)							
- Unlisted	506,000	16.50%	3 Years	22-Jan-13	22-Jan-16	**506,212**	525,638
- Listed	5,000,000	8.36%	3 years	18-Aug-14	17-Aug-17	**5,122,538**	5,174,080
	3,000,000	9.10%	5 Years	10-Jun-15	10-Jun-20	**3,136,376**	–
ii. Notes issue (USD)	13,075,000	9.625%	5 Years	1-Nov-13	31-Oct-18	**14,527,534**	13,746,206
						23,292,660	19,445,924
Due within one year						**506,212**	525,638
Due after one year						**22,786,448**	18,920,286
						23,292,660	19,445,924

Carrying values are the discounted amounts of principal and interest.

49.1 Debt Securities Issued – Listed Debentures

Debenture category	Interest payable frequency	Applicable interest rate %	Interest rate of Comparative Government Securites (Gross) p.a.	**Balance as at 31.12.2015 LKR 000**	Market price Highest	Market price Lowest	Market price Last Traded	Yield last traded %
Fixed Rate:								
2014/2017	Annually	8.5	8.93%	**3,925,087**	100.34	100.34	100.34	8.30
2014/2017	Semi-annually	8.3	8.93%	**897,238**	100.04	100.04	100.04	8.30
2014/2017	Quarterly	8.24	8.93%	**300,213**	N/T	N/T	N/T	N/T
2015/2020	Annually	9.1	10.36%	**3,136,376**	N/T	N/T	N/T	N/T

N/T - Not Traded

Ratios	**31.12.2015**	31.03.2015
Debt to equity ratio (times)	**2.04**	1.05
Interest cover (times)	**0.98**	1.38
Liquid asset ratio (%)	**22.5**	47.6

50 Other Liabilities

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000
Accruals	**771,039**	47,180	**774,917**	49,508
Prior year's dividend	**39,805**	40,025	**39,805**	40,025
Security deposit for leases	**4,065**	4,065	**41,692**	18,141
Prepaid loan and lease rentals	**85,033**	104,049	**85,033**	104,049
Account payables	**1,747,949**	266,456	**1,812,045**	1,804,536
Provision for staff retirement benefits (Note 50.1)	**305,965**	140,638	**331,818**	242,961
Other provisions (Note 50.2)	**414,702**	237,743	**414,702**	327,707
	3,368,558	840,156	**3,500,012**	2,586,927

50.1 Provision for Staff Retirement Benefits

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000
Defined benefit – unfunded pension (Note 50.1.1)	**66,994**	67,686	**66,994**	67,686
– unfunded end of service gratuity (Note 50.1.2)	**180,163**	70,355	**206,016**	172,678
– funded pension (Note 50.1.3)	**58,808**	2,597	**58,808**	2,597
	305,965	140,638	**331,818**	242,961

As at	BANK/ GROUP 31.12.2015 LKR 000	BANK/ GROUP 31.03.2015 LKR 000
50.1.1 Unfunded Pension Liability		
Balance at beginning	**67,686**	68,740
Interest on obligation	**4,569**	6,187
Benefit paid	**(4,664)**	(6,996)
Actuarial experience loss	**(597)**	(245)
Present value of defined benefit pension obligations	**66,994**	67,686

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000
50.1.2 Unfunded End of Service Gratuity				
Balance at beginning	**70,355**	43,920	**172,678**	112,688
Current service cost	**12,404**	8,221	**28,636**	23,359
Interest on obligation	**6,960**	4,392	**14,517**	10,965
Balances transferred on amalgamation	**97,950**	–	–	–
Benefits paid	**(11,477)**	(3,672)	**(15,148)**	(8,054)
Actuarial experience loss	**3,971**	17,494	**5,333**	33,720
Present value of defined benefit pension obligations	**180,163**	70,355	**206,016**	172,678

As at	BANK/GROUP 31.12.2015 LKR 000	BANK/GROUP 31.03.2015 LKR 000
50.1.3 Funded Pension Liability		
Present value of defined benefit pension obligations (Note 50.1.3.1)	**2,296,454**	2,141,649
Fair value of pension assets (Note 50.1.3.2)	**(2,237,646)**	(2,139,052)
Defined benefit liability	**58,808**	2,597
50.1.3.1 Movement in Defined Pension Obligation		
Present value of defined benefit pension obligations on 01 April	**2,141,649**	1,866,434
Current service cost	**58,048**	77,397
Interest on obligation	**144,561**	167,979
Benefits paid	**(125,982)**	(110,448)
Actuarial experience loss	**78,178**	140,287
Present value of defined benefit pension obligations	**2,296,454**	2,141,649
50.1.3.2 Movement in Pension Assets		
Pension assets on 01 April	**2,139,052**	2,027,664
Expected return on pension assets	**139,779**	177,105
Employer's contribution	**106,000**	59,002
Benefits paid	**(125,982)**	(110,448)
Actuarial experience gain	**(21,203)**	(14,271)
Pension assets	**2,237,646**	2,139,052
50.1.3.3 Plan Assets Consist of the Following		
Debentures	**321,754**	337,546
Government Bonds	**1,517,319**	1,289,144
Fixed deposits	**397,209**	512,046
Others	**1,364**	316
	2,237,646	2,139,052

As at	Unfunded Pension Liability* 31.12.2015 LKR 000	Unfunded End of Service Gratuity* 31.12.2015 LKR 000	Funded Pension Liability* 31.12.2015 LKR 000

50.1.3.4 The Expected Benefit Payout in the Future Years to the Defined Benefit Obligation – Bank

Within next 12 months	6,996	21,040	149,717
Between 2 and 5 years	27,984	108,365	725,807
Beyond 5 years	34,980	210,477	1,137,224

* Based on expected benefits payout in next 10 years.

50.1.3.5 Unfunded Pension Liability

This relates to pension liability of an ex-employee, not funded through the DFCC Bank PLC Pension Fund. The liability covers the pension benefit to retiree and survivors.

50.1.3.6 Actuarial Valuation

Actuarial valuation was carried out by Piyal S Goonetilleke, Fellow of the Society of Actuaries USA of Piyal S Goonetilleke & Associates, on 31 December 2015.

50.1.3.7 Actuarial Valuation Method

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

50.1.3.8 Principal Actuarial Assumptions

	Pension benefit (%)	End of service gratuity (%)
Discount rate as at 31 December 2015, per annum		
Pre-retirement	9.0	9.5
Post-retirement	9.0	not applicable
Future salary increases per annum	10.5	10.0
Expected rate of return on pension assets	9.0	–
Actual rate of return on pension assets	7	–
Mortality	UP 1984 mortality table	RP- 2000 mortality table
Retirement age	55 years	55 years
Normal form of payment:	lump sum commuted pension payment followed by reduced pension for 10 years (25% reduction) (for new entrants recovery period is 15 years)	lump sum
Turnover rate -		
Age		
20	10.0	10.0
25	10.0	10.0
30	10.0	10.0
35	7.5	7.5
40	5.0	5.0
45	2.5	2.5
50/55	1.0	1.0

The principle actuarial assumptions in the previous year have not changed. The discount rate is the yield rate on 31 December 2015, with a term equalling the estimated period for which all benefit payments will continue. This period is approximately 21.4 years for pension and 10.5 years for end of service gratuity. The differences in the discount rates for pension and end of service gratuity, reflect the differences in the estimated period for benefit payments.

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

50.1.3.9 Sensitivity of Assumptions Used in the Actuarial Valuation

The Following table demonstrates the sensitivity to a reasonably possible change in the key assumptions used with all other variables held constant in the employment benefit liability measurement. The effect in the income statement and the statement of financial position with the assumed changes in the discount rates and salary increment rate are given below:

	Effect on income statement increase/(decrease) LKR 000	Effect on defined benefit obligation increase/(decrease) LKR 000
Funded Pension Liability		
Discount rate		
1%	212,473	(212,473)
-1%	(252,058)	252,058
Salary Increment Rate		
1%	(58,741)	58,741
-1%	54,837	(54,837)
Unfunded Pension Liability*		
Discount rate		
1%	4,685	(4,685)
-1%	(5,373)	5,373
Unfunded End of Service Gratuity		
Discount rate		
1%	18,702	(18,702)
-1%	(22,165)	22,165
Salary Increment Rate		
1%	(21,411)	21,411
-1%	18,459	(18,459)

** Salary increment not applicable for ex-employee*

As at 31 March	2015 LKR 000	2014 LKR 000	2013 LKR 000	2012 LKR 000	2011 LKR 000
50.1.3.10 Historical Information					
Present value of the defined benefit obligation	2,141,649	1,866,434	1,750,987	1,494,887	1,367,956
Fair value of plan assets	2,139,052	2,027,664	1,821,009	1,607,025	1,497,559
Deficit/(surplus) in the plan	2,597	(161,230)	(70,022)	(112,138)	(129,603)

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000

50.2 Other Provisions

Balance as at 1 April	**237,743**	197,187	**327,707**	274,980
Provisions for the financial period	**308,427**	237,743	**414,702**	329,004
Provisions used during the period	**(234,647)**	(177,343)	**(324,611)**	(256,433)
Provisions reversed during the period	**(3,096)**	(19,844)	**(3,096)**	(19,844)
Balance transferred on amalgamation	**106,275**	–	–	–
Balance as at 31 December/March	**414,702**	237,743	**414,702**	327,707

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000

51 Due to Subsidiaries

DFCC Consulting (Pvt) Limited	–	31

	Face value LKR 000	Interest rate %	Repayment terms	Issue date	Maturity date	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000

52 Subordinated Term Debt

Listed Debentures									
Issued by Bank	590,000	14.00	10 Years	26 Sep 2006	26 Sep 2016	**672,600**	609,373	**672,600**	609,373
Transferred on amalgamation	833,333	11.50	5 Years	26 Sep 2011	7 Sep 2016	**833,584**	–	**833,584**	833,589
	166,667	6 Months gross TB+1.5	5 Years	26 Sep 2011	7 Sep 2016	**166,704**	–	**166,704**	166,702
	2,000,000	9.40	5 Years	10 Jun 2015	10 Jun 2020	**2,094,193**	–	**2,094,193**	–
						3,767,081	609,373	**3,767,081**	1,609,664
Due within one year						**1,672,888**	–	**1,672,888**	291
Due after one year						**2,094,193**	**609,373**	**2,094,193**	**1,609,373**
						3,767,081	**609,373**	**3,767,081**	**1,609,664**

52.1 Subordinated Term Debt – Listed Debentures

Debenture Category	Interest rate frequency %	Applicable Interest rate	Interest rate of Comparative Government Securites (Gross) p.a. %	Balance as at 31.12.2015 LKR 000	Market price Highest	Market price Lowest	Market price Last Traded	Yield last traded %
Fixed Rate								
2006/2016	Annually	14	7.86	672,600	N/T	N/T	N/T	N/T
2011/2016	Semi-annually	11.5	7.86	833,584	N/T	N/T	N/T	N/T
2011/2016	Semi-annually	9.4	7.86	166,704	N/T	N/T	N/T	N/T
2015/2020	Annually	9.4	10.36	2,094,193	101.44	101.44	101.44	9
				3,767,081				

N/T – Not traded

Debt equity ratio, interest cover and liquid asset ratio is given in note 49.1.

As at	BANK/GROUP 31.12.2015 LKR 000	BANK/GROUP 31.03.2015 LKR 000
53 Stated Capital		
Balance as at 31 December/March (Number of shares – 265,097,688)	**4,715,814**	4,715,814

54 Statutory Reserve

54.1 Reserve Fund

Five percent of profit after tax is transferred to the reserve fund, as per Direction issued by the Central Bank of Sri Lanka under Section 76 (j) (1) of the Banking Act, No. 30 of 1988, as amended by Banking (Amendment) Act, No. 33 of 1995.

55 Retained Earnings

This represents cumulative net earnings, inclusive of final dividend approved amounting to LKR 663 million. The balance is retained and reinvested in the business of the Bank.

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000
56 Other Reserves				
General reserve	**13,779,839**	13,779,839	**13,779,839**	13,779,839
Fair value reserve	**14,285,657**	17,512,960	**11,857,655**	15,112,861
Exchange equalisation reserve	**–**	–	**21,910**	2,358
	28,065,496	31,292,799	**25,659,404**	28,895,058

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000

57 Contingent Liabilities and Commitments

	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000
Guarantees issued to -				
Banks in respect of indebtedness of customers of the Bank	**41,122**	–	**41,122**	27,080
Companies in respect of indebtedness of customers of the Bank	**6,855,843**	1,167,264	**6,855,843**	9,675,687
Principal collector of customs (duty guarantees)	**172,090**	–	**172,090**	78,935
Shipping guarantees	**620,806**	–	**620,806**	74,726
Documentary credit	**7,261,732**	–	**7,261,732**	5,514,468
Bills for collection	**2,175,953**	–	**2,175,953**	2,251,076
Performance bonds	**2,066,268**	–	**2,066,268**	2,138,132
Forward exchange contracts (net)	**16,943,219**	14,183,209	**16,943,219**	15,843,573
Commitments in ordinary course of business -				
Commitments for unutilised credit facilities	**39,719,549**	25,572,860	**39,719,549**	39,365,166
Capital expenditure approved by the Board of Directors				
Contracted	**90,030**	29,237	**90,030**	64,653
Not contracted	**68,239**	27,116	**68,239**	39,052
	76,014,851	40,979,686	**76,014,851**	75,072,548

58 Litigation Against the Bank

58.1 A client has filed action against five defendants including the Bank in the District Court of Kurunegala, claiming that a property mortgaged by him to the Bank had been unlawfully transferred to a third party under the parate process to be set aside, and also claiming LKR 6 million as damages from the Bank. The Bank is defending the case before the District Court.

58.2 A client of the Bank has instituted legal action in the District Court of Matara, against the Bank claiming a sum of LKR 10 million for non-disbursement of the full loan approved to him. The Bank is defending this action.

58.3 There are four cases filed in the District Court of Kandy and one case filed in District Court of Negombo and another case in District Court of Moratuwa, where third parties are claiming ownership of properties acquired by the Bank under recovery action. The Bank is defending the cases before the respective District Courts.

58.4 There are two cases filed in the District Court of Bandarawela, where a third party is claiming ownership of a property mortgaged to the Bank. The Bank is defending the cases before the District Court.

58.5 A client, against whom an eviction order has been obtained by the Bank, has filed a separate Money Recovery action against the Bank claiming damages for the loss caused due to a wrongful seizure of a property. The Bank is defending the case before the District Court.

58.6 The Bank has appealed to the High Court to set aside an award made in favour of an ex-employee by the Labour Tribunal.

58.7 Case filed in the Labour Tribunal by one ex-employee of the Bank, claiming compensation from the Bank.

58.8 Case filed in the Labour Tribunal - Galle by an ex-employee of the Bank, claiming compensation and reinstatement from the Bank.

No material losses are anticipated as a result of the aforesaid actions.

59 Related Party Transactions

59.1 The Group's related parties include associates, subsidiaries, Trust established by the Bank for post-employment retirement plan, joint venture, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced for which significant voting power is held by Key Management Personnel or their close family members.

As at	**31.12.2015 LKR 000**	31.03.2015 LKR 000

59.2 Transactions with Subsidiaries

59.2.1 Statement of Financial Position – Bank

Assets		
Placements with the banks	–	716,624
Loans to and receivable from other customers	**1,960**	3,690
	1,960	720,314
Liabilities		
Due to banks	–	215,485
Due to other customers	**339,901**	–
Other borrowing	**1,334**	–
	341,235	215,485

	9 Months ended 31.12.2015 LKR 000	Year ended 31.03.2015 LKR 000

59.2.2 Income Statement – Bank

Interest income	**41,266**	82,689
Interest expenses	**32,351**	12,158
Fee and commission income	**37**	–
Other operating income (net)	**16,409**	29,282
Net gain from trading	–	16,651
Net gain from financial instruments at fair value through profit or loss	–	26,439
Net gain from financial investments – dividend received	**279,769**	182,807
Other overhead expenses	**79,236**	84,844
Personnel expenses – reimbursed expenses	**216,793**	287,901
– seconded expenses	–	2,639

	9 Months ended 31.12.2015 LKR 000	Year ended 31.03.2015 LKR 000

59.3 Transactions with Joint Venture

59.3.1 Statement of Financial Position – Bank

Liabilities		
Due to other customers	303	–
Other borrowing	30,005	–
	30,308	–

59.3.2 Income Statement – Bank

Net (loss)/gain from trading	(3,951)	6,011
Interest expenses	2,565	890
Other overhead expenses	–	92
Net gain from financial investments – reverse repo income	73	–
– dividend received	30,130	26,200

As at	31.12.2015 LKR 000	31.03.2015 LKR 000

59.4 Transactions with Associate

59.4.1 Statement of Financial Position – Bank

Liabilities		
Due to other customers	25	–
Other borrowing	5,541	–
	5,566	–

	9 Months ended 31.12.2015 LKR 000	Year ended 31.03.2015 LKR 000

59.4.2 Income Statement – Bank

Interest expenses	1,378	–
Net gain from financial investments – dividend received	8,128	5,415
Other overhead expenses	28	1,104

As at	31.12.2015 LKR 000	31.03.2015 LKR 000

59.5 Transaction with Entities in which Directors of the Bank have Significant Influence without Substantial Shareholding

59.5.1 Statement of Financial Position - Bank

	31.12.2015 LKR 000	31.03.2015 LKR 000
Assets		
Loans to and receivables from other customers	–	72,608
Financial investments – available-for-sale	102,701	116,203
	102,701	188,811
Liabilities		
Due to other customers	408,061	–
	408,061	–

	9 Months ended 31.12.2015 LKR 000	Year ended 31.03.2015 LKR 000

59.5.2 Income Statement – Bank

	9 Months ended 31.12.2015 LKR 000	Year ended 31.03.2015 LKR 000
Interest income	289	6,093
Fee and commission income	793	–
Net gain from financial investments – dividend received	1,283	1,636
Interest expenses	6,264	–

59.6 Transactions with Key Management Personnel

59.6.1 Key Management Personnel

Key Management Personnel are the Board of Directors of the Bank, Executive Vice Presidents, Senior Vice President-Treasury, Senior Vice President- Corporate Banking, Senior Vice President- Branch Banking, Chief Technology and Services Officer, Chief Financial Officer and the Secretary to the Board for the purpose of Sri Lanka Accounting Standard on 'Related Party Disclosures'.

59.6.2 Compensation of Directors and Other Key Management Personnel

	BANK		GROUP	
	9 Months ended 31.12.2015 LKR 000	Year ended 31.03.2015 LKR 000	9 Months ended 31.12.2015 LKR 000	Year ended 31.03.2015 LKR 000
Number of persons	21	15	23	38
Short-term employment benefits	106,589	100,299	180,809	186,655
Post employment benefits – pension	6,163	5,750	6,163	5,750
– others	12,313	15,586	22,241	24,426
	125,065	121,635	209,213	216,831

As at	31.12.2015		31.03.2015	
	Number of KMPs	**LKR 000**	Number of KMPs	LKR 000

59.6.3 Other Transactions with Key Management Personnel and their Close Family Members

59.6.3.1 Statement of Financial Position – Bank

Assets				
Loans to and receivables from other customers	**7**	**32,387**	2	6,278

As at	31.12.2015		31.03.2015	
	Number of KMPs	**LKR 000**	Number of KMPs	LKR 000
Liabilities				
Due to other customers	**28**	**312,256**	2	17,280
Other borrowing	**4**	**116,204**		–
Debt securities issued	**4**	**31,906**	2	26,028
		460,366		43,308

	9 Months ended 31.12.2015 LKR 000	Year ended 31.03.2015 LKR 000
59.6.3.2 Income Statement – Bank		
Interest income	**2,378**	279
Interest expenses	**17,457**	5,662
Fee and commission income	**55**	–

59.6.4 Accommodation Granted to Directors of the Bank

Disclosure under Section 47 (11A) of the Banking Act, No. 30 of 1988 as amended by amendment Act No. 2 of 2005.

	Limit LKR 000	Type of Facility	Balance as at 31.12.2015 LKR 000	Security Type	Security value LKR 000
C R Jansz	**500**	Credit Card	–		–
L H A L Silva	**500**	Credit Card	–		
L H A L Silva	**2,000**	Overdraft	–	Cash Deposits	2,603
L N De S Wijayarathne	**500**	Credit Card	–		–
A N Fonseka*	**1,500**	Credit Card	238	Cash Deposits	1,133
T Dharmarajah	**500**	Credit Card	–		
A R Fernando	**500**	Credit Card	–		–
A R Fernando	**50,000**	Overdraft	10,515	Cash Deposits	76,965
Ms S R Thambiayah	**500**	Credit Card	–		
			10,753		

The above total is included under loans and advances to Key Management Personnel and their close family members in Note 59.6.3.1.

**This amount was settled in full during January 2016.*

59.6.5 Transactions with DFCC Bank Pension Fund – Trust

DFCC Bank Pension Fund constituted as a Trust was established by the DFCC Bank to discharge defined benefit pension liability of eligible employees of the Bank.

	31.12.2015 LKR 000	31.03.2015 LKR 000
Contribution (payable)/prepaid as at 1 April	(2,597)	161,230
Contribution due for the financial period recognised as expense in income statement	(62,830)	(68,271)
Recognition of actuarial gains/(losses) in the other comprehensive income	(99,381)	(154,558)
Contribution paid by the Bank	106,000	59,002
Contribution payable (Note 50.1.3)	(58,808)	(2,597)

59.7 Transactions with Government of Sri Lanka (GOSL) and its Related Entities

Entities related to the Government of Sri Lanka (GOSL) by virtue of their aggregate shareholdings has the power to participate in the financial and operating policy decision of the Bank and by extension to participate in the financial and operating policy decisions of the Bank. However, in fact this power was not exercised.

Paragraph 25 of Sri Lanka Accounting Standard – LKAS 24 on 'Related Party Disclosure' has exempted DFCC Bank from the normally applicable disclosure requirements on transactions with GOSL – related entities. In making use of this exemption the Board has determined that the limited disclosure required under paragraph 26 of LKAS 24 is only required to be made for transaction that are individually significant because of their size although these transactions were undertaken on normal market terms in the ordinary course of business and there was no requirement to disclose the transactions to regulatory or supervisory authorities or require shareholder approval.

59.7.1 Individually Significant Transactions Included in the Statement of Financial Position

As at	31.12.2015 LKR 000	31.03.2015 LKR 000
59.7.1.1 Statement of Financial Position – Bank		
Assets		
Cash and cash equivalents	424,068	–
Loans and receivables to banks	4,372,191	–
Loans to and receivables from other customers	4,492,981	3,527,078
Balances with the Central Bank of Sri Lanka	5,553,809	–
Other financial assets held-for-trading	–	1,469,166
Financial investments – held-to-maturity	12,547,298	–
Financial investments – available-for-sale	29,690,593	5,548,508
Government grant receivable	539,758	483,727
	57,620,698	11,028,479

As at	**31.12.2015 LKR 000**	31.03.2015 LKR 000
Liabilities		
Due to banks	**6,617,554**	–
Due to other customers	**4,753,843**	661,890
Other borrowing	**9,018,778**	–
Other borrowing – credit lines	**21,631,475**	20,354,251
Debt securities issued	**1,038,055**	548,378
Government grant – deferred income	**476,008**	303,727
Subordinated term debt	**1,020,197**	–
	44,555,910	21,868,246
Commitments		
Undrawn credit facilities	**4,727,930**	5,585,860

	09 Months ended 31.12.2015 LKR 000	Year ended 31.03.2015 LKR 000
59.7.1.2 Income Statement – Bank		
Interest income	**999,519**	754,303
Net gain from trading	**5,180**	–
Net gain from financial investments	**7,787**	–
Interest expenses	**1,101,554**	1,368,943

There are no other transactions that are collectively significant with Government related entities.

59.8 Pricing Policy and Terms for Transactions with Related Parties

Bank enters into transactions with related parties in the ordinary course of business on terms similar to comparable transactions with an unrelated comparable counterparty with the exception of accommodation granted to Key Management Personnel under approved schemes uniformly applicable to all or specific categories of employees. The terms include pricing for loans, deposits and services, collateral obtained for loans where appropriate.

For the period ended 31 December 2015	Banking LKR 000	Finance leasing LKR 000	Investing in equity LKR 000	Other LKR 000	Unallocated LKR 000	Eliminations LKR 000	Total LKR 000

60 Business Segment Information

	Banking	Finance leasing	Investing in equity	Other	Unallocated	Eliminations	Total
Revenue							
Interest income	13,948,157	1,383,604	–	23,658	–	(46,851)	15,308,568
Net fees and commission income	1,071,067	–	–	247,363	–	(177,315)	1,141,115
Net gain from trading	215,575	–	–	–	–	–	215,575
Net gain from financial instruments at fair value through profit or loss	74,583	–	–	–	–	–	74,583
Net gain/(loss) from financial investments	184,890	–	412,362	–	–	(89,724)	507,528
Other income	71,519	–	–	172,292	18,978	(17,204)	245,585
Total income	15,565,791	1,383,604	412,362	443,313	18,978	(331,094)	17,492,954
Percentage*	89	8	2	3	0	(2)	100
Expenses							
Segment losses	797,597	(589)	–	–	–	(1,681)	795,327
Depreciation	–	–	–	26,555	–	–	26,555
Other operating and interest expense	12,266,942	664,425	–	305,470	–	(241,370)	12,995,467
	13,064,539	663,836	–	332,025	–	(243,051)	13,817,349
Result	2,501,252	719,768	412,362	111,288	18,978	(88,043)	3,675,605
Unallocated expenses							611,498
Value added tax and nation building tax on financial services							589,330
Operating profit after value added tax and nation building tax on financial services							2,474,777
Share of profits of associate and joint venture							78,693
Profit before tax							2,553,470
Income tax on profit on ordinary activities							911,842
Profit for the period							1,641,628
Other comprehensive expenses net of tax							(3,358,430)
Total comprehensive expenses							(1,716,802)
Total comprehensive income - non-controlling interests							48,666
Profit attributable to equity holders of the Bank							(1,765,468)
Assets	197,078,172	15,436,155	19,399,277	733,285	13,706,000	(492,086)	245,860,803
Percentage*	80	6	8	–	6	–	100
Investments in associate and joint venture company							1,247,799
							247,108,602
Liabilities	177,437,981	13,892,540	–	164,792	12,004,395	(359,231)	203,140,477
Capital expenditure – additions	–	–	–	13,528	295,536	–	309,064

* *Net of eliminations.*

For the year ended 31 March 2015	Banking LKR 000	Finance leasing LKR 000	Investing in equity LKR 000	Other LKR 000	Unallocated LKR 000	Eliminations LKR 000	Total LKR 000
Revenue							
Interest income	14,966,126	1,184,139	–	32,536	–	(84,134)	16,098,667
Net fees and commission income	1,039,607	–	–	248,689	–	(168,332)	1,119,964
Net gain or from trading	333,309	–	–	–	146,679	–	479,988
Net gain from financial instruments at fair value through profit or loss	21,705	–	–	–	656,512	–	678,217
Net gain from financial investments	138,224	–	2,127,011	–	23,416	(87,581)	2,201,070
Other income	12,010	–	–	219,708	(703,208)	(30,008)	(501,498)
Total Income	16,510,981	1,184,139	2,127,011	500,933	123,399	(370,055)	20,076,408
Percentage*	82	6	11	2	1	(2)	100
Expenses							
Segment losses	245,193	12,363	–	–	–	(11,000)	246,556
Depreciation	–	–	–	31,426	–	–	31,426
Other operating and interest expenses	11,324,857	505,454	–	306,599	–	(282,474)	11,854,436
	11,570,050	517,817	–	338,025	–	(293,474)	12,132,418
Result	4,940,931	666,322	2,127,011	162,908	123,399	(76,581)	7,943,990
Unallocated expenses							1,797,218
Value added tax and nation building tax on financial services							884,072
							5,262,700
Share of profits of associate and joint venture							153,270
Profit before tax							5,415,970
Income tax on profit on ordinary activities							977,358
Profit for the year							4,438,612
Other comprehensive income net of tax							4,854,824
Total comprehensive income							9,293,436
Total comprehensive income – non-controlling interests							75,930
Profit attributable to equity holders of the Bank							9,217,506
Assets	169,907,680	10,966,528	23,664,438	783,076	5,051,461	(950,869)	209,422,314
Percentage*	81	5	11	–	3	–	100
Investments in associate and joint venture company							1,187,985
							210,610,299
Liabilities	150,590,868	7,425,082	–	151,038	4,801,205	(620,647)	162,347,546
Capital expenditure – additions	–	–	–	42,446	189,647	–	232,093

* *Net of eliminations.*

60.1 Revenue and expenses attributable to the incorporated business segments of industrial estate management, unit trust management, stockbroking and consultancy services are included in the column for other.

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

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

61 Amalgamation of DFCC Vardhana Bank PLC (DVB) with DFCC Bank PLC

DFCC Vardhana Bank PLC, which was a subsidiary of the Group was amalgamated with DFCC Bank PLC on 1 October 2015. Accordingly, on 1 October 2015 the book values of DFCC Vardhana Bank PLC, was amalgamated with that of the DFCC Bank PLC and the investment in subsidiary of LKR 5,945 million recorded in DFCC Bank PLC (including balance payment to minority sharehloders amounting to 122 million), was set off against the equity of DFCC Vardhana Bank PLC.

The following restated statements were prepared as if the amalgamation has taken place prior to 1 April 2014.

Accordingly, the comparative figures of the income statement includes results of DFCC Vardhana Bank PLC and DFCC Bank PLC for the 12 months ended 31 March 2015. Current year results include, results of DFCC Vardhana Bank PLC and DFCC Bank PLC(pre-amalgamation) from 1 April 2015 to 30 September 2015, and the results of the amalgamated entity from 1 October 2015 to 31 December 2015.

The restated statement of financial position, as at 31 March 2015 includes balances of DFCC Vardhana Bank PLC as at 31 March 2015.

61.1 Income Statement – Restated

	BANK	
For the period ended	**9 months ended 31 December 2015 LKR 000**	Year ended 31 March 2015 LKR 000
Income	**14,961,213**	19,814,303
Interest income	**13,327,464**	15,882,931
Interest expenses	**7,942,410**	8,953,743
Net interest income	**5,385,054**	6,929,188
Fee and commission income	**850,390**	1,112,650
Fee and commission expense	**7,783**	15,265
Net fee and commission income	**842,607**	1,097,385
Net gain from trading	**172,238**	496,090
Net gain from financial instruments at fair value through profit or loss	**136,194**	625,145
Net gain from financial investments	**525,306**	2,312,023
Other operating loss – net	**(50,379)**	(614,536)
Total operating income	**7,011,020**	10,845,295
Impairment charge for loans and other losses	**663,938**	112,467
Net operating income	**6,347,082**	10,732,828
Operating expenses		
Personnel expenses	**2,042,871**	2,142,723
Other expenses	**1,840,463**	2,075,443
Operating profit before value added tax and nation building tax on financial services	**2,463,748**	6,514,662
Value added tax and nation building tax on financial services	**501,982**	939,691
Operating profit after value added tax and nation building tax on financial services	**1,961,766**	5,574,971
Share of profits of associate and joint venture	–	–
Profit before tax	**1,961,766**	5,574,971
Tax expense	**722,673**	1,073,732
Profit for the period	**1,239,093**	4,501,239

61.2 Statement of Financial Position – Restated

As at	BANK 31 March 2015 LKR 000
Assets	
Cash and cash equivalents	3,177,949
Balances with Central Bank of Sri Lanka	3,049,109
Placements with banks	662,118
Derivative assets held-for-risk management	29,335
Other financial assets held-for-trading	5,023,879
Loans to and receivables from banks	3,965,176
Loans to and receivables from other customers	138,458,074
Financial investments – available-for-sale	45,827,452
Financial investments – held-to-maturity	10,954,392
Investments in subsidiaries	134,536
Investment in associate	35,270
Investment in joint venture	655,000
Due from subsidiaries	135,091
Property, plant and equipment	934,193
Intangible assets	276,703
Government grant receivable	483,727
Prepayments	26,342
Other assets	2,090,310
Total assets	215,918,656
Liabilities	
Due to banks	8,081,266
Derivative liabilities held-for-risk management	38,239
Due to other customers	91,782,545
Other borrowing	43,609,813
Debt securities issued	19,445,924
Current tax liability	290,321
Deferred tax liability	627,422
Government grant-deferred income	303,727
Other liabilities	2,855,446
Due to subsidiaries	31
Subordinated term debt	1,636,218
Total liabilities	168,670,952
Equity	
Stated capital	4,715,814
Statutory reserve	1,736,241
Retained earnings	9,534,530
Other reserves	31,261,119
Total equity	47,247,704
Total equity and liabilities	215,918,656
Contingent liabilities and Commitments	74,730,756
Net asset value per share, LKR	178.23

61.3 Composition of Assets and Liabilities in the Investments in DFCC Vardhana Bank on the date of amalgamation (as at 1 October 2015)

As at	LKR 000
Assets	
Cash and cash equivalents	3,324,005
Balances with Central Bank of Sri Lanka	3,245,064
Placements with banks	505,083
Derivative assets – held for risk management	100,235
Other financial assets held-for-trading	1,602,425
Loans to and receivables from banks	4,256,610
Loans to and receivables from other customers	73,867,709
Financial investments – available-for-sale	18,279,341
Financial investments – held-to-maturity	11,740,405
Property, plant and equipment	624,220
Intangible assets	171,268
Other assets	1,542,739
Total assets (A)	119,259,104
Liabilities	
Due to banks	15,421,138
Due to other customers	74,656,723
Other borrowing	11,341,142
Debt securities issued	3,081,991
Current tax liability	72,460
Deferred tax liability	226,453
Other liabilities	2,110,985
Subordinated term debt	3,084,010
Total liabilities (B)	109,994,902
Total equity (A-B)	9,264,202
Investment in DFCC Bank PLC in DVB (including balance payment to NCI LKR 122 million)	(5,945,436)
Total equity Balances transferred on amalgamation	3,318,766

62 Comparative Figures

62.1 Change of year end

DFCC Bank has changed its financial year end from 31 March to 31 December in the year 2015. Accordingly, the current year separate financial statements of DFCC Bank PLC contain the results of nine months from 1 April 2015 to 31 December 2015. However, the comparative figures presented in these financial statements are for the year ended 31 March 2015 and not entirely comparable with the current period.

62.2 Reclassification of comparative figures

The following information has been reclassified to confirm with the current year's classification in order to provide a better presentation.

	GROUP	
	As Disclosed Previously	Current Presentation
	LKR 000	LKR 000
Statement of Financial Position		
Retained earnings	12,755,357	12,752,999
Exchange equalisation reserve	–	2,358

63 Events Occurring After the Reporting Period

63.1 First and Final Dividend

The Directors have approved the payment of a first and final dividend of LKR 2.50 per share for the nine months ended 31 December 2015. The Board of Directors confirms that the Bank has satisfied the solvency test in accordance with Section 57 of the Companies Act No. 07 of 2007 and have obtained the certificate from the Auditors. The dividend exceeds the minimum distribution mandated by the Inland Revenue Act No. 10 of 2006 and therefore the 15% deemed dividend tax, will not be imposed on the Bank.

63.2 Tax Assessment

The Department of Inland Revenue has raised an assessment for LKR 760 million with respect to year of assessment 2010/11 relating to gain on sale of listed shares.

The Bank has successfully appealed against this assessment to the Tax Appeal Commission. The Bank is of the view that the above assessment will not have any material impact to the financial statements.

No other circumstances have arisen which would require disclosure or adjustment to the financial statements.

64 Fair Value Measurement

64.1 Determining Fair Value

The determination of fair value for financial assets and financial liabilities, for which there is no observable market price, requires the use of valuation techniques as described in Note 5.2.5. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. The Group's accounting policy on fair value measurements is discussed in Note 5.2.5. The Group measures fair values, using the following fair value hierarchy that reflects the significance of the inputs used in making measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., prices) or indirectly (i.e., derived from prices).

This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued, based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like government securities, interest rate and currency swaps that use mostly observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, government securities and simple over the counter derivatives like forward exchange contracts and interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Management judgments and estimations are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

64.2 Valuation framework

The established control framework with respect to the measurement of fair values, includes an oversight which is independent of front office management. Treasury Middle office has overall responsibility for independently verifying the results of trading and investment operation.

Specific controls include:

→ Verification of observable pricing

→ Review and approval process for new models and changes to models involving both product control and group market risk

→ Calibration and back testing of models

→ Stress Testing

When third party information, such as broker quotes or pricing services is used to measure fair value, the evidence so obtained to support the conclusion that such valuations meet the requirements of SLFRSs/LKASs is documented.

This includes:

→ Verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument

→ Several quotes obtained from randomly selected brokers for the same financial instrument and the fair value determined on this basis

Any changes to the fair value methodology is reported to the Bank's Audit Committee.

64.3 Fair Value by Level of the Fair Value Hierarchy – Bank

As at 31 December 2015	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial Assets					
Derivative assets held-for-risk management	29				
Forward foreign exchange contracts			198,776		198,776
Other financial assets held-for-trading	30				
Government of Sri Lanka Treasury Bills and Bonds			–		–
Financial investments – available-for-sale	33				
Government of Sri Lanka Treasury Bills and Bonds			29,690,593		29,690,593
Quoted ordinary shares		18,123,603			18,123,603
Units in Unit Trusts – Quoted		197,759			197,759
Units in Unit Trusts – Unquoted			797,186		797,186
Unquoted shares				147,874	147,874
Government grant receivable	43		539,758		539,758
		18,321,362	31,226,313	147,874	49,695,549
Financial Liabilities					
Derivative liabilities held-for-risk management	29				
Forward foreign exchange contracts			85,333		85,333
		–	85,333	–	85,333

As at 31 March 2015	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial Assets					
Derivative assets held-for-risk management	29				
Forward foreign exchange contracts			29,335		29,335
Other financial assets held-for-trading	30				
Government of Sri Lanka Treasury Bills and Bonds			1,469,166		1,469,166
Financial investments – available-for-sale	33				
Government of Sri Lanka Treasury Bills and Bonds			5,548,508		5,548,508
Quoted ordinary shares		21,136,695			21,136,695
Units in Unit Trusts – Quoted		190,153			190,153
Units in Unit Trusts – Unquoted			805,681		805,681
Unquoted shares				142,459	142,459
Government grant receivable	43		483,727		483,727
		21,326,848	8,336,417	142,459	29,805,724
Financial Liabilities					
Derivative liabilities held-for-risk management	29				
Forward foreign exchange contracts			1,737		1,737
		–	1,737	–	1,737

There were no transfers between Level 1, Level 2 and Level 3 during the period 31 March 2015 and 31 December 2015.

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64.4 Fair Value by Level of the Fair Value Hierarchy – Group

As at 31 December 2015	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial Assets					
Derivative assets held-for-risk management	29				
Forward foreign exchange contracts			198,776		198,776
Other financial assets held-for-trading	30				
Government of Sri Lanka Treasury Bills and Bonds			–		–
Financial investments – available-for-sale	33				
Government of Sri Lanka Treasury Bills and Bonds			29,690,593		29,690,593
Quoted ordinary shares		18,123,603			18,123,603
Units in Unit Trusts – Quoted		197,759			197,759
Units in Unit Trusts – Unquoted			797,186		797,186
Unquoted shares				147,874	147,874
Government grant receivable	43		539,758		539,758
		18,321,362	31,226,312	147,874	49,695,549
Financial Liabilities					
Derivative liabilities held-for-risk management	29				
Forward foreign exchange contracts			85,333		85,333
		–	85,333	–	85,333

As at 31 March 2015	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial Assets					
Derivative assets held-for-risk management	29				
Forward foreign exchange contracts			89,861		89,861
Other financial assets held-for-trading	30				
Government of Sri Lanka Treasury Bills and Bonds			1,469,166		1,469,166
Financial investments – available-for-sale	33				
Government of Sri Lanka Treasury Bills and Bonds			23,546,475		23,546,475
Quoted ordinary shares		21,136,695			21,136,695
Units in Unit Trusts – Quoted		190,153			190,153
Units in Unit Trusts – Unquoted			805,681		805,681
Unquoted shares				147,874	147,874
Government grant receivable	43		483,727		483,727
		21,326,848	26,394,910	147,874	47,869,632
Financial Liabilities					
Derivative liabilities held-for-risk management	29				
Forward foreign exchange contracts			37,153		37,153
		–	37,153	–	37,153

There were no transfers between Level 1, Level 2 and Level 3 during the period 31 March 2015 and 31 December 2015.

64.5 *Fair Value of Financial Instruments Carried at Amortised Cost- Bank*

The following table summarises the carrying amounts and the Bank's estimate of fair values of those financial assets and liabilities not presented on the Bank's Statement of Financial Position at fair value. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions which are not observable in the market.

As at 31 December 2015	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Fair value LKR 000	Carrying amount LKR 000
Assets						
Cash and cash equivalents	26		4,305,247		4,305,247	4,305,247
Balances with Central Bank of Sri Lanka	27		5,553,809		5,553,809	5,553,809
Placements with banks	28		–		–	–
Loans to and receivables from banks	31		4,574,319		4,574,319	4,574,319
Loans to and receivables from other customers	32			158,622,894	158,622,894	160,345,530
Financial investments – held-to-maturity	34	3,655,412	14,155,734		17,811,146	17,903,885
Total		3,655,412	28,589,109	158,622,894	190,867,415	192,682,790
Liabilities						
Due to banks	46		24,364,403		24,364,403	24,364,403
Due to other customers	47			110,639,616	110,639,616	110,890,685
Other borrowing	48			35,955,297	35,955,297	35,955,297
Debt securities issued	49		23,331,215		23,331,215	23,292,660
Subordinated term debt	52		3,421,616		3,421,616	3,767,081
		–	51,117,234	146,594,913	197,712,147	198,270,126

As at 31 March 2015	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Fair value LKR 000	Carrying amount LKR 000
Assets						
Cash and cash equivalents	26		110,576		110,576	110,576
Placements with banks	28		716,622		716,622	716,622
Loans to and receivables from banks	31		484,067		484,067	484,067
Loans to and receivables from other customers	32			73,737,898	73,737,898	73,448,705
Financial investments – held-to-maturity	34	2,090,105			2,090,105	2,085,921
Total		2,090,105	1,311,265	73,737,898	77,139,268	76,845,891
Liabilities						
Due to banks	46		1,928,867		1,928,867	1,928,867
Due to other customers	47			22,744,161	22,744,161	22,484,652
Other borrowing	48			24,361,797	24,361,797	24,361,797
Debt securities issued	49		20,293,950		20,293,950	19,445,924
Subordinated term debt	52		640,847		640,847	609,373
		–	22,863,664	47,105,958	69,969,622	68,830,613

64.6 Fair Value of Financial Instruments Carried at Amortised Cost – Group

The following table summarises the carrying amounts and the Group's estimate of fair values of those financial assets and liabilities not presented on the Group's Statement of Financial Position at fair value. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions which are not observable in the market.

As at 31 December 2015	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Fair value LKR 000	Carrying amount LKR 000
Assets						
Cash and cash equivalents	26		4,314,777		4,314,777	4,314,777
Balances with Central Bank of Sri Lanka	27		5,553,809		5,553,809	5,553,809
Placements with banks	28		1,718		1,718	1,718
Loans to and receivables from banks	31		4,602,263		4,602,263	4,602,263
Loans to and receivables from other customers	32			158,620,519	158,620,519	160,343,155
Financial investments – held-to-maturity	34	3,655,412	14,155,734		17,811,146	17,903,885
Total		3,655,412	28,628,301	158,620,519	190,904,232	192,719,607
Liabilities						
Due to banks	46		24,365,653		24,365,653	24,365,653
Due to other customers	47			110,300,151	110,300,151	110,551,220
Other borrowing	48			35,955,297	35,955,297	35,955,297
Debt securities issued	49		23,331,215		23,331,215	23,292,660
Subordinated term debt	52		3,421,616		3,421,616	3,767,081
		–	51,118,484	146,255,448	197,373,934	197,931,911

As at 31 March 2015	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Fair value LKR 000	Carrying amount LKR 000
Assets						
Cash and cash equivalents	26		4,060,820		4,060,820	4,060,820
Balances with Central Bank of Sri Lanka	27		2,616,406		2,616,406	2,616,406
Placements with banks	28		1,324,892		1,324,892	1,324,892
Loans to and receivables from banks	31		3,563,647		3,563,647	3,563,647
Loans to and receivables from other customers	32			135,618,870	135,618,870	135,322,723
Financial investments – held-to-maturity	34	2,090,105	8,818,133		10,908,238	10,872,287
Total		2,090,105	20,383,898	135,618,870	158,092,873	157,760,775
Liabilities						
Due to banks	46		5,972,567		5,972,567	5,972,567
Due to other customers	47			93,124,652	93,124,652	92,711,793
Other borrowing	48			38,846,172	38,846,172	38,846,172
Debt securities issued	49		20,293,950		20,293,950	19,445,924
Subordinated term debt	52		1,668,739		1,668,739	1,609,664
		–	27,935,256	131,970,824	159,906,080	158,586,120

Given below is the basis adopted by the Bank/Group in order to establish the fair values of the financial instruments.

64.7 Cash and Cash Equivalents and Placements with Banks

Carrying amounts of cash and cash equivalents and placements with banks approximates their fair value as these balances have a remaining maturity of less than three months from the reporting date.

64.8 Loans to and Receivables from Banks and Other Customers

64.8.1 Lease Rentals Receivable – Bank

The estimated fair value of lease rentals receivable is the present value of future cash flows expected to be received from such finance lease facilities calculated based on current interest rates for similar type of facilities. The finance lease portfolio is at fixed interest rates and the fair value calculated on this basis as at 31 December 2015 was LKR 14,895 million as against a carrying value of LKR 15,436 million. (for the year ended 31 March 2015 - fair value calculated on this basis was LKR 8,539 million as against a carrying value of LKR 8,250 million).

64.8.2 Other Loans

Composition:

	%
Floating rate loan portfolio	65
Fixed rate loans	
- With remaining maturity less than one year	9
- Others	26
Total	100

Since the floating rate loans can be repriced monthly, quarterly and semiannually in tandem with market rates fair value of these loans is approximately same as the carrying value. Carrying amount of fixed rate loans with a remaining maturity of less than one year approximates the fair value.

Based on the results of the fair value computed on the lease rentals receivable, it is estimated that the fair value of the other loans at fixed interest rates with maturity of more than one year is not materially different to its carrying value as at the reporting date.

64.9 Financial Investments – Held-to-Maturity

Fair value of the fixed rate debentures are based on prices quoted in the Colombo Stock Exchange, where there is an active market for quoted debentures.

Where there is no active market, fair value of the fixed rate debentures has been determined by discounting the future cash flows by the interest rates derived with reference to Government Treasury Bond rates with adjustments to risk premiums at the time of investment.

64.10 Due to Banks

Carrying value of amounts due to banks approximates their fair value as these balances have a remaining maturity of less than one year from the reporting date.

64.11 Due to Other Customers

The carrying value of deposits with a remaining maturity of less than one year approximates the fair value.

Fair values of deposits with a remaining maturity of more than one year is estimated using discounted cash flows applying current interest rates offered for deposits of similar remaining maturities.

The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the reporting date and the savings account balances are repriced frequently to match with the current market rates. Therefore the demand and saving deposits carrying amounts are reasonable approximation to the fair values as at the reporting date.

64.12 Other Borrowing

This consists of borrowings sourced from multilateral and bilateral institutions. 70% of these borrowing are repriced either monthly, quarterly or semi-annually and rates are revised in-line with changes in market rates. Hence, the carrying value of these borrowings approximates the fair value.

The others at fixed rates which relates to borrowings on credit lines are based on interest rates which are specific to each refinancing arrangement and as such there are no comparable market rates. Hence, the fair value approximates the carrying value.

64.13 Debt Securities Issued

Debts issued comprise the USD Notes Issue and LKR debentures. Fair value of the USD Notes are determined by reference to the bid and ask price quoted in the Singapore Stock Exchange. The LKR debentures are fair valued by reference to current Government Treasury Bond rates with a risk premium.

65 Financial Risk Management

65.1 Introduction and Overview

Bank has exposure to the following key risks from financial instruments:

- Credit Risk
- Liquidity Risk
- Operational Risk
- Market Risk

This note presents information about the Bank's exposure to each of the above risks, the objectives, policies and processes for measuring and managing such risk.

Risk Management Framework

The Board of Directors has the overall responsibility for the establishment and oversight of the Bank's risk management framework. It has set up a Board Integrated Risk Management Committee (BIRMC) with four Non-Executive Directors including the Chairman, one Executive Director and Chief Risk Officer (CRO) as members. CRO represents at the BIRMC the supervision and the management of the broad risk categories including credit, liquidity market risk and strategic risk. As per the Board approved Charter, BIRMC assists the Board to manage these risks prudently. Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set up appropriate risk limits and controls and to monitor risk and adherence to limits. Risk management policies and systems are reviewed at least annually to reflect changes in market conditions, business strategy, products and services offered.

65.2 Credit Risk

65.2.1 Qualitative Disclosures

Credit risk is the risk of financial loss to the Group, if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Bank's loans and advances to customers and other banks and investment in debt securities.

Management of credit risk includes the following elements:

1. Formulating credit policies in consultation with business units covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
2. Establishing the authorisation structure for the approval and renewal of credit facilities.
3. Limiting concentration of exposures to counterparties and industries.
4. Developing and maintaining Bank's risk grading models in order to categorise exposures according to the degree of risk of financial loss and to focus management on the attendant risks.
5. Independent risk assessment, monitoring, recommending and reporting by the Integrated Risk Management Department (IRMD).
6. Reviewing compliance through regular audits by internal audit.

65.2.2 Quantitative Disclosures

As at	BANK		GROUP	
	31.12.2015 LKR 000	31.03.2015 LKR 000	31.12.2015 LKR 000	31.03.2015 LKR 000
65.2.2.1 Loans to and Receivables from Other Customers				
Individually impaired				
Gross amount	**5,771,086**	2,507,267	**5,771,086**	5,202,800
Allowance for impairment	**(4,240,756)**	(1,932,635)	**(4,240,756)**	(4,001,868)
Carrying amount	**1,530,330**	574,632	**1,530,330**	1,200,932
Collectively impaired				
Gross amount	**2,782,651**	1,278,835	**2,782,651**	3,455,407
Allowance for impairment	**(1,924,882)**	(968,820)	**(1,924,882)**	(2,007,988)
Carrying amount	**857,769**	310,015	**857,769**	1,447,419
Past due but not impaired				
Gross amount	**41,042,121**	12,073,322	**41,042,121**	29,168,304
Allowance for impairment	**–**	–	**–**	–
Carrying amount	**41,042,121**	12,073,322	**41,042,121**	29,168,304
Neither past due nor impaired				
Gross amount	**116,915,310**	60,490,736	**116,912,935**	103,506,068
Allowance for impairment	**–**	–	**–**	–
Carrying amount*	**116,915,310**	60,490,736	**116,912,935**	103,506,068
Carrying amount – Amortised cost	**160,345,530**	73,448,705	**160,343,155**	135,322,723
65.2.2.2 Loans to and Receivables from Banks				
Neither past due nor impaired				
Gross amount	**4,574,319**	484,067	**4,602,263**	3,563,647
Allowance for impairment	**–**	–	**–**	–
Carrying amount	**4,574,319**	484,067	**4,602,263**	3,563,647

** Carrying amount of the Bank's loans and advances includes accounts with renegotiated terms of which the capital outstanding as at 31 December 2015 amounts to LKR 3,029 million (31 March 2015 - LKR 1,124 million).*

65.2.2.3 Analysis of Security Values of Loans to and Receivables from Other Customers

	BANK				GROUP			
	Gross loan balance 31.12.2015 LKR 000	**Security value 31.12.2015 LKR 000**	Gross loan balance 31.03.2015 LKR 000	Security value 31.03.2015 LKR 000	**Gross loan balance 31.12.2015 LKR 000**	**Security value 31.12.2015 LKR 000**	Gross loan balance 31.03.2015 LKR 000	Security value 31.03.2015 LKR 000
Against Individually Impaired								
Mortgages over property, plant and machinery	**1,622,358**	**1,626,016**	2,070,294	1,264,737	**1,622,358**	**1,626,016**	1,550,604	1,917,899
Others	**770,027**	**9,687**	4,647	757	**770,027**	**9,687**	705,257	3,557
Unsecured	**3,278,338**	**–**	361,868	–	**3,278,338**	**–**	2,876,480	–
Against Collectively Impaired								
Mortgages over property, plant and machinery	**1,140,430**	**2,242,249**	674,900	1,685,200	**1,140,430**	**2,242,249**	1,094,448	2,734,422
Others	**321,167**	**78,682**	450	500	**321,167**	**78,682**	813,740	556,150
Unsecured	**1,107,808**	**–**	458,450	–	**1,107,808**	**–**	1,369,966	–
Against Past Due But Not Impaired								
Mortgages over property, plant and machinery	**18,215,022**	**40,442,389**	6,839,857	17,019,733	**18,215,022**	**40,442,389**	13,923,918	39,423,628
Others	**11,299,513**	**3,874,642**	335,163	178,422	**11,299,513**	**3,874,642**	6,984,107	2,896,689
Unsecured	**5,790,641**	**–**	2,018,260	74,343	**5,790,641**	**–**	4,598,182	74,343
Against Neither Past Due Nor Impaired								
Mortgages over property, plant and machinery	**43,204,836**	**95,750,255**	26,202,035	55,837,996	**43,204,836**	**95,750,255**	38,781,539	101,929,409
Treasury Guarantee	**3,656,813**	**5,235,669**	2,912,507	2,912,507	**3,656,813**	**5,235,669**	2,912,507	2,912,507
Debt securities	**940,000**	**94,000**	1,270,982	1,270,982	**940,000**	**94,000**	1,270,982	1,270,982
Equity	**1,382,047**	**1,465,100**	345,614	993,574	**1,382,047**	**1,465,100**	345,614	993,574
Others	**31,009,977**	**9,237,347**	6,634,476	3,210,494	**31,009,977**	**9,237,347**	28,342,756	11,823,703
Unsecured	**27,336,036**	**–**	17,970,566	739,821	**27,336,036**	**–**	24,799,641	739,821
Total	**151,075,013**	**160,056,036**	68,100,069	85,189,066	**151,075,013**	**160,056,036**	130,369,741	167,276,684

The above analysis does not include balances relating to lease rentals receivable.

Note 01

An updated valuation of collateral is generally not carried out unless the credit risk of a loan deteriorates significantly and the loan is monitored more closely. Accordingly the Bank does not routinely update the valuation of collateral held against performing loans. For impaired loans, the Bank usually obtains recent valuations of collaterals as the current value of the collateral may be an input to the impairment measurement.

Note 02

Other include loans secured by gold, bank guarantee, movable equipment and machinery, vehicle mortgages, inventory and book debts, shares, demand promissory notes, personal guarantees, corporate guarantees and trust certificates.

65.3 Liquidity Risk

65.3.1 Qualitative Disclosures

Liquidity risk is the risk that the Bank will not have sufficient financial resources to meet Bank's obligations as they fall due. This risk arises from mismatches in the timing of cash flows.

Management of liquidity risk includes the following elements:

a. Taking steps to ensure, as far as possible, that it will always have sufficient financial resources to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

b. The Asset and Liability Committee (ALCO) is mandated to execute liquidity management policies, procedures and practices approved by the Board of Directors, effectively.

c. Monitoring of potential liquidity requirements and availability using the maturity analysis and cash flow forecast under normal and stressed conditions using a flow approach.

d. Monitoring the Bank's liquidity through the Liquid Assets Ratio (statutory minimum is currently 20%) using a stock approach.

e. Effecting threshold limits relevant for liquidity management as a part of the overall risk limits system of the Bank.

	6 months ended 30 September 2015 %	Year ended 31 March 2015 %

65.3.2 Quantitative Disclosures

65.3.2.1 Liquidity Risk Position

65.3.2.1.1 DFCC Bank PLC – Before Amalgamation

	6 months ended 30 September 2015 %	Year ended 31 March 2015 %
Liquid Asset Ratio as at reporting date	**55.3**	47.6
Average for the period	**42.6**	42.5
Minimum for the period	**35.0**	30.0
Maximum for the period	**55.3**	55.0

65.3.2.1.2 DFCC Bank PLC – After Amalgamation

	1 October 2015 to 31 December 2015 %
Liquid Asset Ratio as at 31 December	**22.45**
Average for the period	**22.13**
Minimum for the period	**21.75**
Maximum for the period	**22.45**

DFCC Bank PLC, as a Licensed Specialised Bank computed the liquid assets ratio, only on deposit liabilities, whereas after the amalgamation it is computed on total liabilities.

As at	**31.12.2015 %**
Gross advances to deposit ratio	**150**
Gross advances to deposit ratio (including credit lines and international notes)	**110**

65.3.2.2 Liquidity Coverage Ratios

The liquidity coverage ratio of the Bank as at 31 December 2015 is as follows:

As at	31.12.2015 %
Liquidity coverage ratio – Rupee only	120.57%
Liquidity coverage ratio – all currencies	111.06%

The ratio has been maintained above the statutory limit of 60% throughout the period.

65.3.2.3 Maturity Profile of Financial Liabilities of the Bank

As at 31 December 2015	Carrying Amount LKR 000	Total* LKR 000	Up to 3 months LKR 000	%	3 to 12 months LKR 000	%	1 to 3 years LKR 000	%	3 to 5 years LKR 000	%	>5 years LKR 000	%
Liabilities with Contractual Maturity (Interest-Bearing Liabilities)												
Due to banks	24,349,209	24,352,412	20,236,896	83	115,516	0	4,000,000	17	–	–	–	–
Due to other customers	106,927,875	107,064,645	46,405,797	43	34,465,101	32	5,347,787	5	5,259,384	5	15,586,576	15
Other borrowing	35,955,297	35,956,780	9,655,537	27	3,405,146	9	–	–	13,202,716	37	9,693,381	27
Debt securities issued	23,292,660	23,249,138	536,116	2	446,941	2	4,966,781	21	17,299,300	75	–	–
Subordinated term debt	3,767,081	3,841,393	82,901	2	1,758,492	46	–	–	2,000,000	52	–	–
	194,292,122	194,464,368	76,917,247		40,191,196		14,314,568		37,761,400		25,279,957	
Other Liabilities (Non-Interest-Bearing Liabilities)												
Due to banks	15,194	15,194	15,194	100	–	–	–	–	–	–	–	–
Derivative financial instruments	85,333	91,313	56,714	62	34,599	38	–	–	–	–	–	–
Due to other customers	3,962,810	3,962,809	1,675,172	42	1,361,255	34	–	–	–	–	926,382	23
Other liabilities	3,368,558	3,122,109	1,096,470	35	800,213	26	–	–	–	–	1,225,426	39
	7,431,895	7,191,425	2,843,550		2,196,067		–		–		2,151,808	

65.3.2.4 Maturity Profile of Financial Liabilities of the Group

As at 31 December 2015	Carrying Amount LKR 000	Total* LKR 000	Up to 3 months LKR 000	%	3 to 12 months LKR 000	%	1 to 3 years LKR 000	%	3 to 5 years LKR 000	%	>5 years LKR 000	%
Liabilities with Contractual Maturity (Interest-Bearing Liabilities)												
Due to banks	24,349,208	24,352,412	20,236,896	83	115,516	0	4,000,000	17	–	–	–	–
Due to other customers	106,588,410	106,725,231	46,405,797	43	34,125,686	32	5,347,787	5	5,259,384	5	15,586,577	15
Other borrowing	35,955,297	35,956,780	9,655,537	27	3,405,146	9	–	–	13,202,716	37	9,693,381	27
Debt securities issued	23,292,660	23,249,138	536,116	2	446,941	2	4,966,781	21	17,299,300	75	–	–
Subordinated term debt	3,767,081	3,841,393	82,901	2	1,758,492	46	–	–	2,000,000	52	–	–
	193,952,656	194,124,954	76,917,247		39,851,781		14,314,568		37,761,400		25,279,958	
Other Liabilities (Non-interest-Bearing Liabilities)												
Due to banks	16,445	16,445	16,445	100	–	–	–	–	–	–	–	–
Derivative financial instruments	85,333	91,313	56,714	62	34,599	38	–	–	–	–	–	–
Due to other customers	3,962,810	3,962,809	1,675,172	42	1,361,255	34	–	–	–	–	926,382	23
Other liabilities	3,500,012	3,253,563	1,100,348	35	901,933	26	–	–	–	–	1,251,282	39
	7,564,600	7,324,130	2,848,679		2,297,787		–		–		2,177,664	

**The gross nominal outflow represents the contractual undiscounted cash flows.*

65.4 Market Risk

65.4.1 Qualitative Disclosures

Market risk is the possibility of losses arising from changes in the value of a financial instrument as a result of changes in market variables, such as interest rates, equity prices, foreign exchange rates and commodity prices will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters, in order to ensure the Bank's solvency and the income growth, while optimising the return on risk.

65.4.1.1 Management of Market Risks

The following policy frameworks stipulate the policies and practices for management, monitoring and reporting of market risk.

a. Market risk management framework
b. ALCO charter
c. Treasury trading guidelines and limits system
d. Treasury manual
e. Overall risk limits for market risk management
f. New product development policy

Overall authority for managing market risk is vested with the Board of Directors through the Board Integrated Risk Management Committee (BIRMC). The operational authority for managing market risk is vested with ALCO. Foreign exchange risk is managed within approved limits and by segregation of reporting responsibilities of Treasury Front Office, Middle Office and Back Office.

Exposure to market risk arises from two sources viz. trading portfolios from positions arising from marking to market activities, and non-trading portfolios from positions arising from financial investments classified as available-for-sale (AFS) and held-to-maturity and from derivatives held for risk management purposes.

65.4.2 Quantitative Disclosures

In the case of interest and forex risk the following analysis is in respect of DFCC Bank PLC.

65.4.2.1 Interest Rate Risk

65.4.2.1.1 Duration Analysis as at 31 December 2015

Portfolio	Face value LKR 000	Mark-to-market value LKR 000	Duration	Interpretation of duration
Government Securities trading portfolio	–	–	–	
Treasury Securities AFS portfolio	29,764,572	29,690,593	0.45	Portfolio value will decline approximately by 0.45% as a result of 1% increase in the interest rates.

Market risk exposure for interest rate risk in the AFS portfolio for treasury securities as at 31 December 2015 is depicted by duration of 0.45%. This level of interest rate risk exposure in the AFS portfolio can be interpreted as a possible potential loss in the mark-to-market value amounting to LKR 133.61 million, as at 31 December 2015 in case, the market interest rates mark a parallel upward shift of 1%.

65.4.2.1.2 Potential Impact to NII Due to Change in Market Interest Rates

Overall up to the 12-month time bucket, DFCC Bank carried a liability sensitive position. This liability sensitivity will vary for each time bucket up to the 12-month period. The interest rate risk exposure as at 31 December 2015 is quantified based on the assumed change in the interest rates for each time period and is given in the table below:

	0 to 1 month LKR 000	Over 1 - up to 3 months LKR 000	Over 3 - up to 6 months LKR 000	Over 6 - up to 12 months LKR 000
Total interest-bearing assets	67,899,658	46,728,793	19,075,793	12,014,210
Total interest-bearing liabilities	63,896,346	36,386,835	29,650,890	18,307,288
Net rate sensitive assets (liabilities)	4,003,312	10,341,958	(10,575,097)	(6,293,078)
Assumed change in interest rates (%)	0.5%	1.0%	1.5%	2.0%
Impact	20,017	94,801	(118,970)	(62,931)
Total net impact if interest rates increase				(67,083)
Total net impact if interest rates decline				67,083

We have assumed that the assets and liabilities are re-priced at the beginning of each time bucket and have also taken into account the remaining time from the re-pricing date up to one year.

65.4.2.2 Forex Risk in Net Open Position (NOP)/Unhedged Position of DFCC Bank

The following table indicates the DFCC Bank's exchange rate risk exposure based on its size of the NOP/unhedged positions in the foreign currency assets/liabilities. By 31 December 2015, DFCC Bank carried a USD equivalent net open/ unhedged 'oversold' position of LKR 1.1 billion. The impact of exchange rate risk is given below:

	Amount
Net exposure – USD equivalent	(7,592,000)
Value of position in LKR '000	(1,094,387)
Exchange rate (USD/LKR) as at 31 December 2015	144.15
Possible potential gain/(loss) to DFCC Bank – LKR '000	
If Exchange rate (USD/LKR) depreciates by 1%	(10,944)
If exchange rate depreciates by 10%	(109,439)
If exchange rate depreciates by 15%	(164,158)

The estimated potential exchange loss is off set by the interest gain due to interest differential between Sri Lankan Rupee and the respective foreign currencies.

65.4.2.3 Equity Price Risk

Equity price risk is part of market risk which is defined as the risk of possible loss arising from the equity market investments due to changes in the market prices of the invested shares. The Bank is exposed to equity price risk through its investments in the equity market which has been shown in the AFS portfolio.

Parameter	**Position as at 31 December 2015 LKR 000**	Position as at 31 March 2015 LKR 000
Mark-to-market value of the total quoted equity portfolio	**18,123,603**	21,136,695
Value-at-risk (under 99% probability for a quarterly time horizon)	**16.6%**	27.7%
Maximum possible loss of value in the mark-to-market value of the portfolio as indicated by the VAR over a quarterly period	**3,008,518**	5,854,864
Unrealised gains in the AFS equity portfolio reported in the fair value reserve	**14,159,681**	17,380,078

Equity price risk is quantified using the Value at Risk (VAR) approach based on the Historical Loss method. Historical two-year portfolio returns is adopted to compute VAR as a measure of the equity prices risk exposure by DFCC Bank. This VAR computation for the equity AFS portfolio considers a quarterly time horizon.

65.4.2.4 Market Risk Exposures of DFCC Group for Regulatory Capital Assessment as at 31 December 2015

Under the Standardised Approach of Basel II with effect from January 2008, market risk exposures are quantified for regulatory capital purposes. The computation results as at 31 December 2015 are as follows:

	Risk-weighted assets LKR 000	Quantified possible exposure LKR 000
Interest rate risk	–	–
Equity price risk	5,965	597
Foreign exchange and gold risk	115,828	11,583
Total	121,793	12,180

65.5 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank relating to processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements.

DFCC Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness whilst avoiding control procedures that restrict initiative and creativity.

The following are included in the process of the operational risk management in DFCC Bank.

- Monitoring of the Key Risk Indicators (KRIs) for the departments/functions under the defined threshold limits using a traffic light system. Develop risk and control Self-Assessments to identify the risk exposure of all processes.
- Operational risk incident reporting system and the independent analysis of the incidents by the IRMD, and recognise necessary improvements in the systems, processes and procedures.
- Trend analysis on operational risk incidents and review at the Operational Risk Management Committee (ORMC) and the BIRMC.
- Review of downtime of the critical systems.
- Review of HR attrition and exit interview comments in detail including a trend analysis with the involvement of the IRMD. The key findings of the analysis are evaluated at the ORMC and the BIRMC in an operational risk perspective.
- Establishment of Whistle Blowing process.
- Establishment of the complaint management process of the Bank under the Board approved complaints management policy. In addition to the status reporting on the complaints handling process by the Channels and Service Delivery Unit, IRMD makes periodical evaluations on the effectiveness of the complaints management process and reports to the ORMC and the BIRMC.

The primary responsibility for the development and implementation of controls to address operational risk lies with IRMD whilst implementation is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for management of operational risk in the following areas:

a. Requirements for appropriate segregation of duties, including independent authorisation of transactions,
b. Requirements for reconciliation and monitoring of transactions,
c. Compliance with regulatory and other legal requirements,
d. Documentation of controls and procedures,
e. Requirements for periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified,
f. Requirements for reporting of operational losses and proposed remedial action,
g. Development of contingency plans,
h. Training and professional development,
i. Ethical and business standards, and
j. Insurance covering risk due to threats arising from external and other events.

Compliance with the Bank's Standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management.

65.6 Capital Management

65.6.1 Qualitative Disclosures

DFCC Bank PLC manages its capital at Bank and Group level considering both regulatory requirement and risk exposures. Its regulatory capital position is analysed by the BIRMC on a quarterly basis and recommendations and decisions are made accordingly. The Group capital management goals are as follows:

a. Ensure regulatory minimum capital adequacy requirements are not compromised.

b. Bank to maintain its international and local credit rating and to ensure that no downgrading occurs as a result of deterioration of risk capital of the Bank.

c. Ensure above industry average Capital Adequacy Ratio for the banking sector is maintained.

d. Ensure maintaining of quality capital.

e. Ensure capital impact of business decisions are properly assessed and taken into consideration during product planning and approval process.

f. Ensure capital consumption by business actions are adequately priced.

g. Ensure Bank's average long-term dividend pay-out ratio is maintained.

Central Bank of Sri Lanka sets and monitors regulatory capital requirement on both consolidated and solo basis.

The Bank is required to comply with the provisions of the Basel II and Basel III in respect of regulatory capital. The Bank currently uses the standardised approach for credit risk and basic indicator approach for operational and for market risk.

Regulatory capital comprises Tier I Capital and Tier II Capital. The Bank's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence to sustain future development of the business.

DFCC Bank and its Group have complied with the minimum capital requirements imposed by the Central Bank of Sri Lanka throughout the period.

	Notes	31.12.2015 Basel II LKR 000
65.6.2 Quantitative Disclosures		
Tier I Capital		
Stated capital	53	4,715,814
Statutory reserve fund	54	1,834,275
Retained earnings	55	11,506,206
General and other reserves		13,779,839
Non-controlling interests		252,426
Less: Deductions		
Goodwill	42	156,226
Net deferred tax asset	44	1,536
Intangible assets	41	247,945
50% investments in the capital of other banks and financial institutions		3,188,652
Total Tier I Capital		28,494,201
Tier II Capital		
Qualifying subordinated liabilities		2,318,000
General provision		735,424
Less: deductions		
50% investments in the capital of other banks and financial institutions		3,188,652
Total Regulatory Capital		28,358,973

Other Disclosure Requirements Under the Prescribed Format Issued by the Central Bank of Sri Lanka for Preparation of Annual Financial Statements of Licensed Specialised Banks

Disclosure Requirements		Description	Page No.
1.	**Information about the Significance of Financial Instruments for Financial Position and Performance**		
1.1	*Statement of Financial Position*		
1.1.1	Disclosures on categories of financial assets and financial liabilities.	Note 25 to the financial statements Analysis of Financial Instruments by Measurement basis	152
1.1.2	Other Disclosures	Not designated.	
	i. Special disclosures about financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.	Note 5.2.1 - Designated fair value Please refer Integrated risk management report	136
	ii. Reclassifications of financial instruments from one category to another.	Significant accounting policies: Note 5.2.2 - Reclassification of financial instruments	137
	iii. Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Note 48.1 - Assets pledged as security	174
	iv. Reconciliation of the allowance account for credit losses by class of financial assets.	Notes to the financial statements: Note 32.2 - Movement in specific and collective allowance for impairment	158
	v. Information about compound financial instruments with multiple embedded derivatives.	The Bank does not have compound financial instruments with multiple embedded derivatives.	
	vi. Breaches of terms of loan agreements.	None	
1.2	*Statement of Comprehensive Income*		
1.2.1	Disclosures on items of income, expense, gains and losses.	Notes 11 - 22 to the financial statements:	146-150
1.2.2	Other Disclosures		
	i. Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit and loss.	Notes to the financial statements: Note 12 - Interest income	146
	ii. Fee income and expense.	Note 13 to the financial statements: Net fee and commission income	147
	iii. Amount of impairment losses by class of financial assets.	Note 18 to the financial statements: Impairment for loans and other losses.	148
	iv. Interest income on impaired financial assets.		
1.3	*Other Disclosures*		
1.3.1	Accounting policies for financial instruments.	Significant accounting policies: Note 5.2.5 - Financial instruments - initial recognition, classification and subsequent measurement.	137
1.3.2	Information on hedge accounting.	The Bank does not adopt hedge accounting.	
1.3.3	Information about the fair values of each class of financial asset and financial liability, along with:		
	i. Comparable carrying amounts.	Notes to the financial statements: Note 64.3 to 64.4 - Fair value measurement	195-196
	ii. Description of how fair value was determined.	Notes to the financial statements: Note 64.1.	193
	iii. The level of inputs used in determining fair value.	Notes to the financial statements: Note 64.7 to 64.13.	199-200

Disclosure Requirements	Description	Page No.
iv. a. Reconciliations of movements between levels of fair value measurement hierarchy. b. Additional disclosures for financial instruments that fair value is determined using level 3 inputs.	There were no movements between levels of fair value hierarchy during the period under review.	195
v. Information if fair value cannot be reliably measured.	Notes to the financial statements: Note 64.5 to 64.12.	199-200
2. Information about the Nature and Extent of Risks Arising from Financial Instruments		
2.1 Qualitative Disclosures		
2.1.1 Risk exposures for each type of financial instrument.	Please refer the report on Integrated risk management.	73
2.1.2 Management's objectives, policies, and processes for managing those risks.	Please refer the section relating to Integrated risk managements objectives, policies and processes.	73
2.1.3 Changes from the prior period.	Notes to the financial statements: Note 62.2 - Reclassification of comparative figures	193
2.2 Quantitative Disclosures		
2.2.1 Summary of quantitative data about exposure to each risk at the reporting date.	Please refer the section relating to Integrated risk managements objectives, policies and processes. Notes to the Financial Section Note - 65	73 200
2.2.2 Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed.	Please refer the section relating to Integrated risk managements objectives, policies and processes. Notes to the Financial Statements Note - 65	73 200
i. Credit Risk		
a. Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets.	Note 32.1.3 on industry analysis.	157
b. For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset.	Note 32.1.3 on industry analysis. Note 65.2.2.1 & 65.2.2.3 on loans and advances and impairment analysis.	157 201-202
c. Information about collateral or other credit enhancements obtained or called.	Note 65.2.2.3 Analysis of Security Values of Loans to and Receivables from other customers	202
d. For other disclosures, please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	The section on 'Integrated risk management'. Note 65.2 Credit Risk	200
ii. Liquidity Risk		
a. A maturity analysis of financial liabilities.	Notes to the financial statements: Note 65.3.2.3 Maturity analysis of financial liabilities.	204
b. Description of approach to risk management.	The section on 'Integrated risk management'.	
c. For other disclosures, please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Please refer the section on 'Integrated risk management'. Note 65.3 Liquidity Risk	73 202
iii. Market Risk		
a. A sensitivity analysis of each type of market risk to which the entity is exposed.	Notes to the financial statements: Note 65.4 - Market risk	204
b. Additional information, if the sensitivity analysis is not representative of the entity's risk exposure.	None	

Disclosure Requirements		Description	Page No.
	c. For other disclosures, please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Please refer the section on 'Integrated risk management'. Note 65.4 Market Risk	204
	iv. Operational Risk		
	Please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Notes to the financial statements: Note 65.5 - Operational risk	207
	v. Equity Risk in the Banking Book		
	a. Qualitative Disclosures		
	• Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.	Notes to the financial statements: Note 65.4.2.3 - Equity price risk	206
	• Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.	Note 5.2.5	137
	b. Quantitative Disclosures		
	• Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value. • The types and nature of investments. • The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period.	Notes to the financial statements: Note 33 - Financial investments - Available-for-sale Note 35 - Investments in subsidiaries Note 36 - Investments in associates Note 16 - Net gain/loss from financial investments	 158 164 165 148
	vi. Interest Rate Risk in the Banking Book		
	a. Qualitative Disclosures		
	• Nature of interest rate risk in the banking book (IRRBB) and key assumptions.	Please refer the section on 'Integrated risk management'.	73
	b. Quantitative Disclosures		
	• The increase/(decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).	Please refer the section on 'Integrated risk management' and Note 65.4.2.12	205
2.2.3	Information on concentrations of risk.	Please refer the section on 'Integrated risk management'.	73

Disclosure Requirements	Description	Page No.
3. Other Disclosures		
3.1 Capital		
3.1.1 Capital Structure		
i. Qualitative Disclosures.		
Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.	Notes to the financial statements: Note 65.6.2	208
ii. Quantitative Disclosure		
a. The amount of Tier 1 capital, with separate disclosure of: • Paid-up share capital/common stock • Reserves • Non-controlling interests in the equity of subsidiaries • Innovative instruments • Other capital instruments • Deductions from Tier 1 capital b. The total amount of Tier 2 and Tier 3 capital c. Other deductions from capital d. Total eligible capital	Notes to the financial statements: Note 65.6.2 - Financial risk management	208
3.1.2 Capital adequacy		
i. Qualitative Disclosures		
A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.	Please refer the section on 'Integrated risk management'.	84
ii. Quantitative Disclosures		
a. Capital requirements for credit risk, market risk and operational risk	Please refer the section on 'Integrated risk management'.	84
b. Total and Tier 1 capital ratio	Please refer the section on 'Integrated risk management'.	84

Value Added Statement

Value Added Statement - Bank

	For the 9 months ended 31 December 2015			For the year ended 31 March 2015		
	LKR million	LKR million	%	LKR million	LKR million	%
Value Added						
Gross income		10,036			10,394	
Cost of borrowing and support services		(6,508)			(5,262)	
Impairment written back/(charge) for loans and other losses		(225)			308	
		3,303			5,440	
Value Allocated						
To employees						
Salaries, wages and other benefits		1,213	37		943	18
To providers of capital						
Dividends to shareholders		1,591	48		1,458	27
To Government						
Tax expense	521			531		
Value added tax and nation building tax on financial services	343	864	26	585	1,116	20
To expansion and growth						
Retained Income	(522)			1,783		
Depreciation	157	(365)	(11)	140	1,923	35
		3,303	100		5,440	100

Supplementary Information

Sources and Distribution of Income

Sources and Distribution of Income – Bank

LKR million	**For the 9 months ended 31 December 2015**	For the year ended 31 March 2015	2014	2013	2012
Sources of Income					
Interest Income	**8,918**	8,010	9,530	9,279	6,133
Income from Investments	**641**	2,150	1,211	1,090	1,148
Other	**477**	234	(260)	64	371
	10,036	10,394	10,481	10,433	7,652
Distribution of Income					
To employees as emoluments	**1,213**	943	906	891	804
To lenders as interest	**5,560**	4,675	4,894	5,023	2,898
To providers of supplies and services	**948**	587	576	498	512
To Government as taxation	**864**	1,116	1,056	803	767
To shareholders as dividends	**1,591**	1,458	1,325	1,060	795
Retained in the business					
Depreciation set aside	**157**	140	137	128	127
Provision for losses	**225**	(308)	324	169	91
Reserves	**(522)**	1,783	1,263	1,861	1,658
	10,036	10,394	10,481	10,433	7,652

Ten Year Summary

LKR million	Based on Previous GAAP					Based on Current SLFRS				
	For the year ended 31 March									9 months ended 31 December 2015
	2007	2008	2009	2010	2011	2012	2013	2014	**2015**	
Bank										
Operating Results										
Total income	6,887	9,636	9,888	8,843	14,191	7,652	10,433	10,481	10,394	**10,036**
Profit before tax	1,865	1,983	2,006	2,402	7,876	2,883	3,492	3,211	3,771	**1,589**
Tax expense	740	665	646	689	739	430	570	623	531	**521**
Profit after tax	1,125	1,318	1,360	1,713	7,137	2,453	2,921	2,587	3,240	**1,068**
Statement of Financial Position										
Assets										
Cash and short-term funds	7,935	8,124	8,415	10,472	11,991	3,646	7,103	4,245	2,296	**9,859**
Loans to and receivables from banks and other customers	46,280	45,524	40,247	36,681	39,344	54,982	60,668	62,575	73,933	**164,920**
Financial investments	1,260	1,680	1,918	1,999	4,032	16,277	19,298	25,609	29,909	**66,861**
Investments in associate, joint venture and subsidiary companies	3,350	5,829	6,064	5,845	3,132	4,451	4,446	6,659	6,648	**823**
Other assets	2,116	2,202	1,841	1,419	1,427	1,841	1,645	1,853	1,826	**3,688**
Total assets	60,941	63,359	58,485	56,416	59,926	81,197	93,160	100,941	114,612	**246,151**
Liabilities										
Due to other customers	13,573	5,112	5,308	5,124	3,688	12,445	15,548	16,630	22,485	**110,891**
Other borrowing	35,897	42,480	36,710	33,530	32,261	36,489	41,605	45,262	46,346	**87,379**
Other liabilities	1,977	2,006	1,976	2,039	3,758	1,010	1,223	1,639	1,686	**5,062**
Equity	9,494	13,761	14,491	15,723	20,219	31,253	34,784	37,410	44,095	**42,819**
Total equity and liabilities	60,941	63,359	58,485	56,416	59,926	81,197	93,160	100,941	114,612	**246,151**
Return on equity, %	12.1	11.3	9.6	11.3	39.7	11.7	12.9	10.6	12.8	**5.00**
Return on total assets, %	2.1	2.1	2.2	3.0	12.3	3.7	3.8	3.0	3.5	**1.00**
Earnings per share, LKR*	4.63	5.09	5.17	6.48	26.95	9.25	11.02	9.76	12.22	**4.03**
Market value per share, LKR*	69.78	62.45	33.78	90.23	171.8	112.6	131.1	143.9	202.8	**168.1**
Price earnings ratio, times*	15.1	12.3	6.5	13.9	6.4	12.2	11.9	14.7	16.6	**41.7**
Earnings yield, %*	6.6	8.1	15.4	7.2	15.6	8.2	8.4	6.8	6.0	**2.40**
Dividend per share, LKR	5.00	5.00	5.00	6.00	10.00	4.00	5.00	5.50	6.00	**2.50**
Dividend cover, times	2.5	2.0	2.1	2.2	2.7	3.1	2.8	2.0	2.2	**0.70**
Gross dividend, LKR million	454.4	653.7	653.7	794.3	2,649	795	1,060	1,325	1,458	**1,591**
Liquid assets to liabilities (as specified in the Banking Act No. 30 of 1998), %	79	31	145	214	295	52	52.8	77.46	47.62	**22.45**
No of employees	422	419	419	427	451	466	461	477	495	**1,445**

**Adjusted for bonus issue*

Corporate Information

Name of Company

DFCC Bank PLC

Legal Form

A quoted public company with limited liability incorporated by DFCC Bank Act No. 35 of 1955 and with the enactment of the DFCC Bank (Repeal and Consequential Provisions) Act No. 39 of 2014, incorporated under the Companies Act No. 07 of 2007 with the name 'DFCC Bank PLC' with effect from 6 January 2015.

A licensed commercial bank under the Banking Act, No. 30 of 1988.

Company Registration Number:

PQ233

Credit Rating

AA- (lka) credit rating from Fitch Ratings Lanka Limited.

Annual General Meeting

The AGM will be held at the Cinnamon Lakeside Colombo, Sir Chittampalam A Gardiner Mawatha, Colombo 2, on 30 March 2016.

Details of the business of the meeting and other information are contained in the booklet enclosed with this Annual Report.

For any clarification on this Report please write to:

The Company Secretary
DFCC Bank PLC
No. 73/5, Galle Road,
Colombo 03, Sri Lanka or
E-mail to: info@dfccbank.com

Company Secretary

Ms A Withana

Auditors

KPMG
Chartered Accountants

VAT Registration No.

409000088-7000

Registered Office

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