DFCC BANK PLC

Annual Report

2014/15

60 Years of Development Banking

Who we are

Established in 1955 with a mandate to spearhead development financing in a newly independent nation, DFCC Bank PLC has over the past 60 years grown, evolved and diversified to meet the changing needs and aspirations of an emerging economy.

This year we celebrate our Diamond Anniversary.

We pioneered the financing of new economic sectors in the country - such as tourism, mobile telecoms and renewable energy - that have now become mainstream businesses. As a specialised bank we provide higher risk term loans, take up equity positions, offer advisory services and develop risk mitigation measures to support such long-term financing. While still holding firm to our development banking roots, the DFCC Banking Business now offers a full suite of banking products and services to a broad spectrum of customers and sectors through a unique business model that reflects the synergy of two banks in one.

Vision and Mission

To be Sri Lanka's premier financial services group by providing superior financial solutions, nurturing business enterprises and delivering value to our customers, shareholders, employees and the nation.

Our Values

Our seven core values are the guiding principles for our 'ACTIONS' that shape the way we do business.

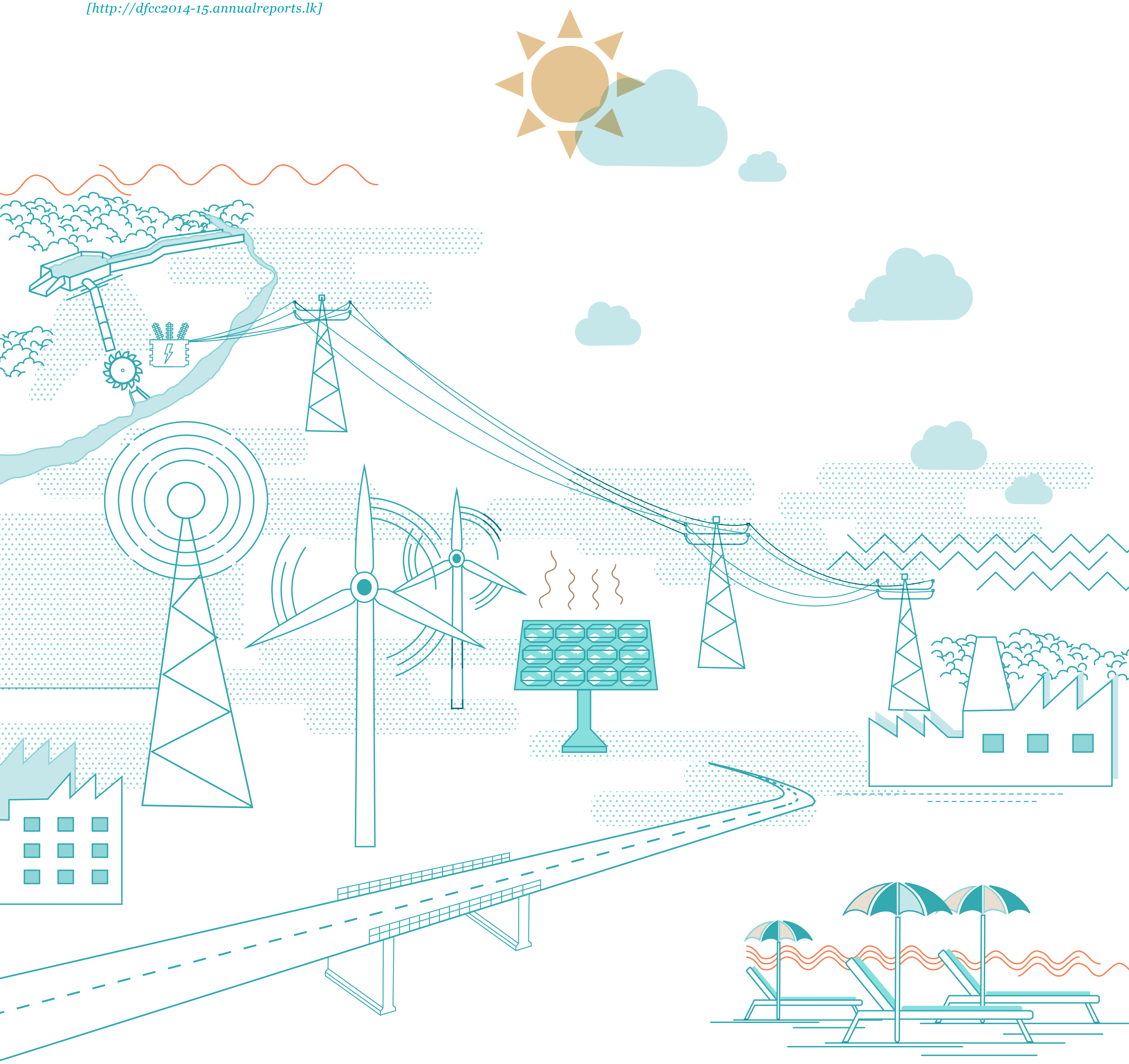
- *We are Accountable for what we do*
- *We place our Customer experience at the core*
- *We believe Teamwork is key in turning our goals into accomplishments*
- *We have a passion for Innovation and excellence*
- *We Operate our business ethically*
- *We focus on the Need to grow our business profitably*
- *We are Socially and environmentally caring*

DFCC BANK

A Diamond is Forever

Details of A Pioneer's Journey are given in the online report

[http://dfcc2014-15.annualreports.lk]



About this Report

This is our third 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

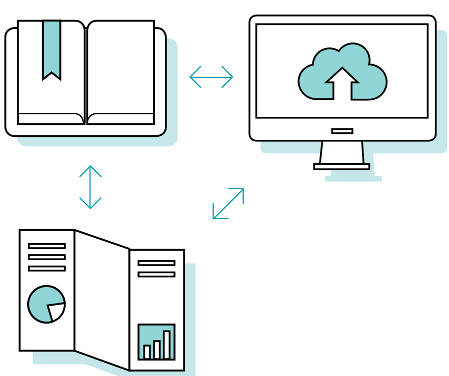
Value creation is a two-way process, as the ability of an organisation to create sustainable value for itself is also related to the value it creates for its stakeholders. It leads to capital formation. As a store of value, capital takes on a broader meaning in integrated reporting and constitutes the 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 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

We have adopted a slightly different approach to reporting this time. It 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 2014/15 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://dfcc2014-15.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

This DFCC Bank Annual Report 2014/15 covers the 12-month period from 1 April 2014 to 31 March 2015 ('period under review' or 'the year') and is consistent with our usual annual reporting cycle for financial and sustainability reporting. The previous Annual Report covered the period 1 April 2013 to 31 March 2014 ('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 December financial year end and they are consolidated with the DFCC Bank's reporting period with a 3-month time lag.

Report Boundary

Our reporting covers three primary entities, namely: (i) DFCC Bank PLC ('DFCC Bank' or 'Bank'); (ii) the DFCC Bank Group ('Group') comprising the Bank and its subsidiaries, a joint venture company and an associate company; and (iii) the DFCC Banking Business ('DBB') which comprises the Bank and its 99.17%-owned subsidiary DFCC Vardhana Bank PLC ('DVB'). The respective entities are duly identified where applicable.

Compliance

As declared on page 96 the Board of Directors of DFCC Bank, in the spirit of good governance, accepts responsibility for the entirety of this Annual Report 2014/15.

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 68), Financial Statements and the Notes thereon (page 99) and the Independent Auditors' Report (page 98).

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, 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 mail through the contact details given under Corporate Information.

SCAN to view the online version
http://dfcc2014-15.annualreports.lk

Highlights

Operational Highlights of the Year

Appointed as

Administrator Bank

for the EIB Sri Lanka SME and Green Energy Global Loan

Implemented a

Video Conferencing System

connecting the Head Office with all the Regional Managers' offices and independent branches

Introduced

Direct Fund Transfers

to suppliers for services rendered through e-Banking facility of DFCC Vardhana Bank

Launched an

Anti-Money Laundering System

to automate the monitoring of suspicious transactions carried out over the DBB network

Upgraded the

Oracle Financials Payable Application

to the latest software platform

Deployed

Lanka Money Transfer (LMT)

that connects some of the largest exchange houses in the UAE and ties up with several local partner institutions to expedite fund transfers to beneficiaries

Introduced the

New Loan Origination

work flow system

DFCC Bank converted to

DFCC Bank PLC

as a company incorporated under the Companies Act No. 07 of 2007

Financial Highlights

Group

Year ended 31 March LKR million	Based on current SLFRS 2015	2014	2013	2012	Based on previous GAAP 2011
Operating Results →					
Total income	**20,094**	20,376	16,630	12,231	15,371
Profit before tax	**5,416**	4,117	4,431	3,674	6,174
Tax expense	**977**	902	870	628	1,024
Profit attributable to equity holders of the Bank	**4,362**	3,151	3,494	2,966	5,090
Statement of Financial Position →					
Assets					
Cash and short-term funds	**6,855**	8,043	11,625	5,054	19,067
Loans to and receivables from banks and other customers	**138,887**	117,716	102,477	87,827	58,310
Financial investments	**56,699**	40,976	27,648	24,433	6,533
Investment in associate and joint venture	**1,188**	1,029	901	950	876
Other assets	**6,981**	7,231	6,628	4,992	3,511
Total assets	**210,610**	174,995	149,279	123,256	88,297
Liabilities					
Due to other customers	**92,712**	80,917	62,878	45,682	25,421
Other borrowing	**65,874**	50,075	46,012	42,492	33,752
Other liabilities	**3,761**	3,549	3,265	2,317	5,079
Equity					
Total equity attributable to equity holders of the Bank	**47,909**	40,121	36,814	32,472	23,683
Non-controlling interests	**354**	333	310	293	362
Total equity and liabilities	**210,610**	174,995	149,279	123,256	88,297
*Return on equity, %**	**14.0**	10.9	13.1	10.7	22.7
*Return on total assets, %**	**2.5**	2.1	2.8	3.0	5.8
Earnings per share, LKR	**16.46**	11.89	13.18	11.19	19.20
Net asset value per share, LKR	**180.72**	151.34	138.87	122.49	89.34
Capital adequacy					
Core capital ratio, %	**17.71**	18.71	20.84	21.05	28.02
Total capital ratio, %	**16.62**	17.19	19.37	19.88	26.89

**After eliminating fair value reserve*

Message from the Chairman

"Moving on to the present, we see development banking as a continuing need for Sri Lankan businesses, at least in the medium-term, but with commercial banking as a necessary addition"

Dear Shareholders,

This year is special; it marks sixty years of DFCC Bank's leadership in development finance. It is therefore fitting that I look back on some highlights of the Bank's compelling story – a story of a pioneer that has ventured boldly where not many have gone before.

DFCC Bank is one of the oldest development banks in Asia. Its role is emblazoned in the mandate to 'assist the promotion, establishment, expansion and modernisation of industrial, agricultural and commercial ventures and to encourage and promote participation of private capital, both domestic and foreign in such enterprises'.

Epitomising the phrase 'much more than money', our yardstick is not just the number of projects we have facilitated or the sums lent, but the role DFCC Bank has played in partnering trail blazing ventures and industry sectors. For example, a milestone was achieved in 1967 when the Bank financed Sri Lanka's first beach resort hotel. The funding comprised both debt and equity, demonstrating our aptitude and appetite to partner with promoters in the risky start up stage. This project proved to be the forerunner to many more that heralded the launch of Sri Lanka's tourism industry.

In the years that followed, the Bank partnered with entrepreneurs in several industries such as appliances, aquaculture, ceramics, food & beverages, garments, horticulture, packaging, plastics and rubber. Later on, it included technology-driven industries like mobile telecoms and renewable energy. In the late 1980s, Sri Lanka was the first South Asian nation to introduce cellular telecoms. DFCC Bank was part of this effort and funded the first mobile operator.

The Bank's involvement in renewable energy is noteworthy. DFCC Bank financed, with both debt and equity, Sri Lanka's first private sector grid-connected mini hydro power plant, which was commissioned in 1996. The success of this project was the catalyst for several others, and this subsector now supplies over 8% of the country's electricity needs. DFCC Bank also assisted Sri Lanka's first private sector wind power project, which has spurred other wind power projects leading to a total capacity addition of over 124 MW to the national grid. Underpinning such achievements were DFCC Bank's administration of two highly acclaimed World Bank-assisted national projects that ran from 1997 to 2011, which addressed institutional, technological and regulatory barriers and mainstreamed private sector participation in renewable energy based power generation in Sri Lanka.

Sustainable development banking is anchored on profitability and balance sheet strength. DFCC Bank (then Development Finance Corporation of Ceylon) commenced business in 1955 with an equity capital of LKR eight million and an interest free government loan of LKR 16 million. As at 31 March 2015, that equity capital stood at LKR 48 billion, which together with total borrowings of LKR 69 billion, support a diversified loan portfolio and a pool of other assets. Net profit after tax, which first exceeded LKR one billion in 2004, quadrupled within the past decade to LKR 4.4 billion in the period under review. Gross dividend paid, which was LKR 316 million in 2005, will almost touch LKR 1.6 billion in 2015.

Over time, the Bank evolved, changing to suit new realities. From the 1990s, DFCC Bank embarked on a journey of transformation into becoming a financial services group, which culminated with the acquisition of a commercial banking business in 2003. Accordingly, the last decade witnessed a realignment of the Bank's business processes with the birth of the DFCC Banking Business, made up of the development banking business of DFCC Bank and the commercial banking business of its 99.17% - owned subsidiary, DFCC Vardhana Bank. This unique model provides the diversification required for a more prudent balance of risk and return.

Moving on to the present, we see development banking as a continuing need for Sri Lankan businesses, at least in the medium-term, but with commercial banking as a necessary addition. In this context, the conversion of DFCC Bank to a company incorporated under the Companies Act in terms of the DFCC Bank (Repeal and Consequential Provisions) Act No. 39 of 2014 will not only permit the Bank to carry on its business as a licensed specialised bank without interruption, but also enable it to consider various options in evolving to a Full-Service Bank. As we have already advised stakeholders, the Memorandum of Understanding (MoU) executed between DFCC Bank, DFCC Vardhana Bank and National Development Bank with regard to an amalgamation of the three entities has been terminated. The termination gives the banks freedom to pursue their respective strategies without being restricted by the provisions of the MoU.

In this scenario, one obvious option is to formalise the present operational merger that constitutes the DFCC Banking Business through a legal merger of DFCC Bank and DFCC Vardhana Bank. Accordingly, the Boards of the two banks have decided that it would be in the best interests of both institutions, their shareholders and other stakeholders to amalgamate both entities and continue their activities as a single legal entity in the form of a licensed commercial bank. Provisional approval for this course of action has been sought from the Central Bank of Sri Lanka upon receipt of which, the two banks will take steps to complete the amalgamation, including obtaining shareholder approval. In this context, I wish to reassure our stakeholders that while embracing the Full-Service Banking model, we will not lose sight of DFCC Bank's development banking mandate on which it was founded 60 years ago.

I would like to conclude on a note of appreciation. The DFCC Banking Business team deserves very special commendation for the dedication and commitment they have displayed to achieve the results presented in this report, during a year in which attention was often diverted to the DFCC–NDB merger discussions and market conditions were challenging. Our other subsidiaries and joint venture in the DFCC Bank Group also contributed well and I thank the respective CEOs and their teams.

In our sixtieth year, the relationships built with our customers remain as strong as ever and we re-dedicate ourselves to their service and remain committed to strengthening their businesses.

The support and cooperation of the officials at the Ministry of Finance and the Central Bank of Sri Lanka are gratefully acknowledged.

The contribution of my colleagues on the Board has been invaluable and I gratefully acknowledge their dedication and devotion to the Bank's cause. Dr Chandradasa and Mr Thambiayah left the Board in January and March 2015 respectively, while Mr Perumal left in April 2015. I thank them for the guidance they provided to the Board throughout their tenures. I warmly welcome Mr Thiyagarajah Dharmarajah who joined the Board in July 2014, Ms Shibani Thambiayah and Mr Krishantha Cooray, both of whom joined in March 2015 and Mr Ananda Atukorala who joined in April 2015. I am sure the skills and experience in their respective fields, which they bring to the table, will strengthen the Board and contribute significantly to its deliberations and decisions.

On behalf of the Board, I assure all our shareholders that we are committed to achieving superior levels of performance benchmarked against the industry and will strive to further enhance the value of your shareholding. The Board has recommended a first and final dividend of LKR 6.00 per share, which is higher than the LKR 5.50 paid in the previous year.

I have reflected on the past and touched on the present. The future is ours to mould. Our achievements represent a noteworthy contribution to Sri Lanka's development and we have stayed true to our mandate. DFCC Bank is, and always will be, concerned with 'much more than money'.

C R Jansz
Chairman

15 May 2015

Chief Executive's Review

"All in all, the outcome was a record performance by DBB with operating income before VAT and NBT growing 33% to LKR 6.1 billion from LKR 4.6 billion and profit after tax up 38% to LKR 4.4 billion from LKR 3.2 billion"

Our DFCC Banking Business (DBB) model is one that is based on an operational merger between DFCC Bank's development banking business and DFCC Vardhana Bank's commercial banking business. The robustness of this model, which has been in place since 2003, was clearly demonstrated by its strong performance during the period under review. In reviewing its performance, I would like to draw a parallel with equity and fixed income markets where more often than not, one market's inferior performance is mitigated by the other's superior performance. In a nutshell, this was the story of DBB's fortunes in FY 2015, where the decrease in the core income was more than compensated for by the increase in ancillary income.

The defining characteristic of the period under review was the decline in interest rates. While interest rate movements are a typical feature of well-functioning financial markets, unusually, for various reasons peculiar to the domestic market, the drop in on-lending interest rates outpaced that of benchmark deposit and savings rates, and that led to a contraction in net interest margins. DBB's challenge therefore was to post a strong performance notwithstanding the fact that its core business income was likely to come under some pressure. This is because DBB's funding is to a great part obtained from long-term sources where the repricing lags behind downward movements in market rates. With proactive planning, our response was to consciously grow the loan book whereby the increased interest income would compensate for the narrowed interest margin. In tandem, the concerted push in the commercial banking business saw additional fee income from trade finance and commercial banking services. DBB also tapped other income sources, which included capital gains from sales of matured investments and fee income from overseas consultancy assignments.

Another key factor that contributed to the improvement in overall performance was stringent cost management, which contained the rise in operating costs resulting from the increases in head count and branches and the charge for Nation Building Tax. Additionally, DBB continues to harvest the rewards from an Organisational Improvement Effectiveness Programme, and has consistently maintained one of the lowest cost to income ratios in the banking sector.

All in all, the outcome was a record performance by DBB with operating income before VAT and NBT growing 33% to LKR 6.1 billion from LKR 4.6 billion and profit after tax up 38% to LKR 4.4 billion from LKR 3.2 billion. Meanwhile, total Group assets surpassed the LKR 200 billion mark, rising to LKR 211 billion from LKR 175 billion. Other subsidiaries in the DFCC Bank Group - Lanka Industrial Estates and Synapsys and the joint venture - Acuity Partners, also reported good results and contributed well to the Group's performance.

I would also like to comment on the landmark issue by DFCC Bank in August 2014 of LKR Five billion in senior, unsecured redeemable rated debentures. This was the first debenture to be issued to the market bearing a single digit coupon rate, despite which the issue was three times oversubscribed on the first day itself. This speaks volumes for DFCC Bank's standing in the market.

During calendar year 2015 three events with great bearing on DBB's business model took place, as elaborated in the Chairman's Message. To summarise, (i) DFCC Bank was incorporated under the Companies Act as a public company listed in the Colombo Stock Exchange with the name 'DFCC Bank PLC'; (ii) the proposed merger of DFCC Bank, DFCC Vardhana Bank and National Development Bank was terminated; and (iii) the Boards of DFCC Bank and DFCC Vardhana Bank decided to pursue the legal amalgamation of both entities, subject to regulatory and shareholder approval. These will lead to the transformation of DFCC Bank's business model to that of a Full-Service Bank, but without any dilution of DFCC Bank's core business of development banking.

My sincere thanks and deepest appreciation go out to the various stakeholders of DBB, particularly our customers. It is their steadfast loyalty and continued patronage that has underpinned DBB's fortunes through the years.

I gratefully acknowledge the cooperation extended by officials of the Central Bank of Sri Lanka, the Ministry of Finance and other Government agencies. I also thank the various bilateral and multilateral lending institutions, the investors in our bonds and debentures and depositors for the confidence that they have displayed in DBB.

A special note of appreciation goes to the DBB Team. Even while being involved in the now terminated amalgamation process with NDB Bank, they did not allow themselves to be distracted from seeking to achieve the lofty and challenging targets set for DBB. This Team is the bedrock and the heart and soul of DBB.

In conclusion, the fact that DFCC Bank is now a Public Limited Company has great bearing in the present context. The year 2015 marks the sixtieth anniversary of our development banking business. As a Diamond Anniversary, it signifies a new phase – a phase that is exemplified by the evolving character of DFCC Bank and the DFCC Banking Business. Diamond is renowned as a material with superlative physical qualities, most of which originate from the strong bonding between its atoms. It is formed over time under pressure and high temperatures and is the hardest known substance on Earth. It can be shaped into a myriad of facets. A likewise process is taking place in the evolution of the DFCC Banking Business.

The proposed amalgamation of the two legal entities - DFCC Bank and DFCC Vardhana Bank - will, through synergies and other means, realise a value creation greater than that of the sum of the two parts. It will enable a more effective utilisation of capital and level the playing field when it comes to resource mobilisation. It will also facilitate a fully seamless functioning in all operational areas. Above all, there will be no loss of focus on DFCC's development banking mandate, but rather, it will remain at the core of DBB's Full-Service Banking Business model.

The final facet of the diamond will thus be fashioned to create the perfect stone. And, as the adage goes, *'a diamond is forever'*.

Arjun Fernando
Chief Executive

15 May 2015

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.

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 an Ex-Officio Director in October 2013.

Mr Fernando is a Director of DFCC Vardhana Bank PLC. He is the Chairman of DFCC Consulting (Pvt) Limited, Lanka Industrial Estates Limited, Synapsys Limited (all subsidiary companies of DFCC Bank PLC), Acuity Partners (Pvt) Limited (a joint venture company of DFCC Bank PLC) and Director of Lanka Ventures PLC and the Credit Information Bureau of Sri Lanka. He is also a Director of Home Finance Company Limited, Fiji with which DFCC Bank PLC has entered into a collaborative agreement to provide management and technical expertise. He is also a member of the Board of Directors of the Association of Development Financing Institutions in Asia and the Pacific.

Mr Fernando is a career banker and holds 29 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 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.

G K Dayasri – Senior Director

Appointed to the Board of DFCC Bank PLC in March 2010 and designated as Senior Director in June 2014.

Mr Dayasri is an Attorney-at-Law.

Mrs H M N S Gunawardana – Director

Appointed to the Board of DFCC Bank in August 2010.

She has over 25 years experience holding senior public office, including those of Senior Assistant Secretary – Legal of the General Treasury and Secretary to the Commission/Director Legal of the Public Enterprises Reforms Commission.

Mrs Gunawardana is an Attorney-at-Law of the Supreme Court of Sri Lanka, a Notary Public and a Commissioner for Oaths and holds an LLM in International Commercial Law from UK. Her international exposure includes training at Harvard University; Amsterdam Institute of Finance; the Commonwealth Secretariat, London; City University, Hong Kong; Lee Kuan Yew School of Public Policy, Singapore and The World Bank, USA.

P M B Fernando – Director

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

Mr Fernando is Director/Chief Executive Officer of Laugfs Capital Limited.

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 the Confifi Group, Finance Director Asia Region of Virtusa (Pvt) Limited, Managing Director of Capital Reach Group and Chairman of three of its subsidiaries, and 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 Amarasekera & Company and serves as a Director of DFCC Vardhana Bank PLC, Raigam Wayamba Salterns PLC, TKS Finance Limited and TKS Securities (Pvt) Limited. He is also a Member of the Council of the Institute of Chartered Accountants of Sri Lanka. He was previously a Member of Council of the University of Sri Jayewardenepura, Board of Management Postgraduate Institute of Management and Curriculum Development Committee of the National Institute of Education.

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, the Association of Accounting Technicians of Sri Lanka and the 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) Ltd, 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 from 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 PLC in March 2015.

Mr Cooray is a Director of Sri Lanka Telecom PLC.

He has held several executive positions in leading companies including the 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 a 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. As a consultant at the Maharaja Group, he worked on ensuring executive coordination 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, Bartleet Finance PLC, United Motors Lanka PLC, Pragnya Tech Parks Lanka (Pvt) Limited, TVS Lanka Limited, Unimo Enterprises Limited, Unawatuna Boutique Resort (Pvt) Limited, Arni Holdings & Investments (Pvt) Limited and Credence Genomics (Pvt) Limited.

Mr Atukorala has served as Deputy General Manger of ANZ Grindlays Bank (Sri Lanka), Country Manager (Sri Lanka) of Mahreq 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 and an MTT degree from North Carolina State University, USA and an MBA.

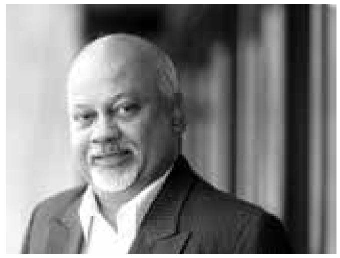
Corporate Management

Arjun Fernando

Chief Executive Officer

Lakshman Silva

Chief Executive Officer
DFCC Vardhana Bank



Tyrone De Silva

Executive Vice President
(Lending & Investment Banking)

Trevine Fernandopulle

Executive Vice President
(Group Chief Risk Officer)

Palitha Gamage

Executive Vice President
(Planning & Operations)

Anomie Withana

Executive Vice President
(Finance)/Company Secretary

Nandasiri Bandara

Senior Vice President
(Group Internal Audit)

Manohari Gunawardhena

Senior Vice President
(Corporate Banking & Capital Markets)

Ananda Kumaradasa

Senior Vice President
(Rehabilitation & Recoveries)

Kapila Nanayakkara

Senior Vice President
(Group Treasury)

Dharmasiri Wickramatilake

Senior Vice President (Branch Banking)

Achintha Hewanayake

Chief Technology & Services Officer

Sonali Jayasinghe

Vice President
(Group Human Resources)

Kennedy Michael

Head of Marketing

Sepali Ranawana

Vice President (Legal)

Management Team

Bhathiya Alahakoon
Vice President
(Regional Manager)

Chinthika Amarasekera
Vice President
(Accounting & Reporting)

Renuka Amarasinghe
Vice President
(Corporate Banking)

Pradeep Ariyaratne
Vice President
(Branch Manager – Ratnapura)

Gunaratne Bandara
Vice President
(Branch Manager – Nawala)

Subhashi Cooray
Vice President
(Credit Administration)

Pradeepa De Alwis
Vice President
(Branch Manager – Matara)

Champal De Costa
Vice President
(Branch Manager – Gampaha)

Neville Fernando
Vice President
(Business Systems)

Sanjeewa Fernando
Vice President
(Integrated Risk Management)

Samarakodi Godakande
Vice President
(Branch Manager – Kandy)

Chaminda Gunawardana
Vice President
(Branch Manager – Kalutara)

Roshan Jayasekara
Vice President
(Head - Business Banking)

Chanaka Kalansuriya
Vice President
(Services & Procurement)

Chanaka Kariyawasam
Vice President
(Regional Manager)

Nanediri Karunasinghe
Vice President
(Leasing)

Nalin Karunatileka
Vice President
(Project Management & Business Continuity Planning)

Jayangani Perera
Vice President
(Credit Risk Appraisal)

Wajira Punchihewa
Vice President
(Regional Manager)

Nimali Ranaraja
Vice President
(Business Banking)

Sriyani Ranatunga
Vice President
(Corporate Banking – Business Development)

Saravanapavan Raveendra
Vice President
(Regional Manager)

Kapila Samarasinghe
Vice President
(Head - Business Banking) - designate

Mangala Senaratne
Vice President
(Business Banking)

Priyadarsana Sooriyabandara
Vice President
(Regional Manager)

Visaka Sriskantha
Vice President
(Legal Recoveries)

Kapila Subasinghe
Vice President
(Corporate Banking)

Nishan Weerasooriya
Vice President
(IT Operations)

Chandrin Wimaladharma
Vice President
(Special Loan Administration)

Shantha Atapattu
Assistant Vice President
(Branch Manager - Kandy) - designate

Amanthi Balasooriya Dahanayake
Assistant Vice President
(Risk Processes & Controls)

Channa Dayaratne
Assistant Vice President
(Funding & Capital Markets)

Ranjith Dissanayake
Assistant Vice President
(Branch Manager - Kurunegala)

Dilshan Dodanwela
Assistant Vice President
(Foreign Exchange & Money Markets)

Terrence Etugala
Assistant Vice President
(Branch Manager - Matale)

Gaminda Fernando
Assistant Vice President
(Credit Administration)

Jayan Fernando
Assistant Vice President
(Asset & Liability Management & Treasury Middle Office)

Chandana Garusinghe
Assistant Vice President
(Branch Manager – Ampara)

Shan Heenkenda
Assistant Vice President
(Employee Relations & Industrial Relations)

Bhatika Illangarathne
Assistant Vice President
(Branch Manager – Galle)

Rasika Jayawardhana
Assistant Vice President
(Transaction Processing)

Iresha Kumbukage
Assistant Vice President
(Credit Administration)

Jayanath Liyanage
Assistant Vice President
(Branch Manager – Malabe)

Kelum Perera
Assistant Vice President
(Corporate Banking)

Thejaka Perera
Assistant Vice President
(Litigation)

Akalanka Premarathna
Assistant Vice President
(Branch Manager – Badulla)

Ruwan Saram
Assistant Vice President
(Branch Manager – Anuradhapura)

Sajith Silva
Assistant Vice President
(Product Development & Bancassurance)

Group Structure

Subsidiary Companies

Name	DFCC Consulting (Pvt) Limited	DFCC Vardhana Bank PLC	Lanka Industrial Estates Limited
Address	73/5, Galle Road, Colombo 03	73, W A D Ramanayake Mawatha, Colombo 02	LINDEL Industrial Estate, Pattiwila Road, Sapugaskanda, Makola
Phone Nos.	+94 11 2442318, +94 11 2442009	+94 11 2371371	+94 11 2400318, +94 11 2400319 +94 11 2400320, +94 11 2400532
Email	rohantha.seneviratne@dfccbank.com	info@dfccvardhanabank.com	lindel@itmin.net
Incorporated On	9 September 2004	25 August 1995	12 March 1992
DFCC's Interest	100%	99.17%	51.15%
Principal Activity	Consultancy	Commercial banking	Operating an industrial estate
Directors	A R Fernando - Chairman S E de Silva T W de Silva	C R Jansz - Chairman L H A L Silva - CEO H A Ariyaratne T Dharmarajah A R Fernando A N Fonseka Ms M A Tharmaratnam L N de S Wijeyeratne	A R Fernando - Chairman H A Samarakoon - CEO T W de Silva Mrs K V C Dilrukshi Dr R M K Ratnayake A D Tudawe

Financial Year End	31 March		31 December		31 March	
Financial Year	2014/15	2013/14	2014	2013	2014/15	2013/14
Profit after Tax (LKR million)	(4)	5	1,121	624	137	119
Dividend per Share (LKR)	nil	10.00	0.90	0.50	7.00	7.00
ROE (%)	n.a.	20.6	13.4	11.4	24	21.8

	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 Head Office, No. 64, Galle Road, Colombo 03*	**Address**
+94 11 2880770	*+94 11 2206206*	*+94 11 2445911*	**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 portfolios*	**Principal Activity**
A R Fernando - Chairman *D J P Fernandopulle - CEO* *T W de Silva* *Ms A Withana*	*A R Fernando - Chairman* *M R Abeywardena - CEO* *A J Alles* *T W de Silva* *D A B Ellepola* *Mrs C M M S Gunawardena* *D P N Rodrigo* *Mrs I R D Thenabadu*	*A Lovell - Chairman* *A Wijeyesekera - Deputy Chairman* *A Herat - CEO* *Ms K S Bee* *T W de Silva* *P Gamage* *S Madanayake* *M Samaratunga* *I Wickremasinghe*	**Directors**

31 December		*31 December*		*31 December*		***Financial Year End***
2014	*2013*	*2014*	*2013*	*2014*	*2013*	***Financial Year***
15	*(25)*	*448*	*242*	*50*	*21*	***Profit after Tax (LKR million)***
0.12	*nil*	*0.40*	*0.32*	*3.00*	*2.00*	***Dividend per Share (LKR)***
47	*n.a.*	*13.3*	*8.9*	*25.3*	*11.8*	***ROE (%)***

Our Portfolio

Operationally, DBB's primary lines of business are Corporate Banking, Small and Medium Enterprise (SME) financing, Personal Financial Services, 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 20 DBB offices/branches, 58 DVB branches and 59 DVB service points at Sri Lanka Post outlets. Customers also have access to 763 ATMs across the country as well as zero cost cash withdrawals from ATMs that are shared with eight other banks. DBB also offers internet and mobile banking services.

Product/Service	Target Segment
Project loans funded by credit lines	
Saubagya	Small and Medium Enterprises (SMEs)
New Comprehensive Rural Credit Scheme	Short-term cultivation
Awakening the North Revolving Fund Phase II	SMEs in the Northern Province
Miridiya (Aquatic Resources Development Revolving Fund)	Fresh water 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 (SEPI)	Vocational qualification holders
Smile III Revolving Fund	SMEs
CSDDLS	Dairy sector
Dasuna Revolving Fund Phase II	SMEs in the Southern Province
Green Energy Global Loan	Corporates and SMEs
EIB SME	SMEs
Other project loans	
Term Loans	Corporates and SMEs
Working capital loans	
Medium and long-term loans to finance permanent working capital requirements	Corporates, SMEs and entrepreneurs
Leasing facilities	
'Easy Leasing' facilities for brand new and unregistered vehicles and Finance Lease facilities for machinery, plant and equipment	Corporates, SMEs, entrepreneurs, professionals and employed persons
Hire purchase facilities	
Hire purchase facilities for vehicles	Corporates, SMEs, entrepreneurs professionals and employed persons
Guarantee facilities	
Bid bonds, advance payment bonds, performance bonds, bank guarantees for credit purchase of goods.	Corporates, SMEs, entrepreneurs and professionals

Product/Service	Target Segment
Fixed deposits	
A wide range of tailor-made deposit products at competitive interest rates	Corporates, SMEs and individuals
Loan syndication	
Loan 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*: With 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 enrich one's life	Entrepreneurs, professionals and employed persons
Pawning services	
Ranwarama Pawning: Gold-pledged loans	Mass market
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, offshore banking, international payments, bancassurance, foreign money transfer via Western Union and local payments, Lanka Money Transfer	Business Community, entrepreneurs, professionals and employed persons

Operating Environment

The Global Economy

Despite the sharp decline in oil prices during the second half of 2014, the world economic outlook (IMF, October 2014 and January 2015) continues to be subdued, weighed down by the legacies of the global financial crisis and a cloudy future. World output grew by 3.3% in 2014, same as the growth in 2013.

Recovery was seen in advanced economies, with growth projected to rise to 2.4% in both 2015 and 2016 from 2.2% in 2014. However, there is divergence between the US with a forecast economic growth of 3.6% and the Euro area and Japan, which are expected to post weaker perfomances.

A stable growth in emerging markets and developing economies was seen in 2014, with growth projected at 4.3% in 2015 and higher in 2016. However, this has to be viewed in the context of slowing down of growth in China and a negative outlook of growth in Russia.

The windfall gains from lower oil prices have helped many oil-importing developing economies, although there is some uncertainty in the future direction of prices. Most of the benefits accrue to Governments which subsidise fuel prices, which may use this opportunity to introduce reforms while allowing some relief to pass on to consumers.

The Sri Lankan Economy

Sri Lanka recorded a GDP growth of 7.4% in 2014 compared to 7.2% the previous year. The service sector remained the main contributor to GDP with a share of 57%, followed by industry and agriculture sectors accounting for 33% and 10% respectively. The service sector recorded an increase of 7% mainly driven by the expansion in the wholesale and retail trade, hotels and restaurants, transport and communication, banking, insurance and real estate sub-sectors.

The country's external sector remained stable during 2014 with strong inflows in terms of exports, tourist earning, worker remittance and foreign direct investments, while the overall balance of payments recorded a surplus of USD 1.37 billion. Sri Lanka's gross official reserves remained around US$ 8.2 billion in December 2014. The Sri Lanka Rupee (LKR) remained relatively stable throughout the year.

Looking ahead, the Sri Lankan economy is expected to grow by 7% in 2015, fuelled by investments, improved macroeconomic stability and improving global economic conditions. Inflation is expected to remain at mid single-digit levels. Supply of credit from the domestic banking sector for development activities is likely to rise on the back of greater inflows of foreign debt and equity into the domestic capital market.

The Banking Sector

The Sri Lankan banking sector remained strong with healthy capital and liquidity levels. Loans and advances picked up towards the latter part of the year, largely driven by the infrastructure, construction, trading, financial services, manufacturing, healthcare and education sectors.

The banking sector recorded a marginal improvement in profitability due to the lagged effect of reducing interest rates on deposits compared to loans and advances. This was mitigated to some extent by gains made on investments in securities and lower provision requirements on account of recovery of non-performing loans (NPL).

Banking Sector Highlights

	2014 %	2013 %
Assets growth	17.3	16.5
Loans growth	13.7	8.8
Deposits growth	12.4	15.0
Borrowings growth	42.6	26.2
SLAR	39.5	37.7
Gross NPL ratio	4.2	5.6
ROA – after tax	1.4	1.3

Strategic Direction

In the context of opportunities and threats in our operating environment as well as our own internal strengths and weaknesses, DBB has formulated a five-pronged operational strategic plan covering a rolling three-year period.

On the business side, we aim for sustainable and profitable growth by

- Enhancing business promotion;
- Deepening market share in existing businesses; and
- Diversifying our income streams.

Internally, we will focus on operational efficiencies and effectiveness by

- Seeking cost efficient funding; and
- Improving the level of employee satisfaction.

The strategic direction discussed herein is supplemented by our Management Discussion and Analysis as well as other relevant sections of this Annual Report.

Enhance Business Promotion

Achievements during the year	*Future direction*
Developed a regional level marketing plan and 50 marketing campaigns were carried out during the year.	*Every employee to have a marketing orientation with a business development and customer focus*
New client acquisition:	*Transform current staff mix of sales to non-sales from 1:3 to 1:1 by 2016; recruitment of more Relationship Officers*
Facilities to new clients/total approvals, *DFCC Bank: 37%* *DVB: 18%* *DVB PFS*: 74%*	*Take advantage of new media to promote products and services more cost effectively*
	Continue training programmes on customer care
	Diversify the customer base through relationship building
** Personal Financial Services*	*Simplify processes at every possible contact point*

Deepen Market Share in all Key Business Segments

Achievements during the year	*Future direction*
Our key business segments have shown good portfolio growth during the past as well as the year under review, namely:	*Increase awareness levels of the corporate brand through personal relationships*
	Cross-sell DFCC Group products and services
Corporate banking: 17.4% YoY to LKR 44,964 million	*Recruit more Relationship Officers for business promotion; set up a Corporate Relationship Unit within the Corporate Banking Department*
Branch banking (including Business Banking): 23.4% YoY to LKR 92,233 million	*Introduce industry sector focused marketing campaigns for different regions*
Worked with regional media services for concentrated and localised campaigns	*Corporate Banking: Low margins and high volume strategy to reduce cost-per-delivery*
Revised exposure limits in line with emerging trends and developments and improved the overall NPL ratio.	*Business Banking: Medium margin and medium volume strategy to stay within risk-return thresholds*
Consultancy assignment with HFC Bank in Fiji continued successfully	*Branch Banking: Medium to high margins with however, aggressive pricing for acquiring new relationships; and continued focus on SMEs*
Synapsys Limited, the fully-owned IT subsidiary of DFCC Bank won an assignment to implement a core banking solution in Pan Oceanic Bank of Solomon Islands	*Expand international operations and consultancy services*
	Identify growth sectors to accomplish large volume of lending
	Take anticipatory and preventive actions to maintain portfolio quality
	Engage regularly with corporate clients through sponsorships, special events etc.
	Develop a comprehensive 'SME Strategy' incorporating the rural banking sector and microfinancing sector

Diversify Income Streams

Achievements during the year	*Future direction*
The ratio of non-interest income to net income improved to 32% in 2014/15 from 17% in 2013/14. (excluding exceptional and extraordinary items) *Invested LKR 1,517 million during the year in listed debentures* *Invested LKR 500 million during the year in unit trust funds* *Earned significant fee income from EIB credit line administration and an international consultancy assignment*	*Increase trading portfolio through investments in listed shares* *Invest in listed debentures, securitised paper and unit trusts* *Invest a portion of liquid assets in gilt-edged funds* *Explore opportunities for off-shore operations* *Explore investment opportunities in unrelated businesses*

Seek Cost Effective Funding

Achievements during the year	*Future direction*
Raised LKR Five billion through a listed debenture issue *Continued to administer the EIB credit line of EUR 90 million for Renewable Energy/Energy Efficiency and SMEs to be disbursed through DBB and two other participating financial institutions*	*Negotiate additional credit lines from established business partners* *Consider new debenture issues* *Consider securitisation of the leasing portfolio* *Improve the CASA ratio of the DBB*

Improve Employee Satisfaction Levels

Achievements during the year	*Future direction*
Reviewed individual development plans submitted by employees to identify training needs *Provided relevant training to 75% of staff* *Reduced staff attrition (including retirees) to less than 10% during the year* *Continued the talent management process using the Nine Box model* *Implemented the staff job rotation policy* *Human Resources Department teams visited 70% of the branch network during the year to meet branch staff, discuss issues and concerns* *Implemented the results of the Salary Survey*	*Enhance employee engagement and motivation by proactively addressing concerns raised through surveys, branch visits, grievance handling mechanisms, exit interviews etc.* *Continue to improve employee communications, transparency of processes and methods of addressing employee needs and concerns* *Identify training needs and provide a relevant response, including feedback on its effectiveness* *Introduce job rotation between support and front line staff at common branches of DFCC Bank and DVB* *Continue the talent management process using the Nine Box model*

Stakeholders

Our stakeholders are individuals or organisations that interact with us and are impacted by our business activities, or whose actions can affect our business.

Stakeholder Engagement

As a responsible banking entity we communicate with our stakeholders throughout the year and engagement 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 vary depending on the stakeholder group and nature of a specific aspect to be addressed. These aspects are summarised below.

Investors: *Our investors provide us with equity and debt capital needed for expansion and growth. In turn, we strive to offer 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 also communicated through the Annual Report, press and electronic media and on the Bank's website.

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

Customers: *Customers are the source of our earnings, 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, corporate news, service standards and convenience. Accordingly, we largely engage with them through front line staff, relationship managers, advertising and promotion, media releases, branches, corporate website, other automated services, Facebook, surveys and the call centre.

Business Partners: *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 the progress of programmes financed, 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.

Employees: *Employees form the backbone of our organisation and are the very essence of our competitive advantage. They are nurtured and developed, and rewarded for their performance.*

DBB 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 conflict of interests, 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 30). We also have in place a Whistleblowing Policy to encourage employees to communicate legitimate concerns if they observe any illegal or unethical practices. A Board-approved Grievance Handling Policy and Procedure was introduced during the year 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, suggestion box and grievance procedure.

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 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, voluntary guidelines and best practices, new legal and regulatory developments, matters affecting the financial sector and business and financial information pertaining to DBB.

Society and Environment: *The local communities in which we operate are a source of customers and employees, while they also effectively 'hold' our licence 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 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 members of staff actively participate in their respective activities. Key memberships are listed below:

- American Chamber of Commerce Sri Lanka (AMCHAM)
- Association of Development Financing Institutions in Asia and the Pacific (ADFIAP)
- Ceylon Chamber of Commerce
- European Chamber of Commerce
- Institute of Bankers of Sri Lanka
- International Chamber of Commerce
- Lanka Business Coalition on HIV and AIDS
- Leasing Association of Sri Lanka
- National Chamber of Commerce
- Sri Lanka Council for Business with Britain
- The Ceylon National Chamber of Industries

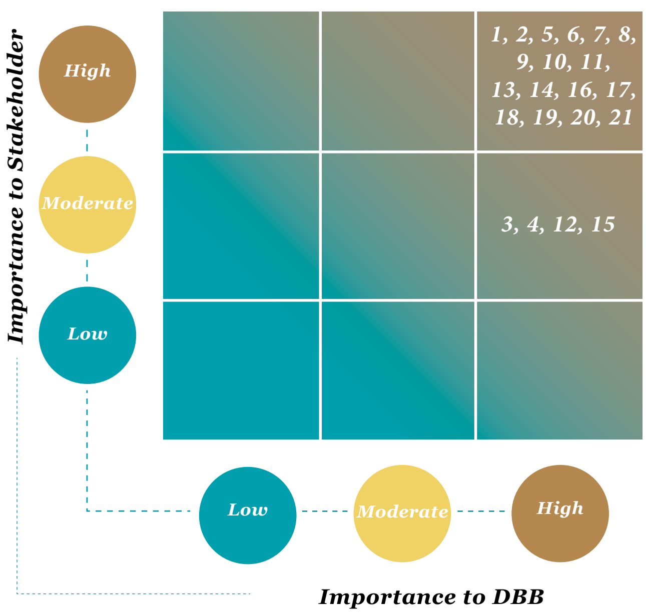
Materiality

Materiality and Value Creation

In formulating our strategic priorities, we consider the full range of topics or aspects that have the potential to impact our ability to create sustainable value. These aspects are analysed from two perspectives, namely, importance to our stakeholders, and importance to DBB. 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

We have identified the aspects that are of importance to stakeholders and of importance to DBB in the context of our economic, environmental and social agenda for sustainable value creation. To aid analysis and focus, these aspects have been mapped in a two-dimensional materiality matrix shown below. We have used GRI G4 Sustainability Reporting Guidelines in this process.



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

Management Approach

The Management Discussion and Analysis that follows explains why we consider an aspect to be material, what we do to manage them and how we evaluate our approach and results. They are elaborated further with supporting indicators and measures where applicable.

Details of the GRI content index are given in the online report [http://dfcc2014-15.annualreports.lk]

Value Creation and Internal Capital Formation

Internal Capital Formation

The value created by DFCC Bank, DBB and the Group for themselves through activities, relationships and linkages lead to the formation of capital that is internal to and 'owned' by these entities. While what is most visible and quantifiable is financial performance that leads to financial capital formation, internal capital also includes several intangibles that constitute institutional capital.

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 SLFRS and LKASs are aligned with corresponding International Financial Reporting Standards (IFRS).

Whenever new standards or amendments to existing standards are made by The Institute of Chartered Accountants of Sri Lanka (ICASL), where appropriate, the Group changes an existing accounting policy 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 current year, consequent to adoption of Sri Lanka Accounting Standard SLFRS 11 – 'Joint Arrangements' the investment in Acuity Partners (Pvt) Ltd, the joint venture, was accounted using the equity method and as such the comparative information has been re–stated in the statement of financial position as at 1 April 2013 (beginning of the comparative year) and 31 March 2014 (end of the comparative year). There is no impact to equity of the Bank due to this re-statement.

Overview of Financial Performance of the Group

Contribution to the financial performance of the DFCC Group, measured at profit before tax level, is from the banking group comprising DFCC Bank PLC ('DFCC Bank' or 'Bank') and its 99.17%-owned commercial bank subsidiary DFCC Vardhana Bank PLC, which are collectively referred to as DBB, Lanka Industrial Estates Limited ('LINDEL'), a 51.2%-owned subsidiary, Acuity Partners (Pvt) Limited ('APL'), a joint venture company jointly controlled by DFCC Bank PLC and Hatton National Bank PLC, two other subsidiaries and National Asset Management Limited ('NAMAL'), an associate company.

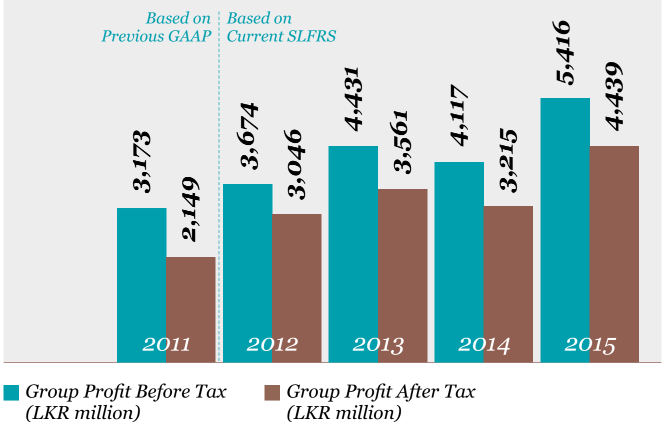
Results of DFCC Vardhana Bank PLC ('DVB'), APL and subsidiary Synapsys Limited whose financial year ends on 31 December, have been consolidated with a three-month gap.

In this review, current year means the year ended 31 March 2015 and previous year means the year ended 31 March 2014.

Composition of Group Profit before Tax

	31.03.2015 LKR million		31.03.2014 LKR million		YoY Change, %
Profit before tax – DBB		**5,176**		3,982	30
Profit before tax – subsidiaries					
– LINDEL	**150**		136		
– APL (50% share)	**138**		91		
– Other subsidiaries	**14**		(20)		
– Sub total	**302**		207		
– Consolidation adjustment	**(77)**		(78)		
Total, subsidiaries		**225**		129	75
Profit before tax, total		**5,401**		4,111	31
Income Tax		**(977)**		(902)	(8)
Profit after tax – sub total		**4,424**		3,209	38
Share of profit – associate company, NAMAL		**15**		6	
Profit for the year as reported		**4,439**		3,215	38

Group Profit Before and After Tax



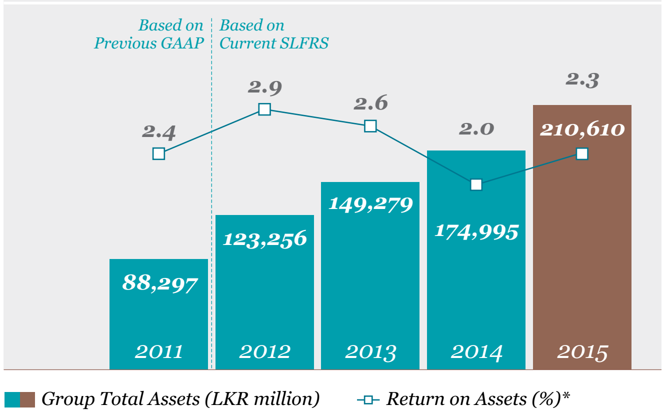
** 2011 reported profit adjusted by eliminating exceptional gain from sale of Commercial Bank of Ceylon PLC ordinary voting shares.*

Overall, the profit after tax of the Group in the financial year under review was LKR 4,439 million, an increase of 38% over the LKR 3,215 million in the previous financial year.

The total assets of the Group recorded a growth of 20% and stood at LKR 210,610 million on 31 March 2015 compared to LKR 174,995 million on 31 March 2014.

Return on Assets (ROA) was 2.3% in the current year, improved from 2.0% in the previous year.

Group Total Assets and Return on Assets



** 2011 reported ROA adjusted by eliminating exceptional gains from sale of Commercial Bank of Ceylon PLC ordinary voting shares.*

Financial Performance of DBB

By far the largest contribution to profits and assets was from DBB, and therefore, this review will mainly focus on the performance of DBB, which is also our core business.

This commentary is based on supplementary information (non-audited) on the consolidated income and statement of financial position of DBB (given on pages 186 to 190). This information however is derived from the individual audited financial statements.

Profit of DBB

The profit after tax of DBB in the current year was LKR 4,220 million, a 36% increase over LKR 3,102 million in previous year. DBB's profit drivers are net interest income of the credit portfolio, dividend income, gains from sale of non-affiliated share investments, fee and foreign exchange income and management of non-interest costs.

Revenue Mix of DBB

Key Components of Income

	31.03.2015		31.03.2014	
	LKR million	**%**	LKR million	%
Net interest income	**6,659**	**63.9**	7,868	81.8
Net fee and commission income	**1,040**	**10.0**	814	8.5
Gain on sale of securities	**1,140**	**10.9**	189	2.0
Others	**1,586**	**15.2**	738	7.7
Total	**10,425**	**100.0**	9,609	100.0

Net Interest Income

The net interest income was LKR 6,659 million in the current year, a 15% decrease over LKR 7,868 million in the previous year. DBB's interest income reduced by 13% compared to the previous year while the interest expense reduced only by 11% compared to the previous year due to the time lag in repricing of the long-term borrowings. As a result the interest margin reduced to 4.1% during the year down from 5.9% achieved in the previous year.

DBB posted a healthy 18% credit portfolio growth surpassing the industry growth rate from LKR 118 million to LKR 139 million. Further commitments for unutilised credit facilities amounting to LKR 39,365 million on 31 March 2015 augur well for potential improvement in the succeeding financial year 31 March 2016.

The overall interest margins for the banking sector declined during the year. However in the case of DBB it was also as a result of an aggressive customer acquisition policy adopted during the year by DBB resulting in a drop in lending interest rates which were warranted by market conditions due to intense competition in the banking sector.

Other Income

Other income of DBB in the current year amounted to LKR 3,766 million, an increase of 116% from LKR 1,741 million in the previous year. Other income comprises mainly of fee and commission income, gains on sale of securities, dividend income and gains from trading activities.

Net fee and commission income of DBB in the current period increased by 28% to LKR 1,040 million compared to LKR 814 million in the previous year as a result of DVB's increased trade and remittance business volumes. Fee and commission income is derived largely from banking services provided to customers engaged in import, export activities and fees from guarantees issued on behalf of customers engaged in trade and construction activities.

Gain on sale of securities was LKR 1,140 million in the current year compared to LKR 189 million in the previous year. Capitalising on the upward momentum in the stock market, on 31 October 2014 the Bank divested the entire holding of 9.92% ordinary voting shares of Nations Trust Bank PLC and realised a capital gain of LKR 829 million. The Bank was able to divest some of the other mature equity holdings as well and generate a further capital gain of LKR 306 million during the year.

Dividend income received by DFCC Bank made a significant contribution to other income of DBB. This is derived largely from the investment in Commercial Bank of Ceylon PLC supplemented by dividend from other equity securities classified as available-for-sale.

Net gains from trading activities increased by 126% to LKR 480 million from LKR 212 million as a result of trading activities undertaken by treasury operations.

Cost Efficiency

DBB's expenses including personnel expenses as a proportion of net interest and other income improved marginally to 39% compared to 40% in the previous financial year.

Composition of Operating Expenses

	31.03.2015 %	31.03.2014 %
Personnel cost	**49.1**	48.1
Depreciation and amortisation	**8.5**	8.4
Administration and establishment expenses	**18.6**	17.8
Others	**23.8**	25.7

Operating expenses of DBB increased only by 8% during the year to LKR 4,107 million from the previous year's LKR 3,804 million.

Approximately half of the operating expenses is on account of personnel compensation (current and deferred compensation relating to retirement) and the main reason for a 10% year-on-year increase was due to a salary revision which was effected during the year to be in line with the market, based on a comprehensive remuneration survey carried out by an external consultant among comparable institutions.

Due to stringent cost management, operating expenses excluding personnel cost increased only by 6% during the year. This increase was largely due to costs associated with branch expansion (one new branch was opened, whilst four extension offices were converted to fully-fledged branches). These costs incurred on expansion of branch network will be eventually recovered by additional revenue generation by these new branches.

Taxation

Income tax liability is based on the accounting profit computed under SLFRS 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, DBB is liable for Value Added Tax 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 total of Value Added Tax and NBT on financial services and income tax expense as a percentage of profit before these taxes was 30% in the current financial year compared with 32% in the previous financial year.

Credit Quality

Analysis of Impaired Loans

	31.03.2015 LKR million	31.03.2014 LKR million
Impaired loans to customers	**8,658**	8,029
Impairment allowance	**6,010**	6,892
Ratios:		
Impairment allowance/ impaired loans (%)	**69.4**	85.8
Impaired loans/total loans (%)	**6.0**	6.4

The ratio of impaired loans to total loans on 31 March 2015 was 6.0%, lower than 6.4% on 31 March 2014, indicating an improvement in credit quality. The cumulative allowance for impairment for loans and advances of DBB was maintained at a healthy level of 69.4% as at the year end. The impairment allowance coverage for impaired loans is adequate when fair value of the underlying collateral is taken into account.

The SLFRS based impairment assessment, both on individual assessment and collective assessment, 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. During the quarter ended 30 June 2014, DBB re-examined the impairment assessment processes in the light of experience gained over the past 2 years, in particular the methodology adopted with regard to the collective impairment assessment process. The revised impairment assessment methodology adopted during the first quarter has been consistently applied during the year.

Composition of Total Assets

	31.03.2015 %	31.03.2014 %
Earning assets		
Loans and advances to and receivable from customers	**64.5**	64.3
Loans and advances to and receivable from banks	**1.6**	3.1
Other interest-bearing financial assets	**6.6**	3.6
Available-for-sale investments	**21.8**	22.9
Non-earning assets		
Property, plant and equipment	**0.5**	0.6
Goodwill and intangible assets	**0.2**	0.2
Others	**4.8**	5.3
Total assets	**100.0**	100.0

Of the total assets 92% were denominated in LKR and the balance comprised mainly of USD denominated assets.

Total assets of DBB recorded a healthy Year on Year growth of 20.3% and amounted to LKR 209,768 million as at 31 March 2015 compared to LKR 174,350 million as at end of previous year.

Composition of Interest-Bearing Liabilities

	31.03.2015		31.03.2014	
	LKR million	%	LKR million	%
Borrowing sourced from				
Multilateral lending agencies	**18,460**	**11.6**	17,826	13.6
Bilateral lenders	**5,902**	**3.7**	7,607	5.8
International capital market	**13,746**	**8.7**	13,446	10.2
Domestic capital market	**6,783**	**4.3**	1,610	1.2
Debenture issue private placement	**526**	**0.3**	563	0.4
Borrowing from banks	**4,820**	**3.0**	4,285	3.3
Customer deposits	**92,840**	**58.4**	81,230	61.9
Repos	**15,803**	**10.0**	4,735	3.6
Total	**158,880**	**100.0**	131,302	100.0

Liabilities of DBB are mainly in LKR but it also has foreign currency liabilities, mainly USD.

In August 2014, the Bank successfully raised funds with a tenor of three years by way of senior, unsecured redeemable rated debentures. The initial issue was for LKR Three billion with an option to raise a further LKR Two billion. This was the first debenture to be issued to the market with a single digit interest rate and the issue was three times oversubscribed on the first day itself. Due to the favourable response received, Bank issued debentures to the total value of LKR Five billion.

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, to neutralize any change in exchange rates. As the proceeds of these notes are deployed predominantly in LKR denominated monetary assets, in order to mitigate market risk arising from any fluctuation in the USD/LKR exchange rate DFCC Bank has entered into an arrangement with CBSL for 75% of the principal amount of US Dollar (USD) denominated liability. On an annual basis CBSL will compensate DFCC Bank for any loss arising from the depreciation against USD or conversely DFCC Bank will pay CBSL any gain arising from LKR appreciation against USD.

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.

Upon the renewal of the contract at the end of the first year, USD 75 million was sold to CBSL for LKR 130.80 per USD. As per the renewed contract CBSL will swap USD to LKR in November 2015 for LKR 130.80 per Dollar irrespective of market price of USD at that time.

The fair value of the renewed contract on 30 October 2014 was based on equivalent one year USD forward purchase contract price maturing in November 2015 and was obtained from quotes from market participants. This forward price was LKR 135.9583 per Dollar. Thus a fair value gain of (135.9583 - 130.80) x USD 75 million = LKR 386.873 million was recognised as Government grant receivable and deferred income of an equivalent amount in the statement of financial position on 30 October 2014. Subsequent changes in the fair value of CBSL contract was recognised as changes in the fair value of the financial instrument while amortisation of the deferred income of the Government grant that compensated for the changes of the fair value of CBSL contract was recognised in other income.

The essence of this accounting treatment in the income statement is as follows:

	LKR million
Fair value gain of CBSL contract on 1 November 2013	754.96
Less: Fair value gain of CBSL contract on 31 March 2014	276.88
Reversal of loss recognised during previous year	478.08
Fair value gain of CBSL contract on 31 March 2015	483.73
Less: Fair value gain on renewal of contract on 30 October 2014	386.87
Fair value gain disclosed as changes in financial Instruments fair value through profit/loss	574.94
Amortisation of deferred income on grant disclosed as other operating income	(376.19)
Net gain that offset LKR depreciation	198.75

Investment in DFCC Vardhana Bank PLC

The cumulative investment in DVB on 31 March 2015 was LKR 5,823 million. The net worth of DVB as at 31 March 2015 represented by net assets was LKR 8,839 million.

DVB had surplus distributable reserves of LKR 3,255 million on 31 March 2015. The return on this investment based on year ended 31 December 2014 results of DVB was 13.4 %.

Profit Contribution from Other Members of the Group

This comprises the profit contribution from LINDEL, DFCC Consulting (Pvt) Ltd, APL and NAMAL. APL the joint venture company outperformed all others in the Group. Amongst the subsidiaries, LINDEL continues to be profitable with a return on investment of 24.4% during the current financial year compared with 21.8% during the previous financial year. Synapsys Limited, the information technology provider to DBB turned around its performance during the year and recorded a profit after tax of LKR 15 million compared to a loss of LKR 24 million in the previous year. The profit contribution from the other members was LKR 11 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 March 2015 was LKR 19,871 million.

The exchange loss cover provided by Central Bank of Sri Lanka is a de-facto grant to the extent of USD 75 million international Note issue. As at 31 March 2015 due to depreciation of LKR vis-a-vis USD there was a probable compensation receivable of LKR 180 million. However the exact amount will be determined only in November 2015, on the renewal of the contract.

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 March 2015 the aggregate shareholding was approximately 35%.

Critical Accounting Policies and Estimation of Uncertainties

The results of DFCC Bank and 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 financial statements.

Impairment allowances for loans and advances are based on estimates and judgment and it is possible that the outcomes in the future could differ from the assumptions used, and this could result in adjustments to the carrying amount to the loans and advances.

Current Year Changes and Impending Changes to Financial Reporting

These are disclosed in Notes to the financial statements.

Management of Equity

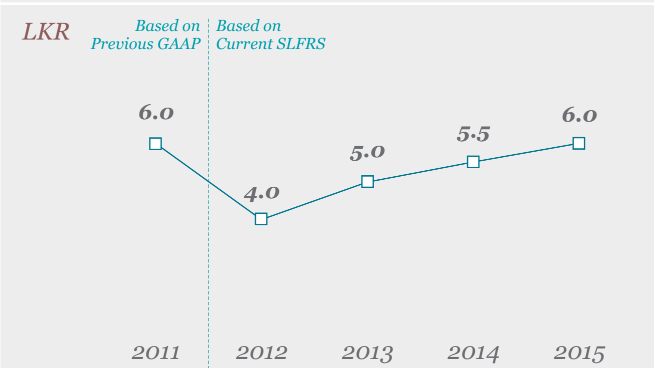
Dividend Performance

Dividend per share in the current year is LKR 6.00 per share, an increase of 9.09% over LKR 5.50 per share in the previous year.

The payout ratio based on the dividend recommended by the Directors is 49% in the current year compared to 56% in the previous year.

Certain reserves of DFCC Bank are non-distributable as per Central Bank of Sri Lanka directions/statutory provisions. If these reserves are excluded the payout ratio increases to 52% in the current year compared to 66% in the previous year.

Dividend per Share

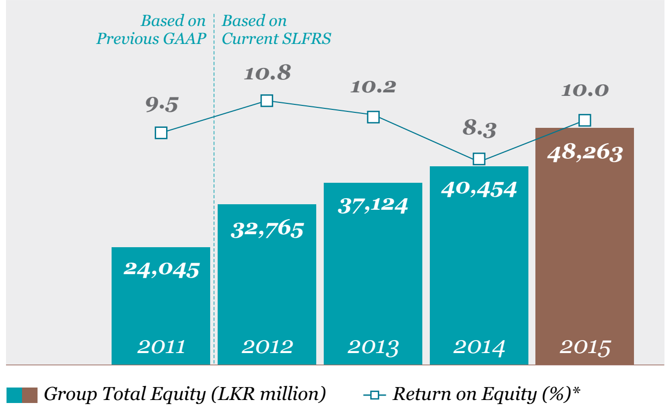


** 2011 reported dividend per share adjusted eliminating special dividend distribution arising from gains from sale of shares in Commercial Bank of Ceylon PLC.*

Return on Equity

Return on equity for the current year was 10%.
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 SLFRS and the resultant increase in equity on 31 March 2015 is LKR 15,113 million. The return on equity will improve to 14% if this unrealised gain is not taken into account.

Group Total Equity and Return on Equity



** 2011 reported ROE adjusted by eliminating exceptional gains from sale of Commercial Bank of Ceylon PLC ordinary voting shares.*

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 181).

Financial Value Added

The total value added by DFCC Bank during the year amounted to LKR 5,440 million (FY 2013/14: LKR 4,687 million). Details of value added and distributed are given under Supplementary Information on page 191.

INSTITUTIONAL CAPITAL

Institutional capital is the non-financial component of DBB's internal capital. It encompasses aspects such as organisational knowledge, systems, processes, intellectual property, corporate values, business ethics, brand equity and so on. Some key activities undertaken during the year driving our institutional capital are discussed below.

Organisational Knowledge

Building further on its diverse project financing expertise and unique skills honed over nearly 60 years that saw many 'firsts' in Sri Lanka, DFCC Bank continues to develop capabilities in allied areas. For instance, the Bank acts as the apex institution to channel funds from credit lines to participating Banks. It provides local and international consultancy services, either directly or through its full-owned subsidiary, DFCC Consulting (Pvt) Limited, in niche areas such as renewable energy financing. A recently concluded assignment saw the Home Finance Company of Fiji being transformed from a Housing Bank to a fully-fledged Commercial Bank, with continuing downstream advisory services.

The operational merger of DFCC Bank, with its 99.17% owned commercial banking subsidiary, DFCC Vardhana Bank, gives the DFCC Banking Business, unsurpassed opportunities to cross-sell products and offer seamless Full-Service Banking services through a unified distribution channel, while not diluting DFCC Bank's leadership position in Development Banking. Cementing this synergy are several mechanisms for organisational learning and knowledge sharing, supported by cutting edge information technology delivered through Synapsys Limited, a fully-owned subsidiary.

In addition, at Group level, DFCC Bank continues to broaden its horizons through the winning partnerships created with its industrial estate subsidiary, investment banking joint venture and asset management associate company.

Systems, Processes and ICT

DBB has in place several internal systems, processes and procedures that were developed over the years, many of which are customised solutions. Some of the initiatives during the year include:

- Implementation of the Organisational Effectiveness Improvement Programme that saw several new systems and processes introduced to meet the challenges of a changing business environment.
- Introduction of a video conferencing facility covering our branch network and Regional Offices, thus relieving Regional Managers and Branch Managers of unproductive travel time that also contributed to cost savings.
- Successful upgrade of the Oracle e-Business Suite Financials application to the latest platform
- Introduction of a new Asset Liability Management (ALM) Reporting System to improve the Bank's reporting requirements to the Central Bank of Sri Lanka and the Asset Liability Committee (ALCO) of the Bank.
- Implementation of an Open-source Ticket Request System to manage day-to-day service requirements of the IT Help Desk and the Services & Procurement Department.

Most of DBB operations are carried out through centralised and shared services. They include Lending, Treasury, Credit Administration, Risk Management, Human Resource Management, Information Technology and Internal Audit. Further DFCC Bank has centralised services for Services & Procurement, Accounting & Reporting and Transaction Processing. The service levels are based on pre-agreed Service Level Agreements which are monitored.

Further, IT played a key role in achieving improved efficiencies in internal operations and launching new products. Several initiatives were taken during the year, such as:

- Launching an anti-money laundering (AML) system to automate the monitoring of suspicious transactions carried out over the DBB network.
- Deploying a unique remittance solution, Lanka Money Transfer (LMT), that connects some of the largest exchange houses in the UAE and ties up with several local partner institutions to expedite fund transfers to beneficiaries.
- Investing further to enhance the Bank's disaster recovery capability.

Corporate Values and Culture

We promote a team culture, where every member contributes towards realising the overall vision of the organisation. Employees are 'ACTIONED' by our core values (Inner Front Cover) based on accountability, customer service, teamwork, innovation and excellence, ethics, profitable growth and social responsibility, and are recognised and rewarded based on individual and team performance. Our rewarding excellence scheme enables the recognition of employees who perform exceptionally well.

Brand Equity

Our passion for innovation and excellence have fuelled continuous growth and success over the years, duly supported by brand building activities. Our marketing activities conform to all statutory requirements and beyond. They promote transparency and ethics and help customers to make informed decisions. Our brochures are trilingual, in Sinhala, Tamil and English, giving information on all products and services. To further engage with our customers, we effectively use social media (Facebook) and our trilingual website.

Business Ethics and Integrity

We ensure active participation, understanding and commitment from all employees in abiding by our Code of Ethics. Several codes and control mechanisms are in place to guard against irregularities and unethical practices (also see Corporate Governance, page 68). They are reviewed and upgraded based on need.

Anti-corruption

DBB maintains a written code of conduct that includes anti-corruption. It is explained to all staff, reinforced through updates and monitored throughout all business operations. We take pride in our unblemished record in this sphere, which includes knowing our customers and taking measures to combat money laundering and terrorist financing.

Compliance

We have not been informed of or have pursued any actions in relation to fines imposed on DFCC Bank or DFCC Vardhana Bank on account of non-compliance with laws and regulations pertaining to corruption, anti-competitive behaviour, antitrust, monopoly practices, provision and use of products and services and similar infringements during the year. We maintain a clean score card, driven by sound principles and not just rules.

Value Creation and External Capital Formation

External Capital Formation

The value created by the DFCC Banking Business for stakeholders through activities, relationships and linkages lead to the formation of capital external to these entities. They reside within our stakeholders and hence not 'owned' by us. But we have access to and make use of these and our 'own' internal capital in driving business. The discussion that follows focuses on our external capital formation, the material ones being investor capital, customer capital, employee capital, business partner capital and social and environmental capital.

INVESTOR CAPITAL

This section on investor capital pertains to DFCC Bank. 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 8,443 shareholders on 31 March 2015 (FY 2013/14: 8,874 shareholders), with the total number of shares in issue remaining unchanged at 265,097,688 ordinary shares. Around 85% 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 recommended a first and final dividend of LKR 6.00 per share for the year under review (FY 2013/14: LKR 5.50), to be approved by shareholders at the Annual General Meeting on 30 June 2015.

The DFCC Bank share closed at LKR 202.90 on 31 March 2015. The highest and lowest values recorded during the period under review were LKR 239.00 on 7 October 2014 and LKR 144.70 on 1 April 2014. Over the 12 month period, the share posted a gain of LKR 59.90 (42%). The share price tracked the movement of the All Share Price Index (ASPI) closely throughout the period.

Additional details are given under the section Investor Relations (commencing on page 91).

Economic Return

Economic Value Addition (EVA), as distinct from financial value addition and its distribution (see page 191), is the value created over and above the required return of the Bank's equity investors. Given below is the Bank's EVA computation for the year under review and the previous period.

LKR million	2015	2014
Invested equity		
Shareholders' funds	**44,095**	37,410
Add: Allowance for impairment	**2,902**	3,392
Less: Fair value reserve	**17,513**	12,443
Total	**29,484**	28,359
Earnings		
Profit after tax	**3,240**	2,587
Add: Impairment write back/(charge) for loans and other losses	**308**	(324)
Less: Loan losses written-off	**4**	26
Total	**2,928**	2,885
Cost of equity (Based on 12 months weighted-average T-bill rate plus 2% for the risk premium)	**9.56%**	9.83%
Cost of average equity	**2,765**	2,719
Economic value added	**163**	166

CUSTOMER CAPITAL

Branch Network and Service Delivery

The Operations Division was restructured and renamed 'Services' during the year to achieve more effective cohesion between branches and service centres as well as standardisation across our entire network. The DBB network comprises 137 service centres which includes 78 fully-fledged branches and 59 service centres located at Sri Lanka Post Offices (SLP). The Services Division now encompasses eight departments, namely, Network Service Centre, Channels and Service Delivery, Branch and SLP Services, Domestic Payment Services, Cash and Archiving Services, Insurance and Outsourced Vendor Management Services, Central Administration Services and Central Profile Administration Services.

While traditional bank counters with their customised warmth have been the forerunner in providing banking services, there has been a considerable rise in the use of alternate delivery channels in keeping with the times. The ATM network, eBanking and Cheque Deposit Units have been well received by customers, with rapid growth in debit cards (36% YoY) and eBanking customer base (50% YoY), whilst 34% of cheque deposits are being made at standalone Cheque Deposit Units.

Several enhancements during the year, coupled with ancillary services supported this drive such as:

- Refurbishment of the Call Centre and Network Service Centre.
- Amalgamation of DFCC Bank and DFCC Vardhana Bank Call Centres to achieve economies of scale and cross-training of staff to handle both inbound and outbound calls.
- DBB-wide implementation of the '5S Method' to improve efficiency and effectiveness.
- Issuance of pre-encoded debit cards.
- Launch of the Lanka Money Transfer (LMT) system, an initiative of DVB that enables expatriate workers in the Middle East to remit money direct to their Sri Lankan accounts within the same day.
- Making available all mandates, forms and applications in three languages – Sinhala, Tamil and English – to appeal to all Sri Lankans.
- Setting up new branches in Nikaweratiya, Mount Lavinia, Hatton, Welimada and Ibbagamuwa.
- Installation of 40 Electronic Wall Boards in heavily patronised branches to improve dissemination of information to customers.
- Implementation of an outsourced Vendor Management Policy in line with the guidelines of the Central Bank of Sri Lanka to minimise risks arising from disruptions and to ensure business continuity.

Details of the branch network are given in the online report [http://dfcc2014-15.annualreports.lk]

Some of the key ongoing activities include management of customer complaints, dual controls that act as checks and balances and an accelerated move towards providing digital banking solutions.

Corporate Banking

Project Financing for Corporates

It was an excellent year for project financing despite excess liquidity and sluggish credit conditions in the market. DFCC Bank exploited opportunities arising from growth in the construction and renewable energy sectors, supplemented to a lesser extent by growth in the tourism and allied services and manufacturing.

Total project financing approvals for corporates during the year reached LKR 24,869 million, an increase of 79% over the previous year. The project financing portfolio grew by 19% during the year to LKR 35,775 million, with the non-manufacturing sector accounting for 86% of the total. The renewable energy sector enjoyed the highest share of 16%, followed by finance and business services at 15% and construction at 14%.

While there was a marked increase in exposure to the trade, construction and food & beverage sectors, the portfolio remained well diversified. Many of the loans were granted to key players and market leaders in their respective industries.

The renewable energy sector received a boost due to the European Investment Bank (EIB) credit line which has a renewable energy/energy efficiency component. The Bank approved the financing of Sri Lanka's first grid-connected solar PV independent power producer during the year under review. It would be a landmark transaction, which further reinforces the Bank's pioneering status in the renewable energy sector, having also financed the country's first Private sector grid-connected hydro and wind power projects.

The opportunities presented in the National Budget coupled with declining interest rates saw a number of well established, rated and listed corporates issuing debt instruments as an alternative financing mode. The Bank played a vital role in analysing and investing in these instruments while exploring synergies with Acuity Partners (Pvt) Limited, the joint venture investment banking arm of the DFCC Group.

Asset quality was maintained, with the non-performing loan ratio of corporate project loans standing at 0.08% by 31 March 2015 (FY 2013/14: 0.4%). The main contributory factors for portfolio quality are 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.

Commercial Banking for Corporates

In just over ten years since its inception, DVB has amassed an impressive portfolio of corporate clientele ranging from some of the largest corporate institutions in the country to rapidly growing medium sized enterprises across diverse industry sectors. We offer companies a complete range of commercial banking products, from trade services to term loans and money market facilities, all tailored to meet the specific demands of companies and their industries.

The unified marketing approach of DVB leverages the brand equity of DFCC Bank, which has helped all units, including corporate banking, to cross-sell many other banking products, further enhancing customer convenience.

The DVB commercial banking portfolio grew by 9.4% over the previous year, with total utilisation of LKR 9,189 million by the end of 2014 being 51% of the total approved limits. Due to the high volatility in the short-term interest rates, maintaining the portfolio proved to a challenging task and the results reflect the strength of our relationship banking efforts.

Small and Medium Enterprises

Branch Banking

We continued to restructure and streamline processes in the branch network which was initiated in 2013. Under this programme dedicated business development cells were established in main branches to drive business development locally and to provide a superior customer service. Business development initiatives of branches were brought under the purview of the new cell which is staffed with experienced Business Development Managers and Relationship Officers. Credit evaluation and processing is assigned to Relationship Managers specialising in project lending and retail lending. Such a focused marketing and processing approach is expected to improve customer interaction and reduce lead times, while providing a superior customer service and product delivery.

Encouraging results from the restructuring process was observed within a short period of time in terms of portfolio growth. The Branch Banking portfolio increased by 25.5% from LKR 60,975 million to LKR 76,541 million during the year, with the manufacturing, trade and agriculture and fishing sectors representing a major portion of the total lending portfolio.

We made good use of concessionary credit lines, particularly the one from the European Investment Bank to grow our SME project lending portfolio. With a focus on under-developed areas of the country and emerging SMEs which lack access to financing, a substantial number of credit facilities were approved to SMEs based in areas such as Jaffna, Vavuniya, Batticaloa, Ampara, Polonnaruwa and Badulla. Most of the facilities approved under this credit line were in the implementation stage by the year end, and thus will be reflected more fully in the Bank's performance during the next accounting period.

The Branch Banking leasing portfolio grew by 15% despite adverse market conditions, with limited activity during the first half of the year and fierce competition. Since conditions were not conducive for a fixed rate product in a low interest regime, DBB was not bullish in expanding its finance leasing portfolio, as expected.

The NPL of the SME sector recorded a favourable decrease from 5.5% to 4.5%, underpinned by the low interest rate regime and diligent follow up.

The Branch Banking business continued to be the main driver in mobilising deposits from the general public. The savings account and deposit portfolio of the branch network grew by 10.4% from LKR 39,389 million to LKR 43,486 million during the year.

Business Banking for High End SMEs

Our Business Banking Unit, set up a few years ago, functions as a one stop shop to deliver an entire range of development banking and commercial banking products to a mix of lower end corporate clients, higher end SME clients and retail customers. The fund based products include greenfield project financing, term loans for one time purchase of business assets, construction of factory buildings and provision of permanent working capital requirements as well as Personal Financial Services products such as leasing, overdrafts personal loans and housing loans. The fee based products include letters of credit and guarantees to cover transaction-related contingencies of customers.

The Business Banking portfolio grew by 13.8% to LKR 15,692 million during the year, driven by a 34% growth in the project financing portfolio. The development banking portfolio accounted for 41% of the total portfolio. The availability of a relatively low cost credit line at a fixed rate of interest during the year helped growth, while the leasing portfolio contracted as the prevailing conditions were not conducive for expansion (as discussed earlier). Cross-selling personal financing products was another focused strategy that was pursued, with good results.

The combined renewals/approval of both development banking and commercial banking facilities during the year amounted to LKR 10,650 million, although many of the large facilities remained unutilised at year end with the usual lag effect of disbursements.

The NPL of the development banking portfolio remained relatively low at 2.01%. This was achieved by taking remedial action based on early warning signals and through stringent credit appraisals and monitoring mechanisms.

The combined deposit portfolio of Business Banking stood at LKR 8,296 million during the year.

Personal Financial Services

Personal Financial Services (PFS) is a relatively recent business segment that was established by DVB to penetrate the lucrative retail banking sector. Emphasis is placed on personal banking as it is a consistent driver of growth and profitability. The personal banking product range includes asset and liability products specially designed to cater to the diverse financial requirements of individuals and the ever-changing retail market conditions, with increasing domestic and foreign employment and growing personal income levels.

Personal Financial Services via 'Personal Plus' provides a host of benefits and privileges to customers such as attractive interest rates coupled with speedy approvals and minimum documentation. 'Personal Plus' products are available through multiple channels, enabling individuals to meet all their financial requirements – be it buying, renovating or building a house, leasing a vehicle, paying for higher education or travelling overseas.

The PFS Portfolio stood at LKR 10,200 million by end of 2014, recording a monumental growth of LKR 3,977 million for the year, which is a substantial increase from the growth recorded in the previous period. The significant increase could be largely attributed to the growth in personal loans of LKR 1,430 million amidst intense competition in the market. PFS has been steadily growing in the regions outside of Colombo, which contributed to 78% of the portfolio.

The strong growth experienced in 2014 is expected to continue in 2015 as greater emphasis is placed on exceeding customer expectations in meeting product and service delivery, with continuous product development and training of key frontline personnel, along with the expectation that the present trend in interest rates will continue.

Personal Loans

The 'Vardhana Personal Loan' product was launched in 2013. Despite its late entrance into the market, it has surpassed expectations and has emerged as a driving force in the growth of the PFS portfolio. The product is primarily targeted to meet any personal requirement of those in permanent employment in the private and state sectors, along with sub categories comprising professionals, defence forces and education under the *Nenasa* Educational Loan scheme.

The loans offered under the scheme are attractively priced, offering an extended repayment period, coupled with a speedy and hassle free delivery in keeping with the product service standards.

DVB has established many tie ups with large corporate entities in order to promote the Vardhana Personal Loan Scheme which has further enabled the product to gain a significant portion of the market share in 2014. The portfolio of the product stood at LKR 2,250 million at year end, showing a significant growth from the previous year.

Housing Loans

Vardhana *Sandella* with the tag line of 'make your dream home a reality' was launched in mid-2010. The housing loan scheme, offered through DFCC Vardhana Bank (DVB), covers a variety of purposes including the purchase, construction or renovation of a house, property or apartment. The *Sandella* housing loans grew by LKR 1,330 million to reach a portfolio balance of LKR 3,700 million during the year, with a significant 81% attributable to the outlying provinces.

Housing loans are an important component in the PFS portfolio, and year 2014 saw the product being extended to different market segments through marketing campaigns. We also participated in housing exhibitions and established strong links with property developers for apartment and housing finance in a strategic move to penetrate the market.

Going forward, we will take advantage of the low interest rate environment to provide customers with flexible interest rate options, and further focus on suburbs and provinces where there is significant development and demand for housing. Target customers will include young professionals and fixed income earners, with the objective of building loyal, long lasting customer relationships.

The first tranche of USD 7.5 million from the USD 15 million credit line provided by the Asian Development Bank was successfully utilised during FY 2013/14. With the second tranche to be disbursed in 2015, we plan to utilise the funds towards housing throughout the country with special focus on the rebuilding and development efforts of the conflict and tsunami affected areas in the Northern, Eastern and Southern provinces.

Finance Leasing

Despite the challenges experienced in early 2014, the latter part of the year saw the product gain momentum. Vardhana Leasing was introduced in September 2011 to provide customers of DVB a complete package of products. Leasing is available throughout the branch network with significant volumes coming in from the branches outside Colombo.

The leasing market has been extremely competitive with banks and finance companies alike striving to capture market share. We introduced an 'Easy Leasing' campaign during the year to promote our leasing product, whilst creating many tie-ups with reputed motor vehicle importers. DVB introduced hire purchase facilities in late 2014 with the intention of reaching a wider customer network. This will be further developed going forward based on market response.

Gold Pledged Lending

Gold pledged lending was once a successful product in retail banking. However, following the drastic global downturn in gold prices from April 2013, lenders were faced with rising NPLs as borrowers failed to redeem pawned items. The business has since moved into defensive mode to cut losses.

We have taken advantage of the Credit Guarantee Scheme implemented by the Central Bank of Sri Lanka in late 2014 to promote gold pledged advances in the market and are cautiously optimistic of prospects for 2015.

Card Operations

Having launched the Visa International Debit Card in the year 2011, DVB ended the year with over 66,500 debit cards in issue. The DVB 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 year saw DVB debit card usage of LKR 1,870 million at ATMs and LKR 226 million at POS terminals. In addition to the standard Visa debit cards we have introduced three special Visa debit cards for DVB Premier Banking customers, namely, Premier plus, Premier and *Prabhu*.

DVB's credit card range 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 DFCC Bank and DVB, while corporate cards target corporate customers of DFCC Bank and DVB. All the credit cards issued by DVB 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 635 million by year end, with a card usage of LKR 385 million during the year. The DVB 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 in issuing credit cards.

The chip based multi currency Visa Global Travel Card was introduced in early 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.

Investment Banking and DFCC Bank's Investor Portfolio

Investment Banking services are offered through DBB's joint venture, Acuity Partners (Pvt) Limited which 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 March 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), unquoted shares and unit holdings amounted to LKR 1,687 million. The distribution of the aggregate investment portfolio is given below:

Investment Portfolio as at 31 March 2015

	Cost (LKR million)	Market value (LKR million)
Quoted share portfolio (excluding CBC)	788.1	1,439.0
Unit Trust portfolio	757.3	805.7
Unquoted share portfolio	142.0	142.0

The cost of the unquoted share portfolio is carried at cost on the balance sheet. The market value of the investment in CBC voting shares was LKR 19,888 million on 31 March 2015 as against the cost of LKR 3,075 million.

During the year, DFCC Bank divested its 9.92% stake in Nations Trust Bank PLC at a price of LKR 95.00 per share and realised a capital gain of LKR 829 million. In addition, selected divestments of quoted shares and units were carried out during the year, generating LKR 306 million in capital gains.

Using part of the sales proceeds, LKR 500 million in investments were made in three equity linked Unit Funds during the year, namely NAMAL Growth Fund (LKR 250 million), Guardian Acuity Equity Fund (LKR 150 million) and JB Vantage Value Equity Fund (LKR 100 million).

Treasury

The relatively stable USD/LKR exchange rate and comparatively low levels of interest that prevailed from the latter part of 2013 brought in optimism to actively focus on the balance sheet growth in 2014.

During the period under review, the market witnessed continued easing of the monetary policy stance of the Central Bank of Sri Lanka (CBSL) as a response to benign inflation levels. The policy rates [Standard Deposit Facility (SDF) and Standard Lending Facility (SLF)] that stood at 6.50% and 8.50% respectively at the beginning of the year closed at 6.50% and 8.00% at the end of the year. Interbank money market rates too continued to decline in line with the general reduction in interest rates and as a result of some non-traditional measures taken by the regulator.

Benchmark Government Bill/Bond yields dipped during the calendar year 2014: from 7.95% to 6.00% for 12-month Treasury Bills; from 7.48% to 7.20% for 5-year bonds; from 10.25% to 7.85% for 8-year bonds.

Maintaining the targeted interest rate spreads between deposit liabilities and lending rates in the light of prevalent low interest rate sentiment, especially in the minds of borrowers, was a challenge for all market players. This, coupled with high market liquidity, prompted a 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.

Foreseeing these developments, DBB Group Treasury took initiatives to establish a dedicated fixed income (FI) desk with active focus on trading in Government Treasuries. This has not only yielded tremendous results, but helped immensely in terms of enhancing Treasury visibility in the market place. During the year under review, the FI desk made LKR 335 million through trading activities. The FI portfolio witnessed a twofold growth while the encumbered portfolio (allocated for REPO transactions) alone stood at LKR 15,635 million at the end of the financial year.

The USD/LKR rate closed the calendar year 2014 with a marginal depreciation, achieving the CBSL objective of minimising the level of market volatility. The steep drop in USD/LKR premiums that the market witnessed at the latter part of 2013 was slightly reversed in selected time buckets and found its equilibrium to end the year at around LKR 1.40, LKR 2.55 and LKR 4.85 for 3-months, 6-months and 12-months respectively compared to LKR 1.00, LKR 2.45 and LKR 5.50. Amidst this challenging environment, the DBB Group Treasury made LKR 144 million through trading activities while positively contributing to reduce the cost of funds through its FX swap operation.

As the economy continued to slowly recover from lacklustre private sector business conditions, improvements in customer volumes were witnessed, especially in the latter part of the year. During the period under review, the Treasury sales desk successfully organised several customer events with the collaboration of market experts, economists and senior CBSL officials, with the objective of enhancing the knowledge on current economic trends and resultant opportunities. The improved sales focus helped the Treasury to achieve an 18.6% YoY growth in FX customer volumes while contributing LKR 154 million to the bottom line through FX customer transactions.

Going forward, while maintaining the positive momentum, the Treasury is focusing on further improving efficiency in asset and liability management with necessary IT support.

The scope of the Treasury Middle Office (TMO) was further enhanced in line with the regulator's guidelines to support the growing Treasury business. The TMO independently reports to the Bank's Integrated Risk Management Department and is managed by a team of qualified professionals.

International Banking

All International Banking transactions relating to Trade and Remittances of DFCC Bank customers are routed through DVB.

Trade Services

Our specialised international trade-related services include import and export finance and services to corporate, business and individual customers. The branches also generate international trade business from the SMEs by offering import and export trade facilities.

Total fee and commission income earned from trade services and remittances grew by 14.4% during the year to LKR 311 million. This growth was mainly supported by import transactions arising from increased importation of vehicles and food items into the country. The appreciation of LKR against the Japanese Yen promoted vehicle importation to the country. Further, the Bank earned a substantial commission income from the letters of credit issued for the projects financed by DFCC Bank.

Expansion of the international correspondent bank network helped DVB to handle higher volumes of letters of credit from regular clients who were seeking to expand their import transactions with global partners. Income from export transactions increased by 24.8% during the year, with new export clients supporting this growth.

Remittance Services

Inward remittances into the country have shown a persistent growth over several years. Sri Lanka's remittance inflow increased from USD 6,400 million in 2013 to USD 7,000 million in 2014, driven by worker remittances which constitute an important part of the total external receipts. This is a growing source of foreign exchange earnings to the country as around 2 million Sri Lankans are employed abroad. The employment destinations have expanded from a predominantly Middle Eastern base to include Europe, South East Asia and Far Eastern countries such as Japan and South Korea.

Total inward and outward remittances turnover of DBB increased by 35% to LKR 42,517 million during 2014. This is in line with the trend of increasing volumes of foreign remittances into and from the country. Inward remittances handled, including telegraphic transfers and bank drafts collected, increased by 41% to LKR 28,680 million, while outward remittances increased by 24% to LKR 13,836 during 2014. Fee income from remittance services increased likewise, thus supporting our strategy to diversify income streams.

DVB introduced Lanka Money Transfer (LMT) during the year, which is an automated money transfer system to directly credit incoming remittances into the accounts of the recipients. DVB signed up with several local banks with a large retail customer base to be partner institutions of the LMT system, while also introducing the system to several money transfer companies in the Middle East. Going forward, the LMT system will later be linked to the MWallet solution which is currently being developed and tested. This will provide the added capability for making electronic payments and settlements.

EMPLOYEE CAPITAL

It is people who drive business. Our success is thus largely attributable to the knowledge, skills and commitment of a closely knit and motivated team that creates sustainable value, year after year. Hence, we attract the best of talent, develop a professional and collaborative work environment, promote a culture of diversity and inclusion and provide opportunities for all employees to utilise their full potential. In turn, we reward performance.
Our reporting boundary in this section on employee capital is the DFCC Banking Business (DBB), unless otherwise stated.

Staff Strength

DBB employed a total of 1,427 persons by year end, with the composition reflecting the desired levels of diversity in terms of gender, age, service period and geographic location. Outsourced service providers such as janitorial and security personnel are not included in the computation. Our employees may be either 'permanent' staff or those who work on 'contract'. The latter includes those on fixed-term contracts and casual employees who may also work part-time based on the terms of engagement.

Permanent staff accounted for 89% of the total (FY 2013/14: 90%), with a similar composition among males and females. Non-permanent staff in the management grade include retired permanent employees who were retained on fixed term contracts due to business priorities. The retirement age at DBB is 55 years.

The overall gender balance continues to remain equal, although it is skewed in favour of males in the Management (78%) and Executive (54%) grades with females scoring higher in the other grades.

Number of Employees by Employment Type, Grade and Gender

	FY 2014/15			FY 2013/14			FY 2012/13		
Employment type and grade	Male	Female	Total	Male	Female	Total	Male	Female	Total
Permanent									
Management	**53**	**17**	**70**	48	17	65	48	16	64
Executive	**203**	**165**	**368**	193	157	350	175	136	311
Non-Executive	**377**	**461**	**838**	368	452	820	310	384	694
Other/Sri Lanka Post*	**0**	**0**	**0**	0	0	0	0	0	0
Sub total	**633**	**643**	**1276**	609	626	1235	533	536	1069
Contract, casual, part-time									
Management	**11**	**1**	**12**	10	1	11	10	3	13
Executive	**21**	**24**	**45**	20	14	34	18	12	30
Non-Executive	**28**	**36**	**64**	18	13	31	21	13	34
Other/Sri Lanka Post*	**14**	**16**	**30**	33	27	60	63	53	116
Sub total	**74**	**77**	**151**	81	55	136	112	81	193
Total	**707**	**720**	**1427**	690	681	1371	645	617	1262
Share of total	**50%**	**50%**	**100%**	50%	50%	100%	51%	49%	100%

** Sri Lanka Post (SLP) refers to staff employed to maintain a window in selected post offices*

Branches (excluding centralised operations and other business units) absorbed 66% of DBB's total workforce.

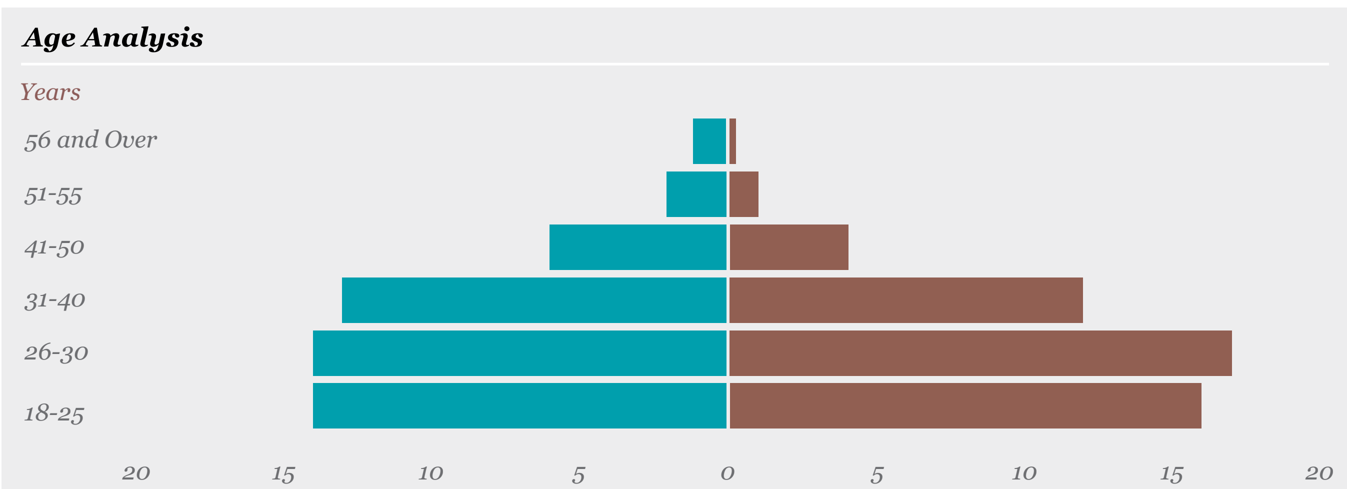
Within branches, the Western Province tops the list with 33% of employees, followed by Southern Province (14%) and Central Province (12%). The gender balance at branches was skewed in favour of females in three out of the nine provinces, namely, Western (54%), North Western (54%) and Sabaragamuwa (53%) against an overall branch average of 47%.

Total Workforce by Location of Operations and Gender

	FY 2014/15					FY 2013/14					FY 2012/13				
			No. of employees					No. of employees					No. of employees		
Province	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	62	47	109	9	5	57	47	104	7	6	54	47	101
Eastern	7	4	48	22	70	7	4	50	20	70	5	5	41	22	63
Northern	6	0	36	22	58	6	0	34	22	56	4	0	25	19	44
North-Central	3	6	39	23	62	3	6	39	20	59	2	7	37	16	53
North-Western	6	4	34	40	74	5	5	31	34	65	3	7	31	32	63
Sabaragamuwa	5	10	32	36	68	5	10	37	38	75	4	11	37	32	69
Southern	8	15	69	65	134	8	15	67	60	127	7	16	61	56	117
Uva	4	5	41	20	61	3	6	39	18	57	3	6	37	17	54
Western	29	11	144	175	319	28	11	140	169	309	25	12	129	151	280
Sub total	78	59	505	450	955	74	62	494	428	922	60	70	452	392	844
Centralised departments and other business units			202	270	472			196	253	449			193	225	418
Total			707	720	1,427			690	681	1,371			645	617	1,262

** 'Branch' includes combined DFCC Bank and DVB office/branch as well as standalone DVB premises.*

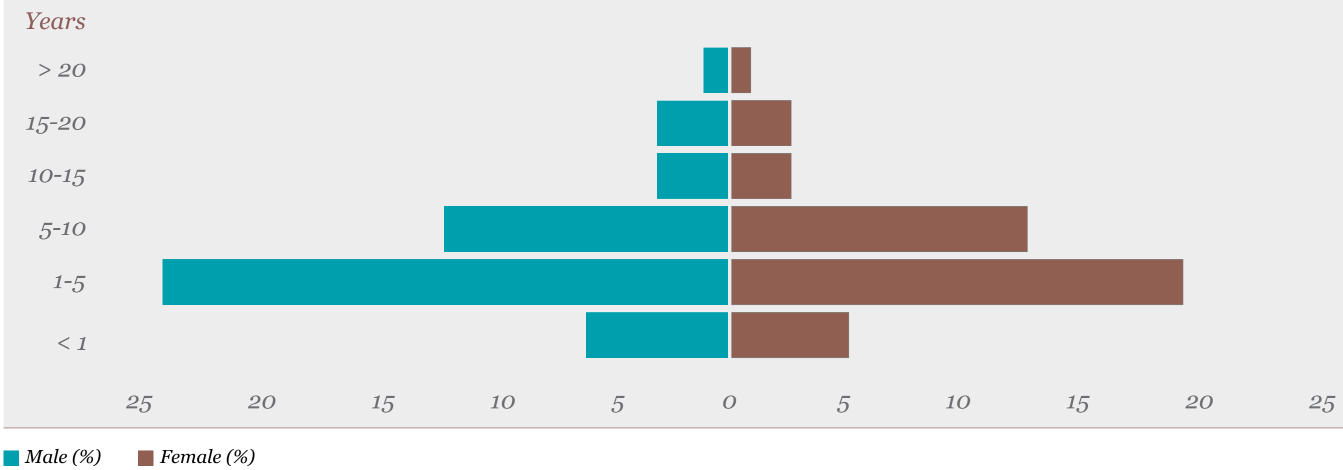
An age analysis indicates that 61% of our employees are in the 18 - 30 years bracket. They also represent the most 'volatile' group in terms of staff retention. The gender balance is roughly equal across age groups with a shift towards males in later years.



Male (%) Female (%)

About 41% of employees have worked with us for over five years, of whom 52% were females. Despite an era of job mobility and the need to inject new blood from time to time, we still do value and reward long service and loyalty by employees. They serve to propagate our corporate culture and values that transcend mere technical capabilities that are on tap.

Service Analysis



Manpower Planning and Talent Acquisition

To ensure competitiveness, business resilience and long-term success we review staffing structures of business units and DBB as a whole periodically. During the year under review, the Operations division was restructured and renamed 'Services' to improve the linkage between branches and service centres and also to achieve standardisation across our entire network (see page 33 under Customer Capital).

DBB staff strength increased by 4.1% from 1,371 to 1,427 persons during the year. The modest net increase is overshadowed by much larger growth rates across several KPIs, reflecting in some measure the productivity and dynamism of our employees.

Recruitment

During the year 196 employees were recruited to DBB, of whom 67% were in the entry level/non-executive grades. Following consistent and transparent policies, priority is given to internal candidates to fill vacancies. This also supports opportunities for job rotation and enrichment while providing avenues for career advancement. For external recruitments, we largely rely on referrals and online advertising. We have also obtained the services of head hunting firms for the sourcing of senior candidates and recruitment of technical staff. Further, the Human Resources team actively takes part in career fairs to source new talent in the market, as well as to provide career guidance to the new graduates as a part of our social responsibility focus.

Recruitment by Grade, Age Group and Gender

Grade	Age group				Gender		
	Less than 30 years	Between 30-50 years	Above 50 years	Total	Male	Female	Total
Management	0	0	2	2	2	0	2
Executive	42	10	0	52	27	25	52
Non-Executive	124	5	3	132	61	71	132
Other/SLP	10	0	0	10	3	7	10
Total	176	15	5	196	93	103	196

Undergraduate Internship Programme

DFCC Bank launched its first undergraduate internship programme during the year, taking on board a batch of seven interns. These interns, who are following degree programmes in both local and foreign universities, underwent an intensive two-month training during which they received rotations to core functions at the Bank. In addition they were provided class room based training focusing on enhancing key soft skills such as business etiquette, networking and interviewing skills aimed at increasing their employability. At the conclusion, the interns presented their learnings and their suggestions for further improvement to the CEO and senior management.

Employee Turnover

A total of 138 employees left DBB during the year, comprising resignations, contract expirations, terminations and retirements. The largest number of resignations, was in the below 30 years age group. Analysed by gender, males accounted for 53% of resignations.

Turnover by Grade, Age Group and Gender

Grade	Age group				Gender		
	Less than 30 years	Between 30-50 years	Above 50 years	Total	Male	Female	Total
Management	0	1	4	5	4	1	5
Executive	16	16	3	35	17	18	35
Non Executive	62	14	6	82	44	38	82
Other/SLP	16	0	0	16	9	7	16
Total	94	31	13	138	74	64	138

Staff retention is an important area of focus for optimising our investment in talent and maintaining operational efficiencies. We conduct exit interviews for all voluntary resignations and the feedback is studied by senior management for any remedial action.

Voluntary employee turnover for the period under review was 7.1%. Analysed by gender, turnover among males was 7.0% and turnover among females was 7.3%.

Parental Leave

As per the Shop & Office Act, only 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 comparable 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 FY 2014/15: 95.8%

Retention Rate

Employees who stayed on at least 12 months out of those returning in FY 2013/14: 94.3%

Capacity Building

Our talent management process entails four key areas, namely:

- A transparent mechanism for talent identification and differentiation.
- A standardised methodology to identify strengths and gaps to target training and development.
- A formal process for succession planning and building the required competencies.
- Encouragement and facilitation for employees to pursue personal and professional growth.

Our employees are provided with access to training opportunities based primarily on providing them the tools and knowledge required to perform their job roles effectively and to equip them to take on broader or varied job roles. Our staff development initiatives further strive for balance by addressing individual personal development objectives as well.

At the beginning of each year all employees, in discussion with their supervisors, prepare individual development plans. These plans would detail individual strengths, gaps, training and other development initiatives required for the current year and beyond to address such gaps. The training calendar of DBB and selection of employees for training programmes are based on the needs identified in the individual development plans as well as any specific requirements arising from their respective job functions.

2014/15

	No. of person hours of training			Average training hours per employee		
	Male	Female	Total	Males	Female	Total
Management	1,528	532	2,060	23.88	29.55	25.12
Executives	9,746	7,682	17,428	43.51	40.65	42.20
Non-Executives	8,654	12,066	20,720	20.65	23.52	22.23
Total	**19,928**	**20,280**	**40,208**	**28.19**	**28.17**	**28.18**

2013/14

	No. of person hours of training			Average training hours per employee		
	Male	Female	Total	Males	Female	Total
Management	2,199	498	2,697	37.91	27.67	35.49
Executives	10,232	8,189	18,421	48.04	47.89	47.97
Non-Executives	12,164	14,373	26,537	29.03	29.21	29.13
Total	24,595	23,060	47,656	35.65	33.86	34.76

2014/15

	Total Person Hours		
Types of training	DFCC Bank	DVB	Total
In house	13,398	20,668	34,066
External	3,279	1,395	4,674
Foreign	856	612	1,468
Total	17,533	22,675	40,208

During the year under review we focused on mechanisms to measure the effectiveness, value and impact of training. As such, many of the technical programmes rolled out during the year, included a formal assessment. In addition, post-training impact assessments, special assignments, knowledge sharing initiatives and assignments of measurable business targets were introduced to the bulk of the in-house training programmes.

Training and development opportunities are offered using a variety of mediums such as in-class training, local external training, overseas training, e-learning, quizzes and assessments. The state-of-the-art auditorium possessing the capability to facilitate three concurrent events was the primary venue for most of the 96 in-house programmes conducted during the year. In addition, development opportunities were provided through participation at external programmes, conducted both locally and overseas.

The e-learning platform was used extensively during the year with the number of hours of usage recording a growth of 38% over the previous year. The facilities provided by the library are accessible to all staff and continues to be heavily utilised. The availability of an on-line cataloguing system, enabled ease of access to information. In addition, employees continued to take advantage of the attractive education schemes available at DBB with usage increasing over the previous year.

Performance Management

We follow a performance based approach in determining annual staff emoluments as well as staff promotions. DBB's performance management framework is based on the balanced score card methodology, which is standardised and accessible to all staff. Our strategic goals are cascaded down to the plans of business unit, which in turn, lead to the formulation of personal accountabilities as 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 subordinates, 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 for talent identification and differentiation among executives, that was introduced in 2013, was continued in 2014. Through this mechanism we encourage high potential individuals and ensure they know their contribution is valued and noted. Constructive discussions are also held with those whose performance needs improvement.

Career Advancement

Several assessment schemes are in place for selection of eligible employees to higher grades and job roles. Staff promotions to non-management grades are based on predefined criteria, encompassing performance in current job roles, experience, educational qualifications, demonstrated skills and attributes to take on higher level responsibilities. During the year, approximately 20% of eligible employees were promoted to higher levels, of which 80% were at the junior level. Females accounted for 55% of staff so promoted.

During the year, 81 employees were transferred to alternative locations to meet business requirements in accordance with DBB's transfer policies, whilst 23 employees underwent role changes. Job rotation and transfers provide opportunities for enrichment and acquisition of new skills, thereby broadening the skill base of employees.

Employee Relations and Engagement

We actively involve employees in regular dialogue through a range of offerings, with particular attention paid to explaining strategic issues, business performance and upcoming changes. Lines of communication between management and employees, Group Human Resources and employees as well as cross functional departments are continuously reviewed and improved. Regional and branch visits were conducted by Group Human Resources staff and one-on-one meetings held with staff.

Recognition

The appreciation schemes which were launched in 2013, were actively continued in 2014, with seven employees receiving the Award for Excellence during calendar year 2014. In addition employees, branches and business units continue to be recognised through several awards at the annual DBB dinner dance.

Grievance Handling

Surfacing and escalation of grievances continued to be strongly encouraged with the setting up of a Grievance Committee as well as regular communications apprising employees of the mechanisms available to raise grievances. DBB practices an 'open door' policy whereby all levels of management, including the CEO, are accessible to all employees.

Managing Remuneration

Periodic surveys are conducted to benchmark DBB remuneration levels against the industry, to ensure an equitable reward system that is also competitive in the market. Based on results of such a survey, upward revisions to base pay were effected during the year. As other benefits offered by DBB were found to be comparable with industry norms no significant modifications were considered in this area.

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 contract staff, Executive Trainees and Management Trainees: Reimbursement of exam fee, professional membership subscriptions, welfare club gymnasium
- Also available for some contract staff based on contract: Holiday grant
- Only for Non-Executive permanent staff: Festival advance

Diversity, Inclusion and Equal Opportunity

We actively encourage and support diversity in our employees as we believe that the multiplicity of exposures, beliefs and ideas help create a more resilient, dynamic and forward thinking workforce. Over the years our human capital has been enhanced and enriched through diversity in terms of social strata, ethnicity, religious belief, exposure and knowledge.

The expected standards of professionalism in conduct is clearly communicated to employees during on boarding sessions, meetings, specific class room based training sessions and through mandated training modules. Harassment and victimisation is not tolerated and mechanisms for escalation of such occurrences are communicated to employees and they are actively encouraged to raise issues.

Minority ethnic community representation in the 196 new recruits during the year amounted to 26 persons or 13%. Our workforce is equally divided between males and females. The return to work and retention rates of employees who availed of maternity leave are a high 95.8% and 94.3% respectively. DBB 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 are offered.

Gender Equity in Remuneration

Grade	Weighted average basic salary ratio, Male:Female
Management	49:51
Executive	52:48
Non-Executive	51:49
Other/SLP	50:50
Overall	51:49

Work-Life Balance

We endorse the importance of maintaining a happy equilibrium between home and workplace. Opportunities are provided for staff to join social clubs and gyms with full or part reimbursement of expenses. Likewise, they are encouraged to participate in sports activities for recreation or at competitive levels. The DFCC Group basket ball team emerged champions at the Mercantile Services Basketball Association league tournament in November 2014.

DFCC Welfare and Recreation Club

The DFCC Sports Club handles all sports activities, while separate committees manage the rest of the leisure activities of employees. The DFCC Welfare Club organises the annual trip, sports day, Christmas party and the *Avurudu Pola* each year. Many of these events are attended by families of employees as well. The annual dinner dance is another important milestone in this context.

DFCC REDS

The REDS Committee for 2014/15 took office in July 2014. DFCC REDS was introduced a few years back with the intention of providing recently recruited young executives with avenues to network with their peers within DBB and integrate more effectively with the Bank and its culture. The year was one packed with a multitude of events such as the Big Quiz Night, a Street Party and Fun Rally to sustain the momentum of the newly joined Management Trainees, Executive Trainees and Assistant Relationship Managers. The calendar also included a CSR project at Sanhinda orphanage, Padukka where the REDs organised a day of activities for the children centered on team building and expression through art and music.

Phase two of the CSR initiative was completed at 'Sambodhi Niwasaya' Galle, an orphanage which is a home away from home to 60 differently abled children and adults. The REDS renovated the home's computer lab and donated equipment as well.

The DFCC REDS during the year also launched their inaugural blood donation drive which witnessed a large participation of donors from among our staff.

Staff Wellness Initiatives

The nature of our business does not pose significant health and safety issues to employees. Nevertheless, we conducted several wellness initiatives through regular e-flyers on relevant topics and by arranging a series of class room and activity based workshop on subjects such as nutrition, exercise and mental wellbeing. A programme on self defence was also organised for our female employees as well as their female children.

BUSINESS PARTNER CAPITAL

Business partners are an important link in our value chain. The key players include multilateral and bilateral institutions that provide lines of credit and technical assistance, local participating credit institutions which retail such funds and suppliers of goods and services that sustain our day-to-day operations. We share complementary business goals with our business partners and hence, strive to maintain healthy and lasting relationships for mutual benefit.

Multilateral and Bilateral Institutions

Track Record

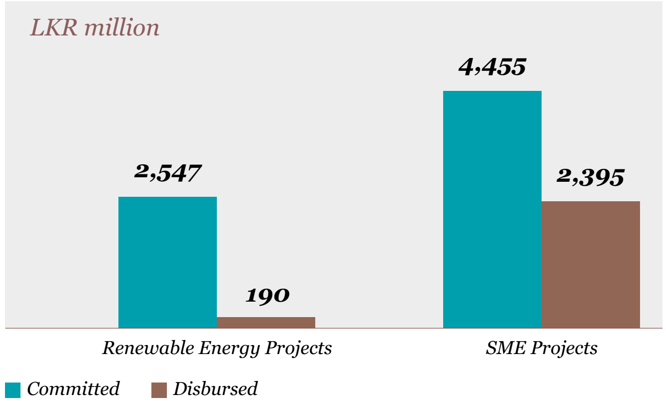
Founded in 1955, on the recommendation of the first World Bank mission to Sri Lanka (then Ceylon), DFCC Bank (then Development Finance Corporation of Ceylon) has, since then, developed and nurtured strong relationships with numerous institutions with similar development financing goals. Our key business partners in this context include The World Bank, the Asian Development Bank, KfW (Germany), FMO (Netherlands) and the European Investment Bank (EIB). We have functioned as the project manager in implementing credit programmes; administered grant funds for market development, capacity building and smart subsidies; and been an effective participating credit institution for on-lending funds to end users.

DFCC Bank has earned due recognition as a competent and successful programme developer and manager in these varied spheres. Our exemplary role in mainstreaming the renewable energy sector in Sri Lanka on market principles through two successive World Bank-assisted projects (1997 - 2011) led to landmark transformational impacts in the country in the areas of technology, financing and regulation.

Administering the new EIB Credit Line

In March 2014, the Government of Sri Lanka appointed DFCC Bank to administer the EIB-funded EUR 90 million Sri Lanka SME & Green Energy Global Loan scheme. DFCC Bank is also one of the three intermediary banks participating in the scheme. Renewable Energy and Energy Efficiency investments will receive 30% of the loan with the balance 70% for investments in SMEs. The credit line funds up to 50% of eligible investment costs in LKR or USD at an attractive fixed interest rate for up to 15 years. The take up has been excellent during the first year of operation with 7,002 million (46%) of the credit line committed for 84 projects by 31 March 2015. Disbursements during the period amounted to 2,585 million.

Commitments and Disbursements as at 31 March 2015



Out of the LKR 7,002 million committed, LKR 2,547 million will cover seven grid connected renewable energy projects (Five mini hydro, One wind and One solar) with a targeted capacity addition of 27.8 MW. The solar power project is a dedicated 10 MW solar PV farm to be connected to the national grid, which is the first large scale plant in the industry. Successful implementation of this project should spur further development as previously seen in the rapid growth of private sector mini hydro power and wind power projects. These projects will contribute to achieving the country's targets in power generation from non-conventional renewable energy sources and towards fulfilling its desire for energy security.

The balance LKR 4,455 million committed will fund 77 SME projects in diverse industry sectors in 16 out of 25 administrative districts in Sri Lanka. The sectors include construction, education, hospitals, hotels, printing & publishing, retail trade, rice processing, tea manufacturing, vehicle service & repair and various manufacturing industries.

The 84 projects approved thus far are expected to provide over 1,300 direct employment opportunities with over 95% arising from SME investments.

The Supply Chain

It is DBB's policy that goods and services are procured in a fair, timely and economically effective manner. The supplier selection process is governed by the DBB procurement policy. Suppliers undergo an extensive evaluation process which takes into account the price, quality, after sales support, timeliness of delivery and technical capacity. Further, suppliers who have been selected previously, but have not been considered by the Procurement Committee are subject to a periodic review once in three years. We mainly procure services from local suppliers, helping them to establish themselves and add repute to their brand name by doing business with DBB, while also extending financial services when required.

SOCIAL AND ENVIRONMENTAL CAPITAL

Corporate Responsibility

Corporate, social and environmental responsibility is embedded in our values and informs how we conduct business, develop products and services and deliver on our goals and commitments. It underscores our business model, which is based on the truism that for an organisation to create sustainable value for itself, it also has to create value for its stakeholders.

Socio-economic Impacts

The very business of DFCC Bank is development financing. We have, over nearly 60 years, directly and indirectly contributed to the social and economic development of the country at national, provincial and local community level. We pioneered the financing of new economic sectors in the country which are now mainstream businesses with access commercial financing and contribute to the national economy while also creating employment opportunities.

We also provide advisory services and have catalysed the transformation of organisations, locally and internationally. In addition, our understanding and financing of energy efficiency projects have contributed to improved productivity of numerous client organisations.

Our continuing role in nurturing the SME sector, particularly in rural and economically depressed areas, is visible by our local presence. The reach of DBB's network in relation to the contribution of each province to national GDP indicates a high concentration of DBB service centres in the lower GDP ranked areas.

Rural Presence

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	

**2013 provisional (source: Central Bank Annual Report 2014)*

Further, the ratio of our total loans and leases to deposits mobilised, when analysed by regions, shows that DBB is by far, a net transferor of resources to areas that are most under-developed. These indicate our long-term commitment to rural economic development through loan products and services that will stimulate capital formation and employment creation.

Community

Drought Relief

The severe drought lasting almost nine months affected an estimated 1.5 million Sri Lankans with around 700,000 people in need of basic food and livelihood requirements. Three villages in the Anuradhapura, Kaduruwela and Monaragala areas were identified in need of urgent help. Teams from the respective branches visited the villages and provided water tanks and dry rations to help approximately 1,000 families.

Disaster Response

DBB initiated a relief programme to support the victims affected by the Koslanda earthslip. Through our Bandarawela branch, dry rations were handed over to the officials of the Poonagala refugee camp where approximately 2,000 refugees were given shelter.

Volunteerism

We encourage staff in branches to engage with local communities through community development projects on a case by case basis.

The DFCC REDS and the Welfare and Recreation Club also engages in community activities. DFCC REDS consist of young recruits in the executive and management trainee cadre. Their involvement in such activities helps to instil team spirit and integrate new blood into the Bank's culture.

Sponsorships

DBB supports numerous events across the country. All sponsorships are approved based on internal policies on eligibility, transparency and due process. About 50% of support has been towards events organised by the business community with whom we have established relationships. The balance has supported local communities, educational and professional institutions and sports events.

Environmental Stewardship

Environmental Management System

As a financial services provider, our impacts on the environment are mostly indirect, arising from the activities of our customers whom we finance or provide products and services to. Being an advocate of environmental protection we have developed an Environmental Management System (EMS) where we encourage our clients, employees and service providers to adopt environmentally and socially responsible practices. The EMS encompasses local and international best practices including those of national laws and regulations and guidelines issued by multilateral agencies.

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

Resource Consumption

We are committed to reducing our consumption of scarce and non-renewable resources, repairing and reusing equipment where practical, and recycling waste. 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.

To minimise waste in electricity consumption, all air conditioning systems are calibrated for optimal efficiency while lighting is shifting towards LEDs. Plant and equipment are retrofitted with energy efficient technologies where warranted. Energy labelling is a factor that is taken into consideration when procuring office equipment. These efforts and investments have borne fruit. DBB's intensity of electrical energy consumption has shown progressive improvement: it was 471 kWh/LKR million of total operating income in 2014/15, compared to 480 kWh/ LKR million in 2013/14 and 524 kWh/LKR in 2012/14.

Carbon Footprint

We are reporting our greenhouse gas (GHG) emissions on a voluntary basis for the third consecutive year. We see this as an important step towards greater environmental accountability, as what gets measured gets managed. As before, the boundary is DBB including all branches and offices. Our calculations are based on the WBCSD/ WRI Greenhouse Gas Protocol Corporate Standard and the most recent versions of applicable appendices and calculation tools.

Our reporting under Scopes 1 and 2 is complete except for fugitive emissions from air conditioning plants, which are insignificant. Reporting on Scope 3, which is optional, is selective based on significance and data availability.

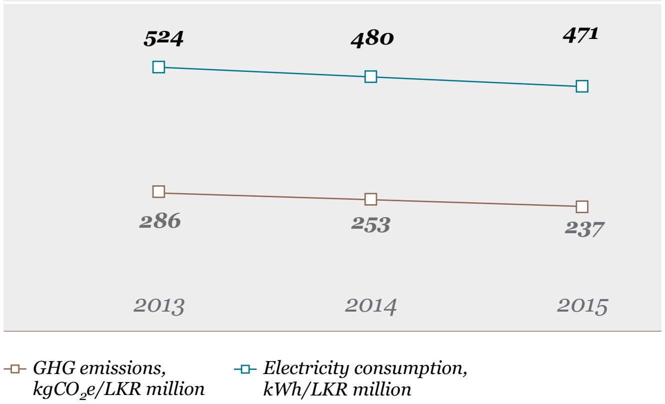
Carbon Footprint of DBB

Scope	Source	2014/15		2013/14	
		tCO_2e	%	tCO_2e	%
Scope 1 (direct)	Stationary combustion	11.6	0.5	11.8	0.5
	Mobile combustion	98.4	4.0	238.2	9.8
	Total Scope 1	110.0	4.5	250.0	10.3
Scope 2 (indirect)	Purchased electricity (CEB)	885.8	35.8	836.5	34.4
	Total Scopes 1 and 2	995.8	40.3	1,086.5	44.7
Scope 3 (indirect)	Stationary combustion.	31.6	1.3	14.6	0.6
	Mobile combustion	0	0	3.2	0.1
	Purchased electricity (CEB)	1,419.2	57.3	1,285.5	52.8
	Employee air travel	28.7	1.2	43.0	1.8
	Total Scope 3	1,479.5	59.8	1,346.3	55.3
	Total Scopes 1, 2 and 3	2.475.4	100.0	2,432.8	100.0

The total GHG emissions of DBB for the year under review amounted to 2,475 tonnes carbon dioxide equivalent (tCO_2e), with Scopes 1 and 2 accounting for 40% of the total. The increase in total GHG emissions was a marginal 2% despite growth in the number of branches and business volume.

As to be expected given the nature of our business, indirect GHG emissions from purchased electricity was by far the single largest contributor, accounting for 36% under Scope 2 (consumption in premises financially controlled by DBB) and another 57% share under Scope 3 (consumption in premises not financially controlled by DBB), bringing its total share to 93%.

Reducing Our Environmental Impact



It is encouraging to note that the intensity of our GHG emissions (all Scopes) decreased once again during the year, from the previous year's 253 $kgCO_2e$ per LKR million to 237 $kgCO_2e$ per LKR million of total operating income of DBB, reflecting the success of our efforts in optimising the use of resources.

Awards & Accolades

We strive to keep pace with best practices in our industry. As in the past, our efforts and accomplishments continue to be recognised nationally and globally, reaffirming that we are heading in the right direction.

SAFA

SAFA Certificate of Merit for Annual Report 2012/13 in the Financial Services Sector

The South Asian Federation of Accountants (SAFA) Awards, presented annually under different categories, are conferred on entries of published annual reports from South Asian countries on the basis of evaluations administered by the Federation's Committee for Improvement in transparency, accountability and governance.

The Karlsruhe Sustainable Finance Awards

Merit Award for outstanding business sustainability achievement at the Karlsruhe Sustainable Finance Awards, 2014

The Karlsruhe Sustainable Finance Awards of the City of Karlsruhe, Germany honours financial institutions and organisations that make significant contributions to the field of sustainable finance.

BRONZE WINNER Best Web.lk .LK 2014 Best Corporate, Banking, Finance & Insurance Website

Bronze Award for DFCC Website in the Corporate Banking, Finance & Insurance category

MERIT WINNER Best Web.lk .LK 2014 Best Tamil Website

Merit Award for Best Tamil Website

The Best web.lk competition organised by LK Domain Registry recognises and promotes Sri Lankan websites for their creativity, technological expertise, quality of content and the use of cutting edge technology that is user friendly and compatible with a wide range of platforms.

BUSINESS TODAY TOP TWENTY FIVE 2013-2014

Ranked 16th 2013/14 by Business Today TOP TWENTY FIVE

Business Today TOP TWENTY FIVE ranking by the Business Today magazine is based on published information of companies listed on the Colombo Stock Exchange, acknowledging the role of top corporate performers in furthering the economic development of Sri Lanka.

Ranked 36th in the LMD 100 for 2013/14

LMD 100 is a ranking by the Lanka Monthly Digest magazine of leading listed companies in Sri Lanka, recognising 'the great and the good' in the Sri Lankan corporate world.

CA Sri Lanka Gold Award for Annual Report 2013/14

The Institute of Chartered Accountants of Sri Lanka encourages excellence in the presentation of information on the basis of transparency, social accountability and good governance among diverse Sri Lankan business entities in the field of financial reporting.

ADFIAP Plaque of Merit for first grid connected solar project in Sri Lanka – Environment Development Category

ADFIAP Plaque of Merit for financing of Rice Bran Oil Facility – Local Economic Development Category

ADFIAP Award for Best Sustainability Report 2013/14

The Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) honours members of the Association who have contributed significantly to the development of their respective countries.

Integrated Risk Management

Risk Culture and Vision

DFCC Banking Business (DBB) 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 DBB 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 any Sri Lankan bank based on the currently effective quantification techniques. In DBB also, credit risk accounted for 89% of risk-weighted assets as at March 2015. However, the Bank is fully aware and takes necessary measures to manage operational risk as a very important risk category. 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

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

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

B. Communication of the risk policy to all relevant employees of DBB.

C. Structure of 'Three Lines of Defence' in DBB for management of risk 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 DBB.

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 on 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. 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.

H. 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 the stress scenarios.

I. Aligning risk management strategy to DBB's business strategy.

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

K. Continuous review of risk management framework and ICAAP to bring in line with the Basel II recommendations and regulatory guidelines. Maintenance of internal prudential risk limits based on the risk appetite of the DBB wherever relevant, over and above the required regulatory limits.

L. Ensuring a prudent risk management culture within DBB.

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

Risk Governance

Approach of 'Three Lines of Defence'

DBB 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.

DBB 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 as 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 DBB

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

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, 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, Validation and Independent Oversight*	*Independent Assurance*
Board of Directors Board Committees Chief Executive Officer Senior Management Committees	Group Integrated Risk	Group Internal Audit
Corporate/ Business Banking Branch Banking Treasury Accounting and Finance General Operations IT HR SLA and Recoveries International Operations Personal Financial Services Credit Administration	The Group CRO, who reports directly to the BIRMC provides strategic risk management leadership, independent risk monitoring and key support to various committees, interacts closely with the business units and is responsible for championing effective enterprise-wide risk management and control	External Audit
	Compliance and Legal	

*Entire organisation has been considered on a Group basis.

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 DBB 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 etc. 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 the Bank has been defined in the Overall Risk Limits System. It consists of risk limits arising from regulatory requirements, borrowing covenants and internal 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 DBB 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 operates on a group basis and oversees the risk management function and the Basel II implementation process in line with the Board approved policies and strategies.

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 will set the policy and operations for bank-wide risk management including credit risk, market risk, operational risk and liquidity risk. The Committee interacts with the CEO, Credit Committee, ALCO, Operational Risk Management Committee (ORMC) and Group CRO on risk management-related tasks. In addition to the Board's representatives, the BIRMC consists of the CEO and CRO as voting 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 are outlined in the Report on the Board Integrated Risk Management Committee on page 87 of this Annual Report.

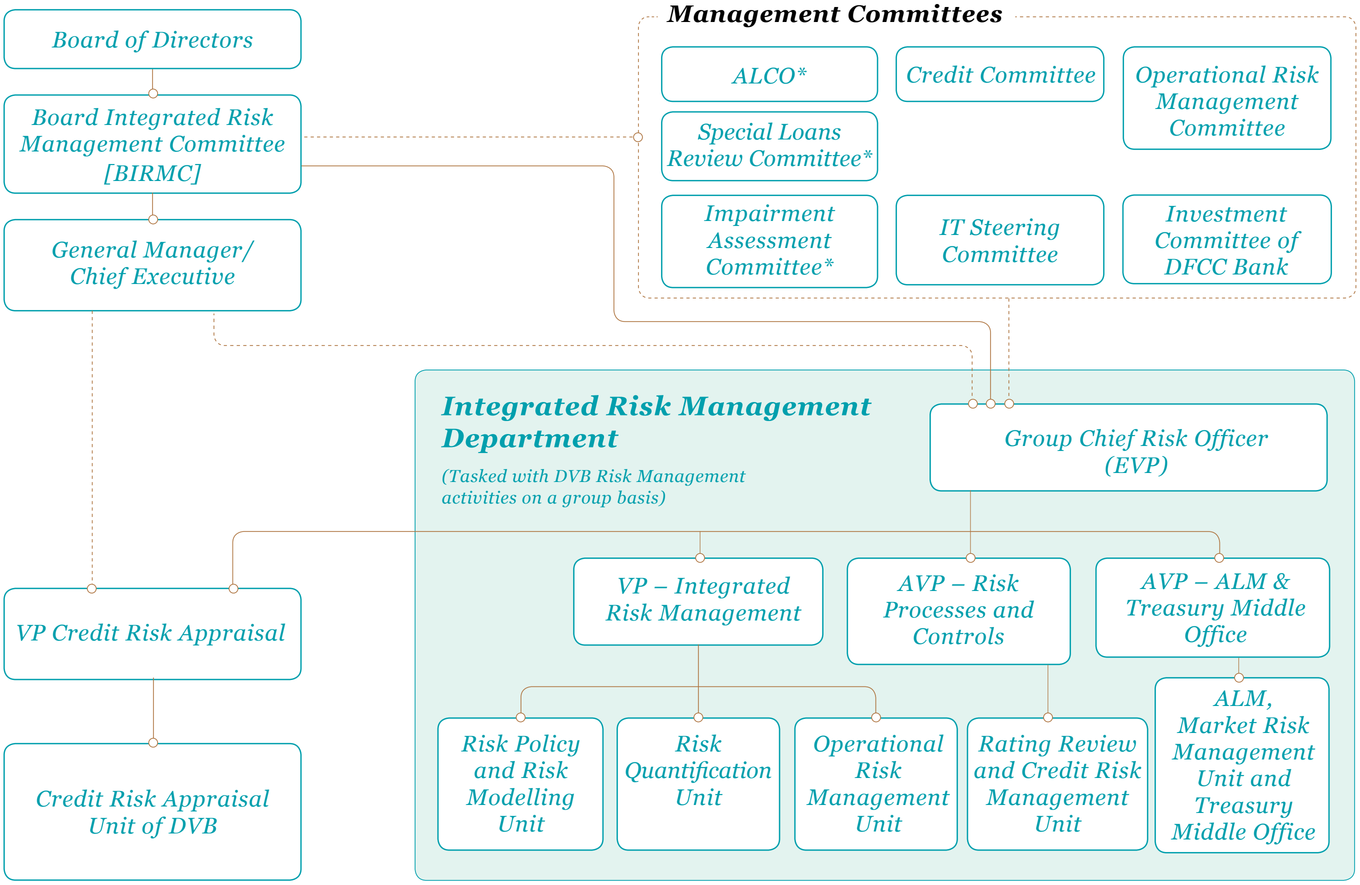
Involvement of Management Committees

Management Committees such as Credit Committee, Asset and Liability Management Committee (ALCO), Operational Risk Management Committee (ORMC), Special Loan Review Committee (SLRC) and Impairment Assessment Committee (IAC) encompass a part of the organisational structure for integrated risk management function in DBB. The responsibilities and tasks of these committees are stipulated in the Board approved charters and TORs and the membership of each committee have been defined to bring an optimal balance for the business and risk management perspective including the CRO as a member.

Credit Risk Appraisal Unit in the Commercial Banking Business

The Credit Risk Appraisal Unit, which directly reports to the Group CRO, engages in credit risk management of the commercial banking business carrying out checks on credit rating and appraisals prior to credit approval in order to ensure quality of appraisals, adherence to defined guidelines and risk in the credit appraisal. Credit proposals from all branches are submitted for the review of this Unit before submission to the credit approving authority.

Organisational Structure for Integrated Risk Management Function



Two separate committees for DFCC and DVB

Integrated Risk Management Department (IRMD)

IRMD functions on a group basis and 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 DBB. It consists of four separate units such as Risk policy and Modelling, Credit Risk Management, ALM & Market Risk Management and Operational Risk Management. 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 and directly reports to the Group CRO and monitors the Treasury-related market risk limits.

Key Developments in Risk Management Function of DBB during the Year Under Review

During the period under review, several significant initiatives were undertaken paying continuous emphasis on regulatory developments and reassessing DBB'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 financial year which brought improvements to the overall Integrated Risk Management Function:

- DBB developed an ICAAP which is in compliance with Pillar II of the Basel II framework. It focuses on formulating a mechanism to assess DBB'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. Further, it evaluates the capital adequacy covering both Pillar I and Pillar II risks as well.

- DBB successfully implemented a hedging arrangement, using a derivative instrument in order to manage the possible credit losses in the pawning portfolio which can arise due to adverse movements of gold prices. This derivative transaction was the first of its kind in the Sri Lankan Banking industry.
- A set of prudential risk limits were established for maximum expected loss, probable defaults, provisioning, maximum exposures in credit rating grades for better management of the credit risk.
- Periodic validation of the credit rating models was carried out, SME rating model was revisited and realigned together with the user guidelines for better discriminatory power and for improved discipline for the usage of the credit rating model.
- Credit portfolio segmentation that categorises the borrowers in a methodical manner was implemented during the year. This categorisation is important in several aspects for credit risk management. Application of rating models are 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 DBB to obtain regulatory capital advantage from lending to SME and retail segments.
- A disclosure policy was established for DBB during the year complying with regulatory provisions and as an initiative to move to Basel II Pillar III. The appropriateness of the disclosures will be assessed and reviewed on an annual basis or as and when required. All the disclosures are consistent with the Bank's own risk management practices and the relevant disclosures under different risk types are decided based on the concept of materiality.
- Risk reporting process was improved during the year as per the requirements stated in ICAAP framework.
- TMO uses a dash board that facilitates the timely reporting of Treasury market positions independently to the management. During the year, the dash board was further improved with more and timely information.
- The Bank commenced computation and monitoring of the Liquidity Coverage Ratio under Basel III as per the guidelines issues by the CBSL to be implemented in 2015. The LCR is expected to strengthen the liquidity risk management in the Banking sector ensuring that the Banks have adequate stock of high liquid assets for 30 days that can be easily and immediately converted to cash even under a liquidity stressed scenario. The test computations have indicated that DBB is comfortably in compliance with the requirements.
- During the year, interest margins came under pressure with the sharp drop in the market rates, where lending rates dropped more than the deposits rates. Scenario analyses and simulations to assess the expected behaviour of the interest margins enabled DBB to take proactive measures to manage the erosion of margins.
- 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.
- The stress testing policy was amended to accommodate comprehensive range of stress tests and the stress testing was carried out in accordance. The frequency for stress testing for relevant risk categories were increased.
- 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 aspect.
- As part of the risk management practices, DBB 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 DBB over a period.
- DBB 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.
- In order to improve and align the credit appraisal processes and overall credit risk management, the DBB introduced a new SME rating model to be used for both DFCC and DVB (SME) clients.
- Having duly recognised the global trend on increasing threats on system and information security, DBB paid increased attention on IT security under its operational risk management practices.

DFCC Bank's External Credit Rating

The Bank continued to maintain its foreign currency credit rating of B+ (stable outlook) by the 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. During the year under review, the DFCC Bank's local currency rating of 'AA-' was also maintained. DFCC Bank's credit rating is influenced by the growing significance of the commercial banking business segment due to the highly integrated nature within the Group in operations and management. The commercial banking business of the Group – DVB, carries a stand-alone credit rating of 'AA-' assigned by Fitch Ratings Lanka. 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.

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, 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 in DBB and accounts for 89% of Risk-Weighted Assets at DBB.

DFCC Bank, being a leading Development Finance Institution in Sri Lanka, is faced with a relatively high level of credit risk when conducting its development finance activities. The goal 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 DBB

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

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 procedure ensure uniformity of practices across DBB.

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 are 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, DBB'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 DBB practices caution in lending, to special clearance section.
	• 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 productwise 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 a timer 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.
	• Routine monitoring of excesses/arrears clients for recovery purposes together with lending units ensuring timely action taken to regularise the position
	• Close monitoring of potentially high risk advances of significant value, booked at branches.
	• 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 Key Risk Indicators to BIRMC and the Board
Credit Risk Mitigation	• Borrower's ability to pay is the primary source of recovery. Collateral acts as the secondary source in the event borrower's cash inflow is impaired.

Market Risk

Market risk is the possibility of loss 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 DBB is exposed primarily to the interest rate risk and as an authorized dealer, commercial Banking business is exposed to the exchange rate risk on foreign currency portfolio positions.

Market risk could impact DBB 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 risk. The Group Treasury manages the foreign exchange risk with permitted hedging mechanisms. Trends in relevant local as well as international markets are analyzed 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 & Policy, and limits system of DBB.

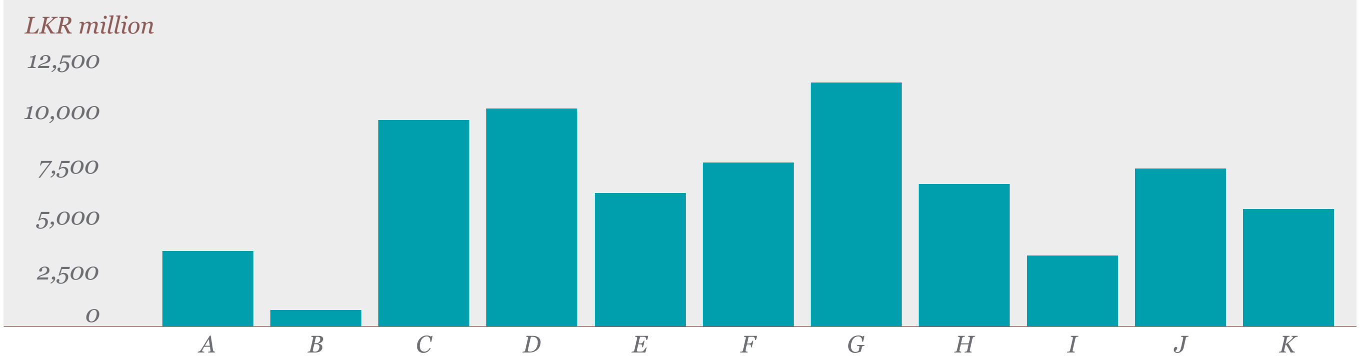
Treasury Middle Office (TMO) is segregated from the Treasury Front Office (TFO) and Treasury Back Office (TBO) and reports to CRO. The role of the TMO includes the day-to-day operational function of monitoring and controlling risks assumed in the TFO and TBO based on clearly defined limits and controls. 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 Treasury telephone voice logging system is fully deployed and is under the purview of the TMO in order to minimise operational risks associated with the voice-based market activities.

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.

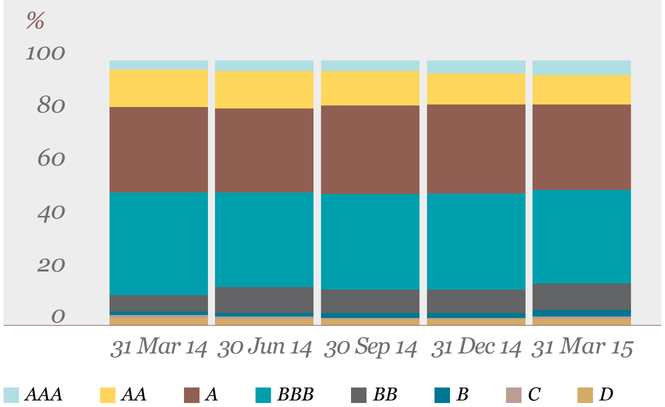
TBO which is reporting to Head of Accounting and Reporting is responsible for accounting, processing settlements and valuations of all treasury products and transactions. The treasury transactions related information is independently submitted by TBO to relevant authorities.

DFCC Bank – Sector-wise Distribution of the Lending Portfolio

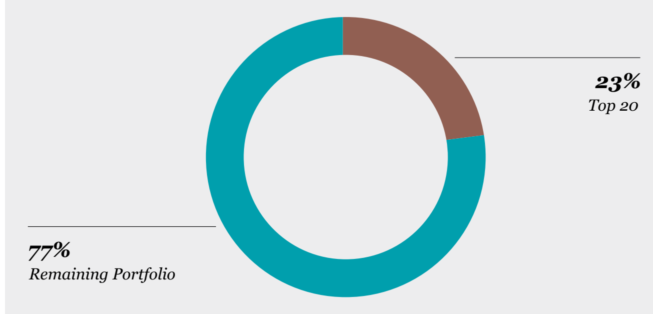


A - Agriculture, Forestry and Fishing
B - Mining and Quarrying
C - Food & Beverages (Incl. Tea Factories)
D - Manufacturing
E - Electricity, Gas and Water Industries
F - Construction Industries
G - Trade
H - Hotels and Restaurants
I - Transport, Logistics and Communications
J - Financing, Insurance, Real Estate
K - Services

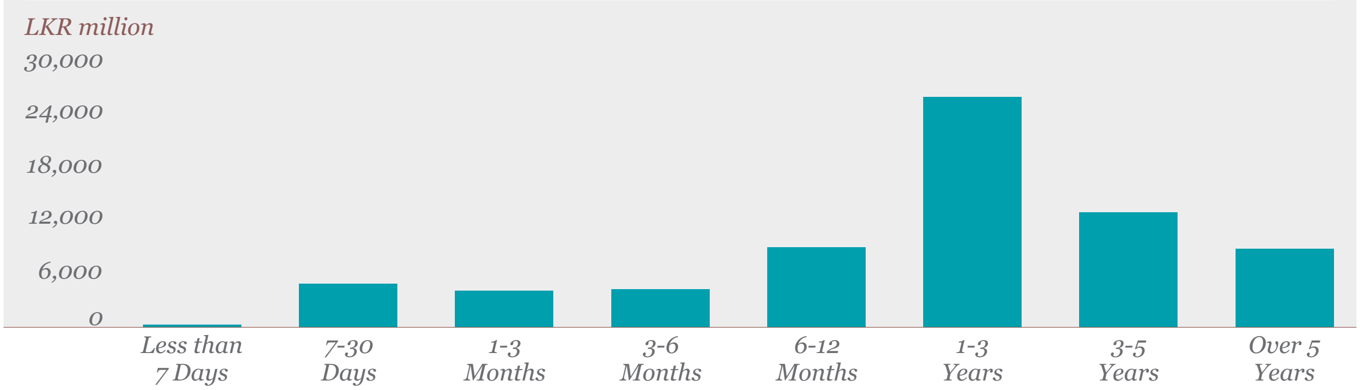
DFCC Bank – Rating Distribution of the Lending Portfolio



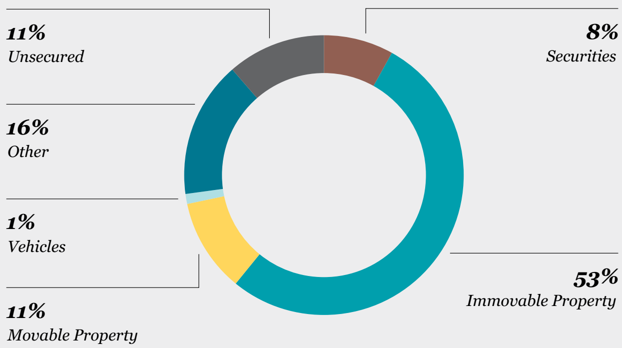
DFCC Bank - Share of Top 20 Individual Clients of Total Advances



DFCC Bank – Residual Maturity of Total Advances



DFCC Bank - Collateral Distribution of the Lending Portfolio



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 DBB'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.

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 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. DBB 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.

DBB 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 DBB is closely monitored and necessary steps are taken to hedge in accordance with the market volatilities.

Indirect Exposures to Commodity Prices Risk - Gold Prices

The DBB's pawning portfolio amounted to LKR 1,720 million at 31 March 2015, which was only 0.8% of total assets of DBB. This indicates that the risk exposure arising from the pawning portfolio is at a comfortably absorbable level to DBB, if it crystallises in the future.

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 DBB arises from the trading and available-for-sale equity portfolios. Indirect exposure to equity prices risk arises through the margin lending portfolio of DVB 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, sectors and for collateral form 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. DBB'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.

The indirect exposure to equity prices risk arising from margin lending of DVB 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.

The DBB's direct exposure to equity market accounted for 10% of the Group's assets inclusive of DFCC Bank's residual investment in the Commercial Bank of Ceylon PLC based on the marked-to-market values as at 31 March 2015. This equity portfolio which is classified as AFS, indicates an unrealized capital gain of LKR 17,380 million, which is reported under the other comprehensive income and the fair value reserve based on the marked-to-market value. Since there is such a large unrealised gains, the equity portfolio has to decline in current market value by more than 82.2% for the Group to recognise any possible negative impact to the income statement in case of a disposal of the portfolio. A value decline of 82.2% of the equity portfolio can be considered as a remote occurrence which is termed as a black swan event.

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. DBB 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 the cash flow gap statements are matched against cash availability either through incremental deposits or committed lines of credit. Additionally ALCO monitors the maturity gap limits set up across all time buckets. Whilst comfortably meeting the regulatory requirements relating to liquidity, for internal monitoring purposes, DBB 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)] assigned by Fitch Ratings Lanka and reputation in the market enables the DBB 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 the residual time to maturity in major currencies. DFCC Bank primarily uses the flow approach in measuring and managing liquidity risk while DVB uses both the flow and stock approaches. 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 DFCC Bank and DFCC Vardhana Bank have been clearly set out in the Board approved ALCO Charters.

In October 2014, the Central Bank issued consultative guidelines for implementation of the minimum liquidity standards (Liquidity Coverage Ratio) under Basel III. 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. These guidelines are to be implemented from April 2015. The initial test computations of LCR performed for DFCC and DVB indicated that the Banks are already 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% in HQLAs to be maintained over the immediate 30 day net cash outflow).

DFCC Bank's Exposure to Exchange Rate Risk and Placement of International Bond

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 entered into a hedging agreement with the CBSL in order to mitigate the foreign exchange rate risk to the extent of USD 75 million. The balance part of this foreign currency borrowing continues to be managed actively within the Bank in line with the market movements as a part of managing the Bank's overall unhedged foreign currency exposure.

As at 31 March 2015, DBB carried a net unhedged foreign currency liability equivalent to USD 13.5 million, which is closely monitored.

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 or even political instability. The objective of DBB is to manage, control and mitigate operational risk in a cost effective manner consistent with the Group's risk appetite. The Group has ensured an escalated level of rigor in operational risk management approaches for sensitive areas of its operations.

ORMC oversees and directs the management of operational risk of DBB at an operational level with facilitation from the Operational Risk Management Unit of the IRMD. Active representation of the relevant departments and units of DBB 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 DBB. The Group demands a high level of technical skills, professionalism and ethical conduct from its staff and these serve as insulators for many operational risk factors.

The Group business continuity plan deals with natural or other catastrophes. The loss of physical assets is mitigated through insurance.

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

- 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 details 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's periodical evaluation 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 the tarnishing of the DBB'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, utilizing 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 DBB'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 occurs. DBB 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 DBB'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 reputational 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 DBB's medium term strategic plan and annual business plan form a strategy road map for sustainable growth. Continuous competitor and customer analysis, and monitoring of the macroeconomic environment enable the DBB 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 DBB. 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 the DBB 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. DBB 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 DBB 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 DBB.

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

In response to international best practices and global standards of AML and combating terrorist financing. 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. DBB has taken necessary measures to implement these regulatory and legislative requirements for AML and CFT. 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 DBB are subject to KYC/ CDD measures.

Business Continuity Management

The Business Continuity Plan (BCP) of DBB 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 DBB'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 DBB (on a group basis) demonstrates the following key features.

DFCC Group Capital Adequacy Ratios Under Simple Approaches of Basel II

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

A. The Group maintains a healthy risk capital position based on the local regulatory guidelines. The capital position as at 31 March 2015 demonstrates a cushion of about 13.8% and 7.6%, respectively, for Tier I and total capital over the minimum regulatory requirements. This capital position is higher than the Group's target risk capital ratios.

B. High capital buffer ensures a stronger balance sheet position of the Group to withstand any unexpected eventualities if crystallised in an extreme situation. In addition, it enables the Group to venture an above average portfolio growth or any new business diversifications in a timely manner without mobilising fresh equity capital from shareholders.

C. 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.

D. 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.

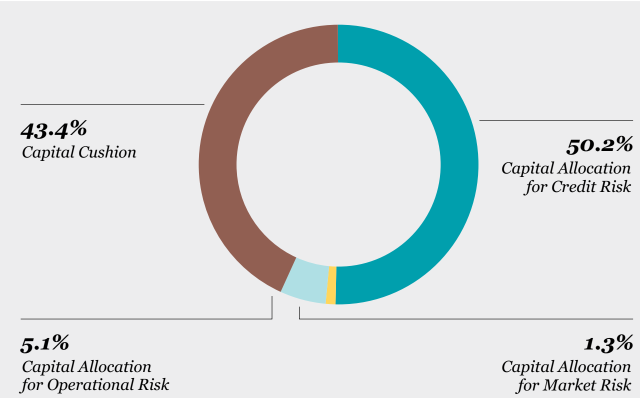
Capital Adequacy Management

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 March 2015 based on the quantified risk as per the applicable regulatory guidelines. Out of the regulatory risk capital (total capital) available as at 31 March, credit risk accounts to 50.2% of the total capital while the available capital buffer is 43.4%.

DFCC Group's Capital Allocation and Available Capital Buffer



Risk-Weighted Assets of DFCC Bank on a Solo and a Group Basis as at 31 March 2015

Risk-weighted assets (quantified risk category as per the CBSL Guidelines)	2015 Bank	2015 Group	2014 Bank	2014 Group
Credit risk	**86,158**	**150,641**	73,852	125,745
Market risk	**2,655**	**2,720**	2,896	3,069
Operational risk	**7,637**	**14,034**	7,575	13,172
Total	**96,450**	**157,374**	84,323	141,987

DFCC Group's Capital Position in Comparison to the Industry

As at Financial Year end (DFCC Group – 31 March, Industry – 31 December)

Parameter	2014/15		2013/14		2012/13	
	Tier I	**Total Capital**	Tier I	Total Capital	Tier I	Total Capital
Local industry capital adequacy ratios	**14.1**	**16.7**	14.9	17.6	14.7	16.4
DFCC Group	**17.7**	**16.6**	18.7	17.2	20.8	19.3

(The local industry capital ratios – CBSL Annual Report)

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 Group is LKR 17,380 million, as at 31 March 2015 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 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 Nos. 11 and 12 of 2007 on the Corporate Governance of Licensed Banks in Sri Lanka. In this Direction, the licensed banks are required to form a Board sub-committee 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 - minimum 60%) under Basel III. 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. These guidelines are to be implemented from April 2015.

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. DVB on a solo basis currently demonstrates a need for fresh capital infusion to meet this regulatory requirement. However, under the on-going arrangements for merger of DFCC Bank and DVB, such a capital infusion requirement will not arise.

Risk Category	Impact	Key Risk Indicators	Statutory/ Internal Limit	Position as at 31.03.2015
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)	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 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
		Maturity profile of loan book (Loans and advances with maturity of less than one year/total loans and advances	Internal	Complied
		Pawning portfolio (Aggregate exposure of pawning portfolio/ 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 deposit liabilities)	Regulatory	Complied
		Liquid Asset Ratio for FCBU	Regulatory	Complied
		Loans to Deposit Ratio *(However, this ratio was brought within the limit subsequent to the reporting date)*	Internal	Limit exceeded
		Liquidity gap limits	Internal	Complied

Risk Category	Impact	Key Risk Indicators	Statutory/ Internal Limit	Position as at 31.03.2015
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
		Aggregate interbank exposure	Internal	Complied
		Limit for settlement risk arising from market risk	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
Operational Efficiency		Cost to income ratio (Solo) - Operational Cost/Operational Income	Internal	Complied
Operational Risk	Adequately places 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 arises 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

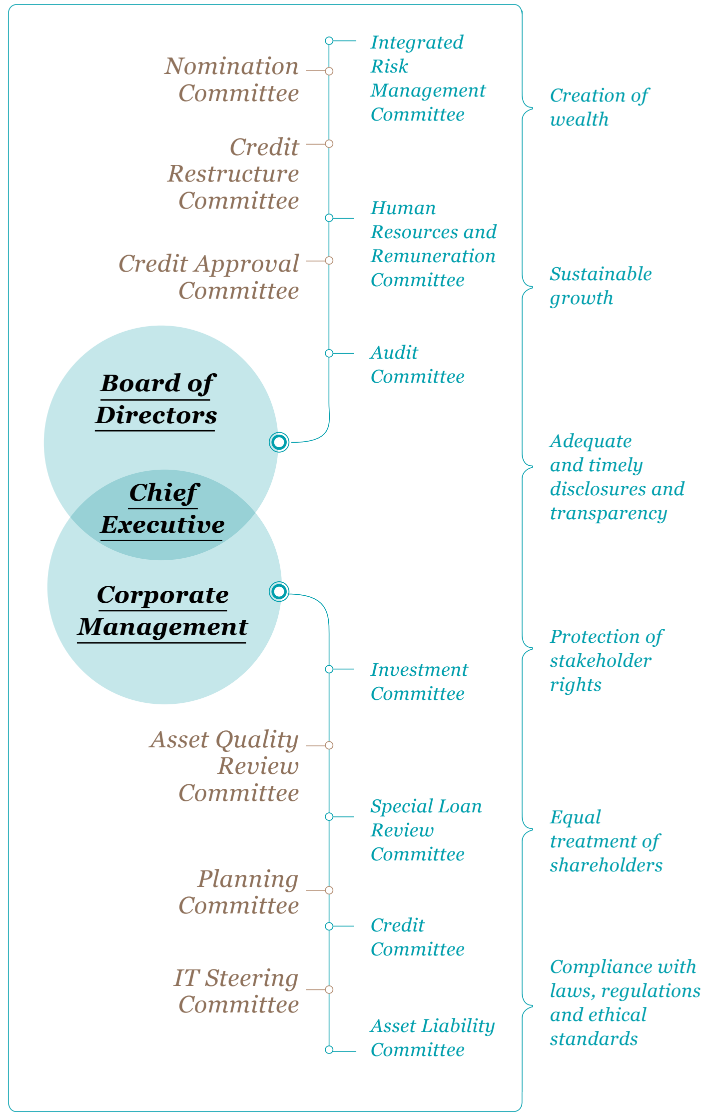
Good corporate governance is a mechanism that harmonises the interests of a wide range of stakeholders of an institution, while contributing to sustainable growth by attracting outside sources of capital. The Corporate governance practices of DFCC Bank PLC (Bank) are in accordance with the Board-approved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

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:

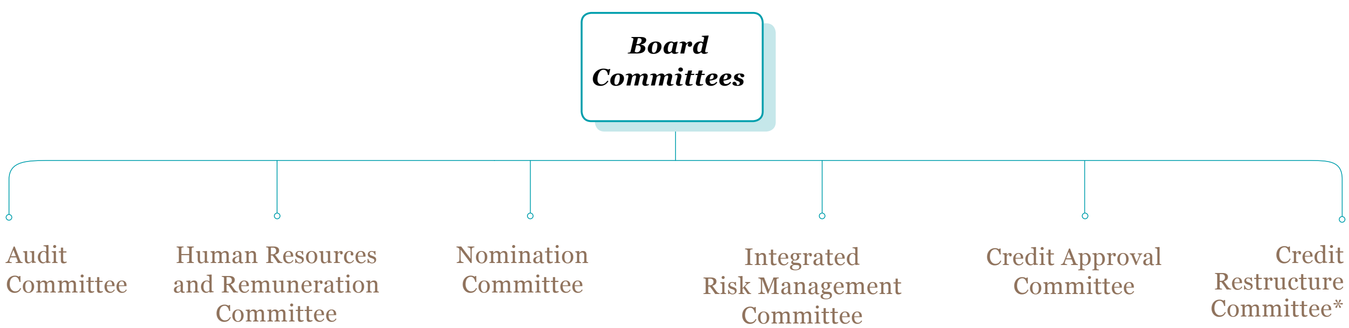
- Promoting transparency, being consistent with laws and clearly articulating division of responsibilities
- Protecting and facilitating the exercise of shareholder rights
- Equitable treatment of all shareholders
- Recognising the rights of stakeholders and encouraging co-operation between stakeholders in creating wealth and the sustainability
- Timely and accurate disclosure on all material matters regarding the Bank including financial situation, performance, ownership and governance
- Ensuring the strategic guidance of the Bank, effective monitoring of management of the Board, and the Board's accountability to the Bank 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. 12 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 March 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	Nomination Committee	Integrated Risk Management Committee	Credit Approval Committee
Total No. of Meetings	17	13	5	4	4	7
Mr K P Cooray	1/1					
Dr L P Chandradasa	12/14		1/3			
Mr G K Dayasri	11/17		4/5			
Mr T Dharmarajah	14/14	9/9			2/3	2/3
Mr A R Fernando	17/17				4/4	
Mr P M B Fernando	17/17	13/13		3/3	4/4	
Mrs H M N S Gunawardana	16/17					
Mr C R Jansz	17/17		5/5	4/4	4/4	7/7
Mr J E A Perumal	17/17	12/13	5/5	4/4		5/7
Mr R B Thambiayah	12/15			1/1		5/5
Ms S R Thambiayah	1/1					

Shareholder Rights

The basic rights of shareholders include – (a) the ability to transfer shares freely, (b) to have access to financial and other relevant information about the entity on a regular and timely basis, (c) the ability to effectively participate in shareholder meetings, (d) appoint Directors and Auditors, and (e) 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 disclosure 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 closed periods. Procedures are in place to detect any violations.

During the year, 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 Year Ended 31 March 2015 published in terms of Section 3 (1) (xvi) of the Banking Act Direction No. 12 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	Bank's strategic plan for the medium term was approved by the Board in February 2014. 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 and delegating them with the authority for conducting operational activities and monitors the performance through a formal reporting process.
	(c) Principle risks	Compliant	The identification of principle risks, approving of overall risk policy and risk appetite is carried out through the Board Integrated Risk Management Committee which 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 disclosure made to the Colombo Stock Exchange (CSE) and by publicity through the press and electronic media and posted on 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. The 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 88. The Independent Assurance Report by the External Auditor on the Directors' Statement on Internal Control is given on page 90.
	(f) Key Management Personnel (KMP)	Compliant	The Board has identified and designated its Key Management Personnel. Please refer Note 58.6.1 to the financial statements.
	(g) Authority and responsibility	Compliant	Board has identified matters reserved for Board. The duties and responsibilities of other KMP's 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 are 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 Board is clarified by the respective officers. Board has free access to senior management.
	(l) Regulatory Environment	Compliant	Chief Executive Officer briefs the Board on specific issues. Directors attend the Annual Symposium conducted by the Central Bank. Board Secretary provides all regulatory information required to the Board members. Senior management maintains continuous dialogue with the Regulator.

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 Officer 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 17 Board meetings during the year. 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 69.
3.1 (vii)	Duties and qualifications of the Company Secretary	Compliant	The Company Secretary possesses the qualifications specified in the Section 43 of the Banking Act. The Company Secretary while performing the secretariat services to the Board and shareholders' meetings is responsible to the Board in 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 Board meeting and ensure the Directors' 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 to 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	DFCC Act and/or 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 and not to participate in the decision-making.
3.1 (xiii)	Schedule of matters 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 year, the Bank remained solvent and no event has or is likely to occur that would make the Bank not 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 are 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 nine 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 is the only Executive Director of the Board. He is an ex-officio Director.
3.2 (iv)	Number of Independent Directors	Compliant	There were five 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 an existing Director 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 who held office had professional backgrounds, strong track records and high level managerial experience in banking, business, industry, law, auditing or community 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 Dr Chandradasa 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 except the subsidiary company, DFCC Vardhana Bank, which is a permitted exception.
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.

Rule	Governance Principle	Compliance	Remarks
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 Officer			
3.5 (i)	Separation of the roles of the Chairman and CEO	Compliant	The Chairman and the Chief Executive Officer 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 a 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.
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 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 ensures 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 to maintain a dialogue with institutional investors and bringing any matters of concern to the notice of the Board. During the year, the CEO participated in an international forum which attracted over 146 participants including institutional and high net worth investors and fund managers and also had one on one meetings with 5 potential institutional investors and briefed the Board on the discussions held as appropriate.
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.

Rule	Governance Principle	Compliance	Remarks
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 83
	(a) Chairman of the Committee	Compliant	During the year, 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 assist 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 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 Central Bank.
	(g) Review of financial information of Bank	Compliant	The committee reviewed all quarterly non-audited interim financial statements and the financial statement for the year ended 31 March 2015.
	(h) Meetings with External Auditor	Compliant	The committee met with the External Auditor on 4 occasions and 2 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 2014 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. Executive Vice-President (Finance) attends meeting where matters relating to finance are considered. The External Auditors attend meetings on invitation. During the year, 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 year ended 31 March 2015 13 Meetings were held. Attendance of committee members is given in the table on page 69.
	(o) Audit Committee activities	Compliant	Please refer Committee Report on page 83.
	(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 if any of illegal or unethical practices. Arrangements are in place to ensure that all employees are duly informed of the effective use of this process.

Rule	Governance Principle	Compliance	Remarks
3.6 (iii)	Board Human Resources and Remuneration Committee –		Please refer page 85.
	(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	Committee annually reviews the performance against set target 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 meeting by invitation and participates in deliberations except when matters relating to him are discussed.
3.6 (iv)	Board Nomination Committee –		Please refer page 86.
	(a) Appointment of new Directors & KMPs	Compliant	During the year the committee considered and recommended to the Board the appointment of two new Directors.
	(b) Re-election of Directors	Compliant	During the year, the committee considered and recommended to the Board the re-election of the Directors retiring under Articles 45 and 47 (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. During the year, a Chartered Accountant was appointed as a Director in order to supplement the Audit Committee.
	(f) Composition	Compliant	The committee consists of 3 Non-Executive Directors and is Chaired by an Independent Director.
3.6 (v)	Board Integrated Risk Management Committee (BIRMC)		Please refer page 87.
	(a) Composition	Compliant	Please refer page 87.
	(b) Assessment of Risk	Compliant	The committee has put in place a Board approved risk framework. The risk exposures of the Bank and its commercial banking subsidiary are assessed on a monthly basis through Key Risk Indicators. 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.
	(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 Officer reports to the BIRMC. Committee overseas the function and reviewed the quarterly reports on compliance. The compliance function is headed by a Vice-President who is not a KMP. She was appointed as the Acting Compliance Officer in agreement with the Central Bank pending finalisation of the proposed bank amalgamation process.

Rule	Governance Principle	Compliance	Remarks
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. Board ensures that no related party benefits from any favourable treatment except as indicated in 3.7 (vi). The Bank has put in place a mechanism to obtain on a quarterly basis a confirmation from all Key Management Personnel on a structured format to assist in the process of collating related party transactions.
3.7 (iv)	Accommodation to 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 hold substantial interest	Compliant	The accommodation to employees, close relations of employees and/or entities in which any employee or close relation of such employee hold substantial interest are subject to normal commercial terms applicable to such transactions except in case of accommodation under approved schemes uniformly applicable to all or specific categories of employees. The CEO has not participated in these schemes.
3.7 (vii)	Not to remit part of accommodation or interest without prior approval of 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. 12 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 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 96.
(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 88.
(c)	The External Auditor's Certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after 31 December 2008.	Complied with. Please refer Assurance Report of the External Auditor on page 90.

(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 10 and Notes 20 and 58.5 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.

Category of related party and type of transaction	31 March 2015 LKR 000	%
Key Management Personnel – Loans	6,278	0.04
Subsidiaries – Finance lease	3,690	0.02
Total net accommodation	9,968	0.06
Regulatory capital – solo basis	17,792,075	

The total net accommodation was 0.06% of the Bank's regulatory capital on solo basis. Maximum limit determined by Directors is 25% of 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. Please refer Note 58.6 to the financial statements.
(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 Bank continues to carry on its business as a licensed specialised bank without any interruption.

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 99 to 181 of the 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.

The impact on adoption of Sri Lanka Accounting Standard SLFRS 11 – 'Joint Arrangements' which became effective during the current financial year to the statement of financial position is disclosed in Note 36.3. Due to the adoption of this standard there was no impact on the equity attributable to the equity holders of the Bank.

Review of Business of the Year

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

Profit and Appropriations

Year ended 31 March 2015	LKR 000
Profit for the year	3,240,348
Other comprehensive income for the year, net of tax	4,902,876
Total comprehensive income for the year	8,143,224
Appropriations	
Transfer to:	
Reserve Fund (statutory requirement)	165,000
First and final dividend recommended for financial year ended 31 March 2015	1,590.586
Balance carried forward	6,387.638

Accounting Policies

The accounting policies adopted in the preparation of the financial statements of the Bank and the Group are stated on pages 109 to 121 of the Annual Report.

There were no changes to the accounting policies of the Group in the year under review other than due to adoption of Sri Lanka Accounting Standard SLFRS 11 – 'Joint Arrangements' which replaced LKAS 31 – 'Interest in Joint ventures' with effect from 1 January 2014. Upon adoption of Sri Lanka Accounting Standard SLFRS 11 – 'Joint Arrangements', the Group now accounts for the investment in Acuity Partners (Pvt) Limited, the joint venture using the equity method. Previously the Group accounted for its investment in joint venture using the proportionate consolidation method.

Auditor's Report

The Auditor's Report on the financial statements, which is unqualified, is given on page 98.

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 March 2016. The Audit Committee has reviewed the effectiveness and the relationship with the 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 consists of nine 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 & 11. The following were the Directors of the Bank as at 31 March 2015 categorised in accordance with criteria specified in Direction No. 12 of 2007 issued by the Central Bank of Sri Lanka.

Non-Executive Directors

Mr C R Jansz - Chairman
Mr T Dharmarajah
Ms H M N S Gunawardana

Independent Non-Executive Directors

Mr K P Cooray
Mr G K Dayasri
Mr P M B Fernando
Mr J E A Perumal (Resigned on 30 April 2015)
Ms S R Thambiayah

Executive Director

Mr A R Fernando - CEO and Ex-Officio Director

Subsequent to the end of the financial year Mr A W Atukorala was appointed a Director of the Bank with effect from 23 April 2015.

Ms Gunawardana represents a specific stakeholder and as such do not qualify to be designated as an Independent Director. Mr Jansz and Mr Dharmarajah does not meet the criteria set out in the Direction to be designated as an Independent Director by virtue of their being a Director of the Subsidiary, DFCC Vardhana Bank PLC

Senior Director

Mr Dayasri was designated as the Senior Director by the Board on 25 June 2014 in terms of Central Bank of Sri Lanka Rule No. 3 (5) (ii) of the Direction No. 12 of 2007 on Corporate Governance.

Resignation and Retirement of Directors

Dr L P Chandradasa and Mr J E A Perumal resigned from the Board with effect from 22 January 2015 and 30 April 2015 respectively. Mr R B Thambiayah retired from the Board with effect from 28 January 2015 upon reaching the age of 70.

The Directors' record their appreciation for the contributions made by them during their tenure as Directors.

Appointment and Re-election of Directors

Mr T Dharmarajah, Ms S R Thambiayah, Mr K P Cooray and Mr A W Atukorala were appointed as Directors with effect from 1 July 2014, 2 March 2015, 13 March 2015 and 23 April 2015 respectively. They will retire in terms of Article 47 (ii) of the Articles of Association and are offering themselves for re-election at the Annual General Meeting. The Nomination 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 Nomination Committee.

Retirement by Rotation and Re-election of Director

The Director retiring by rotation in terms of Article 45 of the Articles of Association is Mr C R Jansz who offers himself for re-election under the said Article with the unanimous support of the Directors.

Directors' Remuneration

The Director's remuneration for the financial year ended 31 March 2015 is given in Note 20 of the financial statements.

Mr G K Dayasri has opted not to receive any remuneration as a Director. The Directors record their appreciation for the honorary services provided by Mr Dayasri.

Directors' Meetings

The Bank held 17 Board meetings during the financial year. The attendance of Directors is shown in the Table on page 69 of the Annual Report.

Directors' Interests in Shares

	No. of Shares	
	as at 31.03.2015	as at 31.03.2014
Chandradasa, L P[2]	–	500
Cooray, K P[1]	**Nil**	–
Dayasri, G K	**1,036**	1,036
Dharmarajah, T[1]	**500**	–
Fernando A R	**4,470**	4,470
Fernando, P M B	**1,000**	1,000
Gunawardana, Ms H M N S	**Nil**	Nil
Jansz, C R	**1,000**	1,000
Perumal, J E A	**42,475**	42,475
Thambiayah, R B[2]	–	211,200
Thambiayah, Ms S R[3]	**Nil**	–

[1] Not a Director as at 31 March 2014
[2] Not a Director as at 31 March 2015
[3] Only an Alternate Director as at 31 March 2014

Directors' Interests in Debentures

	31.03.2015 LKR 000	31.03.2014 LKR 000
Fernando, A R	**5,000**	5,000

No Director directly or indirectly holds options of the Bank.

Directors' Interest 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 year under review.

Directors' Interests in Transactions with the Bank

The Directors' interest in transactions with entities/ persons (other than subsidiaries, joint venture and associate) is listed under each Director, for the year ended 31 March 2015 is as follows:

	LKR 000
Dr L P Chandradasa	
Aggregate amount of payments made for services	800
Mr K P Cooray	
Sri Lanka Telecom PLC	
Aggregate amount of payments made for services	563
Mr T Dharmarajah	
Institute of Chartered Accountants of Sri Lanka	
Aggregate amount of payments made for services	362
Mr A R Fernando	
Home Finance Company Limited, Fiji	
Aggregate amount of fees received for services	15,401
Mr C R Jansz	
Lanka Bell (Pvt) Limited	
Lanka Milk Foods (CWE) PLC	
Aggregate amount of payments made for services	219

Messrs C R Jansz and A R Fernando are/or has been Chairman/Director of one or more of the subsidiary, joint venture or associate companies. Details of transactions with subsidiary, joint venture and associate companies are disclosed in Notes 58.2 - 58.4 in the Notes to the financial statements.

Corporate Donations

During the year 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 year are set out in the respective Committee Reports in the Annual Report.

Audit Committee

Mr P M B Fernando – Chairman
Mr T Dharmarajah
Ms S R Thambiayah

Credit Approval Committee

Mr C R Jansz – Chairman
Mr T Dharmarajah
Mr A W Atukorala

Credit Restructure Committee

Mr C R Jansz – Chairman
Ms H M N S Gunawardana
Mr A W Atukorala
Ms S R Thambiayah

Human Resources and Remuneration Committee

Mr C R Jansz – Chairman
Mr G K Dayasri
Mr A W Atukorala

Nomination Committee

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

Integrated Risk Management Committee

Mr C R Jansz – Chairman
Mr T Dharmarajah
Mr P M B Fernando
Mr A R Fernando – Chief Executive

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 recommended for approval by shareholders at the Annual General Meeting the payment of a first and final dividend of LKR 6.00 - per share, (final dividend paid in the previous year, LKR 5.50 per share). The total dividend for the year will amount to approximately LKR 1,591 million (LKR 1,458 million in the previous year), which amounts to 52% of Bank's distributable profit.

The Directors unanimously declare that, the 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 61 million of which intangible assets amounted to LKR 46 million. Details of these are given in the Notes 39 and 40 to the financial statements.

Reserves

Total reserves and retained profit amounted to LKR 39,379 million.

Market Value of Freehold Properties

The information on market value of freehold properties are given in Note 39.1.3 to the financial statements.

Stated Capital and Subordinated Debentures

The stated capital as at 31 March 2015 was LKR 4,716 million. The number of shares in issue as at 31 March 2015 was 265,097,688. Further information is given on pages 157 & 158.

Share Information

Information relating to earnings, net asset and market value per share are given on pages 91 & 92 of the Annual Report and also contains information pertaining to the share trading during that period.

Shareholders

As at 31 March 2015, there were 8,443 registered shareholders and the distribution is indicated on page 93. The 20 largest shareholders as at 31 March 2015 are listed on page 93.

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 public and private sector in its development efforts within the ambit of the DFCC Bank Act/Articles of Association. The 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 the Bank's policy to fix remuneration at a level which will attract, motivate and retain high quality employees. A remuneration survey was conducted during the year and action was taken to appropriately benchmark the Bank's remuneration levels and policies with those in the banking sector.

Statutory Payments

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments due to the Government and in relation to the employees have been made in 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 quarterly, a 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 61 to the financial statements.

Proposed Consolidation of Banking Business

In Pursuance to the policies announced by the Government to encourage consolidation of certain banking business, DFCC Bank PLC and National Development Bank PLC have taken the initiative to explore the possibilities of amalgamating. Both banks have entered into a Memorandum of Understanding to work towards the proposed amalgamation.

Corporate Governance

The Directors place great emphasis on following internationally accepted good corporate governance practices and principles. 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 12 of 2007 of the Central Bank of Sri Lanka on Corporate Governance. Details of governance practices and the required disclosure are given on pages 68 to 77. Rule 3 (8) of the Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks in Sri Lanka prescribe disclosure 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 99 to 181.
3 (8) (ii) (a)	Affirmative assurance of compliance with accounting standards and requirements	Directors' Responsibility Statement on page 96.
3 (8) (ii) (b)	Affirmative assurance of the integrity of financial reporting system	Directors Statement of Internal Control on page 88.
3 (8) (ii) (c)	Assurance report issued by the external auditor	Independent Assurance Report on page 90.
3 (8) (ii) (d)	Information on Directors	Pages 10 & 11.
3 (8) (ii) (d)	Remuneration of Directors	Notes on the financial statements on page 125.
3 (8) (ii) (e)	Net accommodation granted to each category of related party	Corporate Governance Report. Table on page 77.
3 (8) (ii) (f)	Compensation and other transactions with key management personnel	Notes on the financial statements on pages 161 & 162.
3 (8) (ii) (h)	Compliance with prudential requirements and regulations	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

15 May 2015

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. 12 of 2007 on Corporate Governance for Licensed Specialised 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 year ended 31 March 2015 is as follows:

- Mr P M B Fernando - Chairman
- Mr J E A Perumal
- Ms H M N S Gunawardana (Up to July 2014)
- Mr T Dharmarajah (From July 2014)

Mr T Dharmarajah was appointed a member with effect from July 2014, in place of Ms H M N S Gunawardana who served the Audit Committee for an interim period. Further Mr J E A Perumal ceased to be a member of the Committee from 30 April 2015, due to his resignation as a Director of the Bank. Ms S R Thambiayah was appointed a member of the Audit Committee with effect from 1 May 2015. 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 financial year ended 31 March 2015, thirteen 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 69 of the Annual Report.

The Chief Executive and Executive Vice President (Finance) attend the meetings by invitation. The Committee met with the External Auditor, KPMG on four 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) 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.

The Committee has discharged the responsibilities assigned by Rule No. 3 (6) (ii) of the Corporate Governance Direction No. 12 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 year ended 31 March 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 Executive Vice President (Finance) and Chief Executive in making an overall assessment on the integrity of the Financial Reporting system.

The Annual Report of the Directors for this financial year to 31 March 2015, includes a separate report on internal controls on page 88 This report is issued pursuant to Rule 3 (8) (ii) (b) of the Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised 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 DFCC Bank Act No. 35 of 1955, Banking Act No. 30 of 1988 and the Companies Act No. 7 of 2007. Consequent to the repeal of DFCC Act, Bank was incorporated under Companies Act No. 7 of 2007 with effect from 6 January 2015.

Internal Audit

With the concurrence of the Board, the 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 for the period ended 31 December 2014. Representatives from the audit firm were invited to the

Audit Committee Meetings convened to discuss their reports. Commencing from 01 January 2015 the Board decided on the recommendation of the Audit Committee to use Internal Audit staff to carry out audits of all auditable units.

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 Committee has adopted a risk-grading matrix for identifying and assessing risks encountered during the internal audit work. 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.

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 program within an agreed time frame in compliance with relevant guidelines issued by 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. 7 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 financial year ended 31 March 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 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 March 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

15 May 2015

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. Mr C R Jansz is the Chairman of the Committee and Messrs G K Dayasri and A W Atukorala are the other members. Dr L P Chandradasa and Mr J E A Perumal also functioned as members of the Committee until 22 January 2015 and 30 April 2015 respectively.

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 has 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 specialized banks. The Committee in determining the remuneration policy relating to Directors, Chief Executive and Key Management Personnel of the 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 year under review, the Committee oversaw a review of the remuneration structure based on a comprehensive remuneration survey carried out by an external consultant among comparable institutions.

The Procedure

Apart from the general review of remuneration, in keeping with the policy of pay for performance, the Committee reviewed the performance of the 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 the 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 five meetings during the financial year to carry out its task. The attendance by members is given on page 69 of the Annual Report.

C R Jansz
Chairman – Human Resources and Remuneration Committee

15 May 2015

Report of the Nomination Committee

Composition

The Nomination Committee of the Board of Directors consists of three Non-Executive Directors. J E A Perumal an Independent Director is the Chairman with Messrs C R Jansz and P M B Fernando serving as members.

Mr R B Thambiayaha served as the Chairman until his retirement. Mr P M B Fernando was appointed to the Committee in place of Mr Thambiayaha with effect from 28 January 2015.

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

Mandate

The Committee carries 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. 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 year the committee reviewed and revised the Policy on Board Composition, Appointments, Re-election and Resignation of Directors and Succession. The Committee makes recommendations to the Board of Directors for consideration.

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 financial year. During the year, the Committee considered and recommended to the Board the appointment of three new Directors. The Committee also reviewed the list of Key Management Personnel 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 69 of the Annual Report. The Committee has recommended the re-election of the Directors offering themselves for re-election at the Annual General Meeting.

J E A Perumal
Chairman – Nomination Committee

29 April 2015

Report of the Board Integrated Risk Management Committee

Composition of Board Integrated Risk Management Committee

During the financial year ended March 2015, the Board Integrated Risk Management Committee (BIRMC) of DFCC Bank and DVB were combined to form a Group BIRMC under the permission of the Banking Supervision Department of the CBSL. The Group BIRMC consisted of the necessary representation from both the DFCC Bank and the DVB Board. Representing DFCC Bank, there are 3 Non-Executive Directors and one Executive Director as at 31 March 2015. 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 Group BIRMC as at 31 March 2015 was as follows:

Mr C R Jansz - Chairman of the Committee/Chairman of DVB and DFCC Bank
Mr A N Fonseka- Non-Executive Director of DVB
Mr A Fernando - Non-Executive Director of DVB/ General Manager of DFCC Bank
Mr T Dharmarajah - Non-Executive Director of DVB and DFCC Bank
Mr P M B Fernando - Non-Executive Director of DFCC Bank
Mr L H A L Silva - CEO/Executive Director of DVB
Mr T Fernandopulle - Group 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 DBB
B. Adequacy of the DBB's capital and its allocation
C. Risk exposures and risk profiles of DBB are within acceptable parameters and to make recommendations to the Board of Directors on any action required;
D. Review 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 Group.
F. The compliance of the Group's operations with relevant laws, regulations and standards including the adherence to the CBSL Direction on Corporate Governance.

Formulation of the Group BIRMC during the year, strengthened the risk management of DBB while improving the focus on both a holistic and a solo perspective.

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 members is listed on page 69 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 and the Group were being appropriately managed. During the financial year, the following key initiatives were achieved by the Committee.

A. Reviewed and approved the Internal Capital Adequacy Assessment Process (ICAAP) of DFCC Bank and DVB which was a regulatory requirement with effect from January 2014. BIRMC took several key decisions on the capital management based on the outcome revealed by the ICAAP.
B. In relation to the management of compliance risk, compliance risk indicators with different risk scales were reviewed and specific areas of focus were recognized based on the possible impact and the probability of occurrence.
C. Risk controls and monitoring tools were further improved with revisions to the overall risk limits system of DBB. Under this revision, a group perspective was brought as relevant with necessary attention on the specific risk profiles of DFCC Bank, DVB and other group companies.
D. The Committee approved the revisions for credit rating models for SME exposures of DBB. This revision focused on recognising the borrower risk profile in a better approach and reduce the subjectivity in assigning the scores for the model parameters.
E. The Committee reviewed the Probability of Default (PD) based on the rating grades, Loss Given Default (LGD) for facilities and technical validation results for the credit rating models. These credit risk parameters are used in credit appraisal process, credit pricing and risk management.
F. 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 were shared with the respective committees for necessary improvements.
G. Reviewed and approved certain new products and redesign of certain existing products of DBB while taking both business and risk management perspective.
H. Reviewed the CBSL recommendations based on the examination report and the gap analysis on the ICAAP requirements in relation to the integrated risk management function of DBB.

Several new risk management policies and guidelines were introduced during the financial year, while all existing risk policies and practices were reviewed by the Committee in line with the Bank specific requirements, industry dynamics and regulatory specifications.

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

15 May 2015

Directors' Statement of 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 83.
- 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, the Planning 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 improvements were made during the current year. The testing of such process by the internal audit was carried out during the year. 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 2014 were reviewed during the year and appropriate steps have been taken to rectify them. The recommendations made by the External Auditor, KPMG in the financial year to 31 March 2015 in connection with the internal control system will be addressed in 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 only to the Bank and did not include its subsidiaries. However, the Board of Directors of the 99.17% owned commercial banking Subsidiary, DFCC Vardhana Bank PLC (DVB) issued an affirmative assurance in their statement of internal control, on the adequacy and the effectiveness of the internal control system which was included in the DVB's Annual Report for the year ended 31 December 2014. The said statement by the Directors was independently reviewed by KPMG, who are also the Auditors of the Bank.

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 of Internal Control for the year ended 31 March 2015 and their Independent Assurance Report is on page 90 of this 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

15 May 2015

Independent Assurance Report

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

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

To the 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 year ended 31 March 2015 as set out on pages 88 to 89 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 year 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
15 May 2015

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

M.R. Mihular FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne ACA
R.H. Rajan ACA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne ACA
R.M.D.B. Rajapakse ACA
C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo ACA

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA

Investor Relations

Investor Engagement

Our investors are providers of equity and debt capital, who in turn expect optimal returns through the Bank's sustained and profitable growth. In the section on Stakeholders (page 21) we discussed the various frameworks that govern our engagement process and how we communicate with our investors in general.
The Chief Executive also maintains a dialogue with key institutional investors and brings any matters of concern to the notice of the Board. During the year under review the Chief Executive participated in an investor forum attended by a number of investors/fund managers, in addition to a few one-on-one meetings with a few potential institutional investors.

Performance of the Share

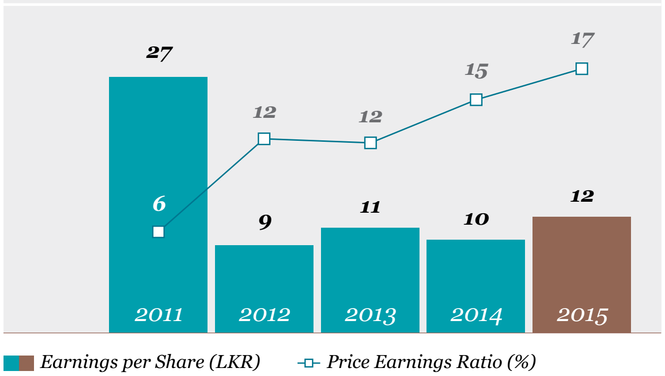
The market value of the DFCC Bank ordinary share on 31 March 2015 was LKR 202.90. The highest and lowest values recorded during the 12 month period were LKR 239.00 on 7 October 2014 and LKR 144.70 on 1 April 2014. The share price of DFCC Bank tracked the movement of the All Share Price Index (ASPI) very closely during the period under review. The latter half of the period witnessed marked volatility in both the ASPI and DFCC share price as market continued to seek policy direction following the Presidential Election in January 2015.

DFCC Bank Share Price Information

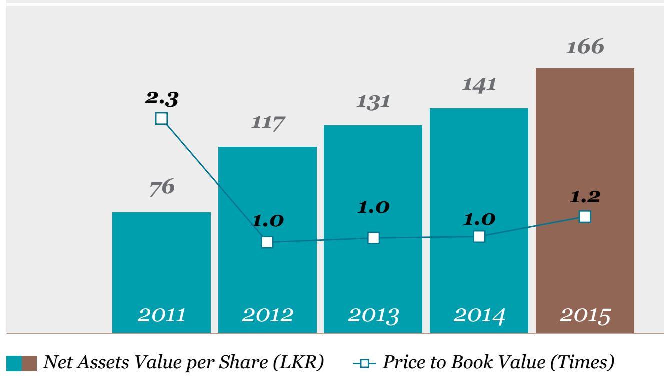
Year ended 31 March	**2015**	2014	2013
Price Indices			
ASPI	**6,820.34**	5,968.31	5,735.68
S&P SL20	**3,852.43**	3,279.92	3,293.57
Share Price			
Lowest Price (LKR)	**144.70 (01.04.14)**	115.00 (15.11.13)	103.00 (07.06.12)
Highest Price (LKR)	**239.00 (07.10.14)**	154.00 (13.01.14)	131.80 (28.03.13)
Closing Price (LKR)	**202.90 (31.03.15)**	143.00 (31.03.14)	131.10 (28.03.13)
Market Capitalisation			
Value (LKR million)	**53,788**	38,148	34,754
% of total market cap	**1.86**	1.53	1.58
Rank	**11**	13	13
Value of Shares Traded			
Value (LKR million)	**6,761**	906	1,315
% of total market turnover	**1.91**	0.46	0.69
Rank	**9**	45	26
Days Traded			
No. of days traded	**239**	241	239
Total No. of market days	**239**	243	239
% of market days traded	**100.0**	99.2	100.0
Frequency of Shares Traded			
No. of transactions	**9,020**	5,444	5,171
% of total frequency	**0.45**	0.37	0.32
Rank	**78**	82	99

Share Price Movement of DFCC Bank from April 2014 March 2015

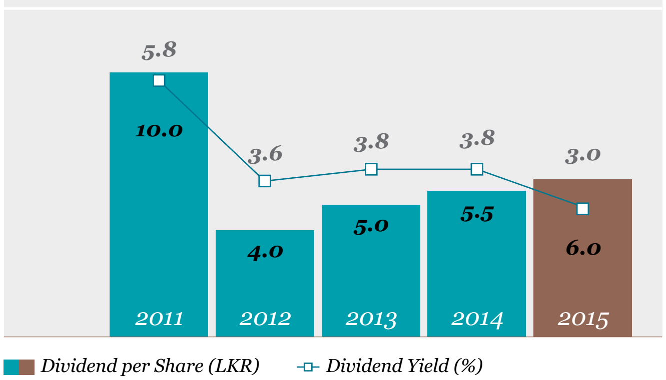
Earning per Share and Price Earnings Ratio



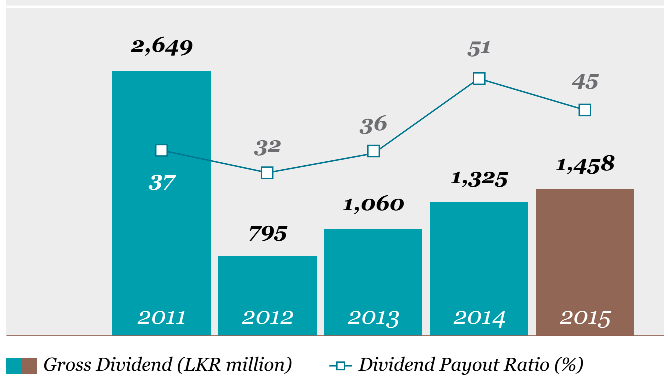
Net Assets Value per Share and Price to Book Value



Dividend per Share and Dividend Yield



Gross Dividend and Dividend Payout Ratio



Distribution of Shareholding

Categories of Shareholders

As at	31 March 2015			31 March 2014		
Shareholding, %	Foreign	Local	Total	Foreign	Local	Total
Individual	5.38	9.13	14.51	8.97	6.99	15.96
Institutional	20.49	65.00	85.49	20.06	63.98	84.04
	25.87	74.13	100.00	29.03	70.97	100.00

Public holding percentage and number of shareholders as at 31 March 2015 were 63.38% and 8,429 respectively.

Size-wise Distribution of Shareholding

	31 March 2015			31 March 2014		
Share range	No. of shareholders	Total holding	%	No. of shareholders	Total holding	%
01 - 1000	5,285	1,744,865	0.66	5,585	1,854,888	0.70
1001 - 5,000	2,420	4,986,874	1.88	2,562	5,231,427	1.97
5,001 - 10,000	314	2,256,205	0.85	325	2,339,949	0.88
10,001 - 50,000	303	6,818,222	2.57	291	6,181,813	2.34
50,001 - 100,000	41	2,872,994	1.08	40	2,754,277	1.04
100,001 - 500,000	46	8,725,933	3.29	39	8,067,312	3.05
500,001 - 1000,000	9	5,740,741	2.17	8	4,942,029	1.86
1,000,000 & above	25	231,951,854	87.50	24	233,725,993	88.16
	8,443	265,097,688	100.00	8,874	265,097,688	100.00

Twenty Major Shareholders of the Bank as at 31 March 2015

Shareholder	31 March 2015		31 March 2014	
	No. of Shares	%	No. of Shares*	%
Bank of Ceylon No. 2 A/c	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 Ltd-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	19,246,700	7.26	22,886,700	8.64
Melstacorp Limited	17,042,856	6.43		
Seafeld International Limited	15,286,794	5.77	15,286,794	5.77
HSBC Intl Nom. Ltd - 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 Ltd - BPSS LDN-Aberdeen Asia Pacific Equity Fund	6,750,000	2.55	6,750,000	2.55
HSBC Intl Nominees Ltd - 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 Ltd - BP2S London-Aberdeen Asia Smaller Companies Investment Trust	3,889,870	1.47	3,889,870	1.47
Mrs L E M Yaseen	3,520,000	1.33		
HSBC Intl Nominees Ltd - BP2S Luxembourg-Aberdeen Global Frontier Markets Equity Fund	3,287,584	1.24	3,287,584	1.24
Employees Trust Fund Board	2,408,991	0.91	2,408,991	0.91
Cargo Boat Development Company PLC	2,098,200	0.79	2,098,200	0.79
HSBC Intl Nominees Ltd - BP2S London - Aberdeen New Dawn Investment Trust XCC6	1,800,000	0.68	1,800,000	0.68
Mellon Bank N.A. - Florida Retirement System	1,200,000	0.45	1,500,000	0.57
Renuka Consultants & Services Limited	1,097,992	0.41	1,097,992	0.41
Total of the 20 Major Shareholders	227,780,488	85.93		
Other shareholders	37,317,200	14.07		
Total	265,097,688	100.00		

**Shareholding as at 31 March 2014 of the twenty largest shareholders as at 31 March 2015*

Financial Reports

Financial Calendar - 2014/15

LKR 5.50 per share Final Dividend for 2014 paid on	9 July 2014
Audited financial statements signed on	15 May 2015
59th Annual General Meeting to be held on	30 June 2015
LKR 6.00 per share Final Dividend for 2015 payable on*	10 July 2015
1st Quarter Interim Results released on	15 August 2014
2nd Quarter Interim Results released on	12 November 2014
3rd Quarter Interim Results released on	11 February 2015

Proposed Financial Calendar - 2015/16

1st Quarter Interim Results to be released in	August 2015
2nd Quarter Interim Results to be released in	November 2015
3rd Quarter Interim Results to be released in	February 2016
60th Annual General Meeting to be held in	June 2016

* Subject to approval by Shareholders

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 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 year to 31 March 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 complies 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 83 to 84.

The Directors are in agreement with the assessment of the Audit Committee on the reliability of financial reporting system of the Bank and confirm that the financial statements prepared for external use is in accordance with relevant accounting principles and regulatory requirements. As part of institutional checks and balances and accountability, in addition to this Directors' Responsibility Statement, the Directors have included the Chief Executive's and the Chief Financial Officer's Responsibility Statement on page 97.

By Order of the Board,

Ms A Withana
Company Secretary

Colombo
15 May 2015

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

The financial statements are prepared in compliance with the Sri Lanka Accounting Standards (SLFRSs/LKASs) 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 statements 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 Group and Joint Venture Company were audited by KPMG. National Asset Management Limited, an associate company was also audited by KPMG.

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 A Withana
Executive Vice-President (Finance)

Colombo
15 May 2015

Independent Auditors' Report

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

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

TO THE SHAREHOLDERS OF DFCC BANK 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 subsidiary ("Group"), which comprise the statement of financial position as at 31st March 2015, and the statements of income, profit or loss and other comprehensive income, changes in equity and cash flow for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 99 to 181 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 March 2015, and of its financial performance and cash flows for the year 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 March 2015, and of its financial performance and cash flows for the year 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

15 May 2015
Colombo

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

M.R. Mihular FCA, T.J.S. Rajakarier FCA, Ms. S.M.B. Jayasekara ACA, G.A.U. Karunaratne ACA, R.H. Rajan ACA
P.Y.S. Perera FCA, W.W.J.C. Perera FCA, W.K.D.C. Abeyrathne ACA, R.M.D.B. Rajapakse ACA
C.P. Jayatilake FCA, Ms. S. Joseph FCA, S.T.D.L. Perera FCA, Ms. B.K.D.T.N. Rodrigo ACA

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA

Income Statement

For the year ended 31 March	Notes	Page No.	BANK 2015 LKR 000	BANK 2014 LKR 000	GROUP 2015 LKR 000	GROUP 2014 LKR 000 Restated
Income	11	122	**10,394,085**	10,480,950	**20,093,711**	20,375,847
Interest income			**8,010,024**	9,529,636	**16,098,667**	18,479,672
Interest expense			**4,675,447**	4,894,390	**9,407,584**	10,560,229
Net interest income	12	122	**3,334,577**	4,635,246	**6,691,083**	7,919,443
Fee and commission income			**167,995**	115,296	**1,137,267**	849,105
Fee and commission expense			–	–	**17,303**	6,442
Net fee and commission income	13	123	**167,995**	115,296	**1,119,964**	842,663
Net gain from trading	14	123	**146,679**	33,565	**479,988**	212,306
Net gain/(loss) from financial instruments at fair value through profit or loss	15	123	**656,512**	(386,281)	**678,217**	(323,943)
Net gain from financial investments	16	123	**2,150,427**	1,211,493	**2,201,070**	1,152,989
Other operating (loss)/income (net)	17	124	**(737,552)**	(22,759)	**(501,498)**	5,718
Total operating income			**5,718,638**	5,586,560	**10,668,824**	9,809,176
Impairment write back/(charge) for loans and other losses	18	124	**307,564**	(323,524)	**(246,556)**	(1,221,722)
Net operating income			**6,026,202**	5,263,036	**10,422,268**	8,587,454
Operating expenses						
Personnel expenses	19	124	**943,041**	906,496	**2,212,600**	1,996,416
Other expenses	20	125	**726,627**	712,964	**2,062,896**	1,968,512
Operating profit before value added tax and nation building tax on financial services			**4,356,534**	3,643,576	**6,146,772**	4,622,526
Value added tax and nation building tax on financial services	21	125	**585,244**	433,006	**884,072**	602,040
Operating profit after value added tax and nation building tax on financial services			**3,771,290**	3,210,570	**5,262,700**	4,020,486
Share of profits of associate and joint venture					**153,270**	96,966
Profit before tax			**3,771,290**	3,210,570	**5,415,970**	4,117,452
Tax expense	22	126	**530,942**	623,120	**977,358**	902,439
Profit for the year			**3,240,348**	2,587,450	**4,438,612**	3,215,013
Profit attributable to:						
- Equity holders of the Bank			**3,240,348**	2,587,450	**4,362,256**	3,151,400
- Non-controlling interests					**76,356**	63,613
Profit for the year			**3,240,348**	2,587,450	**4,438,612**	3,215,013
Basic earnings per ordinary share (LKR)	23	127	**12.22**	9.76	**16.46**	11.89
Dividend per share (LKR)			**6.00**	5.50	**6.00**	5.50

The notes to the financial statements from pages 109 to 181 form part of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March	BANK 2015 LKR 000	BANK 2014 LKR 000	GROUP 2015 LKR 000	GROUP 2014 LKR 000 Restated
Profit for the year	**3,240,348**	2,587,450	**4,438,612**	3,215,013
Other comprehensive income, net of tax				
Other comprehensive income to be reclassified to income statement				
Available for sale financial assets:				
Net change in fair value of available-for-sale financial assets	**5,474,513**	1,436,644	**5,531,519**	**1,508,500**
Net amount transferred to income statement on disposal of available-for-sale financial assets	**(404,565)**	(160,754)	**(490,253)**	(160,754)
Tax expense relating to available for sale financial assets	**(163)**	–	**(17,892)**	–
Share of other comprehensive income of equity accounted joint venture	–	–	**8,378**	14,010
Share of other comprehensive income of equity accounted associate	–	–	**708**	362
Total other comprehensive income to be reclassified to income statement	**5,069,785**	1,275,890	**5,032,460**	1,362,118
Other comprehensive income not to be reclassified to income statement				
Actuarial gains and losses on defined benefit plans	**(171,807)**	88,186	**(187,912)**	86,723
Tax expense relating to actuarial gains and losses on defined benefit plans	**4,898**	168	**10,276**	573
Total other comprehensive income not to be reclassified to income statement	**(166,909)**	88,354	**(177,636)**	87,296
Other comprehensive income for the year, net of tax	**4,902,876**	1,364,244	**4,854,824**	1,449,414
Total comprehensive income for the year	**8,143,224**	3,951,694	**9,293,436**	4,664,427
Total comprehensive income attributable to:				
- Equity holders of the Bank	**8,143,224**	3,951,694	**9,217,506**	4,600,203
- Non-controlling interests			**75,930**	64,224
Total comprehensive income for the year	**8,143,224**	3,951,694	**9,293,436**	4,664,427

The notes to the financial statements from pages 109 to 181 form part of these financial statements.

Statement of Financial Position

As at	Notes	Page No.	BANK 31.03.2015 LKR 000	BANK 31.03.2014 LKR 000	GROUP 31.03.2015 LKR 000	GROUP 31.03.2014 LKR 000 Restated	GROUP 01.04.2013 LKR 000 Restated
Assets							
Cash and cash equivalents	25	130	**110,576**	545,388	**4,060,820**	2,933,360	3,680,095
Balances with Central Bank	26	131	**–**	–	**2,616,406**	2,870,492	2,620,510
Placements with banks	27	131	**716,622**	2,681,779	**1,324,892**	3,138,181	7,541,088
Derivative assets held for risk management	28	131	**29,335**	1,630	**89,861**	183,892	119,642
Other financial assets held-for-trading	29	132	**1,469,166**	1,017,980	**1,469,166**	1,971,916	403,716
Loans to and receivables from banks	30	132	**484,067**	1,233,617	**3,563,647**	5,547,821	3,847,861
Loans to and receivables from other customers	31	132	**73,448,705**	61,341,469	**135,322,723**	112,167,194	98,629,535
Financial investments - available-for-sale	32	135	**27,823,496**	25,073,488	**45,826,878**	39,901,586	27,573,595
Financial investments - held-to-maturity	33	139	**2,085,921**	535,958	**10,872,287**	1,073,703	75,022
Investments in subsidiaries	34	141	**5,957,564**	5,968,564	**–**	–	–
Investment in associate	35	142	**35,270**	35,270	**63,960**	54,164	53,467
Investment in joint venture	36	142	**655,000**	655,000	**1,124,025**	974,911	847,627
Due from subsidiaries	37	144	**135,091**	43,028	**–**	–	–
Investment properties	38	144	**–**	–	**186,070**	183,281	169,485
Property, plant and equipment	39	145	**351,207**	453,015	**1,051,932**	1,089,188	997,792
Intangible assets	40	147	**82,380**	60,378	**280,196**	237,434	259,637
Goodwill on consolidation	41	147	**–**	–	**156,226**	156,226	156,226
Government grant receivable	42	148	**483,727**	276,878	**483,727**	276,878	–
Deferred tax asset	43	149	**–**	–	**1,562**	2,285	834
Income tax refund due			**–**	–	**1,178**	1,546	1,469
Prepayments			**26,342**	35,833	**26,342**	35,833	36,920
Other assets	44	150	**717,125**	982,007	**2,088,401**	2,195,403	2,265,024
Total assets			**114,611,594**	100,941,282	**210,610,299**	174,995,294	149,279,545
Liabilities							
Due to banks	45	150	**1,928,867**	5,153,754	**5,972,567**	6,673,576	8,036,735
Derivative liabilities held for risk management	28	131	**1,737**	55,609	**37,153**	227,994	307,094
Due to other customers	46	151	**22,484,652**	16,630,363	**92,711,793**	80,917,356	62,878,401
Other borrowing	47	151	**24,361,797**	25,434,080	**38,846,172**	27,782,494	35,807,580
Debt securities issued	48	152	**19,445,924**	14,009,017	**19,445,924**	14,009,017	558,257
Current tax liability			**53,211**	157,615	**191,598**	242,848	179,826
Deferred tax liability	43	149	**486,855**	433,071	**642,021**	553,222	455,438
Government grant - deferred income	42	148	**303,727**	295,628	**303,727**	295,628	–
Other liabilities	49	153	**840,156**	752,695	**2,586,927**	2,228,987	2,322,670
Due to subsidiaries	50	157	**31**	–	**–**	–	–
Subordinated term debt	51	157	**609,373**	609,373	**1,609,664**	1,609,674	1,609,690
Total liabilities			**70,516,330**	63,531,205	**162,347,546**	134,540,796	112,155,691

As at	Notes	Page No.	BANK **31.03.2015 LKR 000**	 31.03.2014 LKR 000	GROUP **31.03.2015 LKR 000**	 31.03.2014 LKR 000 Restated	 01.04.2013 LKR 000 Restated
Equity							
Stated capital	52	158	**4,715,814**	4,715,814	**4,715,814**	4,715,814	4,715,814
Statutory reserves	53	158	**1,545,000**	2,381,648	**1,545,000**	2,381,648	2,006,025
Retained earnings	54	158	**6,541,651**	4,089,601	**12,755,357**	9,163,494	7,594,136
Other reserves	55	158	**31,292,799**	26,223,014	**28,892,700**	23,859,814	22,498,324
Total equity attributable to equity holders of the Bank			**44,095,264**	37,410,077	**47,908,871**	40,120,770	36,814,299
Non-controlling interests			**–**	–	**353,882**	333,728	309,555
Total equity			**44,095,264**	37,410,077	**48,262,753**	40,454,498	37,123,854
Total equity and liabilities			**114,611,594**	100,941,282	**210,610,299**	174,995,294	149,279,545
Contingent liabilities and commitments	56	159	**40,979,686**	30,234,047	**75,072,548**	57,788,965	39,280,376
Net assets value per share, LKR			**166.34**	141.12	**180.72**	151.34	138.87

The notes to the financial statements from pages 109 to 181 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 A Withana
Executive Vice President (Finance)

For and on behalf of the Board of Directors,

C R Jansz
Chairman

A R Fernando
Director and Chief Executive

Colombo
15 May 2015

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 01.04.2013	4,715,814	1,285,000	721,025	11,167,285	13,779,839	3,114,908	34,783,871
Profit for the year	–	–	–	–	–	2,587,450	2,587,450
Other comprehensive income	–	–	–	1,275,890	–	88,354	1,364,244
Total comprehensive income for the year	–	–	–	1,275,890	–	2,675,804	3,951,694
Transfers		95,000	280,623	–	–	(375,623)	–
Transactions with equity holders, recognised directly in equity							
Final dividend approved on 28.06.2013	–	–	–	–	–	(1,325,488)	(1,325,488)
Total contributions from and distribution to equity holders	–	–	–	–	–	(1,325,488)	(1,325,488)
Balance as at 31.03.2014	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	–	–	–	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

	Attributable to the equity holders of the Bank								
		Statutory reserves		Other reserves					
	Stated capital	Reserve fund	Investment fund account	Fair value reserve	General reserve	Retained earnings	Total	Non-controlling interests	Total
	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000
Group									
Balance as at 01.04.2013 as previously stated	4,715,814	1,285,000	721,025	8,718,485	13,779,839	7,594,136	36,814,299	512,349	37,326,648
Impact on change in accounting policy for investment in Joint venture (Note 36.3)	–	–	–	–	–	–	–	(202,794)	(202,794)
Balance as at 01.04.2013 - restated	4,715,814	1,285,000	721,025	8,718,485	13,779,839	7,594,136	36,814,299	309,555	37,123,854
Restated profit for the year (Note 36.4)	–	–	–	–	–	3,151,400	3,151,400	63,613	3,215,013
Other comprehensive income net of tax	–	–	–	1,361,490	–	87,313	1,448,803	611	1,449,414
Total comprehensive income for the year	–	–	–	1,361,490	–	3,238,713	4,600,203	64,224	4,664,427
Transfers	–	95,000	280,623	–	–	(375,623)	–	–	–
Transactions with equity holders, recognised directly in equity									
Share issue expenses written-off - subsidiary	–	–	–	–	–	(10,954)	(10,954)	(97)	(11,051)
Right issue by subsidiary	–	–	–	–	–	–	–	18,309	18,309
Increase in ownership interest by the Bank that does not result in change of control	–	–	–	–	–	(956)	(956)	(2,698)	(3,654)
Change in holding-through joint venture	–	–	–	–	–	43,666	43,666	–	43,666
Final dividend approved on 28.06.2013	–	–	–	–	–	(1,325,488)	(1,325,488)	–	(1,325,488)
Dividend distributed to non-controlling interest by subsidiaries	–	–	–	–	–	–	–	(55,565)	(55,565)
Total contributions from and distribution to equity holders	–	–	–	–	–	(1,293,732)	(1,293,732)	(40,051)	(1,333,783)
Balance as at 31.03.2014	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

	Attributable to the equity holders of the Bank								
		Statutory reserves		Other reserves					
	Stated capital	Reserve fund	Investment fund account	Fair value reserve	General reserve	Retained earnings	Total	Non-controlling interests	Total
	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000
Profit for the year	–	–	–	–	–	4,362,256	4,362,256	76,356	4,438,612
Other comprehensive income net of tax	–	–	–	5,032,886	–	(177,636)	4,855,250	(426)	4,854,824
Total comprehensive income for the year	–	–	–	5,032,886	–	4,184,620	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	–	–	–	–	–	(1,429,406)	(1,429,406)	(55,776)	(1,485,182)
Balance as at 31.03.2015	4,715,814	1,545,000	–	15,112,861	13,779,839	12,755,357	47,908,871	353,882	48,262,753

The notes to the financial statements from pages 109 to 181 form part of these financial statements.

Cash Flow Statement

For the year ended	BANK 31.03.2015 LKR 000	BANK 31.03.2014 LKR 000	GROUP 31.03.2015 LKR 000	GROUP 31.03.2014 LKR 000 Restated
Cash flow from operating activities				
Interest receipts	**6,873,761**	8,031,204	**13,921,453**	15,694,336
Interest payments	**(4,292,672)**	(4,771,971)	**(9,144,115)**	(10,043,247)
Recoveries on loans previously written-off	**42,471**	75,467	**46,244**	80,030
Receipts from other operating activities	**72,612**	286,418	**2,105,965**	1,154,641
Cash payments to employees & suppliers	**(1,405,580)**	(1,521,416)	**(3,562,254)**	(3,627,296)
Value added tax and nation building on tax financial services	**(600,176)**	(433,006)	**(871,983)**	(627,445)
Other levies	**(34,187)**	(28,418)	**(37,699)**	(31,677)
Operating cash flow before changes in operating assets and liabilities	**656,229**	1,638,278	**2,457,611**	2,599,342
(Increase)/decrease in operating assets:				
Deposits held for regulatory or monetary control purposes	–	–	**254,086**	(249,983)
Funds advanced to customers	**(10,941,817)**	(2,113,890)	**(23,632,764)**	(13,335,278)
Others	**(229,292)**	(411,745)	**(321,067)**	(207,252)
Increase/(decrease) in operating liabilities:				
Deposits from customers	**5,549,600**	1,142,696	**11,727,396**	17,523,144
Negotiable certificates of deposit	–	–	**(37,703)**	157,886
Others	**96,982**	(113,978)	**223,154**	(208,455)
Net cash flow from operating activities before income tax	**(4,868,298)**	141,361	**(9,329,287)**	6,279,404
Income tax paid	**(576,581)**	(437,112)	**(810,755)**	(642,540)
Net cash flow from/(used in) operating activities	(5,444,879)	(295,751)	(10,140,042)	5,636,864
Cash flow from investing activities				
Dividend received	**1,565,746**	1,180,769	**1,383,206**	1,030,905
Interest received	**663,278**	850,068	**1,239,098**	1,017,921
Government securities – Net	**1,019,756**	(5,891,816)	**(2,707,313)**	(11,642,253)
Proceeds from sale and redemption of securities	**3,138,109**	799,270	**3,138,109**	799,270
Purchase of securities	**(2,451,221)**	(825,716)	**(10,920,313)**	(825,716)
Investment in additional shares of subsidiaries				
- DFCC Vardhana Bank PLC	–	(2,195,611)	–	–
- Synapsys Limited	–	(17,000)	–	–
Purchase of property, equipment, intangibles and investment property	**(60,774)**	(134,731)	**(389,311)**	(441,002)
Proceeds from sale of equipment and investment property	**1,940**	23,014	**1,962**	32,006
Net cash from/(used in) investing activities	3,876,834	(6,211,753)	(8,254,562)	(10,028,869)

For the year ended	BANK		GROUP	
	31.03.2015 LKR 000	31.03.2014 LKR 000	**31.03.2015 LKR 000**	31.03.2014 LKR 000 Restated
Cash flow from financing activities				
Issue of new shares by subsidiary	–	–	–	14,655
Share issue expenses	–	–	–	(11,051)
Issue of debentures	**4,963,600**	–	**4,963,600**	–
Borrowing, medium and long-term	**2,662,392**	13,477,741	**2,662,392**	13,474,943
Other borrowing – Net	**(3,552,000)**	(556,250)	**11,364,228**	742,068
Repayment of borrowing, medium and long-term	**(3,798,259)**	(9,411,130)	**(3,801,057)**	(10,461,798)
Dividends paid	**(1,451,188)**	(1,319,694)	**(1,506,965)**	(1,375,261)
Net cash flow from/(used in) financing activities	**(1,175,455)**	2,190,667	**13,682,198**	2,383,556
Net decrease in cash & cash equivalents	**(2,743,500)**	(4,316,837)	**(4,712,406)**	(2,008,449)
Cash & cash equivalents at the beginning of period	**3,242,119**	7,558,956	**9,917,573**	11,926,022
Cash & cash equivalents at the end of period	**498,619**	3,242,119	**5,205,167**	9,917,573
Reconciliation of cash & cash equivalents with items reported in the statement of financial position				
Cash and cash equivalents (Note 25)	**110,576**	545,388	**4,060,820**	2,933,360
Bank overdraft (Note 45)	**(328,579)**	–	**(330,545)**	–
Placements with banks (Note 27)	**716,622**	2,681,779	**1,324,892**	3,138,181
Government securities - less than 3 months	–	14,952	**150,000**	3,846,032
	498,619	3,242,119	**5,205,167**	9,917,573

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

For the year ended 31 March	BANK 2015 LKR 000	BANK 2014 LKR 000	GROUP 2015 LKR 000	GROUP 2014 LKR 000 Restated
Profit for the year	**3,240,348**	2,587,450	**4,438,612**	3,215,013
Add/(deduct) items not using (providing) cash:	**(143,036)**	944,062	**133,871**	1,909,977
Depreciation - Property, equipment and investment property	**116,673**	113,066	**279,899**	256,649
Amortisation - Intangible assets	**23,682**	23,920	**100,232**	90,626
Unrealised gain on treasury bills & bonds	**(146,679)**	(33,565)	**(335,559)**	(47,300)
Net loss from financial instruments at fair value				
- Others	**(81,577)**	(91,799)	**(96,819)**	(154,137)
- CBSL Swap	**(574,935)**	478,080	**(574,935)**	478,080
Amortisation of deferred income on government grant	**376,185**	(459,330)	**376,185**	(459,330)
Foreign exchange Loss	**500,677**	651,397	**465,807**	800,191
Impairment for loans & other losses	**(307,564)**	323,524	**246,556**	1,221,722
Notional tax credit on treasury bills and bonds	**(49,498)**	(61,231)	**(174,225)**	(179,558)
Share of profits of associate and joint venture	**–**	–	**(153,270)**	(96,966)
Deduct items reported gross under investing activities:	**(2,128,729)**	(1,198,371)	**(1,913,934)**	(1,023,322)
Dividend income	**(991,958)**	(991,912)	**(777,803)**	(815,564)
Gains on sale of Financial Investment	**(1,135,054)**	(186,135)	**(1,135,054)**	(186,135)
Gain on sale of equipment and investment property	**(1,717)**	(20,324)	**(1,077)**	(21,623)
Add/(deduct) changes in operating assets & liabilities:	**(6,413,462)**	(2,628,892)	**(12,798,591)**	1,535,196
Increase in accounts receivables	**(1,300,683)**	(1,361,422)	**(1,749,264)**	(2,699,804)
Increase in accounts payables	**457,387**	43,437	**570,968**	393,593
Increase in income tax payable	**7,981**	131,331	**255,237**	63,562
Increase/(decrease) in deferred tax	**(53,620)**	54,679	**(88,634)**	97,784
Increase in operating assets	**(11,171,109)**	(2,525,635)	**(23,699,745)**	(13,792,513)
Increase in operating liabilities	**5,646,582**	1,028,718	**11,912,847**	17,472,574
Net cash (used in)/from operating activities	**(5,444,879)**	(295,751)	**(10,140,042)**	5,636,864

Notes to the Financial Statements

1 Reporting Entity

DFCC Bank PLC ('Bank') is a limited liability public company incorporated and domiciled in Sri Lanka. It is a licensed specialised bank regulated under the Banking Act No. 30 of 1988 and amendments thereto.

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 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 of subsidiary companies viz, DFCC Consulting (Pvt) Limited, DFCC Vardhana Bank PLC, 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 March 2015 was 495 and 1,611 respectively (31 March 2014 - 477 and 1,576 respectively).

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

DFCC Bank PLC

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

DFCC Consulting (Pvt) Limited

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

DFCC Vardhana Bank PLC

Commercial banking.

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 Bank and the Group during the financial year 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) have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) issued by The Institute of Chartered Accountants of Sri Lanka (ICASL) and in compliance with the requirements of the Companies Act No. 7 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 15 May 2015.

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 Banking Act No. 30 of 1988.

2.4 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.

2.5 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.

2.6 Critical Accounting Estimates and Judgments

2.6.1 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.

2.6.2. Change in accounting estimate

The Bank re-examined the impairment assessment processes in the light of experience gained over the past two years in particular the methodology adopted with regard to the collective impairment assessment process.

The change in accounting estimate has been applied prospectively as per Sri Lanka Accounting Standard LKAS 8 - 'Accounting Policies, Changes in Accounting Estimates and Errors'.

2.6.3 Loan Losses

The assessment of loan loss as set out in Note 31.2 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.

2.6.4 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 49.1.3.8.

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.

2.6.5 End of Service Gratuity Liability

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

Key assumptions are disclosed in Note 49.1.3.8.

2.6.6 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.

2.6.7 Impairment of Tangible and Intangible Assets

The assessment of impairment in tangible and intangible assets includes the estimation of the value in use of the asset computed at the present value of the best estimates of future cash flows generated by the asset adjusted for associated risks. This estimation has inherent uncertainties. Impairment losses, if any, are charged to income statement immediately.

2.7 Changes in Accounting Policies

Except for the changes below, the Group has consistently applied the accounting policies for all periods presented in these consolidated and separate financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 April 2014.

SLFRS 10	- Consolidated Financial Statements
SLFRS 11	- Joint Arrangements
SLFRS 12	- Disclosure of Interests in Other Entities
SLFRS 13	- Fair Value Measurement
Disclosures	- Offsetting Financial Assets and Financial Liabilities

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. Financial statements of DFCC Consulting (Pvt) Limited and Lanka Industrial Estates Limited included in the consolidation have financial years ending 31 March in common with the Bank. The financial statements of Acuity Partners (Pvt) Limited, DFCC Vardhana Bank PLC, 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 they were not significant.

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

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

3.6 Taxes on the Undistributed Earnings of Subsidiaries, Associate 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 profit or loss.

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 34 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 35 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 36 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.

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). The average exchange rate used is the middle rate of the commercial bank's rates quoted 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 (Amendment). Act No. 10 of 2014. 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.

5.2 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.

In accordance with the transitional provisions of SLFRS 13, the above measurement policy has been applied by the Bank prospectively. The Bank has applied the fair value measurement requirements in accordance with LKAS 39 for the comparative information presented in these financial statements.

5.2.6 Identification and Measurement of Impairment

At each Reporting date the Bank assesses whether there is 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;
- the 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.

5.2.6.1.2 Collective Assessment

This includes:

For the Bank -

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.

For DFCC Vardhana Bank PLC -

- 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 experience 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 de recognition.

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) has 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 as a 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.

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 Grant 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 un collectibility.

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 a reclassification 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

5.2.16 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.

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, unused withholding tax credits 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

Bank provides for the gratuity payable under the Payment of Gratuity Act No. 12 of 1983 for all employees who do not qualify under the pension scheme. Therefore, this applies to employees recruited to the permanent cadre on or after 1 May 2004 on tenured or fixed term contract employment in the Bank. The subsidiary companies, which do not have a non-contributory pension scheme provide for the gratuity payable under the Payment of Gratuity Act No. 12 of 1983 for all employees. The promised benefit is half a month pre-termination salary for each completed year of service provided a minimum qualifying period of 5 years is served prior to termination of employment. The Bank however, recognises the liability by way of a provision for all employees in tenured employment from the date they joined the permanent cadre, while fixed term employees liability is recognised only if the fixed term contract of service provides for unbroken service of 5 years or more either singly or together with consecutive contracts.

5.3.6.2 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.

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 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 Accounting Standards which became Effective during the Year*

9.1 Sri Lanka Accounting Standard (SLFRS 11) - 'Joint Arrangements'

SLFRS 11 replaces Sri Lanka Accounting Standard (LKAS 31) - 'Interest in Joint Ventures'. The new standard removed the option to account for jointly-controlled entities using the proportionate consolidation method.

The change to the accounting policy and the impact is given in Note 36.3.

9.2 Sri Lanka Accounting Standard (SLFRS 13) - 'Fair Value Measurement'

SLFRS 13 establishes a single source of guidance SLFRS for all fair value measurements. The application of SLFRS 13 has no material impact on the fair value measurements carried out by the Bank and the Group. Necessary disclosures required by the new standard have been included in the notes to the financial statements.

9.3 Sri Lanka Accounting Standard (SLFRS 10) - 'Consolidated Financial Statements'

SLFRS 10 replaces the portion of LKAS 27 which deals with accounting for consolidated financial statements and SIC 12 - Consolidation of Special Purpose Entities.

There was no impact on the consolidation of investments held by the Bank and the Group.

9.4 Sri Lanka Accounting Standard (SLFRS 12) - 'Disclosure of Interests in Other Entities'

SLFRS 12 sets out the requirements for disclosure relating to an entities interest in other entities such as subsidiaries, joint ventures, associates etc.

Necessary disclosures required by the new standard have been included in the notes to the financial statements.

10 *New SLFRS issued and not yet Effective*

10.1 SLFRS Applicable for Financial Periods beginning on or after 1 January 2015

10.1.1 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.

10.1.2 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 on 'Construction Contracts'.

SLFRS 15 is effective for annual period beginning on or after 1 January 2018.

10.2 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.

For the year ended 31 March	BANK 2015 LKR 000	BANK 2014 LKR 000	GROUP 2015 LKR 000	GROUP 2014 LKR 000 Restated

11 Income

Interest Income	**8,010,024**	9,529,636	**16,098,667**	18,479,672
Fee and commission income	**167,995**	115,296	**1,137,267**	849,105
Net gain from trading	**146,679**	33,565	**479,988**	212,306
Net gain from financial instruments at fair value through profit or loss	**656,512**	(386,281)	**678,217**	(323,943)
Net gain from financial investments	**2,150,427**	1,211,493	**2,201,070**	1,152,989
Other operating income/(expense)	**(737,552)**	(22,759)	**(501,498)**	5,718
	10,394,085	10,480,950	**20,093,711**	20,375,847

12 Net Interest Income

Interest income				
Placements with banks	**82,130**	343,003	**52,860**	474,501
Loans to and receivables from banks	**88,969**	176,869	**205,776**	269,133
Loans to and receivables from other customers	**7,235,442**	8,414,216	**14,240,041**	16,117,942
Other financial assets held-for-trading	**93,128**	22,020	**140,765**	31,840
Financial investments – held-to-maturity	**118,039**	30,318	**123,871**	42,018
Financial investments – available-for-sale	**388,312**	542,459	**1,331,350**	1,543,487
Others	**4,004**	751	**4,004**	751
	8,010,024	9,529,636	**16,098,667**	18,479,672
Interest expenses				
Due to banks	**110,795**	463,975	**189,818**	643,989
Due to other customers	**1,485,318**	1,688,643	**6,026,658**	7,056,688
Other borrowings	**1,341,627**	2,029,273	**1,341,627**	2,029,273
Debt securities issued	**1,737,707**	712,499	**1,849,481**	830,279
	4,675,447	4,894,390	**9,407,584**	10,560,229
Net interest income	**3,334,577**	4,635,246	**6,691,083**	7,919,443
Interest income on Sri Lanka Government Securities	**494,982**	612,312	**1,742,249**	1,795,580

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

For the year ended 31 March	BANK 2015 LKR 000	BANK 2014 LKR 000	GROUP 2015 LKR 000	GROUP 2014 LKR 000 Restated

13 Net Fee and Commission Income

Fee and commission income	**167,995**	115,296	**1,137,267**	849,105
Fee and commission expenses	–	–	**17,303**	6,442
Net fee and commission income	**167,995**	115,296	**1,119,964**	842,663
Comprising:				
Loans and advances	**100,212**	61,001	**503,530**	318,963
Credit cards	–	–	**24,641**	10,096
Trade and remittances	–	–	**326,306**	339,964
Guarantees	**27,743**	28,727	**145,090**	119,937
Management and consulting fees	**40,040**	25,568	**120,397**	53,703
Net fee and commission income	**167,995**	115,296	**1,119,964**	842,663

14 Net Gain from Trading

Foreign exchange	–	–	**144,429**	165,006
Fixed income securities	**146,679**	33,565	**335,559**	47,300
	146,679	33,565	**479,988**	212,306

15 Net gain/(loss) from Financial Instruments at Fair Value through Profit or Loss

Forward exchange fair value changes				
- Contracts with commercial banks	**81,577**	91,799	**96,819**	154,137
- Contract with CBSL (Note 42.1)	**574,935**	(478,080)	**574,935**	(478,080)
Realised gain on gold put option	–	–	**6,463**	–
	656,512	(386,281)	**678,217**	(323,943)

16 Net Gain from Financial Investments

Assets available-for-sale				
Gain on sale of equity securities	**1,135,054**	186,135	**1,135,054**	186,135
Gain on sale of Government securities	–	2,860	**4,909**	2,860
Dividend income	**777,536**	815,352	**777,803**	815,564
Dividend income from subsidiaries, joint venture and associate	**214,422**	176,560	–	–
Net gain from repurchase transactions	**23,415**	30,586	**283,304**	148,430
	2,150,427	1,211,493	**2,201,070**	1,152,989

For the year ended 31 March	BANK		GROUP	
	2015 LKR 000	2014 LKR 000	**2015 LKR 000**	2014 LKR 000 Rested

17 Other Operating (Loss)/Income (Net)

Premises rental income	**62,820**	60,931	**205,997**	192,475
Gain on investment properties	**–**	–	**–**	2,321
Gain on sale of property, plant and equipment	**1,717**	20,324	**1,077**	21,623
Foreign exchange loss	**(500,677)**	(651,397)	**(465,807)**	(800,191)
Recovery of loans written-off	**42,471**	75,467	**46,244**	80,030
Amortisation of deferred Income on Government grant - CBSL Swap (Note 42.2)	**(376,185)**	459,330	**(376,185)**	459,330
Others	**32,302**	12,586	**87,176**	50,130
	(737,552)	(22,759)	**(501,498)**	5,718

18 Impairment Charge for Loans and Other Losses

Loans to and receivables from other customers				
Specific allowance for impairment (Note 31.2.1)	**556,493**	157,036	**1,143,903**	714,762
Collective allowance for impairment (Note 31.2.2)	**(887,547)**	135,395	**(957,842)**	475,867
Impairment charge - Other debts	**8,355**	6,002	**11,775**	6,002
Impairment charge - Investment in subsidiaries (Note 34.1)	**11,000**	–	**–**	–
Write-offs - Loans to and receivables from other customers	**4,135**	5,555	**48,720**	5,555
- Financial investments	**–**	19,536	**–**	19,536
	(307,564)	323,524	**246,556**	1,221,722

19 Personnel Expenses

Salaries and other benefits	**752,623**	721,522	**1,900,124**	1,711,401
Provision for staff retirement benefits (Note 19.1)	**190,418**	184,974	**312,476**	285,015
	943,041	906,496	**2,212,600**	1,996,416

19.1 Provision for Staff Retirement Benefits

19.1.1 Amount Recognised as Expense

19.1.1.1 Funded Pension Liability

Current service cost	**77,397**	67,108	**77,397**	67,108
Interest on obligation	**167,979**	157,588	**167,979**	157,588
Expected return on pension assets	**(177,105)**	(162,026)	**(177,105)**	(162,026)
	68,271	62,670	**68,271**	62,670

19.1.1.2 Unfunded Pension Liability

Current service cost	**–**	6,464	**–**	6,464
Interest on obligation	**6,187**	7,190	**6,187**	7,190
	6,187	13,654	**6,187**	13,654

For the year ended 31 March	BANK 2015 LKR 000	BANK 2014 LKR 000	GROUP 2015 LKR 000	GROUP 2014 LKR 000 Restated
19.1.1.3 Unfunded end of Service Gratuity Liability				
Current service cost	**8,221**	7,191	**23,359**	16,409
Interest on obligation	**4,392**	3,709	**10,965**	7,666
Provision for gratuities computed on formula method	**–**	–	**–**	5,577
	12,613	10,900	**34,324**	29,652
Total defined benefit plans	**87,071**	87,224	**108,782**	105,976
19.1.1.4 Defined Contribution Plan				
Employer's contribution to employees' provident fund	**86,123**	81,458	**169,192**	148,766
Employer's contribution to employees' trust fund	**17,224**	16,292	**34,502**	30,273
Total defined contribution plans	**103,347**	97,750	**203,694**	179,039
Total expense recognised in the income statement	**190,418**	184,974	**312,476**	285,015

20 Other Expenses

	BANK 2015 LKR 000	BANK 2014 LKR 000	GROUP 2015 LKR 000	GROUP 2014 LKR 000 Restated
Directors' remuneration	**45,398**	48,711	**87,502**	74,350
Auditors' remuneration				
Audit fees and expenses	**4,032**	3,753	**6,023**	5,655
Audit related fees and expenses	**3,039**	7,343	**4,984**	8,815
Fees for non-audit services	**455**	936	**479**	1,203
Depreciation - Investment property	**–**	–	**11,285**	9,613
- Property, plant and equipment	**116,673**	113,066	**268,614**	247,036
Amortisation- Intangible assets	**23,682**	23,920	**100,232**	90,626
Expenses on litigation	**–**	–	**179**	151
Premises equipment and establishment expenses	**219,355**	222,692	**823,994**	730,124
Other overhead expenses	**313,993**	292,543	**759,604**	800,939
	726,627	712,964	**2,062,896**	1,968,512

21 Value Added Tax (VAT) and Nation Building Tax on Financial Services

	BANK 2015 LKR 000	BANK 2014 LKR 000	GROUP 2015 LKR 000	GROUP 2014 LKR 000 Restated
Financial services VAT - Current year	**499,986**	408,069	**741,924**	577,103
- Under provision for prior year	**106**	–	**7,353**	–
Nation building tax on financial services	**85,152**	24,937	**134,795**	24,937
	585,244	433,006	**884,072**	602,040

For the year ended 31 March	BANK 2015 LKR 000	BANK 2014 LKR 000	GROUP 2015 LKR 000	GROUP 2014 LKR 000 Restated

22 Tax Expenses

22.1 Composition

Current tax	**449,555**	569,318	**841,269**	852,351
Under/(Over) provisions in previous years	**22,868**	(877)	**54,183**	(46,818)
Deferred tax - origination and reversal of temporary differences	**58,519**	54,679	**81,906**	96,906
	530,942	623,120	**977,358**	902,439

22.2 Current Tax

Current tax is the amount of income tax payable in respect of the taxable profit for the financial year. 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			
For the year ended 31 March	2015		2014		2015		2014	
	%	**LKR 000**	%	LKR 000	**%**	**LKR 000**	%	LKR 000 Restated
Tax using 28% tax rate on profit before tax	**28.00**	**1,055,962**	28.00	898,960	**28.00**	**1,516,472**	28.00	1,152,886
Non-deductible expenses	**7.16**	**270,050**	5.24	168,393	**9.65**	**522,895**	8.76	360,584
Allowable deductions	**(3.93)**	**(148,355)**	(12.43)	(399,187)	**(7.30)**	**(395,287)**	(11.23)	(462,471)
Dividend income	**(8.11)**	**(305,851)**	(10.15)	(325,750)	**(5.65)**	**(305,851)**	(7.91)	(325,809)
Tax incentives	**(10.32)**	**(389,159)**	(2.87)	(92,238)	**(7.53)**	**(407,895)**	(3.40)	(140,065)
Taxable timing difference from capital allowances on assets	**(0.88)**	**(33,092)**	9.94	319,140	**(0.61)**	**(33,100)**	7.82	322,156
Tax losses from prior year	–	–	–	–	**(0.01)**	**(507)**	(0.29)	(12,029)
Taxed at different rates	–	–	–	–	**0.08**	**4,237**	(0.45)	(18,461)
Adjustments			–	–	**(1.10)**	**(59,695)**	(0.59)	(24,440)
Current tax expense	**11.92**	**449,555**	17.73	569,318	**15.53**	**841,269**	20.71	852,351

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.

23 Basic Earnings per Ordinary Share

Basic earnings per share of the Bank has been calculated by dividing the profit after income tax by the number of shares as at 31 March 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 March 2015.

	BANK		GROUP	
For the year ended 31 March	**2015**	2014	**2015**	2014
Profit attributable to equity holders of the Bank – LKR 000	**3,240,348**	2,587,450	**4,362,256**	3,151,400
Number of ordinary shares	**265,097,688**	265,097,688	**265,097,688**	265,097,688
Basic earnings per ordinary share – LKR	**12.22**	9.76	**16.46**	11.89

24 Analysis of Financial Instruments by Measurement Basis

24.1 Bank

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
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
	513,062	1,469,166	27,823,496	74,759,970	2,085,921	106,651,615
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
	1,737	–	–	68,830,613	–	68,832,350

As at 31 March 2014	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

24.2 Bank

Financial Assets						
Cash and cash equivalents	–	–	–	545,388	–	545,388
Placements with banks	–	–	–	2,681,779	–	2,681,779
Derivative assets held-for-risk management	1,630	–	–	–	–	1,630
Other financial assets held-for-trading	–	1,017,980	–	–	–	1,017,980
Loans to and receivables from banks	–	–	–	1,233,617	–	1,233,617
Loans to and receivables from other customers	–	–	–	61,341,469	–	61,341,469
Financial investments	–	–	25,073,488	–	535,958	25,609,446
Government grant receivable	276,878	–	–	–	–	276,878
	278,508	1,017,980	25,073,488	65,802,253	535,958	92,708,187
Financial Liabilities						
Due to banks	–	–	–	5,153,754	–	5,153,754
Derivative liabilities held-for-risk management	55,609	–	–	–	–	55,609
Due to other customers	–	–	–	16,630,363	–	16,630,363
Other borrowing	–	–	–	25,434,080	–	25,434,080
Debt securities issued	–	–	–	14,009,017	–	14,009,017
Subordinated term debt	–	–	–	609,373	–	609,373
	55,609	–	–	61,836,587	–	61,892,196

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

24.3 Group

Financial Assets						
Cash and cash equivalents	–	–	–	4,060,820	–	4,060,820
Balances with Central Banks	–	–	–	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
	573,588	1,469,166	45,826,878	146,888,488	10,872,287	205,630,407

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**
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**
	37,153	–		**158,586,120**	–	**158,623,273**

As at 31 March 2014 (Restated)	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

24.4 Group

Financial Assets						
Cash and cash equivalents	–	–	–	2,933,360	–	2,933,360
Balances with Central Banks	–	–	–	2,870,492	–	2,870,492
Placements with banks	–	–	–	3,138,181	–	3,138,181
Derivative assets held-for-risk management	183,892	–	–	–	–	183,892
Other financial assets held-for-trading	–	1,971,916	–	–	–	1,971,916
Loans to and receivables from banks	–	–	–	5,547,821	–	5,547,821
Loans to and receivables from other customers	–	–	–	112,167,194	–	112,167,194
Financial investments	–	–	39,901,586	–	1,073,703	40,975,289
Government grant receivable	276,878	–	–	–	–	**276,878**
	460,770	1,971,916	39,901,586	126,657,048	1,073,703	170,065,023
Financial Liabilities						
Due to banks	–	–	–	6,673,576	–	6,673,576
Derivative liabilities held-for-risk management	227,994	–	–	–	–	227,994
Due to other customers	–	–	–	80,917,356	–	80,917,356
Other borrowings	–	–	–	27,782,494	–	27,782,494
Debt securities issued	–	–	–	14,009,017	–	14,009,017
Subordinated term debt	–	–	–	1,609,674	–	1,609,674
	227,994	–	–	130,992,117	–	131,220,111

As at 1 April 2013 (Restated)	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
24.4 Group -						
Financial Assets						
Cash and cash equivalents	–	–	–	3,680,095	–	3,976,892
Balances with Central Banks	–	–	–	2,620,510	–	2,620,790
Placements with banks	–	–	–	7,541,088	–	7,541,088
Derivative assets held-for-risk management	119,642	–	–	–	–	119,642
Other financial assets held-for-trading	–	403,716	–	–	–	403,716
Loans to and receivables from banks	–	–	–	3,847,861	–	3,847,861
Loans to and receivables from other customers	–	–	–	98,629,535	–	98,629,535
Financial investments	–	–	27,573,595	–	75,022	27,648,617
	119,642	403,716	27,573,595	116,319,089	75,022	144,788,141
Financial Liabilities						
Due to banks	–	–	–	8,036,735	–	8,036,735
Derivative liabilities held-for-risk management	307,094	–	–	–	–	307,094
Due to other customers	–	–	–	62,878,401	–	62,750,266
Other borrowing	–	–	–	35,807,580	–	37,530,202
Debt securities issued	–	–	–	558,257	–	558,257
Subordinated term debt	–	–	–	1,609,690	–	1,609,690
	307,094	–	–	100,853,928	–	102,755,509

25 Cash and Cash Equivalents

	BANK		GROUP		
As at	**31.03.2015 LKR 000**	31.03.2014 LKR 000	**31.03.2015 LKR 000**	31.03.2014 LKR 000 Restated	01.04.2013 LKR 000 Restated
Cash in hand	**378**	511	**1,752,387**	1,747,690	2,114,750
Balances with banks	**110,198**	544,877	**2,308,433**	1,185,670	1,396,600
Money at call and short notice	**–**	–	**–**	–	168,745
	110,576	545,388	**4,060,820**	2,933,360	3,680,095

As at	GROUP 31.03.2015 LKR 000	31.03.2014 LKR 000 Restated	01.04.2013 LKR 000 Restated

26 Balances with Central Bank

Statutory balances with Central Bank of Sri Lanka	**2,616,406**	2,870,492	2,620,510

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

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

	BANK		GROUP		
As at	**31.03.2015 LKR 000**	31.03.2014 LKR 000	**31.03.2015 LKR 000**	31.03.2014 LKR 000 Restated	01.04.2013 LKR 000 Restated

27 Placements with Banks

Fixed deposits	**716,622**	2,681,779	**1,324,892**	3,138,181	7,541,088

		BANK		GROUP	
As at		**31.03.2015 LKR 000**	31.03.2014 LKR 000	**31.03.2015 LKR 000**	31.03.2014 LKR 000

28 Derivatives Held-for-Risk Management

28.1 Assets

Forward foreign exchange contracts	- Currency Swaps	**28,672**	1,518	**83,271**	154,112
	- Others	**663**	112	**6,590**	29,780
		29,335	1,630	**89,861**	183,892

28.2 Liabilities

Forward foreign exchange contracts	- Currency Swaps	**124**	54,907	**29,204**	198,928
	- Others	**1,613**	702	**7,949**	29,066
		1,737	55,609	**37,153**	227,994

As at	BANK 31.03.2015 LKR 000	BANK 31.03.2014 LKR 000	GROUP 31.03.2015 LKR 000	GROUP 31.03.2014 LKR 000 Restated	GROUP 01.04.2013 LKR 000 Restated

29 Other Financial Assets held-for-Trading

Government of Sri Lanka Treasury Bills	–	12,546	–	966,482	403,716
Government of Sri Lanka Treasury Bonds	**1,469,166**	1,005,434	**1,469,166**	1,005,434	–
	1,469,166	1,017,980	**1,469,166**	1,971,916	403,716

These financial assets held for trading are carried at fair value.

30 Loans to and Receivables from Banks

Gross loans and receivables	**484,067**	1,233,617	**3,563,647**	5,547,821	3,847,861
Allowance for impairment	–	–	–	–	–
Net loans and receivables	**484,067**	1,233,617	**3,563,647**	5,547,821	3,847,861

30.1 Analysis

30.1.1 By Product

Securities purchased under resale agreements	–	–	**281,234**	2,193,864	213,724
Refinanced Loans - Plantation development project	**314,517**	946,446	**314,517**	946,446	1,279,047
KFW* DFCC (V) SME in the North and the East	**169,550**	287,171	**169,550**	287,171	410,667
Sri Lanka Development Bonds	–	–	**2,798,346**	2,120,340	1,944,423
Gross loans and receivables	**484,067**	1,233,617	**3,563,647**	5,547,821	3,847,861

** KFW - Kreditanstalt Fur Wiederaufbau*

30.1.2 By Currency

Sri Lankan Rupee	**484,067**	1,233,617	**765,301**	3,427,481	1,903,438
United States Dollar	–	–	**2,798,346**	2,120,340	1,944,423
Gross loans and receivables	**484,067**	1,233,617	**3,563,647**	5,547,821	3,847,861

31 Loans to and Receivables from Other Customers

Gross loans and receivables (Note 31.1.1)	**76,350,160**	64,733,749	**141,332,579**	119,058,962	104,626,591
Specific allowance for impairment (Note 31.2.1)	**(1,932,635)**	(1,486,838)	**(4,001,868)**	(3,794,550)	(3,229,925)
Collective allowance for impairment (Note 31.2.2)	**(968,820)**	(1,905,442)	**(2,007,988)**	(3,097,218)	(2,767,131)
Net loans and receivables	**73,448,705**	61,341,469	**135,322,723**	112,167,194	98,629,535

As at	BANK 31.03.2015 LKR 000	BANK 31.03.2014 LKR 000	GROUP 31.03.2015 LKR 000	GROUP 31.03.2014 LKR 000 Restated	GROUP 01.04.2013 LKR 000 Restated

31.1 Analysis

31.1.1 By Product

	BANK 31.03.2015 LKR 000	BANK 31.03.2014 LKR 000	GROUP 31.03.2015 LKR 000	GROUP 31.03.2014 LKR 000 Restated	GROUP 01.04.2013 LKR 000 Restated
Overdrafts	–	–	**20,426,827**	19,506,108	15,677,997
Trade finance	–	–	**15,317,135**	13,099,299	10,299,298
Lease rentals receivable (Note 31.1.1.1)	**8,250,091**	8,109,397	**10,962,838**	9,611,637	10,722,720
Credit cards	–	–	**172,537**	114,956	62,118
Pawning	–	–	**1,720,937**	3,426,803	3,625,272
Staff loans	**583,621**	533,093	**1,028,735**	871,123	690,177
Term loans	**63,282,363**	51,382,876	**86,715,802**	66,894,773	57,935,547
Commercial papers and asset back notes	**2,385,756**	2,321,850	**2,385,756**	2,321,850	1,079,531
Debenture loans	**577,347**	886,132	**577,347**	886,132	1,096,741
Preference shares unquoted	**1,270,982**	1,500,401	**1,270,982**	1,500,401	1,792,405
Securities purchased under resale agreements	–	–	**753,683**	825,880	1,644,785
Gross loans and receivables	76,350,160	64,733,749	141,332,579	119,058,962	104,626,591

31.1.1.1 Lease Rentals Receivable

	BANK 31.03.2015 LKR 000	BANK 31.03.2014 LKR 000	GROUP 31.03.2015 LKR 000	GROUP 31.03.2014 LKR 000 Restated	GROUP 01.04.2013 LKR 000 Restated
Gross investment in leases:					
Lease rentals receivable					
- within one year	**4,062,394**	4,584,057	**5,239,805**	5,286,947	5,176,069
- one to five years	**5,733,058**	5,209,795	**7,879,730**	6,406,795	8,046,570
	9,795,452	9,793,852	**13,119,535**	11,693,742	13,222,639
Less: Deposit of rentals	**7,297**	13,894	**15,272**	19,934	25,411
Unearned income on rentals receivable					
- within one year	**796,299**	962,467	**1,079,721**	1,154,965	1,251,059
- one to five years	**741,765**	708,094	**1,061,704**	907,206	1,223,449
	8,250,091	8,109,397	**10,962,838**	9,611,637	10,722,720

31.1.2 By Currency

	BANK 31.03.2015 LKR 000	BANK 31.03.2014 LKR 000	GROUP 31.03.2015 LKR 000	GROUP 31.03.2014 LKR 000 Restated	GROUP 01.04.2013 LKR 000 Restated
Sri Lankan Rupee	**70,819,394**	60,620,392	**128,625,376**	108,980,757	**96,447,303**
United States Dollar	**5,530,766**	4,113,357	**12,257,859**	9,682,794	**7,857,067**
Great Britain Pound	–	–	**324,472**	305,380	**201,688**
Australian Dollar	–	–	**14,688**	19,706	**32,715**
Euro	–	–	**110,184**	70,325	**87,818**
Gross loans and receivables	76,350,160	64,733,749	141,332,579	119,058,962	**104,626,591**

As at	BANK 31.03.2015 LKR 000	BANK 31.03.2014 LKR 000	GROUP 31.03.2015 LKR 000	GROUP 31.03.2014 LKR 000 Restated	GROUP 01.04.2013 LKR 000 Restated

31.1.3 By Industry

As at	BANK 31.03.2015 LKR 000	BANK 31.03.2014 LKR 000	GROUP 31.03.2015 LKR 000	GROUP 31.03.2014 LKR 000 Restated	GROUP 01.04.2013 LKR 000 Restated
Agriculture and fishing	**3,738,938**	2,653,397	**12,504,037**	11,340,488	8,954,768
Manufacturing	**21,971,033**	18,229,030	**36,744,877**	30,274,534	28,744,509
Tourism	**6,911,685**	4,931,548	**8,560,968**	5,864,832	4,829,044
Transport	**3,315,608**	3,382,023	**4,939,098**	4,410,181	4,280,827
Construction	**9,145,886**	7,811,247	**13,193,926**	11,472,648	8,993,588
Traders	**11,774,944**	10,983,060	**30,172,954**	25,007,570	21,660,919
Financial and business services	**6,347,630**	7,298,096	**7,349,374**	8,173,064	7,051,910
Infrastructure	**6,973,946**	4,330,762	**8,464,095**	6,345,743	6,155,533
Other services	**5,788,567**	4,750,608	**9,644,160**	6,928,916	5,603,459
Consumer durables	**–**	–	**7,705,195**	7,062,375	6,209,668
New economy	**72,782**	79,025	**991,070**	1,067,778	803,573
Others	**309,142**	284,953	**1,062,825**	1,110,833	1,338,793
Gross loans and receivables	76,350,160	64,733,749	141,332,579	119,058,962	104,626,591

31.2 Movement in Specific and Collective Allowance for Impairment

31.2.1 Specific Allowance for Impairment

As at	BANK 31.03.2015 LKR 000	BANK 31.03.2014 LKR 000	GROUP 31.03.2015 LKR 000	GROUP 31.03.2014 LKR 000
Balance as at 1 April	**1,486,838**	1,477,986	**3,794,550**	3,229,925
Charge to income statement	**556,493**	157,036	**1,143,903**	714,762
Effect of foreign currency movements	**–**	–	**1,884**	5,563
Effect of discounting	**–**	(2,456)	**–**	(2,456)
Write-off loans & receivables	**(110,696)**	(145,728)	**(938,469)**	**(153,244)**
Balance on 31 March	**1,932,635**	1,486,838	**4,001,868**	3,794,550

31.2.2 Collective Allowance for Impairment

As at	BANK 31.03.2015 LKR 000	BANK 31.03.2014 LKR 000	GROUP 31.03.2015 LKR 000	GROUP 31.03.2014 LKR 000
Balance as at 1 April	**1,905,442**	1,868,892	**3,097,218**	2,767,131
Charge/(Write-back) to income statement	**(887,547)**	135,395	**(957,842)**	475,867
Effect of foreign currency movements	**–**	–	**(53)**	718
Transfer to dues on terminated leases	**(17,016)**	(15,460)	**(17,016)**	(15,460)
Write-off of loans & receivables	**(32,059)**	(83,385)	**(114,319)**	(131,038)
Balance on 31 March	**968,820**	1,905,442	**2,007,988**	3,097,218
Total	**2,901,455**	3,392,280	**6,009,856**	6,891,768

As at	BANK 31.03.2015 LKR 000	31.03.2014 LKR 000	GROUP 31.03.2015 LKR 000	31.03.2014 LKR 000 Restated	01.04.2013 LKR 000 Restated

32 *Financial Investments – Available-for-Sale*

Government of Sri Lanka Treasury Bills	**4,051,126**	4,659,319	**20,030,203**	18,674,580	10,846,584
Government of Sri Lanka Treasury Bonds	**1,497,382**	2,490,393	**3,516,272**	3,297,815	19,143
Equity securities					–
Quoted ordinary shares (Note 32.1)	**21,136,695**	17,261,361	**21,136,695**	17,261,361	16,038,566
Unquoted ordinary shares (Note 32.2)	**141,959**	141,959	**147,374**	147,374	149,874
Preference shares (Note 32.3)	**500**	500	**500**	500	500
Quoted units in Unit Trusts (Note 32.4)	**190,153**	218,525	**190,153**	218,525	198,680
Unquoted units in Unit Trusts (Note 32.5)	**805,681**	301,431	**805,681**	301,431	320,248
	27,823,496	25,073,488	**45,826,878**	39,901,586	27,573,595

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	31.03.2015 Number of ordinary shares	Cost* LKR 000	Fair value LKR 000	31.03.2014 Number of ordinary Shares	Cost* LKR 000	Fair value LKR 000

32.1 Quoted Ordinary Shares

Banks, Finance & Insurance						
Commercial Bank of Ceylon PLC – voting	**119,806,122**	**3,074,609**	**19,887,816**	117,951,857	2,862,295	14,390,127
Commercial Bank of Ceylon PLC – non-voting	**224,143**	**17,434**	**29,408**	219,963	17,039	21,336
Nations Trust Bank PLC	**–**	**–**	**–**	22,865,356	1,329,712	1,483,962
National Development Bank PLC	**2,000,000**	**352,369**	**497,000**	2,000,000	352,369	358,000
		3,444,412	**20,414,224**		4,561,415	16,253,425
Beverages, Food & Tobacco						
Ceylon Tobacco Company PLC	**59,532**	**3,360**	**59,472**	150,967	8,520	159,421
Distilleries Company of Sri Lanka PLC	**417,485**	**69,829**	**100,405**	1,087,200	181,846	220,702
		73,189	**159,877**		190,366	380,123

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

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

As at	31.03.2015			31.03.2014		
	Number of ordinary shares	Cost* LKR 000	Fair value LKR 000	Number of ordinary Shares	Cost* LKR 000	Fair value LKR 000
Chemicals and Pharmaceuticals						
Chemical Industries (Colombo) PLC – voting	247,900	14,131	18,840	247,900	14,131	11,279
Chemical Industries (Colombo) PLC – non-voting	389,400	15,577	22,391	389,400	15,577	14,525
		29,708	41,231		29,708	25,804
Construction and Engineering						
Access Engineering PLC	400,000	8,010	7,680	400,000	8,010	9,000
Colombo Dockyard PLC	160,000	22,645	26,480	200,000	28,306	34,640
Millennium Housing Developers PLC		–	–	1,500,000	2,500	9,600
		30,655	34,160		38,816	53,240
Diversified Holdings						
Carson Cumberbatch PLC	46,967	13,635	17,847	46,967	13,635	17,143
Hayleys PLC	7,333	2,225	2,200	7,333	2,225	2,090
Hemas Holdings PLC	496,560	16,297	36,994	620,700	20,371	23,462
John Keells Holdings PLC	126,258	10,080	25,138	157,823	12,600	35,905
John Keells Holdings PLC – Warrants	14,028	–	374	14,028	–	974
Richard Pieris & Co PLC	1,000,000	8,234	7,300	1,000,000	8,234	6,600
		50,471	89,853		57,065	86,174
Healthcare						
Ceylon Hospitals PLC – voting	100,000	2,306	11,500	100,000	2,306	11,500
Ceylon Hospitals PLC – non-voting	240,000	4,167	18,024	300,000	5,208	23,100
		6,473	29,524		7,514	34,600
Hotels & Travels						
Dolphin Hotels PLC	400,000	3,857	22,760	500,000	4,822	21,100
		3,857	22,760		4,822	21,100
Investment Trusts						
Ceylon Guardian Investment Trust PLC	150,688	5,616	27,727	277,000	10,324	49,306
Ceylon Investment PLC	485,592	15,587	44,189	765,000	24,556	56,993
		21,203	71,916		34,880	106,299

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

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

As at	31.03.2015			31.03.2014		
	Number of ordinary shares	Cost* LKR 000	Fair value LKR 000	Number of ordinary Shares	Cost* LKR 000	Fair value LKR 000
Telecommunications						
Dialog Axiata PLC	2,050,000	18,860	21,730	2,050,000	18,860	18,450
Manufacturing						
Ceylon Grain Elevators PLC	48,997	1,297	1,862	48,997	1,297	1,715
Chevron Lubricants Lanka PLC	330,814	11,020	130,010	588,000	19,588	155,408
Piramal Glass Ceylon PLC	7,500,000	21,036	42,750	7,500,000	21,036	25,500
Royal Ceramics Lanka PLC	139,800	16,996	15,797	139,800	16,996	11,044
Tokyo Cement Company (Lanka) PLC – non-voting	1,127,096	21,040	42,041	2,471,700	46,142	71,679
		71,389	232,460		105,059	265,346
Power and Energy						
Vallibel Power Erathna PLC	2,400,000	6,400	18,960	3,000,000	8,000	16,800
		6,400	18,960		8,000	16,800
Total Quoted Ordinary Shares – Bank/Group		3,756,617	21,136,695		5,056,505	17,261,361

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

As at	31.03.2015		31.03.2014	
	Number of ordinary shares	Cost* LKR 000	Number of ordinary Shares	Cost* LKR 000

32.2 Unquoted Ordinary Shares

Credit Information Bureau of Sri Lanka	8,884	888	8,884	888
Durdans Medical & Surgical Hospital (Pvt) Limited	1,273,469	16,029	1,273,469	16,029
Fitch Ratings Lanka Limited	62,500	625	62,500	625
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 Rubbers (Pvt) Limited	116,700	2,334	116,700	2,334
Sinwa Holdings Limited	460,000	9,200	460,000	9,200
Sun Tan Beach Resorts (Pvt) Limited	9,059,013	90,433	9,059,013	90,433
The Video Team (Pvt) Limited	30,000	300	30,000	300
Wayamba Plantations (Pvt) Limited	2,750,000	9,750	2,750,000	9,750
Total unquoted ordinary shares - Bank		141,959		141,959
Investments in unquoted ordinary shares by subsidiaries (Note 32.2.1)		5,415		5,415
Total unquoted ordinary shares - Group		147,374		147,374

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

As at	31.03.2015		31.03.2014	
	Number of ordinary shares	**Cost LKR 000**	Number of ordinary Shares	Cost LKR 000

32.2.1 Investments in Unquoted Ordinary Shares by Subsidiaries

Credit Information Bureau of Sri Lanka	**300**	**30**	300	30
Lankaclear (Pvt) Limited	**100,000**	**1,000**	100,000	1,000
Lanka Financial Services Bureau Limited	**100,000**	**1,000**	100,000	1,000
Society for Worldwide Interbank Financial Telecommunication	**6**	**3,385**	6	3,385
		5,415		5,415

As at	31.03.2015			31.03.2014		
	Number of ordinary shares	**Cost LKR 000**	**Fair value LKR 000**	Number of ordinary shares	Cost LKR 000	Fair value LKR 000

32.3 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

32.4 Quoted Units in Unit Trusts

NAMAL Acuity Value Fund	**2,112,810**	**106,070**	**190,153**	3,018,300	151,528	218,525
Total investments in quoted units – Bank/Group		**106,070**	**190,153**		151,528	218,525

32.5 Unquoted Units in Unit Trusts

NAMAL Growth Fund	**155,000**	**251,539**	**266,465**	155,000	1,539	16,647
NAMAL Income Fund	**14,012,129**	**143,059**	**169,687**	14,012,129	143,059	164,222
NAMAL Money Market Fund	**10,030,193**	**107,391**	**111,723**	10,030,193	101,241	105,316
National Equity Fund	**500,000**	**5,313**	**16,315**	500,000	5,313	15,246
Guardian Acuity Equity Fund	**9,052,504**	**150,000**	**147,917**	–	–	–
JB Vantage Value Equity Fund	**5,224,660**	**100,000**	**93,574**	–	–	–
Total investments in unquoted Unit Trusts – Bank/Group		**757,302**	**805,681**		251,152	301,431

As at	Ordinary Shares Quoted LKR 000	Ordinary Shares Unquoted LKR 000	Preference Unquoted LKR 000	Unit Trusts Quoted LKR 000	Unit Trusts Unquoted LKR 000	Total **31.03.2015 LKR 000**	Total 31.03.2014 LKR 000 Restated	Total 01.04.2013 LKR 000 Restated

32.6 Equity Securities

32.6.1 Composition*

32.6.1.1 Bank

	Ordinary Shares Quoted	Ordinary Shares Unquoted	Preference Unquoted	Unit Trusts Quoted	Unit Trusts Unquoted	**31.03.2015**	31.03.2014	01.04.2013
Performing investments	21,136,695	39,076	500	190,153	297,725	**21,664,149**	17,804,546	16,519,937
Non-performing investments	–	102,883	–	–	507,956	**610,839**	119,230	182,516
	21,136,695	141,959	500	190,153	805,681	**22,274,988**	17,923,776	16,702,453

32.6.1.2 Group

	Ordinary Shares Quoted	Ordinary Shares Unquoted	Preference Unquoted	Unit Trusts Quoted	Unit Trusts Unquoted	**31.03.2015**	31.03.2014	01.04.2013
Performing investments	21,136,695	41,106	500	190,153	297,725	**21,666,179**	17,805,576	16,525,352
Non-performing investments	–	106,268	–	–	507,956	**614,224**	123,615	182,516
	21,136,695	147,374	500	190,153	805,681	**22,280,403**	17,929,191	16,707,868

** Disclosure as per the Direction on the prudential norms for classification,valuation and operation of the Bank's investment portfolio.*

33 Financial Investments – Held-to-Maturity

As at	BANK **31.03.2015 LKR 000**	BANK 31.03.2014 LKR 000	GROUP **31.03.2015 LKR 000**	GROUP 31.03.2014 LKR 000 Restated	GROUP 01.04.2013 LKR 000 Restated
Quoted debentures (Note 33.1)	**2,085,921**	535,958	**3,124,755**	1,073,703	**75,022**
Sri Lanka Government Securities					
Treasury bills	**–**	–	**6,977,913**	–	–
Treasury bonds	**–**	–	**769,619**	–	–
	2,085,921	535,958	**10,872,287**	1,073,703	75,022

As at	31.03.2015		31.03.2014	
	Number of debentures	**Cost of investment LKR 000**	Number of debentures	Cost of investment LKR 000

33.1 Quoted Debentures

Abans PLC	**2,500,000**	**258,631**	2,500,000	258,784
Alliance Finance Company PLC	**4,221,693**	**431,682**	–	–
Central Finance Company PLC – Type A	**134,400**	**13,864**	134,400	13,871
Central Finance Company PLC – Type C	**1,793,900**	**185,263**	1,793,900	185,362
Lion Brewery (Ceylon) PLC	**1,412,500**	**144,712**	–	–
People's Leasing & Finance PLC	**748,500**	**77,878**	748,500	77,941
People's Leasing & Finance PLC – Type B	**328,800**	**33,633**	–	–
Hemas Holdings PLC	**827,900**	**87,330**	–	–
Richard Pieris and Company PLC	**1,201,000**	**126,536**	–	–
Singer (Sri Lanka) PLC	**1,267,000**	**129,200**	–	–
Vallibel Finance PLC	**3,500,000**	**350,099**	–	–
Softlogic Finance PLC	**418,200**	**42,851**	–	–
Siyapatha Finance Ltd	**2,000,000**	**204,242**	–	–
Total investments in quoted debentures – Bank		2,085,921		535,958
Investments in quoted debentures by Subsidiaries:				
People's Leasing and Finance PLC	**2,249,000**	**259,528**	2,000,000	225,599
Lion Brewery (Ceylon) PLC	**71,000**	**73,347**	71,000	73,347
Alliance Finance Company PLC	**1,500,000**	**161,654**	1,500,000	155,781
HDFC Bank	**532,200**	**55,128**	532,200	54,645
Central Finance Company PLC	**281,800**	**30,004**	281,800	28,373
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		537,745
Total investments in quoted debentures – Group		3,124,755		1,073,703

	DFCC Consulting (Pvt) Limited Ownership 100% LKR 000	DFCC Vardhana Bank PLC Ownership 99.2% LKR 000	Lanka Industrial Estates Limited Ownership 51.2% LKR 000	Synapsys Limited Ownership 100% LKR 000	BANK 31.03.2015 LKR 000	BANK 31.03.2014 LKR 000
34 Investments in Subsidiaries						
Balance at beginning	5,000	5,823,028	97,036	70,000	**5,995,064**	3,782,453
Investment in rights issue	–	–	–	–	**–**	2,212,611
Balance before impairment	5,000	5,823,028	97,036	70,000	**5,995,064**	5,995,064
Less: Allowance for impairment (Note 34.1)	–	–	–	**37,500**	**37,500**	26,500
Balance net of impairment	5,000	5,823,028	97,036	32,500	**5,957,564**	5,968,564

34.1 Movement in Impairment Allowance

	2015	2014
Balance at beginning	**26,500**	26,500
Charge to income statement	**11,000**	–
Balance on 31 March	**37,500**	26,500

34.2 Non-Controling 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 Year Ended 31 March		NCI as at 31 March		Dividends Paid to NCI year ended 31 March	
	2015 %	**2015 %**	**2015 LKR 000**	2014 LKR 000	**2015 LKR 000**	2014 LKR 000	**2015 LKR 000**	2014 LKR 000
DFCC Vardhana Bank PLC	**0.83**	**0.83**	**8,777**	6,088	**73,217**	65,617	**1,176**	965
Lanka Industrial Estates Limited	**48.84**	**48.84**	**67,153**	58,136	**280,665**	268,111	**54,600**	54,600
			75,930	64,224	**353,882**	333,728	**55,776**	55,565

34.3 Summarised Financial Information of Subsidiaries

Lanka Industrial Estates Limited

As at	**31.03.2015 LKR 000**	31.03.2014 LKR 000
Assets	**674,782**	644,997
Liabilities	**100,169**	96,085
Equity	**574,613**	548,912
For the year ended		
Revenue	**210,734**	189,203
Profit after tax	**137,314**	119,042
Other comprehensive income	**170**	(16)
Total comprehensive income	**137,484**	119,026

Summarised Financial Information of DFCC Vardhana Bank PLC is not given since NCI is not material.

As at	BANK 31.03.2015 LKR 000	BANK 31.03.2014 LKR 000	GROUP 31.03.2015 LKR 000	GROUP 31.03.2014 LKR 000

35 Investments in Associate (Unquoted)

National Asset Management Limited (Ownership 30%)				
Balance at beginning	35,270	35,270	54,164	53,467
Share of profit after tax	–	–	14,967	6,334
Share of other comprehensive income	–	–	829	363
Dividend received – Elimination on consolidation	–	–	(6,000)	(6,000)
Balance on 31 March	35,270	35,270	63,960	54,164

35.1 Summarised Financial Information of Associate

As at	31.03.2015 LKR 000	31.03.2014 LKR 000
National Asset Management Limited		
Assets	247,641	191,398
Liabilities	34,494	10,905
Equity	213,147	180,493
For the year ended		
Revenue	141,886	89,928
Profit after tax	49,890	20,796
Other comprehensive income	2,763	1,527
Total comprehensive income	52,653	22,323

36 Investments in Joint Venture (unquoted)

36.1 Investments in joint venture - Bank

As at	31.03.2015 Cost of Investment LKR 000	31.03.2014 Cost of Investment LKR 000
Acuity Partners (Pvt) Limited (ownership 50%)	655,000	655,000

36.2 Investment in Joint Venture - Group

As at	31.03.2015 LKR 000	31.03.2014 LKR 000 Restated
Share of identifiable assets and liabilities of joint venture as at 1 April	1,159,599	1,032,315
Share of unrealised profit on disposal of investments	(184,688)	(184,688)
Balance at beginning	974,911	847,627
Share of profit net of tax	138,303	90,632
Share of other comprehensive income	8,378	14,010
Change in holding - through subsidiary of joint venture	28,632	43,666
Dividend received during the year	(26,199)	(21,024)
Group's share of net assets as at 31 March	1,124,025	974,911

36.3 Composition of Assets and Liabilities in the Investment in Joint Venture as at 01 April 2013

The Group adopted Sri Lanka Accounting Standard (SLFRS 11) - 'Joint arrangements' with effect from 01 April 2014. Accordingly, the Group changed its method of accounting for the investment in joint venture from proportionate consolidation to equity method. In accordance with the transitional provisions set out in SLFRS 11 the Group applied the standard with retrospective effect. The composition of the assets and liabilities within the investment in joint venture as at 01 April 2013 is given below:

	LKR 000
Cash and cash equivalents	349,933
Statutory deposit with Central Bank of Sri Lanka	280
Placements with banks	75,000
Other financial assets held-for-trading	189,692
Financial investments – Available-for-sale	86,069
Financial investments – Held-to-maturity	82,941
Non-current assets held-for-sale	2,875
Loans and receivable to banks	1,811,384
Loans and advances	20,409
Investments in associate companies	361,784
Property, plant and equipment	29,863
Intangible assets	2,031
Other assets	338,780
Total assets (A)	3,351,041
Due to banks	254,188
Borrowings	1,747,965
Deferred tax liability	246
Other liabilities	113,533
Total liabilities (B)	2,115,932
Non-controlling interest (C)	202,794
Share of identifiable assets and liabilities of joint venture as at 01 April 2013 (A - B - C)	1,032,315

36.4 Restatement due to the Change in Accounting Policy

	Total
	LKR 000
Profit for the year ended 31 March 2014 as previously stated	3,249,675
Adjustment for the profit attributable to non-controlling interest due to change in accounting policy	(34,662)
Restated Profit for the year ended 31 March 2014	3,215,013

36.5 Summarised Financial Information of Joint Venture - Acuity Partners (Pvt) Limited

For the year ended	**31.03.2015 LKR 000**	31.03.2014 LKR 000	01.04.2013 LKR 000
Revenue	**916,313**	583,650	448,481
Depreciation	**30,958**	36,771	24,095
Income tax expense	**70,658**	96,435	22,515
Profit after tax	**448,246**	241,982	95,662
Other comprehensive income	**19,345**	40,699	(8,420)
Total comprehensive income	**467,591**	282,681	87,242

As at	**31.03.2015 LKR 000**	31.03.2014 LKR 000	01.04.2013 LKR 000
Current assets	**7,000,804**	5,727,237	5,436,304
Non-current assets	**3,299,730**	2,143,016	1,513,627
Current liabilities	**5,915,668**	4,414,520	3,720,387
Non-current liabilities	**575,605**	514,691	716,145

37 Due from Subsidiaries

	BANK	
As at	**31.03.2015 LKR 000**	31.03.2014 LKR 000
DFCC Consulting (Pvt) Limited	–	4
DFCC Vardhana Bank PLC	**122,712**	37,970
Synapsys Limited	**12,379**	5,054
	135,091	43,028

38 Investment Properties

	GROUP		
As at	**31.03.2015 LKR 000**	31.03.2014 LKR 000 Restated	01.04.2013 LKR 000 Restated
Cost			
Balance at beginning	**280,467**	257,058	230,638
Acquisitions	**14,074**	30,489	56,664
Disposals	–	(7,080)	(22,807)
Transfers	–	–	(7,437)
Balance on 31 March	**294,541**	280,467	257,058
Less: Accumulated Depreciation			
Balance at beginning	**97,186**	87,573	82,657
Charge for the year	**11,285**	9,613	8,834
Transfers	–	–	(3,918)
Balance on 31 March	**108,471**	97,186	87,573
Net book value on 31 March	**186,070**	**183,281**	169,485

As at 31 March 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
38.1 List of Investment Properties						
Pattiwila Road, Sapugaskanda, Makola	**280,000**	**20,000**	**294,541**	**108,471**	**186,070**	**1,096,558**

The fair value of investment property as at 31 March 2015 situated at Pattiwila Road, Sapugaskanda, Makola was based on market valuation carried out in April 2014 by Mr P B Kalugalagedara Chartered Valuer fellow member of Institute of valuers (Sri Lanka).

Rental income from investment property of Group for 2015, LKR 173 million (2014 - LKR 161 million)
Operating expenses on investment property of Group for 2015 - LKR 18 million (2014 - LKR 17 million)

39 Property, Plant and Equipment

39.1 Composition: Bank

	Land & buildings LKR 000	Office equipment LKR 000	Furniture & fittings LKR 000	Motor vehicles LKR 000	Total LKR 000
Cost as at 31.03.2014	299,516	614,746	241,773	239,090	1,395,125
Acquisitions	94	12,852	1,971	23	14,940
Less: Disposals	–	129	–	–	129
Cost as at 31.03.2015	**299,610**	**627,469**	**243,744**	**239,113**	**1,409,936**
Accumulated depreciation as at 31.03.2014	168,751	489,396	135,966	147,997	942,110
Depreciation for the year	12,399	43,172	22,801	38,301	116,673
Less: Disposals	–	54	–	–	54
Accumulated depreciation as at 31.03.2015	**181,150**	**532,514**	**158,767**	**186,298**	**1,058,729**
Net book value as at 31.03.2015	**118,460**	**94,955**	**84,977**	**52,815**	**351,207**
Net book value as at 31.03.2014	130,765	125,350	105,807	91,093	453,015

As at 31 March 2015	Buildings Sq. Ft.	Extent of land Perches*	Cost LKR 000	Accumulated depreciation/ impairment LKR 000	Net Book value LKR 000
39.1.1 List of Freehold Land and Buildings					
73/5, Galle Road, Colombo 3	**57,200**	**104.45**	**82,268**	**60,897**	**21,371**
5, Deva Veediya, Kandy	**4,600**	**12.54**	**16,195**	**6,927**	**9,268**
259/30, Kandy Road, Bambarakelle, Nuwara-Eliya	–	**28.72**	**7,279**	–	**7,279**
73, W A D Ramanayake Mawatha, Colombo 2	**21,400**	**45.00**	**191,268**	**113,326**	**77,942**
4 A, 4th Cross Lane, Borupana, Ratmalana	–	**20.00**	**2,600**	–	**2,600**
			299,610	**181,150**	**118,460**

** 1 perch = 25.2929m²; 1 sq ft = 0.0929m²*

	LKR million	Date of valuation
39.1.2 Market Value of Properties		
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
4A, 4th Cross Lane, Borupana, Ratmalana	10	31.03.2014

(Valued by Mr A A M Fathihu - Former Government Chief Valuer)

39.2 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 LKR 000
Cost as at 01.04.2013 as previously stated	519,351	1,192,966	677,447	337,160	–	2,726,924
Impact on change in accounting policy – Investment in Joint Venture	(5,133)	(31,172)	(28,720)	(14,475)	–	(79,500)
Cost as at 01.04.2013 - Restated	514,218	1,161,794	648,727	322,685	–	2,647,424
Acquisitions	19,440	206,967	57,754	31,448	26,482	342,091
Less: Disposals/write-off	2,421	92,689	29,688	37,527	–	162,325
Cost as at 31.03.2014	531,237	1,276,072	676,793	316,606	26,482	2,827,190
Acquisitions	36,828	97,409	42,853	1,144	53,859	232,093
Less: Disposals	–	1,762	433	967	–	3,162
Cost as at 31.03.2015	**568,065**	**1,371,719**	**719,213**	**316,783**	**80,341**	**3,056,121**
Accumulated depreciation as at 01.04.2013 as previously stated	**264,150**	**917,138**	**330,694**	**187,287**		**1,699,269**
Impact on change in accounting policy – Investment in Joint Venture	–	**(21,020)**	**(22,663)**	**(5,954)**	–	**(49,637)**
Accumulated depreciation as at 01.04.2013 - Restated	264,150	896,118	308,031	181,333	–	1,649,632
Depreciation for the year	20,422	113,355	64,129	49,130	–	247,036
Less: Disposals/write-off	2,421	92,483	28,699	35,063	–	158,666
Accumulated depreciation as at 31.03.2014	282,151	916,990	343,461	195,400	–	1,738,002
Depreciation for the year	21,192	126,907	68,602	51,913	–	268,614
Less: Disposals	–	1,687	176	564	–	2,427
Accumulated depreciation as at 31.03.2015	**303,343**	**1,042,210**	**411,887**	**246,749**	**–**	**2,004,189**
Net book value as at 31.03.2015	**264,722**	**329,509**	**307,326**	**70,034**	**80,341**	**1,051,932**
Net book value as at 31.03.2014	249,086	359,082	333,332	121,206	26,482	1,089,188
Net book value as at 01.04.2013	250,068	265,676	340,696	141,352	–	997,792

39.3 Fully Depreciated Property Plant & Equipment – Bank

The initial cost of fully depreciated property, plant & equipment which are still in use as at the reporting date is as follows:

As at	BANK **31.03.2015 LKR 000**	 31.03.2014 LKR 000
Land & buildings	**58,571**	58,571
Office equipment	**425,422**	399,005
Furniture & fittings	**21,064**	6,897
Motor vehicles	**47,606**	47,606
	552,663	512,079

As at	BANK **31.03.2015 LKR 000**	 31.03.2014 LKR 000	GROUP **31.03.2015 LKR 000**	 31.03.2014 LKR 000 Restated
40 *Intangible Assets*				
Cost as at 1 April as previously stated	**383,225**	392,489	**1,105,782**	1,059,649
Impact on change in accounting policy - Investment in Joint Venture	–	–	–	(8,806)
Cost as at 1 April – Restated	**383,225**	392,489	**1,105,782**	1,050,843
Acquisitions	**45,834**	4,220	**143,144**	68,423
Less: Write-off*	**2,252**	13,484	**2,252**	13,484
Cost as at 31 March	**426,807**	383,225	**1,246,674**	1,105,782
Accumulated depreciation as at 1 April as previously stated	**322,847**	312,411	**868,348**	797,981
Impact on change in accounting policy - Investment in Joint Venture	–	–	–	(6,775)
Accumulated depreciation as at 1 April - Restated	**322,847**	312,411	**868,348**	791,206
Amortisation for the year	**23,682**	23,920	**100,232**	90,626
Less: Write-off*	**2,102**	13,484	**2,102**	13,484
Accumulated amortisation as at 31 March	**344,427**	322,847	**966,478**	868,348
Net book value as at 31 March	**82,380**	60,378	**280,196**	237,434

** Software not in use was written-off.*

As at	GROUP **31.03.2015 LKR 000**	 31.03.2014 LKR 000 Restated	 01.04.2013 LKR 000 Restated
41 *Goodwill on Consolidation*			
DFCC Vardhana Bank PLC	**146,603**	146,603	146,603
Lanka Industrial Estates Limited	**9,623**	9,623	9,623
	156,226	156,226	156,226

42 Government Grant Receivable/Deferred Income - CBSL Swap

	BANK		GROUP	
As at	**31.03.2015 LKR 000**	31.03.2014 LKR 000	**31.03.2015 LKR 000**	31.03.2014 LKR 000
42.1 Government Grant - Receivable				
Fair value at the beginning of the period/initial contract date	**276,878**	754,958	**276,878**	754,958
Change in fair value on the renewal of contract	**(368,086)**	–	**(368,086)**	–
Change in fair value during the period (Note 15)	**574,935**	(478,080)	**574,935**	(478,080)
Fair value at the end of period	**483,727**	276,878	**483,727**	276,878
42.2 Government Grant - Deferred Income				
Fair value at the beginning of the period/initial contract date	**295,628**	754,958	**295,628**	754,958
Change in fair value on the renewal of contract	**(368,086)**	–	**(368,086)**	–
Change in fair value during the period	**574,935**	(478,080)	**574,935**	(478,080)
Foreign exchange (loss)/gain on revaluation	**(198,750)**	18,750	**(198,750)**	18,750
Amortisation of deferred income on Government grant (Note 17)	**376,185**	(459,330)	**376,185**	(459,330)
Fair value at the end of period	**303,727**	295,628	**303,727**	295,628

DFCC Bank PLC (DFCC) 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 2014.

The currency SWAP arrangement, pursuant to Government policy for the principal amount only is designed to reimburse DFCC by CBSL for any exchange loss incurred and conversely for DFCC to pay CBSL any exchange gain arising from depreciation of LKR vis-a-vis USD or appreciation of LKR vis-a-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 in to 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.

As at	BANK 31.03.2015 LKR 000	BANK 31.03.2014 LKR 000	GROUP 31.03.2015 LKR 000	GROUP 31.03.2014 LKR 000 Restated	GROUP 01.04.2013 LKR 000 Restated

43 Deferred Tax Asset/Liability

Deferred tax liability (Note 43.1)	**486,855**	433,071	**642,021**	553,222	455,438
Deferred tax asset (Note 43.2)	**–**	–	**1,562**	2,285	834
Net total	**486,855**	433,071	**640,459**	550,937	454,604

43.1 Deferred Tax Liability

Balance at beginning	**445,366**	388,943	**589,884**	498,167	387,616
Recognised in income statement	**61,024**	56,423	**134,953**	91,717	110,551
Recognised in other comprehensive income	**163**	–	**17,892**	–	–
	506,553	445,366	**742,729**	589,884	498,167
Transferred from deferred tax asset	**(19,698)**	(12,295)	**(100,708)**	(36,662)	(42,729)
	486,855	433,071	**642,021**	553,222	455,438

43.2 Deferred Tax Asset

Balance at beginning	**12,295**	10,383	**38,947**	43,563	21,014
Recognised in income statement	**2,505**	1,744	**53,047**	(5,189)	21,178
Recognised in other comprehensive income	**4,898**	168	**10,276**	573	1,371
	19,698	12,295	**102,270**	38,947	43,563
Offset against deferred tax liability	**(19,698)**	(12,295)	**(100,708)**	(36,662)	(42,729)
	–	–	**1,562**	2,285	834

43.3 Recognised Deferred Tax Assets and Liabilities

Assets					
Property, equipment and software	**–**	–	**35**	–	–
Gratuity liability and actuarial loss on defined benefit plans	**19,698**	12,295	**44,182**	28,489	43,563
Excess of 1% ceiling on bad and doubtful debts	**–**	–	**24,842**	–	–
Tax losses on finance leases	**–**	–	**33,211**	10,458	–
	19,698	12,295	**102,270**	38,947	43,563
Liabilities					
Property, equipment and software	**41,175**	39,224	**128,431**	114,464	98,725
Finance leases	**465,215**	406,142	**596,406**	475,420	399,442
Fair value of available for sale financial assets	**163**	–	**17,892**	–	–
	506,553	445,366	**742,729**	589,884	498,167

As at	GROUP 31.03.2015 LKR 000	31.03.2014 LKR 000

43.4 Unrecognised Deferred Tax Assets

Taxable Losses		
DFCC Consulting (Pvt) Limited - Subsidiary	**16,187**	4,532
Synapsys Limited - Subsidiary*	**21,670**	2,167
	37,857	6,699

** Tax effect at 10%*

As at	BANK 31.03.2015 LKR 000	31.03.2014 LKR 000	GROUP 31.03.2015 LKR 000	31.03.2014 LKR 000 Restated	01.04.2013 LKR 000 Restated

44 Other Assets

Refundable deposits and advances	**57,024**	92,191	**211,775**	277,264	360,754
Dividend due	**435,050**	474,219	**435,050**	474,219	499,593
Debtors	**225,051**	254,367	**1,441,576**	1,282,690	1,334,655
Receivable from pension fund (Note 49.1.3)	**–**	161,230	**–**	161,230	70,022
	717,125	982,007	**2,088,401**	2,195,403	2,265,024

45 Due to Banks

Balances with foreign banks	**–**	–	**1,003,855**	996,008	1,423
Borrowing - Local banks	**–**	–	**1,886,673**	938,815	1,595,204
Borrowing - Other local sources	**1,600,288**	2,351,249	**1,600,288**	2,351,249	6,399,596
Securities sold under repurchase (Repo) agreements	**–**	2,802,505	**1,151,206**	2,387,504	40,512
Bank Overdrafts	**328,579**	–	**330,545**	–	–
	1,928,867	5,153,754	**5,972,567**	6,673,576	8,036,735

As at	BANK 31.03.2015 LKR 000	BANK 31.03.2014 LKR 000	GROUP 31.03.2015 LKR 000	GROUP 31.03.2014 LKR 000 Restated	GROUP 01.04.2013 LKR 000 Restated

46 Due to Other Customers

Balance on 31 March	**22,484,652**	16,630,363	**92,711,793**	80,917,356	62,878,401

46.1 Analysis

46.1.1 By Product

Demand deposits (current accounts)	–	–	**3,605,464**	1,909,231	1,438,682
Savings deposits	–	–	**15,650,249**	12,981,665	10,005,848
Fixed deposits	**22,484,652**	16,630,363	**72,682,602**	64,790,341	50,931,526
Certificate of deposits	–	–	**546,523**	586,707	370,833
Other deposits	–	–	**226,955**	649,412	131,512
	22,484,652	16,630,363	**92,711,793**	80,917,356	62,878,401

46.1.2 By Currency

Sri Lankan Rupee	**22,484,652**	16,616,195	**84,178,004**	72,474,579	52,957,435
United States Dollar (USD)	–	14,168	**5,096,847**	4,550,791	5,816,060
Great Britain Pound (GBP)	–	–	**831,443**	864,487	2,465,352
Others	–	–	**2,605,499**	3,027,499	1,639,554
	22,484,652	16,630,363	**92,711,793**	80,917,356	62,878,401

47 Other Borrowing

Repayable in foreign currency					
Borrowing sourced from					
Multilateral institutions	**3,645,633**	3,861,248	**3,645,633**	3,861,248	3,960,348
Bilateral institutions	**4,001,694**	5,029,962	**4,001,694**	5,029,962	11,032,295
	7,647,327	8,891,210	**7,647,327**	8,891,210	14,992,643
Repayable in Rupees					
Borrowing sourced from					
Multilateral institutions	**14,814,449**	13,965,048	**14,814,449**	13,965,048	15,473,232
Bilateral institutions	**1,411,145**	1,991,184	**1,411,145**	1,991,184	3,849,912
Central Bank of Sri Lanka – refinance loans (secured)	**488,876**	586,638	**488,876**	586,638	502,075
Securities sold under repurchase (Repo) agreements	–	–	**14,484,375**	2,348,414	989,718
	16,714,470	16,542,870	**31,198,845**	18,891,284	20,814,937
	24,361,797	25,434,080	**38,846,172**	27,782,494	35,807,580

47.1 Assets Pledged as Security

Nature	31.03.2015 LKR 000
Assignment in terms of Section 88 A of the Monetary Law of Loans refinanced by Central Bank	488,876

48 Debt Securities Issued

Year of issuance	Face value LKR 000	Interest rate %	Repayment terms	Issue date	Maturity date	BANK/GROUP 31.03.2015 LKR 000	BANK/GROUP 31.03.2014 LKR 000
Issued by Bank							
i. Debenture issue (LKR)							
- Unlisted	36,400	16.00	2 Years	22 Jan. 2013	22 Jan. 2015	–	**37,436**
	506,000	16.50	3 Years	22 Jan. 2013	22 Jan. 2016	**525,638**	**525,974**
- Listed	5,000,000	8.50	3 Years	18 Aug. 2014	17 Aug. 2017	**5,174,080**	–
ii. Notes issue (USD)	13,075,000	9.625	5 Years	1 Nov. 2013	31 Oct. 2018	**13,746,206**	13,445,607
						19,445,924	14,009,017
Due within one year						**525,638**	37,436
Due after one year						**18,920,286**	13,971,581
						19,445,924	14,009,017

Carrying values are the discounted amounts of principal and interest.

48.1 Listed Debentures

Debenture category	Interest payable frequency	Applicable interest rate (%)	Comparative government securities	Balance as at 31.03.2015 LKR 000	Maturity date Highest	Maturity date Lowest	Maturity date Last Traded	Yield last traded %
Fixed Rate:								
20014/2017	Annually	8.50	8.60%	**3,997,528**	99.92	99.92	99.92	8.50
20014/2017	Semi-annually	8.33	8.60%	**877,025**	100.30	100.30	100.30	8.21
20014/2017	Quarterly	8.24	8.60%	**299,527**	N/T	N/T	N/T	N/T

N/T - Not Traded

Ratios	31.03.2015	31.03.2014
Debt to equity ratio (times)	1.05	1.07
Interest cover (times)	**1.38**	1.34
Liquid asset ratio (%)	**47.6**	77.5

As at	BANK 31.03.2015 LKR 000	BANK 31.03.2014 LKR 000	GROUP 31.03.2015 LKR 000	GROUP 31.03.2014 LKR 000 Restated	GROUP 01.04.2013 LKR 000 Restated

49 Other Liabilities

Accruals	**47,180**	49,089	**49,508**	52,508	67,427
Prior years' dividends	**40,025**	33,176	**40,025**	33,176	27,382
Security deposit for leases	**4,065**	4,065	**18,141**	12,954	41,806
Prepaid loan and lease rentals	**104,049**	88,601	**104,049**	88,601	95,292
Account payables	**266,456**	267,917	**1,804,536**	1,585,340	1,676,251
Provision for staff retirement benefits (Note 49.1)	**140,638**	112,660	**242,961**	181,428	167,607
Other provisions (Note 49.2)	**237,743**	197,187	**327,707**	274,980	246,905
	840,156	752,695	**2,586,927**	2,228,987	2,322,670

As at	BANK 31.03.2015 LKR 000	BANK 31.03.2014 LKR 000	GROUP 31.03.2015 LKR 000	GROUP 31.03.2014 LKR 000

49.1 Provision for Staff Retirement Benefits

Included under Other Asset				
Defined benefit-funded pension (Note 49.1.3)	**–**	(161,230)	**–**	(161,230)
	–	(161,230)	**–**	(161,230)
Included under Other Liabilities				
Defined benefit - unfunded pension (Note 49.1.1)	**67,686**	68,740	**67,686**	68,740
- unfunded end of service gratuity (Note 49.1.2)	**70,355**	43,920	**172,678**	112,688
- funded pension (Note 49.1.3)	**2,597**	–	**2,597**	–
	140,638	112,660	**242,961**	181,428

As at	BANK/ GROUP 31.03.2015 LKR 000	BANK/ GROUP 31.03.2014 LKR 000

49.1.1 Unfunded Pension Liability

Opening balance	**68,740**	79,893
Current service cost	**–**	6,464
Interest on obligation	**6,187**	7,190
Benefit payments during the year	**(6,996)**	(23,902)
Actuarial experience gain	**(245)**	(905)
Present value of defined benefit pension obligations 31 March	**67,686**	68,740

As at	BANK 31.03.2015 LKR 000	BANK 31.03.2014 LKR 000	GROUP 31.03.2015 LKR 000	GROUP 31.03.2014 LKR 000 Restated

49.1.2 Unfunded End of Service Gratuity

Opening balance	**43,920**	37,091	**112,688**	87,714
Current service cost	**8,221**	7,191	**23,359**	16,409
Interest on obligation	**4,392**	3,709	**10,965**	7,666
Provisions made for gratuities computed on formula method	**–**	–	**–**	5,577
Benefit payments during the year	**(3,672)**	(4,671)	**(8,054)**	(6,741)
Actuarial experience loss	**17,494**	600	**33,720**	2,063
Present value of defined benefit pension obligations 31 March	**70,355**	43,920	**172,678**	112,688

As at	BANK/GROUP 31.03.2015 LKR 000	BANK/GROUP 31.03.2014 LKR 000

49.1.3 Funded Pension Liability/(Asset)

Present value of defined benefit pension obligations (Note 49.1.3.1)	**2,141,649**	1,866,434
Fair value of pension assets (Note 49.1.3.2)	**(2,139,052)**	(2,027,664)
Defined benefit liability/(asset)	**2,597**	(161,230)

49.1.3.1 Movement in Defined Pension Obligation

Present value of defined benefit pension obligations on 01 April	**1,866,434**	1,750,987
Current service cost	**77,397**	67,108
Interest on obligation	**167,979**	157,588
Benefit payments during the year	**(110,448)**	(88,672)
Actuarial experience loss/(gain)	**140,287**	(20,577)
Present value of defined benefit pension obligations on 31 March	**2,141,649**	1,866,434

49.1.3.2 Movement in Pension Assets

Pension assets on 01 April	**2,027,664**	1,821,009
Expected return on pension assets	**177,105**	162,026
Employer's contribution	**59,002**	65,997
Benefits paid	**(110,448)**	(88,672)
Actuarial experience (loss)/gain	**(14,271)**	67,304
Pension assets on 31 March	**2,139,052**	2,027,664

49.1.3.3 Plan Assets Consist of the Following

Debentures	**337,546**	338,116
Government Bond	**1,289,144**	1,206,726
Fixed deposits	**512,046**	473,907
Others	**316**	8,915
	2,139,052	2,027,664

As at	Unfunded Pension Liability* 31.03.2015 LKR 000	Unfunded End of Service Gratuity* 31.03.2015 LKR 000	Funded Pension Liability* 31.03.2015 LKR 000
49.1.3.4 The Expected Benefit Payout in the Future Years to the Defined Benefit Obligation - Bank			
Within next 12 months	6,996	7,782	158,528
Between 2 and 5 years	27,984	52,935	661,000
Beyond 5 years	34,980	70,045	1,053,617

** Based on expected benefits payout in next 10 years.*

49.1.3.5 Unfunded Pension Liability

This relates to pension liability of an ex-employee, not funded through the DFCC Bank Pension Fund. The liability covers the pension benefit to retiree and survivors.

49.1.3.6 Actuarial Valuation

Actuarial valuation was carried out by Mr Piyal S Goonetilleke, Fellow of the Society of Actuaries USA, of Piyal S Goonetilleke & Associates, on 31 March 2015.

49.1.3.7 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.

	Pension benefit (%)	End of service gratuity (%)
49.1.3.8 Principal Actuarial Assumptions		
Discount rate as at 31 March 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	8.07	–
Mortality	UP 1984 mortality table	up 1984 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 principal actuarial assumptions in the previous year has not changed other than the discount rate used for end of service gratuity. The discount rate is the yield rate on 31 March 2015 with a term equalling the estimated period for which all benefit payments will continue. This period is approximately 24.4 years for pension and 10.9 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.

49.1.3.9 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 is given below:

	Effect on income statement increase/(decrease) LKR 000	Effect on defined benefit obligation increase/(decrease) LKR 000
Funded Pension Liability		
Discount rate		
Increase by 1%	200,350	(200,350)
Decrease by 1%	238,339	238,339
Salary Increment Rate		
Increase by 1%	(60,953)	60,953
Decrease by 1%	56,783	(56,783)
Unfunded Pension Liability*		
Discount rate		
Increase by 1%	4,803	(4,803)
Decrease by 1%	(5,522)	5,522
Unfunded End of Service Gratuity		
Discount rate		
Increase by 1%	6,669	(6,669)
Decrease by 1%	(7,584)	7,584
Salary Increment Rate		
Increase by 1%	(7,322)	7,322
Decrease by 1%	6,587	(6,587)

** Salary increment not applicable – ex-employee.*

As at 31 March	**2014 LKR 000**	2013 LKR 000	2012 LKR 000	2011 LKR 000	2010 LKR 000
49.1.3.10 Historical Information					
Present value of the defined benefit obligation	**1,866,434**	1,750,987	1,494,887	1,367,956	1,317,586
Fair value of plan assets	**2,027,664**	1,821,009	1,607,025	1,497,559	1,416,019
Surplus in the plan	**(161,230)**	(70,022)	(112,138)	(129,603)	(98,433)

As at	BANK 31.03.2015 LKR 000	BANK 31.03.2014 LKR 000	GROUP 31.03.2015 LKR 000	GROUP 31.03.2014 LKR 000 Restated
49.2 Other Provisions				
Balance as at 31 March	**197,187**	194,561	**274,980**	246,905
Provisions for the financial year	**237,743**	203,937	**329,004**	284,264
Provisions used during the year	**(177,343)**	(178,794)	**(256,433)**	(233,672)
Provisions reversed during the year	**(19,844)**	(22,517)	**(19,844)**	(22,517)
Balance as at 31 March	**237,743**	197,187	**327,707**	274,980

As at	BANK 31.03.2015 LKR 000	BANK 31.03.2014 LKR 000
50 Due to Subsidiaries		
DFCC Consulting (Pvt) Limited	**31**	–

As at	Face value LKR 000	Interest rate %	Repayment terms	Issue date	Maturity date	BANK 31.03.2015 LKR 000	BANK 31.03.2014 LKR 000	GROUP 31.03.2015 LKR 000	GROUP 31.03.2014 LKR 000
51 Subordinated Term Debt									
i. Issued by Bank									
Listed debentures	590,000	14.00	10 Years	26 Sep. 2006	26 Sep. 2016	**609,373**	609,373	**609,373**	609,373
ii. Issued by other subsidiaries									
Listed debentures	833,333	11.50	5 Years	26 Sep. 2011	7 Sep. 2016	–	–	**833,589**	833,589
	166,667	6 Months gross TB+1.5%	5 Years	26 Sep. 2011	7 Sep. 2016	–	–	**166,702**	166,712
						609,373	609,373	**1,609,664**	1,609,674
Due within one year						–	–	**291**	301
Due after one year						**609,373**	609,373	**1,609,373**	1,609,373
						609,373	**609,373**	**1,609,664**	**1,609,674**

51.1 Bank's Listed Subordinated Debentures

Subordinated debentures listed in the Colombo Stock Exchange are redeemable at maturity. Fixed interest at 14% p.a. is payable annually. On 31 March 2015 comparative Government Securities interest rate is 8.24% p.a. (gross) and not traded during the period.

The relevant ratios are disclosed in Note 48.1.

As at	BANK/GROUP 31.03.2015 LKR 000	31.03.2014 LKR 000

52 Stated Capital

Balance on 31 March (Number of shares - 265,097,688)	**4,715,814**	4,715,814

In accordance with Section 58 of Companies Act No. 07 of 2007 share capital and share premium have been classified as stated capital.

As at	BANK		GROUP	
	31.03.2015 LKR 000	31.03.2014 LKR 000	**31.03.2015 LKR 000**	31.03.2014 LKR 000

53 Statutory Reserves

Reserve fund	**1,545,000**	1,380,000	**1,545,000**	1,380,000
Investment fund account	–	1,001,648	–	1,001,648
	1,545,000	2,381,648	**1,545,000**	2,381,648

53.1 Reserve Fund

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

53.2 Investment Fund Account

This represents cumulative savings of financial services VAT and income tax. The amount is appropriated from profits. The amount of the reserve was to be utilised only for the purpose prescribed by the Central Bank of Sri Lanka. The operations of this fund ceased on 01 October 2014 and balance at that date was transferred to retained earnings.

As at	BANK		GROUP	
	31.03.2015 LKR 000	31.03.2014 LKR 000	**31.03.2015 LKR 000**	31.03.2014 LKR 000

54 Retained Earnings

Balance on 31 March	**6,541,651**	4,089,601	**12,755,357**	9,163,494

This represents cumulative net earnings, inclusive of proposed dividend amounting to LKR 1,591 million payable on approval by the shareholders at the Annual General Meeting on 30 June 2015. The balance is retained and reinvested in the business of the Bank.

As at	BANK		GROUP		
	31.03.2015 LKR 000	31.03.2014 LKR 000	**31.03.2015 LKR 000**	31.03.2014 LKR 000 Restated	01.04.2013 LKR 000 Restated

55 Other Reserves

General reserve	**13,779,839**	13,779,839	**13,779,839**	13,779,839	**13,779,839**
Fair value reserve	**17,512,960**	12,443,175	**15,112,861**	10,079,975	**8,718,485**
	31,292,799	26,223,014	**28,892,700**	23,859,814	**22,498,324**

These are distributable reserves.

As at	BANK 31.03.2015 LKR 000	BANK 31.03.2014 LKR 000	GROUP 31.03.2015 LKR 000	GROUP 31.03.2014 LKR 000

56 Contingent Liabilities and Commitments

Guarantees issued to -				
Banks in respect of indebtedness of customers of the Bank	–	–	**27,080**	–
Companies in respect of indebtedness of customers of the Bank	**1,167,264**	1,886,883	**9,675,687**	8,044,336
Principal collector of customs (duty guarantees)	–	2,000	**78,935**	79,087
Shipping guarantees	–	–	**74,726**	906,439
Documentary credit	–	–	**5,514,468**	3,469,836
Bills for collection	–	–	**2,251,076**	2,101,303
Performance bonds	–	48,627	**2,138,132**	1,856,664
Forward exchange contracts (net)	**14,183,209**	14,851,956	**15,843,573**	14,851,956
Commitments in Ordinary Course of Business -				
Commitments for unutilised credit facilities	**25,572,860**	13,399,472	**39,365,166**	25,953,560
Capital expenditure approved by the Board of Directors				
Contracted	**29,237**	18,106	**64,653**	469,483
Not contracted	**27,116**	27,003	**39,052**	56,301
	40,979,686	30,234,047	**75,072,548**	57,788,965

57 Litigation

57.1 Litigation Against the Bank

57.1.1 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 Recovery of Loans by Banks (Special Provisions) Act No. 4 of 1990 and seeking the sale of the property to be set aside, and also claiming LKR 6 million as damages from the Bank. The District Court has issued an Interim Injunction for which one of the defendants has appealed to the Provincial High Court of Civil Appeal against the said Order. The Civil Appellate High Court has set aside the Order of the District Court granting the Interim Injunction.

Accordingly the case was transferred back to the District Court of Kurunegala to fix for trial. However, after fixing the matter for trial the plaintiff has moved to amend the plaint to which defendants, including the Bank, have objected. The Bank is defending the case before the District Court.

57.1.2 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 has suspended the disbursement of the facility approved to him as he has made a false statement in his application to the Bank. The Bank is defending this action.

57.1.3 The bank has appealed to the High Court to set a side an award made in favour of an ex-employee by the labour Tribunal.

57.2 Litigation Against the Subsidiaries

57.2.1 Litigation against DFCC Vardhana Bank PLC

57.2.1.1 There are three cases filed in the District Court of Kandy and one case filed in District Court of Kuliyapitiya where third parties are claiming ownership of properties acquired by the Bank under recovery action. The Bank will be defending the cases before the respective District Courts.

57.2.1.2 There are two cases filed in the District Court of Bandarawela and Elpitiya where third parties are claiming ownership of properties mortgaged to the Bank. The Bank will be defending the cases before the respective District Courts.

57.2.1.3 There is one case filed in Commercial High Court where the customer is claiming damages from the Bank for not releasing the property mortgaged by him in favour of the Bank. The Bank will be defending the case before the Commercial High Court.

57.2.1.4 There is one case filed in the Labour Tribunal by one ex-employee of the Bank claiming compensation from the Bank.

No material losses are anticipated as a result of the above transactions.

58 Related Party Transactions

58.1 The Group's related parties include associate, 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	**31.03.2015 LKR 000**	31.03.2014 LKR 000
58.2 Transactions with Subsidiaries		
58.2.1 Statement of Financial Position		
Assets		
Cash and cash equivalents	–	543,284
Placements with the banks	**716,624**	1,375,545
Loans to and receivable from other customers	**3,690**	5,687
	720,314	1,924,516
Liabilities		
Due to banks	**215,485**	–
Due to other customers	–	73,508
	215,485	73,508

For the year ended 31 March	**2015 LKR 000**	2014 LKR 000
58.2.2 Income Statement		
Interest income	**82,689**	20,611
Interest expense	**12,158**	14,589
Other operating (loss)/income (net)	**29,282**	28,452
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	**182,807**	150,076
Other overhead expenses	**84,844**	79,665
Personnel expenses - Reimbursed expenses	**287,901**	220,260
- Seconded expenses	**2,639**	4,085

58.3 Transactions with Joint Venture

58.3.1 Income Statement

Net gain from trading	**6,011**	522
Interest expense	**890**	–
Other overhead expenses	**92**	88
Net gain from financial investments – Dividend received	**26,200**	21,026

For the year ended 31 March	2015 LKR 000	2014 LKR 000

58.4 Transactions with Associate

58.4.1 Income Statement

Net gain from financial investments – Dividend received	**5,415**	5,459
Other overhead expenses	**1,104**	1,092

As at	31.03.2015 LKR 000	31.03.2014 LKR 000

58.5 Transaction with Entities in which Directors of the Bank have Significant Influence without Substantial Shareholding

58.5.1 Statement of Financial Position

Assets		
Loans to and receivables from other customers	**72,608**	1,187,793
Financial investments – available-for-sale	**116,203**	181,846
		1,369,639
Liabilities		
Due to other customers	–	1,317,529
Debt securities issued	–	25,000.00
	–	1,342,529

For the year ended 31 March	2015 LKR 000	2014 LKR 000

58.5.2 Income Statement

Interest income	**6,093**	139,577
Interest expense	–	185,604
Net gain from financial investments - dividend received	**1,636**	3,100
Other overhead expenses	–	1,692

58.6 Transactions with Key Management Personnel

58.6.1 Key Management Personnel

Key Management Personnel are the Board of Directors of the Bank, Executive Vice-Presidents, Senior Vice-President – Treasury, Chief Technology and Services Officer and the Secretary to the Board for the purpose of Sri Lanka Accounting Standard on 'Related Party Disclosures'.

	BANK		GROUP	
For the year ended 31 March	2015 LKR 000	2014 LKR 000	2015 LKR 000	2014 LKR 000

58.6.2 Compensation of Directors and Other Key Management Personnel

Number of persons	**15**	15	**45**	48
Short-term employment benefits	**100,299**	162,403	**186,655**	239,161
Post-employment benefits - pension	**5,750**	19,110	**5,750**	19,110
- others	**15,586**	20,126	**24,426**	27,706
	121,635	201,639	**216,831**	285,977

As at 31 March	2015		2014	
	Number of KMPs	**LKR 000**	Number of KMPs	LKR 000

58.6.3 Other Transactions with Key Management Personnel and their Close Family Members

58.6.3.1 Statement of Financial Position

Assets				
Loans and advances	**2**	**6,278**	3	7,076

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

As at 31 March	2015		2014	
	Number of KMPs	**LKR 000**	Number of KMPs	LKR 000
Liabilities				
Due to other Customers	**2**	**17,280**	1	15,595
Debt securities issued	**2**	**26,028**	2	26,524
		43,308		42,119

For the year ended 31 March	2015 LKR 000	2014 LKR 000
58.6.3.2 Income Statement		
Interest Income	**279**	214
Expense - Interest	**5,662**	6,126
- Rent	–	2,100

58.6.4 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.

	31.03.2015 LKR 000	31.03.2014 LKR 000
Contribution prepaid as at 1 April	**161,230**	70,022
Contribution due for the financial year recognised as expense in profit or loss	**(68,271)**	(62,670)
Recognition of actuarial gains/(losses) in the other comprehensive income	**(154,558)**	87,879
Contribution paid by the Bank	**59,002**	65,999
Contribution (payable)/prepaid as at 31 March (Note 49.1.3)	**(2,597)**	161,230

58.7 Transactions with Government of Sri Lanka (GOSL) and it's 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 Related Party Disclosure – LKAS 24 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.

58.7.1 Individually Significant Transactions Included in the Statement of Financial Position

As at	**2015 LKR 000**	2014 LKR 000
58.7.1.1 Statement of Financial Position		
Assets		
Loans to and receivables from other customers	**3,527,078**	1,845,443
Placements with Banks	**–**	1,306,634
Other financial assets held-for-trading	**1,469,166**	1,017,980
Financial investments available-for-sale	**5,548,508**	7,149,712
Government grant receivable	**483,727**	276,878
	11,028,479	11,596,647
Liabilities		
Due to Banks	**–**	2,200,402
Due to other customers	**661,890**	591,369
Other borrowings – Credit lines	**20,354,251**	20,432,918
Government grant deferred income	**303,727**	295,628
	21,319,868	23,520,317
Commitments		
Undrawn credit facilities	**5,585,860**	1,239,808

For the year ended 31 March		**2015 LKR 000**	2014 LKR 000
58.7.1.2 Income Statement			
Interest income	- loans and receivables to other customers	**201,183**	118,633
	- placements with Banks	**9,790**	259,223
	- Financial investments	**543,330**	434,482
Interest expense	- other borrowings – credit lines	**1,230,725**	1,610,818
	- term borrowings	**46,062**	421,733
	- due to other customers	**47,874**	79,390

There are no other transactions that are collectively significant with Government related entities.

58.8 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.

59 Operating Segments Information

For the year ended 31 March 2015	Lending LKR 000	Finance leasing LKR 000	Investing in equity LKR 000	Commercial banking LKR 000	Other LKR 000	Unallocated LKR 000	Eliminations LKR 000	Total LKR 000
Revenue								
Interest income	6,825,885	1,184,139	–	8,140,241	32,536	–	(84,134)	16,098,667
Net fees and commission income	167,995		–	871,612	248,689	–	(168,332)	1,119,964
Net gain 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/(loss) from financial investments	–	–	2,127,011	265,065	–	23,416	(214,422)	2,201,070
Other income	(34,344)	–		46,354	219,708	(703,208)	(30,008)	(501,498)
Total income	6,959,536	1,184,139	2,127,011	9,678,286	500,934	123,399	(496,896)	20,076,408
Percentage*	35	6	10	48	2	1	(2)	100
Expenses								
Segment losses	(319,927)	12,363		565,120	–	–	(11,000)	246,556
Depreciation	–	–	–	208,422	31,426	–	–	239,848
Other operating & interest expense	4,250,864	505,454	–	7,073,993	306,599	–	(282,474)	11,854,436
Inter segment expense								
	3,930,937	517,817	0	7,847,535	338,025	–	(293,474)	12,340,840
Result	3,028,599	666,322	2,127,011	1,830,751	162,909	–	–	7,735,568
Unallocated expenses								1,588,796
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
Profits for the year								4,438,612
Other comprehensive income net of tax								4,854,824
Total comprehensive income								9,293,436
Non-controlling interests								75,930
Total comprehensive income attributable to equity holders of the Bank								9,217,506
Assets	71,347,897	10,966,528	29,487,466	98,559,783	783,076	5,051,461	(6,773,897)	209,422,314
Percentage*	34	5	14	47	–	2	(3)	100
Investments in associate and joint venture								1,187,985
								210,610,299
Liabilities	58,153,494	7,425,082	–	92,437,374	151,038	4,801,205	(620,647)	162,347,546
Capital expenditure - additions				174,707	42,446	14,940		232,093

* *Net of eliminations.*

For the year ended 31 March 2014 (Restated)	Lending LKR 000	Finance leasing LKR 000	Investing in equity LKR 000	Commercial banking LKR 000	Other LKR 000	Unallocated LKR 000	Eliminations LKR 000	Total LKR 000
Revenue								
Interest income	8,169,118	1,575,227	–	8,773,840	52,471	–	(90,984)	18,479,672
Net fees and commission income	103,998	12,902	–	697,627	184,978	–	(156,841)	842,663
Net gain or from trading	–	–	–	178,741	–	33,565	–	212,306
Net gain from financial instruments at fair value through profit or loss	–	–	–	62,338	–	(386,281)	–	(323,943)
Net gain/(loss) from financial investments	–	–	1,211,493	118,056	–	–	(176,560)	1,152,989
Other income	41,262	–	(31,297)	(141,527)	199,763	(32,724)	(29,759)	5,718
Total Income	8,314,378	1,588,129	1,180,196	9,689,075	437,212	(385,440)	(454,144)	20,369,405
Percentage*	41	8	6	47	2	(2)	(2)	100
Expenses								
Segment losses	357,304	(46,295)	13,786	896,927	–	–	–	1,221,722
Depreciation	–	–	–	182,549	21,554	–	–	204,103
Other operating & interest expenses	3,485,965	566,624	–	7,689,330	299,152	–	(277,584)	11,763,487
Inter segment expense	–	–	–	–	–	–	–	–
	3,843,269	520,329	13,786	8,768,806	320,706	–	(277,584)	13,189,312
Result	4,471,109	1,067,800	1,166,410	920,269	116,506	–		7,180,093
Unallocated expenses								2,557,567
Value added tax and nation building tax on financial services								602,040
								4,020,486
Share of profits of associate and joint venture								96,966
Profit before tax								4,117,452
Income tax on profit on ordinary activities								902,439
Profit for the year								3,215,013
Other comprehensive income net of tax								1,449,414
Total comprehensive income for the year								4,664,427
Non-controlling interests								64,224
Total comprehensive income, attributable to equity holders of the Bank								4,600,203
Assets	61,615,401	9,617,324	24,547,340	78,429,809	764,571	6,277,575	(7,285,800)	173,966,219
Percentage*	35	5	14	45	–	4	(3)	100
Investments in associate and joint venture								1,029,075
								174,995,294
Liabilities	47,429,081	7,298,457	–	72,016,398	167,462	8,761,945	(1,132,547)	134,540,796
Capital expenditure - additions				194,563	17,017	130,511		342,091

* *Net of eliminations.*

59.1 Revenue and expenses attributable to the incorporated operating segments of industrial estate management, unit trust management, stockbroking and consultancy services are included in the column for other.

59.2 Revenue and expenses attributable to the operating segment of DFCC Vardhana Bank PLC is included in the column for commercial banking and finance leasing.

59.3 Property and equipment and depreciation attributable to an incorporated operating segment is included in the relevant segment and the balance is unallocated.

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

60 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.

	Bank/Group	
	As disclosed previously	Current Presentation
	LKR 000	LKR 000
Income Statement		
NBT on financial services (FS) reported under other expenses	24,937	–
NBT on FS reported under VAT and NBT on FS	–	24,937

61 Events Occurring After the Reporting Period

61.1 Proposed Dividend

The Directors have recommended the payment of a final dividend of LKR 6/- per share for the year ended 31 March 2015, which require the approval of the shareholders at the Annual General Meeting to be held on 30 June 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 proposed final dividend exceeds the minimum distribution mandated by the Inland Revenue Act No. 10 of 2006 and therefore the 10% deemed dividend tax, will not be imposed on the Bank.

61.2 Proposed Consolidation of Banking Business

61.2.1 Proposed Merger with National Development Bank PLC (NDB)

The Memorandum of understanding entered into on 24 March 2014 by DFCC Bank PLC (DFCC), DFCC Vardhana Bank PLC (DVB) and National Development Bank PLC (NDB) as a step in working towards the intended amalgamation of the three banks was terminated on 11 May 2015 to enable both banking groups to pursue their respective business and expansion strategies.

61.2.2 Proposed Merger of DFCC Bank PLC (DFCC) and DFCC Vardhana Bank PLC (DVB)

DFCC Bank PLC (DFCC) and DFCC Vardhana Bank PLC (DVB) have decided after due consideration that it would be in the best interests of both banks, its shareholders and other stakeholders to amalgamate DFCC and its 99.2% owned subsidiary , DVB, and continue their activities as a single legal entity which is a licensed commercial bank. Accordingly on 15 May 2015, the banks have made an application to the Central Bank seeking provisional approval for a merger.

No other circumstances have arisen which would require disclosure or adjustment to the Financial Statements.

62 Other Matters

The interim budget proposal presented by the Minister of Finance on 29 January 2015 and the pursuant Bill gazetted on 30 March 2015 impose a one off tax of 25% on the taxable profit for the Year of Assessment 2013/14 on any company or each company in a Group of companies if the Company’s/Group’s profit before income tax exceeds LKR 2 billion. The consolidated profit before tax of the Group and that of the Bank for the year of assessment 2013/14 exceeds the set threshold of LKR 2 billion. Accordingly, as per the provisions of the Bill, the estimated liability of the Bank and the Group approximately amount to LKR 533 million and LKR 837 million respectively.

No adjustments have been made in the financial statements for the year ended 31 March 2015 since the Bill has not yet been enacted.

63 Fair Value Measurement

63.1 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 the 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 judgement 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 judgement 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 judgements 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.

63.2 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.

63.3 Fair Value by Level of the Fair Value Hierarchy - Bank

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	28				
Forward foreign exchange contracts			29,335		29,335
Other financial assets held-for-trading	29				
Government of Sri Lanka Treasury Bills and Bonds			1,469,166		1,469,166
Financial Investments available-for-sale	32				
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 of Sri Lanka Treasury Bills and Bonds			5,548,508		5,548,508
Government grant receivable	42		483,727		483,727
		21,326,848	8,336,417	142,459	29,805,724
Financial Liabilities					
Derivative liabilities held-for-risk management	28				
Forward foreign exchange contracts			1,737		1,737
		–	1,737	–	1,737

As at 31 March 2014	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial Assets					
Derivative assets held-for-risk management	28				
Forward foreign exchange contracts			1,630		1,630
Other financial assets held-for-trading	29				
Government of Sri Lanka Treasury Bills and Bonds			1,017,980		1,017,980
Financial Investments available-for-sale	32				
Quoted ordinary shares		17,261,361			17,261,361
Units in Unit Trusts - Quoted		218,525			218,525
Units in Unit Trusts - Unquoted			301,431		301,431
Unquoted shares				142,459	142,459
Government of Sri Lanka Treasury Bills and Bonds			7,149,712		7,149,712
Government grant receivable	42		276,878		276,878
		17,479,886	8,747,631	142,459	26,369,976
Financial Liabilities					
Derivative liabilities held-for-risk management	28				
Forward foreign exchange contracts			55,609		55,609
		–	55,609	–	55,609

There were no transfers between Level 1, Level 2 and Level 3 during 2015 and 2014.

63.4 Fair Value by Level of the Fair Value Hierarchy - Group

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	28				
Forward foreign exchange contracts			89,861		89,861
Other financial assets held-for-trading	29				
Government of Sri Lanka Treasury Bills and Bonds			1,469,166		1,469,166
Financial Investments available-for-sale	32				
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 of Sri Lanka Treasury Bills and Bonds			23,546,475		23,546,475
Government grant receivable	42		483,727		483,727
		21,326,848	26,394,910	147,874	47,869,632
Financial Liabilities					
Derivative liabilities held-for-risk management	28				
Forward foreign exchange contracts			37,153		37,153
		–	37,153	–	37,153

As at 31 March 2014	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial Assets					
Derivative assets held-for-risk management	28				
Forward foreign exchange contracts			183,892		183,892
Other financial assets held-for-trading	29				
Government of Sri Lanka Treasury Bills and Bonds			1,971,916		1,971,916
Financial Investments available-for-sale	32				
Quoted ordinary shares		17,261,361			17,261,361
Units in Unit Trusts - Quoted		218,525			218,525
Units in Unit Trusts - Unquoted			301,431		301,431
Unquoted shares				147,874	147,874
Government of Sri Lanka Treasury Bills and Bonds			21,972,395		21,972,395
Government grant receivable	42		276,878		276,878
		17,479,886	24,706,512	147,874	42,334,272
Financial Liabilities					
Derivative liabilities held-for-risk management	28				
Forward foreign exchange contracts			227,994		227,994
		–	227,994	–	227,994

There were no transfers between Level 1, Level 2 and Level 3 during 2015 and 2014.

63.5 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 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	25		110,576		110,576	110,576
Placements with banks	27		716,622		716,622	716,622
Loans to and receivables from banks	30		484,067		484,067	484,067
Loans to and receivables from other customers	31			73,737,898	73,737,898	73,448,705
Financial Investments – held-to-maturity	33	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	45		1,928,867		1,928,867	1,928,867
Due to other customers	46			22,744,161	22,744,161	22,484,652
Other borrowing	47			24,361,797	24,361,797	24,361,797
Debt securities issued	48		20,293,950		20,293,950	19,445,924
Subordinated term debt	51		640,847		640,847	609,373
		–	22,863,664	47,105,958	69,969,622	68,830,613

As at 31 March 2014	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	25		545,388		545,388	545,388
Placements with banks	27		2,681,779		2,681,779	2,681,779
Loans to and receivables from banks	30		1,233,617		1,233,617	1,233,617
Loans to and receivables from other customers	31			61,341,541	61,341,541	61,341,469
Financial Investments – held-to-maturity	33	550,696			550,696	535,958
Total		550,696	4,460,784	61,341,541	66,353,021	66,338,211
Liabilities						
Due to banks	45		5,153,754		5,153,754	5,153,754
Due to other customers	46			16,962,343	16,962,343	16,630,363
Other borrowing	47			25,434,080	25,434,080	25,434,080
Debt securities issued	48		14,320,815		14,320,815	14,009,017
Subordinated term debt	51		649,578		649,578	609,373
			20,124,147	42,396,423	62,520,570	61,836,587

63.6 Fair Value of Financial Instruments Carried at Amortised Cost- Group

The following table summarises the carrying amounts and the Group 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 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	25		4,060,820		4,060,820	4,060,820
Balances with Central Banks	26		2,616,406		2,616,406	2,616,406
Placements with banks	27		1,324,892		1,324,892	1,324,892
Loans to and receivables from banks	30		3,563,647		3,563,647	3,563,647
Loans to and receivables from other customers	31			135,618,870	135,618,870	135,322,723
Financial Investments – held-to-maturity	33	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	45		5,972,567		5,972,567	5,972,567
Due to other customers	46			93,124,652	93,124,652	92,711,793
Other borrowing	47			38,846,172	38,846,172	38,846,172
Debt securities issued	48		20,293,950		20,293,950	19,445,924
Subordinated term debt	51		1,668,739		1,668,739	1,609,664
			27,935,256	131,970,824	159,906,080	158,586,120

As at 31 March 2014	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	25		2,933,360		2,933,360	2,933,360
Balances with Central Banks	26		2,870,492		2,870,492	2,870,492
Placements with banks	27		3,138,181		3,138,181	3,138,181
Loans to and receivables from banks	30			5,547,821	5,547,821	5,547,821
Loans to and receivables from other customers	31			112,188,288	112,188,288	112,167,194
Financial Investments – held-to-maturity	33	550,696	542,171		1,092,867	1,073,703
Total		550,696	9,484,204	117,736,109	127,771,009	127,730,751
Liabilities						
Due to banks	45		6,673,576		6,673,576	6,673,576
Due to other customers	46			81,261,847	81,261,847	80,917,356
Other borrowing	47			27,782,494	27,782,494	27,782,494
Debt securities issued	48		14,320,815		14,320,815	14,009,017
Subordinated term debt	51		1,651,720		1,651,720	1,609,674
			22,646,111	109,044,341	131,690,452	130,992,117

Given below is the basis adopted by the Bank/Group in order to establish the fair values of the financial instruments.

63.7 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.

63.8 Loans to and Receivables from Banks and Other Customers

63.8.1 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 March 2015 was LKR 8,539 million as against a carrying value of LKR 8,250 million. (2014 - fair value calculated on this basis was LKR 8,181 million as against a carrying value of LKR 8,109 million).

63.8.2 Other Loans

Composition:

	%
Floating rate loan portfolio	71
Fixed rate loans	
- With remaining maturity less than one year	11
- Others	18
Total	100

Since the floating rate loans can be repriced monthly, quarterly and semi annually 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.

63.8.3 Loans to and Receivables from Banks and Other Customers - DVB

Approximately 80% of the total portfolio of loans and receivables to customers as at the reporting date comprises of contractual maturities of less than one year. The fair values of loans and advances with less than one year residual maturity is a close approximate to the carrying value.

The estimated fair value of loans and advances to other customers with residual maturity of more than one year with fixed interest rates is the present value of future cash flows expected to be received from such loans and receivables based on the current average interest rates for similar types of loans and advances prevailing as at the reporting date.

The fair value calculated on the above basis for fixed rate loans including housing loans and finance leases as at 31st December 2014 was LKR 5,319.7 million as against its carrying value which amounted to LKR 5,312.8 million. However, the Bank reserves the right to change the contracted fixed interest rates at it's discretion.

63.9 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.

63.10 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.

63.11 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.

63.12 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.

63.13 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.

64 Financial Risk Management

64.1 Introduction and Overview

Bank has exposure to 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 three Non-Executive Directors, Chief Executive Officer and Chief Risk Officer (CRO) as members. The supervision and management of the broad risk categories includes credit, liquidity, market risk, operational 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 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.

64.2 Credit Risk

64.2.1 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.

64.2.2 Quantitative Disclosures

	BANK		GROUP	
	31.03.2015 LKR 000	31.03.2014 LKR 000	**31.03.2015 LKR 000**	31.03.2014 LKR 000
64.2.2.1 Loans to and Receivables from Other Customers				
Individually impaired				
Gross amount	**2,507,267**	1,849,169	**5,202,800**	4,735,558
Allowance for impairment	**(1,932,635)**	(1,486,838)	**(4,001,868)**	(3,794,550)
Carrying amount	**574,632**	362,331	**1,200,932**	941,008
Collectively impaired				
Gross amount	**1,278,835**	1,938,512	**3,455,407**	3,293,778
Allowance for impairment	**(968,820)**	(1,905,442)	**(2,007,988)**	(3,097,218)
Carrying amount	**310,015**	33,070	**1,447,419**	196,560
Past due but not impaired				
Gross amount	**12,073,322**	14,761,765	**29,168,304**	29,580,747
Allowance for impairment	**–**	–	**–**	–
Carrying amount	**12,073,322**	14,761,765	**29,168,304**	29,580,747
Neither past due nor impaired				
Gross amount	**60,490,736**	46,184,303	**103,506,068**	81,448,879
Allowance for impairment	**–**	–	**–**	–
Carrying amount*	**60,490,736**	46,184,303	**103,506,068**	81,448,879
Carrying amount	**73,448,705**	61,341,469	**135,322,723**	112,167,194
64.2.2.2 Loans to and Receivables from Banks				
Neither past due nor impaired				
Gross amount	**484,067**	1,233,617	**3,563,647**	5,547,821
Allowance for impairment	**–**	–	**–**	–
Carrying amount	**484,067**	1,233,617	**3,563,647**	5,547,821

** Carrying amount of the Bank's loans an advances includes accounts with renegotiated terms of which the capital outstanding as at 31 March 2015 amounts to LKR 1,124 million (31 March 2014 - LKR 717 million).*

64.2.2.3 Analysis of Security Values of Loans and Advances to Customers

	BANK				GROUP			
	Gross loan balance 31.03.2015 LKR 000	Security value 31.03.2015 LKR 000	Gross loan balance 31.03.2014 LKR 000	Security value 31.03.2014 LKR 000	Gross loan balance 31.03.2015 LKR 000	Security value 31.03.2015 LKR 000	Gross loan balance 31.03.2014 LKR 000	Security value 31.03.2014 LKR 000
Against Individually Impaired								
Mortgages over property, plant and machinery	2,070,294	1,264,737	1,439,652	1,267,319	1,550,604	1,917,899	2,322,796	2,005,606
Others	4,647	757			705,257	3,557		
Unsecured	361,868	–	409,517	–	2,876,480		2,412,762	
Against Collectively Impaired								
Mortgages over property, plant and machinery	674,900	1,685,200	1,535,650	2,065,911	1,094,448	2,734,422	2,050,397	3,132,019
Others	450	500	6,400	2,207	813,740	556,150	226,893	56,868
Unsecured	458,450	–	198,216	–	1,369,966	–	816,351	
Against Past Due But Not Impaired								
Mortgages over property, plant and machinery	6,839,857	17,019,733	8,739,258	23,525,015	13,923,918	39,423,628	14,481,279	38,208,361
Others	335,163	178,422	266,667	114,215	6,984,107	2,896,689	6,425,987	2,471,142
Unsecured	2,018,260	74,343	2,725,752	–	4,598,182	74,343	5,096,332	
Against Neither Past Due Nor Impaired								
Mortgages over property, plant and machinery	26,202,035	55,837,996	17,835,288	41,406,004	38,781,539	101,929,409	26,988,462	86,085,688
Treasury Guarantee	2,912,507	2,912,507	1,172,632	1,172,632	2,912,507	2,912,507	1,172,632	1,172,632
Debt securities	1,270,982	1,270,982	1,500,401	1,500,401	1,270,982	1,270,982	1,369,290	1,500,401
Equity	345,614	993,574	449,487	1,278,574	345,614	993,574	449,487	1,278,574
Others	6,634,476	3,210,494	5,942,691	3,341,951	28,342,756	11,823,703	22,929,630	11,224,012
Unsecured	17,970,566	739,821	14,402,741	–	24,799,641	739,821	22,705,027	
	68,100,069	85,189,066	56,624,352	75,674,229	130,369,741	167,276,684	109,447,325	147,135,303

The above analysis does not include balances relating to lease rentals receivable.

64.3 Liquidity Risk

64.3.1 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.

d. Monitoring the Group's liquidity through the Liquid Assets Ratio (statutory minimum is currently 20%) using a flow approach.

e. Effecting threshold limits relevant for liquidity management as a part of the overall risk limits system of DBB.

As at 31 March	**2015** %	2014 %

64.3.2 Quantitative Disclosures

64.3.2.1 Liquidity Risk Position

64.3.2.1.1 DFCC Bank PLC

Liquid asset ratio –		
As at 31 March	**47.6**	77.5
Average for the year	**42.5**	67.5
Minimum for the year	**30.0**	34.2
Maximum for the Year	**55.0**	110.2

64.3.2.1.2 DFCC Vardhana Bank PLC

Liquid asset ratio of domestic banking unit –		
As at 31 March	**21.5**	39.3
Average for the year	**24.2**	30.5
Maximum for the year	**34.3**	39.3
Minimum for the year	**20.3**	24.6
Gross advances to deposit ratio	**98.0**	77.0

64.3.2.2 Maturity Profile of Financial Liabilities - Bank

As at 31 March 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	1,928,867	1,928,867	1,928,867	100	–	–	–	–	–	–	–	–
Due to other customers	22,484,652	22,549,557	9,673,745	43	10,205,255	45	1,653,936	7	1,016,621	5	–	–
Other borrowings	24,361,797	24,362,817	1,730,225	7	2,278,309	9	6,526,995	27	5,547,618	23	8,279,670	34
Debt securities issued	19,445,924	19,461,598	529,025	3	700,647	4	4,917,636	25	13,314,290	68	–	–
Subordinated term debt	609,373	610,367	–	–	20,367	3	590,000	97	–	–	–	–
	68,830,613	68,913,206	13,861,862	20	13,204,578	19	13,688,567	20	19,878,529	29	8,279,670	12
Other Liabilities (Non-interest Bearing Liabilities)												
Derivative liabilities held for risk management	1,737	1,737	1,406	81	331	19	–	–	–	–	–	–
Other liabilities	840,156	732,351	488,145	67	–	–	–	–	–	–	244,206	33
	841,893	734,088	489,551	67	331	0	–	–	–	–	244,206	33

** Represents the aggregate of the contractual maturities.*

As at 31 March 2015	Carrying Amount	Total*	Up to 3 months		3 to 12 months		1 to 3 years		3 to 5 years		>5 years	
	LKR 000	LKR 000	LKR 000	%	LKR 000	%	LKR 000	%	LKR 000	%	LKR 000	%

64.3.2.3 Maturity Profile of Financial Liabilities - Group

Liabilities with Contractual Maturity (Interest Bearing - Liabilities)												
Due to banks	5,958,378	4,805,350	3,771,633	78	136,661	3	265,794	6	260,006	5	371,256	8
Due to other customers	88,878,888	88,989,674	40,077,692	45	25,239,326	28	6,070,891	7	5,071,935	6	12,529,830	14
Other borrowings	38,846,172	39,999,568	12,418,258	31	7,227,013	18	6,526,995	16	5,547,632	14	8,279,670	21
Debt securities issued	19,445,924	19,461,666	529,025	3	700,647	4	4,917,636	25	13,314,358	68	–	–
Subordinated term debt	1,609,664	1,610,666	–	–	20,666	1	1,590,000	99	–	–	–	–
	154,739,026	154,866,924	56,796,608	37	33,324,313	22	19,371,316	13	24,193,931	16	21,180,756	14
Other Liabilities (Non-interest - Bearing Liabilities)												
Due to banks	14,189	14,189	14,189	100	–	–	–	–	–	–	–	–
Derivative liabilities held for risk management	37,153	37,153	7,409	20	29,744	80	–	–	–	–	–	–
Due to other customers	3,832,905	3,832,905	1,612,595	42	1,318,822	34	–	–	–	–	901,488	24
Other liabilities	2,586,927	2,502,384	1,863,021	74	239,673	10	547	–	–	–	399,143	16
	6,471,174	6,386,631	3,497,214	55	1,588,239	25	547	–	–	–	1,300,631	20

** Represents the aggregate of the contractual maturities.*

64.4 Market Risk

64.4.1 Qualitative Disclosures

Market risk is the risk of loss due to changes in market variables, such as interest rates, equity prices, foreign exchange rates and commodity prices. This will affect the Group's income or the value of its holdings of financial instruments. the Bank was not exposed to direct commodity prices risk since it does not take positions on exchange traded commodities. The objective of the Group's market risk management is to manage and control market risk exposures within acceptable parameters, in order to ensure the Group's solvency and the income growth, while optimising the return on risk.

64.4.1.1 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 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 making to market and non-trading portfolios from positions arising from financial investments designated as available-for-sale (AFS) and held-to-maturity and from derivatives held for risk management purposes.

64.4.2 Quantitative Disclosures

The following analysis is in respect of DFCC Bank PLC and DFCC Vardhana Bank PLC (collectively referred to as DBB) since these two entities have the most impact on these risks.

64.4.2.1 Interest Rate Risk - DBB

64.4.2.1.1 Duration Analysis as at 31 March 2015

Portfolio	Face value LKR 000	Marked-to-market value LKR 000	Duration	Interpretation of duration
Government securities trading portfolio	1,350,000	1,469,166	3.74	Portfolio value will decline approximately by 3.74% as a result of 1% increase in the interest rates.
Treasury Securities AFS portfolio	23,825,832	23,533,468	0.44	Portfolio value will decline approximately by 0.44% as a result of 1% increase in the interest rates.

Market risk exposure for interest rate risk in the trading portfolio is not significant.

64.4.2.1.2 Potential Impact to NII of DBB Due to Change in Market Interest Rates

Overall up to the 12-month time bucket, DBB carried an asset sensitive position. This asset sensitivity will vary for each time bucket up to the 12-month period. The interest rate risk exposure as at 31 March 2015 is quantified based on the assumed change in the interest rates for each time period and is given in 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	65,356,153	20,387,124	11,756,426	21,574,105
Total interest-bearing liabilities	36,150,413	35,724,565	20,107,100	11,038,822
Net rate sensitive assets (liabilities)	29,205,740	(15,337,442)	(8,350,674)	10,535,283
Assumed change in interest rates (%)	0.5	1.0	1.5	2.0
Impact	146,029	(140,593)	(93,945)	105,353
Total net impact if interest rates increase				16,843
Total net impact if interest rates decline				(16,843)

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.

64.4.2.2 Forex Risk in Net Open Position (NOP)/Unhedged Position of DBB

The following table indicates the DBB's exchange rate risk exposure based on its size of the NOP/unhedged positions in the foreign currency assets/liabilities. By 31 March 2015, DBB carried a USD equivalent net open/unhedged 'oversold' position of LKR 1.8 billion. The impact of exchange rate risk is given below:

	Amount in thousands
Net liability exposure - USD	13,504
Value of position in LKR	1,801,494
Exchange rate (USD/LKR) as at 31 March 2015	133.4
Possible potential loss to DBB - LKR	
If Exchange rate (USD/LKR) - depreciates by 1%	18,015
- depreciates by 10%	180,149
- depreciates by 15%	270,224

The estimated potential exchange loss is off set by the interest gain due to interest differential between LKR and the respective foreign currencies.

64.4.2.3 Equity Prices Risk

Equity prices risk is part of market risk which is defined as the risk of possible losses arising from the equity market investments due to changes in the market prices of the invested shares. Group is exposed to equity prices risk through its investments in the equity market which has been shown in the AFS portfolio.

Parameter	**Position as at 31 March 2015 LKR 000**	Position as at 31 March 2014 LKR 000
Marked-to-market value of the total quoted equity portfolio	**21,136,695**	17,261,361
Value-at-risk (under 99% probability for a quarterly time horizon)	**24.7%**	21.5%
Maximum possible loss of value in the marked-to market value of the portfolio as indicated by the VAR over a quarterly period	**5,220,763**	3,711,193
Unrealised gains in the AFS equity portfolio reported in the fair value reserve	**17,380,078**	12,204,856

Equity prices 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 DBB. This VAR computation for the equity AFS portfolio considers a quarterly time horizon. The quantified VAR accounts for 30% of the fair value reserve in the AFS equity portfolio.

64.4.2.4 Market Risk Exposures of DFCC Group for Regulatory Capital Assessment as at 31 March 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 March 2015 are as follows:

	Risk-weighted assets LKR 000	Quantified possible exposure LKR 000
Interest rate risk	**716,140**	71,614
Equity prices risk	**83,230**	8,323
Foreign exchange and gold risk	**1,920,320**	192,032
Total	**2,719,690**	271,969

64.5 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with DBB relating to processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks.

DBB's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the DBB'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 DBB:

- 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 the IRMD, and recognise necessary improvements in the systems, processes and procedures.
- Trend analysis on operational risk incidents and review at the Operation Risk Management Committee (ORMC) and the BIRMC.
- Review of downtime of the critical systems.
- Review of HR attrition and exit interview comments in details 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 Central Processing Unit, IRMD makes periodical evaluations on the effectiveness of the complaints management process and reports to the ORMC and the BIRMC.
- Appropriate segregation of duties, including independent authorisation of transactions;
- Reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Insurance covering risk due to threats arising from external and other events.

The primary responsibility for the development 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 DBB's standards for management of operational risk in the following areas:

Compliance with DBB'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.

64.6 Capital Management

64.6.1 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 internal target minimum Capital Adequacy Ratio in Tier I 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 Group is required to comply with the provisions of the Basel II framework in respect of regulatory capital. The Group currently uses the Standardised Approach for credit risk and market risk and Basic Indicator Approach for operational risk. Regulatory capital comprises Tier I capital and Tier II capital.

DFCC Bank PLC and its Subsidiary DFCC Vardhana Bank PLC engaged in commercial banking business, have complied with the minimum capital requirements imposed by the Central Bank of Sri Lanka throughout the period.

As at	Notes	31.03.2015 Basel II LKR 000
64.6.2 Quantitative Disclosures		
Tier I Capital		
Stated capital	52	**4,715,814**
Statutory reserve fund	53	**1,545,000**
Retained earnings	54	**12,755,357**
General reserve	55	**13,779,839**
Non-controlling interests		**353,882**
Less: Deductions		
Goodwill	41	**156,226**
Net deferred tax asset	43	**1,562**
Intangible assets	40	**280,196**
50% investments in the capital of other banks and financial institutions - cost		**3,074,217**
Total Tier I Capital		**29,637,692**
Tier II Capital		
Qualifying subordinated liabilities		**636,000**
General provision*		**618,767**
Less: deductions		
50% investments in the capital of other banks and financial institutions - cost		**3,074,217**
Total regulatory Capital		**27,818,242**

** Computed based on the Direction issued by the Central Bank of Sri Lanka.*

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 24 to the financial statements - Measurement of financial instruments.	127
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	113
	ii. Reclassifications of financial instruments from one category to another.	Significant accounting policies: Note 5.2.3 - Reclassification of financial instruments	114
	iii. Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Note 27 - Placements with banks	131
	iv. Reconciliation of the allowance account for credit losses by class of financial assets.	Notes to the financial statements: Note 31.2 - Movement in specific and collective for allowance impairment	134
	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:	122-126
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 11 - Interest income	122
	ii. Fee income and expense.	Note 13 to the financial statements: Net fees and commission income	123
	iii. Amount of impairment losses by class of financial assets.	Note 18 to the financial statements: Impairment for loans and other losses.	124
	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.	114
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 63.3 to 63.4 - Fair value measurement	168-169
	ii. Description of how fair value was determined.	Notes to the financial statements: Note 63.1.	167
	iii. The level of inputs used in determining fair value.	Notes to the financial statements: Note 63.7 to 63.13.	172-173

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.	168
	v. Information if fair value cannot be reliably measured.	Notes to the financial statements: Note 63.5 to 63.6.	170-171
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.	
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.	
2.1.3	Changes from the prior period.	Notes to the financial statements: Note 36.4 - Restatement of comparative figures	143
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.	
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.	
	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 31.1.3 on industry analysis.	134
	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 31.1.3 on industry analysis. Note 64.2.2.1 & 64.2.2.3 on loans and advances and impairment analysis.	134 174-175
	c. Information about collateral or other credit enhancements obtained or called.	Note 64.2.2 Analysis of fair value of loans and advances.	174
	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'.	
	ii. Liquidity Risk		
	a. A maturity analysis of financial liabilities.	Notes to the financial statements: Note 64.3.2.2 Maturity analysis of financial liabilities.	176
	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'.	
	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 64.4 - Market risk	177
	b. Additional information, if the sensitivity analysis is not representative of the entity's risk exposure.	None	
	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'.	

Disclosure Requirements		Description	Page No.
	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 64.5 - Operational risk	180
	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 64.4.2.3 - Equity price risk	179
	• Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.		
	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 32 - Financial investments - Available-for-sale Note 34 - Investments in subsidiaries Note 35 - Investments in associates Note 16 - Net gain/loss from financial investments	 135 141 142 123
	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'.	178
	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 64.4.2.1 Level of interest rate risk exposure in the banking book of DFCC is given in the interest rate sensitivity statement in the report on 'Integrated risk management'. Based on the interest rate sensitivity position of DFCC as at 31st March 2015 (asset sensitive position), interest rates movement of 1% upward or downward (assumed parallel shift in the yield curve) would lead to an increase/decrease in Nil/ economic value by royalty LKR 24 million.	
2.2.3	Information on concentrations of risk.	Please refer the section on 'Integrated risk management'.	

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 64.6.2	181
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 64.6.2 - Financial risk management	181
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'.	
ii. Quantitative Disclosures		
a. Capital requirements for credit risk, market risk and operational risk	Please refer the section on 'Integrated risk management'.	
b. Total and Tier 1 capital ratio	Please refer the section on 'Integrated risk management'.	

Consolidated Income Statement of DFCC & DVB (DBB)

This information relates to the consolidation of DFCC Bank PLC (DFCC) and DFCC Vardhana Bank PLC (DVB) for purpose of internal review and analysis of the banking business and is derived from total Group financial statements.

Income statement of DVB for the year ended 31 December is consolidated with the income statement of DFCC for the year ended 31 March.

Reconciliation with Group financial statements audited by KPMG (Page 190).

For the year ended 31 March	**2015 LKR 000**	2014 LKR 000
Income	**19,870,921**	20,214,370
Interest income	**16,087,220**	18,466,668
Interest expenses	**9,428,337**	10,598,761
Net Interest Income	**6,658,883**	7,867,907
Fee and commission income	**1,056,910**	820,969
Less: Fee and commission expense	**17,303**	6,442
Net Fee and Commission Income	**1,039,607**	814,527
Net gain/(loss) from trading	**479,988**	212,306
Net gain/(loss) from financial instruments at fair value through profit or loss	**678,217**	(323,943)
Net gain from financial investments	**2,288,651**	1,230,939
Other operating income (net)	**(720,065)**	(192,569)
Total Operating Income	**10,425,281**	9,609,167
Impairment charge/(write back) for loans and other losses	**257,556**	1,221,722
Net Operating Income	**10,167,725**	8,387,445
Less: Operating Expenses		
Personnel expenses	**2,016,172**	1,829,807
Other operating expenses	**2,091,109**	1,973,666
Operating profit before value added tax and nation building tax on financial services	**6,060,444**	4,583,972
Value added tax and nation building tax on financial services	**884,072**	602,040
Profit Before Tax	**5,176,372**	3,981,932
Tax expense	**955,975**	879,585
Profit for the Year	**4,220,397**	3,102,347

Consolidated Statement of Financial Position DFCC & DVB (DBB)

This information relates to the consolidation of DFCC Bank PLC (DFCC Bank) and DFCC Vardhana Bank PLC (DVB) for purpose of internal review and analysis of the banking business and is derived from the total Group financial statements.

Statement of financial position of DVB as at 31 December is consolidated with statement of financial position of DFCC as at 31 March.

As at	**31.03.2015 LKR 000**	31.03.2014 LKR 000
Assets		
Cash and cash equivalents	**4,055,638**	2,932,492
Balances with Central Bank	**2,616,406**	2,870,492
Placements with banks	**1,324,229**	3,113,437
Derivative assets held for risk management	**89,861**	183,892
Other financial assets held-for-trading	**1,469,166**	1,971,915
Loans to and receivables from banks	**3,432,440**	5,445,963
Loans to and receivables from other customers	**135,326,413**	112,172,881
Financial investments – Available-for-sale	**45,813,871**	39,901,586
Financial investments – Held-to-maturity	**10,872,287**	1,073,703
Investments in subsidiaries	**134,536**	145,536
Investments in associate	**35,270**	35,270
Investments in joint venture	**655,000**	655,000
Due from subsidiaries	**12,235**	4,368
Property, plant and equipment	**949,569**	1,009,522
Intangible assets	**279,709**	236,627
Government grant receivable	**483,728**	276,878
Goodwill on consolidation	**146,602**	146,602
Prepayments	**26,342**	35,833
Other assets	**2,044,598**	2,138,363
Total Assets	**209,767,900**	174,350,360

As at	**31.03.2015 LKR 000**	31.03.2014 LKR 000
Liabilities		
Due to banks	**5,969,395**	6,671,569
Derivative liabilities held for risk management	**37,153**	227,994
Due to other customers	**92,839,844**	81,230,336
Other borrowing	**39,014,444**	27,782,493
Debt securities issued	**19,445,924**	14,009,017
Current tax liability	**189,250**	239,096
Deferred tax liability	**642,020**	553,223
Government grant - deferred income	**303,728**	295,628
Other liabilities	**2,458,761**	2,076,341
Due to subsidiaries	**31**	–
Subordinated term debt	**1,609,664**	1,609,674
Total Liabilities	**162,510,214**	134,695,371
Equity		
Stated capital	**4,715,814**	4,715,814
Statutory reserves	**1,545,000**	2,381,648
Retained earnings	**9,585,645**	6,177,658
Other reserves	**31,338,010**	26,314,252
Total Equity Attributable to Equity Holders of the Bank	47,184,469	39,589,372
Non-Controlling Interests	73,217	65,617
Total Equity	47,257,686	39,654,989
Total Equity and Liabilities	209,767,900	174,350,360

Key Performance Indicators of Consolidated Banking Business (DBB)

The key ratios of performance are derived from the consolidated income statement and Statement of Financial Position of DFCC Bank PLC and DFCC Vardhana Bank PLC.

	2015	2014
Net interest income/interest income, %	41.4	42.6
Non-interest expenses/operating income, %	39.4	39.6
Impairment Allowance/Impaired Loans, %	69.4	85.8
Impaired Loans/Total Loans, %	6.0	6.4
Interest margin - Net interest income/Average Interest Earning assets, %	4.1	5.9
Common branches as at 31 March (DFCC Bank), 31 December (DVB)	20	19
Additional branches, DVB only as at 31 December	58	54
Employees - 31 March	1,427	1,371

Consolidated Income Statement of DFCC Bank & DVB (DBB)

1. Consolidated Income Statement of DBB

For the year ended 31 March	**2015 LKR 000**	2014 LKR 000
Profit for the period - DBB	**4,220,397**	3,102,347
Consolidation adjustments		
Dividend from subsidiaries, associate and joint venture accounted in DBB	**(87,580)**	(77,951)
WHT on dividend received	**(6,804)**	(6,258)
Reversal of provision for fall in value of investments in subsidiary	**11,000**	–
	4,137,013	**3,018,138**
Add: Profit from other subsidiairies and joint venture attributable to equity holders of DFCC Bank PLC		
Subsidiairies	**148,329**	**99,909**
Share of profits of joint venture	**138,303**	**90,632**
Share of profits of associate	**14,967**	**6,334**
Profit for the year	**4,438,612**	**3,215,013**

2. Consolidated Equity of DBB

As at	**2015 LKR 000**	2014 LKR 000
Equity of DBB	**47,184,469**	39,589,372
Equity of other subsidiaries	**189,219**	166,093
Share of post acquisition reserves – joint venture	**653,681**	504,599
Elimination of 50% of the profits on the sale of subsidiary to joint venture	**(184,688)**	(184,688)
Consolidation adjustment for loss in value of a subsidiary	**37,500**	26,500
Share of post acquisition reserves-associate	**28,690**	18,894
	47,908,871	40,120,770

Value Added Statement and Sources and Distribution of Income

Value Added Statement - Bank

For the year ended 31 March	2015 LKR million	2015 LKR million	2015 %	2014 LKR million	2014 LKR million	2014 %
Value Added						
Gross income		10,394			10,481	
Cost of borrowing and support services		(5,262)			(5,470)	
Impairment written back/(charge) for loans and other losses		308			(324)	
		5,440			4,687	
Value Allocated						
To employees						
Salaries, wages and other benefits		943	18		906	20
To providers of capital						
Dividends to shareholders		1,458	27		1,325	28
To Government						
Tax expense	531			623		
Value added tax and nation building tax on financial services	585	1,116	20	433	1,056	22
To expansion & growth						
Retained Income	1,783			1,263		
Depreciation	140	1,923	35	137	1,400	30
		5,440	100		4,687	100

Sources and Distribution of Income - Bank

For the year ended 31 March LKR million	2015	2014	2013	2012	2011
Sources of Income					
Interest Income	8,010	9,530	9,279	6,133	6,206
Income from Investments	2,150	1,211	1,090	1,148	2,911
Other	234	(260)	64	371	5,074
	10,394	10,481	10,433	7,652	14,191
Distribution of Income					
To employees as emoluments	943	906	891	804	791
To lenders as interest	4,675	4,894	5,023	2,898	2,786
To Providers of supplies & services	587	576	498	512	487
To Government as taxation	1,116	1,056	803	767	2,629
To shareholders as dividends	1,458	1,325	1,060	795	2,649
Retained in the business					
Depreciation set aside	140	137	128	127	117
Provision for losses	(308)	324	169	91	244
Reserves	1,783	1,263	1,861	1,658	4,488
	10,394	10,481	10,433	7,652	14,191

Ten Year Summary

Year ended 31 March *LKR million*	Based on Previous GAAP 2006	2007	2008	2009	2010	2011	Based on Current SLFRS 2012	2013	2014	**2015**
Bank										
Operating Results										
Total income	5,387	6,887	9,636	9,888	8,843	14,191	7,652	10,433	10,481	**10,394**
Profit before tax	1,652	1,865	1,983	2,006	2,402	7,876	2,883	3,492	3,211	**3,771**
Tax expense	472	740	665	646	689	739	430	570	623	**531**
Profit after tax	1,180	1,125	1,318	1,360	1,713	7,137	2,453	2,921	2,587	**3,240**
Statement of Financial Position										
Assets										
Cash and short-term funds	4,928	7,935	8,124	8,415	10,472	11,991	3,646	7,103	4,245	**2,296**
Loans to and receivables from banks and other customers	36,835	46,280	45,524	40,247	36,681	39,344	54,982	60,668	62,575	**73,933**
Financial investments	1,340	1,260	1,680	1,918	1,999	4,032	16,277	19,298	25,609	**29,909**
Investments in associate, joint venture and subsidiary companies	3,057	3,350	5,829	6,064	5,845	3,132	4,451	4,446	6,659	**6,648**
Other assets	1,453	2,116	2,202	1,841	1,419	1,427	1,841	1,645	1,853	**1,826**
Total assets	47,613	60,941	63,359	58,485	56,416	59,926	81,197	93,160	100,941	**114,612**
Liabilities										
Due to other customers	4,017	13,573	5,112	5,308	5,124	3,688	12,445	15,548	16,630	**22,485**
Other borrowing	32,837	35,897	42,480	36,710	33,530	32,261	36,489	41,605	45,262	**46,348**
Other liabilities	1,668	1,977	2,006	1,976	2,039	3,758	1,010	1,223	1,639	**1,684**
Equity	9,091	9,494	13,761	14,491	15,723	20,219	31,253	34,784	37,410	**44,095**
Total equity and liabilities	47,613	60,941	63,359	58,485	56,416	59,926	81,197	93,160	100,941	**114,612**
Return on equity, %	13.6	12.1	11.3	9.6	11.3	39.7	11.7	12.9	10.6	**12.6**
Return on total assets, %	2.7	2.1	2.1	2.2	3.0	12.3	3.7	3.8	3.0	**3.5**
Earnings per share, LKR*	4.87	4.63	5.09	5.17	6.48	26.95	9.25	11.02	9.76	**12.22**
Market value per share, LKR*	52.75	69.78	62.45	33.78	90.23	171.8	112.6	131.1	143.9	**202.8**
Price earnings ratio, times*	10.8	15.1	12.3	6.5	13.9	6.4	12.2	11.9	14.7	**16.6**
Earnings yield, %*	9.3	6.6	8.1	15.4	7.2	15.6	8.2	8.4	6.8	**6.0**
Dividend per share, LKR	6.00	5.00	5.00	5.00	6.00	10.00	4.00	5.00	5.50	**6.00**
Dividend cover, times	3.4	2.5	2.0	2.1	2.2	2.7	3.1	2.8	2.0	**2.2**
Gross dividend, LKR million	345.5	454.4	653.7	653.7	794.3	2,649	795	1,060	1,325	**1,458**
Liquid assets to liabilities (as specified in the Banking Act No. 30 of 1998), %	48	79	31	145	214	295	52	52.8	77.46	**47.62**
No of employees	374	422	419	419	427	451	466	461	477	**495**

**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 specialised 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 June 2015.

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

Bankers
DFCC Vardhana Bank PLC

VAT Registration No.
409000088-7000

Registered Office
73/5, Galle Road,
Colombo 03, Sri Lanka.

Telephone: +94-11-2442442
Fax: +94-11-2440376
E-mail: info@dfccbank.com
Website: www.dfcc.lk

This Annual Report is Carbon Neutral

This DFCC Bank PLC annual report has been produced by Smart Media The Annual Report Company, a certified carbon neutral organisation that offsets its GHG emissions, including those resulting from the usage of paper and outsourced printing, through verified sources.

This is an Integrated Annual Report *Plus*

This DFCC Bank PLC annual report has been prepared using the Smart Integrated Reporting Methodology™ of Smart Media The Annual Report Company.

© Copyright Reserved

SMART MEDIA The ANNUAL REPORT Company

www.smart.lk

PARTNER Carbonfree® Carbonfund.org

www.carbonfund.org

GSARN© www.gsarn.org

Global Standard Annual Report Number©
LKA8355DFCCX0140150E101

DFCC BANK PLC

Annual Report 2014/15

www.dfcc.lk