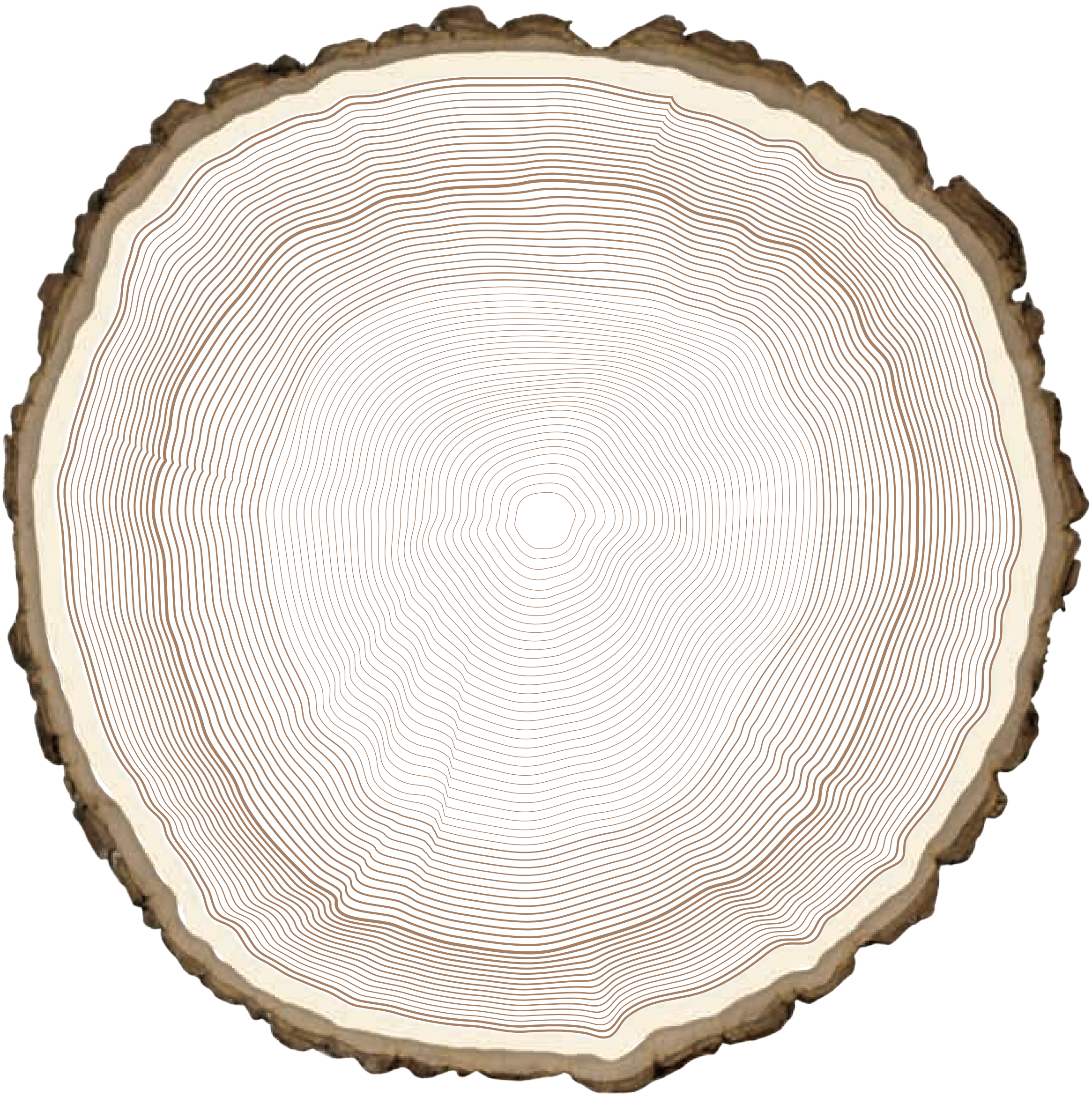
DFCC BANK PLC

Annual Report 2016



DFCC BANK
Keep Growing

About this Report

This is an integrated annual report and is a compact disclosure on how our strategy, governance, performance and prospects have resulted in the creation of sustainable value within our operating environment.

Value Creation and Capital Formation

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

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

Comprehensive and Yet Concise

Taking forward the approach to reporting adopted in the last two years, this report balances the need to communicate effectively through concise, relevant information (to a large and diverse stakeholder group), while at the same time providing comprehensive compliance-related disclosures (that would interest only a few). We are thus presenting our Annual Report 2016 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://dfcc2016.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 conventional reporting, we have implemented a more current format for reporting and have upgraded our corporate website with a focus on investor relations, supplemented by an investor relations app for smart phones and other devices.

Reporting Period

The DFCC Bank Annual Report for 2016 covers the 12 month period from 01 January 2016 to 31 December 2016 and is reflective of the change in the financial year-end implemented in 2015. The previous annual report covered the nine month period from 01 April 2015 to 31 December 2015 and is available on the company website (www.dfcc.lk). Some of the Group entities have a 31 March financial year-end and they are consolidated with DFCC Bank's reporting period with a three month time lag. A summary of the accounting periods covered by the Statement of Profit and Loss and Other Comprehensive Income in the Bank and the Group columns is given in the Financial Report (page 136).

Report Boundary

Our reporting covers DFCC Bank PLC ('DFCC Bank' or 'Bank') and the DFCC Bank Group ('Group') comprising the Bank and its subsidiaries, a joint venture company and an associate company. The respective entities are duly identified where applicable.

Compliance

As declared on page 131 the Board of Directors of DFCC Bank, in the spirit of good governance, accepts responsibility for the entirety of this Annual Report 2016.

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 97), Financial Statements and the Notes thereon (page 135) and the Independent Auditors' Report (page 134).

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

Precautionary Principle

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

Comparability

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

Queries

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

Committed to Grow

The rings of growth symbolise DFCC's evolution from a sapling to a flourishing tree

Vision

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

Mission

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

Our Values

Innovative
Customer Centric
Professional
Ethical
Accountable
Team Oriented
Socially Responsible

SCAN to view the online version
http://dfcc2016.annualreports.lk

Contents

Highlights

Operational

Set-up the MSME Strategic Business Unit

to cater to the Small Enterprise sector

Launched an internally developed Complaint Management System

which enables the real time entry of customer complaints and monitors the rectification process to completion

Set-up the Payments and Cash Management Unit

to focus on driving CASA and Other Income

Upgraded eight Sri Lanka Postal Units

to fully-fledged branches

Digitalisation

Launched the Vardhana Virtual Wallet (VVW)

and extended the service to non-DFCC Bank customers

Adopted Google's G Suite

being the first Bank to move its entire collaboration platform onto G Suite to facilitate employee communication

Upgraded the Lanka Money Transfer (LMT) service

enabling remittances to be received through the Vardhana Virtual Wallet

Initiated a cutting-edge Security Information Event Management System

to monitor ongoing security events from all systems on a single platform

Financial

Group

LKR million	Year ended 31 December 2016	9 months ended 31 December 2015	Based on current SLFRS: Year ended 31 March 2015	2014	2013
Operating Results					
Total income	**26,980**	17,503	20,094	20,376	16,630
Profit before tax	**4,674**	2,553	5,416	4,117	4,431
Tax expense	**1,205**	912	977	902	870
Profit attributable to equity holders of the Bank	**3,415**	1,592	4,362	3,151	3,494
Statement of Financial Position					
Assets					
Cash and short-term funds	**13,824**	9,870	9,471	10,913	14,245
Loans to and receivables from banks and other customers	**198,085**	164,945	138,887	117,716	102,477
Financial investments	**72,461**	66,861	56,699	40,976	27,648
Investments in associate and joint venture	**1,443**	1,248	1,188	1,029	901
Other assets	**5,453**	4,185	4,365	4,361	4,008
Total assets	**291,266**	247,109	210,610	174,995	149,279
Liabilities					
Due to other customers	**140,220**	110,551	92,712	80,917	62,878
Other borrowing	**97,276**	87,381	65,874	50,075	46,012
Other liabilities	**6,660**	5,208	3,761	3,549	3,265
Equity					
Total equity attributable to equity holders of the Bank	**46,850**	43,716	47,909	40,121	36,814
Non-controlling interests	**260**	253	354	333	310
Total equity and liabilities	**291,266**	247,109	210,610	174,995	149,279
Return on equity, %*	**10.3**	5.6	14.0	10.9	13.1
Return on total assets, %*	**1.4**	0.8	2.5	2.1	2.8
Earnings per share, LKR	**12.88**	6.01	16.46	11.89	13.18
Net asset value per share, LKR	**176.73**	164.90	180.72	151.34	138.87
Capital adequacy					
Core capital ratio, %	**14.60**	15.39	17.71	18.71	20.84
Total capital ratio, %	**17.47**	15.32	16.62	17.19	19.37

**"Based on current SLFRS" spans all five year columns; "Year ended 31 March" spans 2015, 2014 and 2013.*

After eliminating fair value reserve.

We grow Together!

We know that it is our customers' investment in us that makes us who we are today. We will always stand with them to thrive and to grow together.

Service that provides a rewarding customer experience.

Message from the Chairman

Dear Shareholders,

The year under review has been one of progress. The first green shoots of the synergies released by the amalgamation with Vardhana are visible. The blending of a development bank with a commercial bank has been successfully achieved. The expectation that the amalgamation would create an entity greater than the sum of its parts is starting to become reality. This has not been an easy journey, but one during which bonds have been formed, barriers broken and a culture of going the extra mile for our customers and the Bank has become entrenched. Corporate Governance has been strengthened by expanding the scope of the Nominations Committee to include Governance, and a policy prohibiting insider trading was formally adopted. A Code of Conduct for Directors was also implemented.

This progress is reflected in our results – expenses have been curtailed, the NPL ratio is at a historical low, other indicators are improving and profit is up. The Bank is growing its digital channels like the Vardhana Virtual Wallet and the Lanka Money Transfer system, and engaging customers over the web and social media, thus providing them with cheaper, faster alternatives.

More work remains to be done. Our CASA ratio, while improving, is still low, due to the fact that DFCC did not have access to CASA, when it was a specialised Bank, and raising this ratio as rapidly as possible is a top priority in 2017. We also need to grow our customer base and targeted branch openings have been scheduled over the year. Our customer service standards are among the best in the industry, and as we grow and expand, these standards need to be maintained and enhanced. Progress will be monitored by our Branding and Marketing Committee.

The Bank continues to look for ways to improve the products and services we provide our customers, and to improve the ease of doing business with DFCC. Useful suggestions for improvement from our people at all levels as well as from customers are speedily evaluated and acted on. Access by the staff to the Chairman and CEO is possible during designated 'Open Days' and the channels of communication are always open. The Bank takes its responsibility as an equal opportunity employer very seriously, and has vibrant whistleblower, anti-discriminatory and grievance redress policies in place. These and other measures introduced during the year, such as making DFCC, 'a great place to work' will help us to reach our goal of being an employer of choice.

The Directors have approved a first and final dividend of LKR 4.50 per share, which is a payout of 38% of distributable profits.

My thanks to the CEO and his management team, and the staff at all levels for the good work done last year, and I look forward to an even greater effort this year. I am grateful to my colleagues on the Board for their guidance and dedication, and for the support of the officials of the Ministry of Finance and the Central Bank of Sri Lanka, and to our loyal customers for their continued patronage. We are committed to providing them with levels of service that exceed expectation.

Messrs Nihal Fonseka and Ananda Atukorala left the Board during the year to take up positions elsewhere, and while acknowledging with thanks their immense contribution, I wish them every success in their new positions.
Mr H A Ariyaratne joined the Board in October, and I am sure his vast experience and knowledge in Banking would be an asset to the Board.

You, dear shareholders, have always been our strength and I thank you for your consistent support over the years and look forward to this continuing in the years ahead. On behalf of the Board and the DFCC team, I assure you that we will spare no effort to add value to your shareholding, and to make your Bank one of the very best in this country.

C R Jansz
Chairman

20 February 2017

Chief Executive's Review

October 2016 marked the first anniversary of the amalgamation of DFCC Bank and DFCC Vardhana Bank and their union was the first ever amalgamation in Sri Lanka's commercial banking industry. The amalgamated DFCC, as a licensed commercial bank, entered uncharted waters and it is gratifying that the Bank not only faced this challenge successfully, but attained a new performance threshold. That the amalgamation was achieved virtually seamlessly, spoke volumes for the quality of the key resource of the two banks, namely their employees. Their purposefulness enabled a blending of development and commercial banking cultures with significant synergies. In effect, DFCC underwent a paradigm shift during 2016.

An analysis of the Bank's performance is given in the Management Discussion. The key numbers reflect the new DFCC. Simply put, the Bank set out to achieve portfolio growth without compromising margins or credit quality. This strategy was successfully executed, following strict implementation of pricing guidelines and rigorous credit evaluation, helped by favourable market factors. DFCC also carried out a successful drive to increase its current and savings base with innovative retail products, which diversified funding and stabilised interest margins. Post amalgamation synergies also contributed meaningfully with net profit per employee increasing by over 30%, despite an additional headcount. The outcome was that the bottom line (without extraordinary capital gains) crossed the LKR 3 billion mark for the first time in DFCC's history, with a strong growth of 60%. Meanwhile, portfolio quality remained a priority and proactive monitoring enabled an improvement in key indicators. Especially noteworthy was the reduction in the non-performing loan ratio to less than 3%, which matches the banking sector and is creditable, given the larger proportion of higher risk project loans in DFCC's portfolio when compared to the industry. Also, portfolio quality was improved by recoveries from substantial 'hard core' debts, following diligent remedial action. Therefore, as borne out by DFCC's standout results, 2016 represented a watershed for the Bank.

DFCC's paradigm shift was also manifest by innovation and customer centricity, of which there were many examples; the Vardhana Wallet, the Xtreme Saver, the Bancassurance arrangement with AIA Insurance and the migration to the Google App Platform. A catalyst for new thinking was provided by the 'Great Place to Work' programme, which generated ideas as to how things should be done at DFCC. All in all, a new internal culture that enables employees to learn, innovate and embrace change was instilled. This is critical going forward.

The year ahead will see a new direction for which the foundation is laid. While retaining its values and pioneering spirit nurtured over 62 years, DFCC has been rebranded and repositioned on a platform of sustainability embodied by the 'Eleven Sustainable Banking Principles developed for Sri Lanka'. Even as the Bank is committed to its development banking mandate, commercial banking is receiving a strong focus. The business structure was reconfigured enabling DFCC to target new market sectors particularly in the mini, micro and retail segments. The ongoing product and channel development drive will give DFCC the competitive edge and the Bank will keep looking for opportunities in consolidation, regional markets and working in partnership with Group companies. Therefore the stage is set for DFCC to build on the momentum generated in 2016.

I am grateful to my Chairman, Mr Royle Jansz and other Board members for their guidance and inspiration. Looking ahead, I am sure that under their stewardship, DFCC will continue to prosper. I thank my deputy Mr Lakshman Silva, the Senior Management and all my colleagues. Their commitment enabled DFCC to turn in a record performance. I thank our loyal customers for their patronage. I thank officials of the Central Bank of Sri Lanka, the Ministry of Finance and other Government authorities for their support. I also thank the international financial institutions, our bond holders and debenture holders, and depositors for the confidence placed in DFCC Bank. May they all continue to 'Keep Growing'.

Arjun Fernando
Chief Executive/Director

20 February 2017

Board of Directors


8
9
10
11
3
4

1

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, Lanka Bell Limited, Melstacorp Limited and other companies in the Melstacorp 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 London Guildhall University, UK. He is a Chevening Scholar and a UN-ESCAP Certified Training Manager on Maritime Transport for Shippers.

2

A R Fernando
Chief Executive

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

Mr Fernando is the Chairman of DFCC Consulting (Pvt) Limited, Lanka Industrial Estates Limited and Synapsys Limited, subsidiary companies of DFCC Bank PLC and the Chairman of Acuity Partners (Pvt) Limited, the joint venture company of DFCC Bank PLC and a Director of Acuity Stockbrokers (Pvt) Limited. He is also the Chairman of Lanka Ventures Limited and Director of LVL Energy Fund as well as Director of the Credit Information Bureau of Sri Lanka. He is furthermore, a Director of Sri Lanka Banks Association (Guarantee) Limited and a Director of Financial Ombudsman (Guarantee) Limited. Mr Fernando is the Chairman of the Board of Directors of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP).

Mr Fernando is a career banker and he holds over 30 years of 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 in Engineering from Southern Illinois University, USA and an MSc in Management from Clemson University, USA. He is also an Associate of the Institute of Financial Studies (Chartered Institute of Bankers), UK.

3

P M B Fernando
Senior Director

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

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 and Finance Director for the Asia Region at Virtusa (Pvt) Limited. In 2005, he became the Managing Director of Capital Reach Group and was appointed as Director/Chief Executive Officer of Softlogic Finance PLC, following the consolidation of activities of Capital Reach Group under Softlogic Finance PLC.

At present, he is the Chief Executive Officer of Orient Finance PLC.

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

4

T Dharmarajah
Director

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

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

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

Mr Dharmarajah holds a BSc in Management (Sp.) from the University of Sri Jayewardenepura and is a Fellow 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.

5

Ms S R Thambiayah
Director

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

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

She was a Director of DFCC Vardhana Bank PLC from September 2012 to February 2015.

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

6

K P Cooray

Director

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

Mr Cooray presently serves as the Chairman of Hotel Developers Lanka Limited and a Director of Synapsys Limited. He has held executive positions in several companies including Ceylinco Group, Richard Peiris Group and the Maharaja Organisation.

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

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

7

K D N Ranjith Asoka

Director

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

Mr Ranjith Asoka is presently the Director General of the Department of Public Enterprises of the Ministry of Finance.

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

Mr Ranjith Asoka holds a B Com (Sp.) from the University of Colombo. He also holds Postgraduate Diplomas in Economics and in Devolution and Local Government Studies from the University of Colombo, an MBA in HRM from the Postgraduate Institute of Management and a Masters in Economics from the Yokohama National University of Japan.

8

Ms V J Senaratne

Director

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

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

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

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

9

L H A L Silva

Director

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

Mr Silva is the Deputy Chief Executive of DFCC Bank PLC with effect from 01 October 2015. He was the Chief Executive Officer and Executive Director of DFCC Vardhana Bank PLC from January 2010 to September 2015. Mr Silva started his professional career with the Department of Inland Revenue of Sri Lanka and joined the DFCC Banking Group in 1987. He was seconded to the service of DFCC Vardhana Bank in 2003 and functioned as the Chief Operating Officer of DFCC Vardhana Bank from the year 2003 until his appointment as the Chief Executive Officer in January 2010.

He is a Director of Synapsys Limited, Acuity Securities (Pvt) Limited, DFCC Consulting (Pvt) Limited and Lanka Financial Services Bureau Limited. He is also a Past President of the Association of Professional Bankers of Sri Lanka.

Mr Silva holds a B Com (Sp.) from the University of Kelaniya and an MBA from the Postgraduate Institute of Management of the University of Sri Jayewardenepura.

10

L N de S Wijeyeratne

Director

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

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

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

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

11

H A Ariyaratne

Director

Appointed to the Board of DFCC Bank PLC in October 2016.

Mr Ariyaratne is presently a Director of a number of companies in the Laugfs Group.

Mr Ariyaratne possesses extensive experience in development banking, investment banking, venture capital financing and fund management, having been with DFCC Bank for a period of over 30 years. He served as the Executive Vice President (Lending), Senior Vice President (Special Loan Administration) and in many other positions throughout his career at DFCC Bank. He also held the position of Chief Executive Officer of Lanka Ventures PLC and served as a Director on the Board of DFCC Vardhana Bank PLC.

He also served as the Chairman of the Banking, Finance and Insurance Committee of the National Chamber of Commerce.

Mr Ariyaratne holds a BSc (Hons.) from the University of Peradeniya.

Corporate Management

6
Bhathiya Alahakoon
Senior Vice President (Branch Banking and SME)

7
Renuka Amarasinghe
Senior Vice President (Corporate Banking)

8
Gillian Edwards
Senior Vice President (Consumer Banking)

1
Arjun Fernando
Chief Executive Officer

2
Lakshman Silva
Deputy Chief Executive Officer

3
Tyrone De Silva
Executive Vice President (Investments, International Relations and Strategic Planning)

(9)
Ashok Goonesekere
Senior Vice President
(Chief Financial Officer)

(10)
Achintha Hewanayake
Senior Vice President
(Chief Operating Officer)

(11)
Kapila Nanayakkara
Senior Vice President
(Treasury and Resource Mobilisation)

(12)
Rohitha Ganegoda
Chief Information Officer

(4)
Palitha Gamage
Executive Vice President
(Chief Risk Officer)

(5)
Anomie Withana
Company Secretary/
Secretary to the Board

Management Team

5
Chanaka Kariyawasam
Vice President
(Rehabilitation and Recoveries)

6
Jayangani Perera
Vice President
(Branch Credit Management)

7
Wajira Punchihewa
Vice President
(Regional Manager)

8
Sriyani Ranatunga
Vice President
(Corporate Banking – Business Development)

1
Chinthika Amarasekara
Vice President
(Finance)

2
Anton Arumugam
Vice President
(Institutional Business – SME)

3
Neville Fernando
Vice President
(Business Systems)

9

Hemanatha Samaranayaka

Vice President
(Head – Business Development)

10

Kapila Samarasinghe

Vice President
(Business Banking)

11

Priyadarsana Sooriya Bandara

Vice President
(Regional Manager)

13

Rohan Tillekeratne

Vice President
(Compliance Officer)

4

Sonali Jayasinghe

Vice President
(Human Resources)

12

Kapila Subasinghe

Vice President
(Specialised Project Lending/ Head of DFCC Consulting)

(17)
Nalin Karunatileka
Vice President (Project Management and BCP)

(18)
Denver Lewis
Vice President (Alternate Channels and Cash Management)

(19)
Thejaka Perera
Vice President (Litigation)

(20)
Prasanna Premaratne
Vice President (Trade Services)

(21)
Nimali Ranaraja
Vice President (Business Banking)

(6)
Ravi Dassanayake
Vice President (Planning and Monitoring)

(7)
Harsha De Alwis
Head – Remittances

(8)
Pradeepa De Alwis
Vice President (Regional Manager)

(9)
Champal De Costa
Vice President (Regional Manager)

(10)
Ranjith Dissanayake
Vice President (Branch Manager – Kurunegala)

(1)
Pradeep Ariyaratne
Vice President (Regional Manager)

(2)
Shantha Atapattu
Vice President (Branch Manager – Kandy)

(3)
Priyadarshi Attanayake
Vice President (Business Banking)

(22)
Sepali Ranawana
Vice President
(Legal - Business Operations)

(23)
Saravanapavan Raveendra
Vice President
(Regional Manager)

(24)
Mangala Senaratna
Vice President
(Corporate Banking)

(25)
Nishan Weerasooriya
Vice President
(IT Operations)

(26)
Chandrin Wimaladharma
Vice President
(Rehabilitation and Recoveries)

(11)
Terrence Etugala
Vice President
(Branch Manager – Gampaha)

(12)
Gaminda Fernando
Vice President
(Services and Procurement)

(13)
Jayan Fernando
Vice President
(Risk Policy and Modelling)

(14)
Chaminda Gunawardana
Vice President
(Branch Manager – Nawala)

(15)
Charitha Jayawickrama
Vice President
(Internal Audit)

(16)
Samathri Kariyawasam
Vice President
(General Legal)

(4)
Gunaratne Bandara
Vice President
(Regional Manager)

(5)
Subhashi Cooray
Vice President
(Credit Administration)

22
Sharmila Nugawela
Assistant Vice President (Legal – Business Operations)

23
Kelum Perera
Assistant Vice President (Branch Manager – Galle)

24
Lakmal Rajasekara
Assistant Vice President (Branch Manager – Anuradhapura)

25
Ruwan Saram
Assistant Vice President (Branch Manager – Dambulla)

26
Kusumsiri Sathkumara
Assistant Vice President (Branch Banking and SME)

27
Rohantha Seneviratne
Assistant Vice President (Specialised Project Lending/Operations Manager – DFCC Consulting)

9
Pavithra Dias
Assistant Vice President (Branch Manager – Nugegoda)

10
Dilshan Dodanwela
Assistant Vice President (Treasury Sales)

11
Chandana Garusinghe
Assistant Vice President (Branch Manager – Matara)

12
Asanga Goonatilaka
Assistant Vice President (Business Banking)

13
Nilmini Gunaratne
Assistant Vice President (Marketing)

14
Gemunu Gunasumana
Assistant Vice President (Card Operations)

1
Iranga Amilana
Assistant Vice President (Private Banking and Wealth Management)

2
Amanthi Balasooriya Dahanayake
Assistant Vice President (Credit Risk Management)

3
Punitha Dahanayake
Assistant Vice President (Credit Administration)

4
Channa Dayaratne
Assistant Vice President (Resource Mobilisation)

(28)

Duminda Silva

Assistant Vice President (Consumer Banking – Liabilities)

(29)

Sajith Silva

Assistant Vice President (Head of Bancassurance)

(30)

Dushan Weerakoon

Assistant Vice President (PFS Central Processing)

(31)

Indaka Weerasekera

Assistant Vice President (Head – Payments and Settlements)

(32)

Niranjali Wijesinghe

Assistant Vice President (Branch Manager – Gampola)

(15)

Shan Heenkenda

Assistant Vice President (Employee and Industrial Relations)

(16)

Bhatika Illangarathne

Assistant Vice President (Branch Manager – Katugastota)

(17)

Gayan Jayatissa

Assistant Vice President (Information Systems Security)

(18)

Rasika Jayawardhana

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

(19)

Iresha Kumbukage

Assistant Vice President (Credit Administration)

(20)

Jayanath Liyanage

Assistant Vice President (Branch Manager – Malabe)

(21)

Rajaratnam Naguleswaran

Assistant Vice President (Correspondent Banking)

(5)

Neil De Rose

Assistant Vice President (Branch Manager – Kotahena Bandaranayake Mawatha)

(6)

Anuradha De Silva

Assistant Vice President (Branch Manager – Maharagama)

(7)

Nishani De Zoysa

Assistant Vice President (Corporate Banking)

(8)

Vidarsha Dharmasena

Assistant Vice President (Corporate Banking)

About DFCC Bank

DFCC Bank was set up in 1955 as Sri Lanka's pioneer Development Finance Institution on the recommendation of the World Bank and is one of the oldest development banks in Asia. It is renowned for its project financing and SME financing expertise and has pioneered many new industries.

In October 2015, DFCC Bank and its 99% owned subsidiary, DFCC Vardhana Bank amalgamated. DFCC Bank is now a fully-fledged Licensed Commercial Bank offering the range of development banking and commercial banking products and services.

DFCC Bank is rated AA-(lka) by Fitch Ratings (Lanka) Limited.

Vision & Mission

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

Earnings from Banking Services & Products

Corporate Banking | *Branch and SME Banking* | *Small Business Enterprise Banking* | *Business Banking* | *Consumer Banking* | *Treasury* | *International Banking*

Products & Services

- Loans & Advances
- Project Financing
- Deposits
- Leasing
- Credit/Debit Cards
- Trade Financing
- Remittance Services
- Bancassurance
- Treasury Products
- Payments & Cash Management

Distribution Channels

- Branches
- Internet Banking
- Call Centre
- ATMs
- Electronic Cards
- Mobile Banking
- Premier Centre for High Net-Worth Customers

Spending on Enabling Support Services/Central Functions

Support Services

Planning | *Finance* | *Marketing* | *HR* | *Risk* | *IT* | *Operations* | *Audit* | *Compliance* | *Legal*

Returns from Subsidiaries, Joint Venture & Associate

Subsidiaries, Joint Venture & Associate

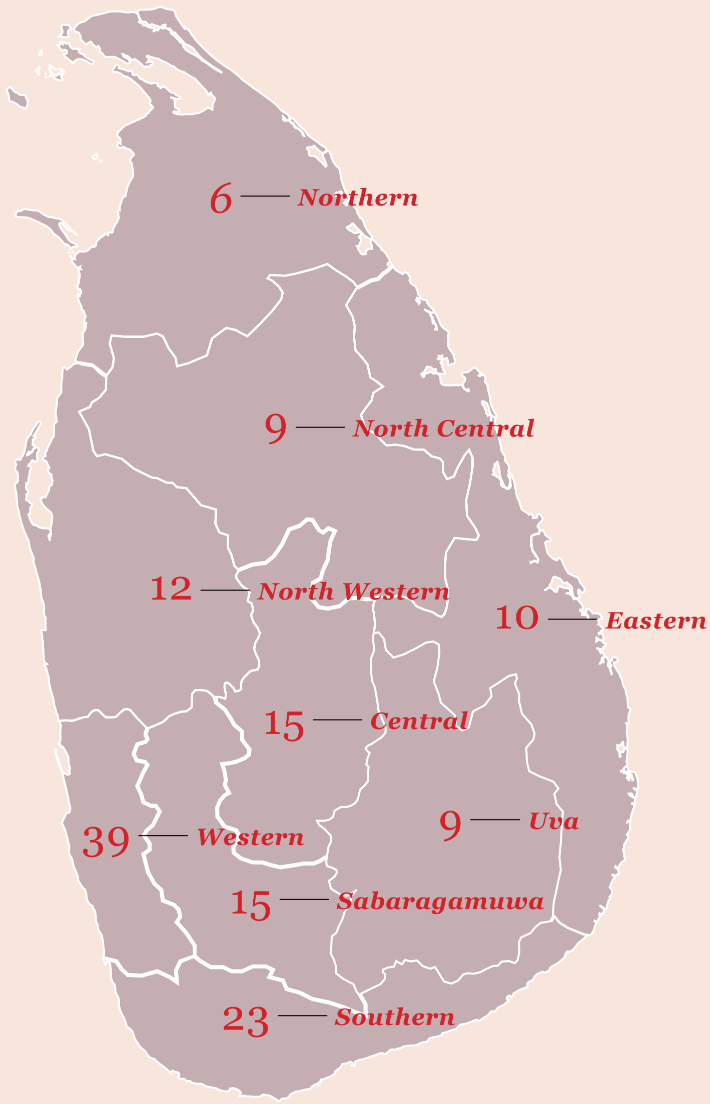
DFCC CONSULTING | LINDEL | SYNAPSYS | ACUITY PARTNERS | NAMAL

Value Added Distributed Among

Government in Taxes | *Shareholders in Dividend* | *Society in CSR Projects* | *Suppliers in Payments for Goods and Services Provided* | *Employees in Remuneration, Training, Development and Welfare*

Our Reach

Our services are delivered island-wide through 88 branches and 50 service points at Sri Lanka Post outlets. Customers also have access to over 3,600 ATMs across the country as well as zero cost cash withdrawals, via any Lankapay member bank. DFCC Bank also offers Internet and mobile banking services through innovative digital technology.



Details of the branch network are given in the online report [http://dfcc2016.annualreports.lk]

Group Structure

	Subsidiary Companies	
Name	*DFCC Consulting (Pvt) Limited*	*Lanka Industrial Estates Limited*
Address	*No. 73/5, Galle Road, Colombo 03*	*LINDEL Industrial Estate, Pattiwila Road, Sapugaskanda, Makola*
Phone Nos.	*+94 11 244 2442*	*+94 11 240 0318, +94 11 240 0319, +94 11 240 0320, +94 11 240 0532*
Email	*info@dfccbank.com*	*lindel@itmin.net*
Incorporated On	*09 September 2004*	*12 March 1992*
DFCC's Interest	*100%*	*51.15%*
Principal Activity	*Consultancy*	*Operating an industrial estate*
Directors	*A R Fernando – Chairman S E de Silva T W de Silva L H A L Silva*	*A R Fernando – Chairman H A Samarakoon – CEO Mrs G M I U Bandara T W de Silva Dr R M K Ratnayake A D Tudawe*

Financial Period/ Year-End	*31 December*	*31 March*	*31 March*	
Financial Year	*2016*	*2015/16*	*2016/17*	*2015/16*
Profit/(Loss) after Tax (LKR million)	*(2.6)*	*6.6 (nine months ended)*	*111*	*88 (nine months ended)*
Dividend per Share (LKR)	*1.07*	*n.a.*	*6.00*	*n.a.*
ROE (%)**	*n.a.*	*44*	*21*	*22*

* *Minority Interest*
** *Annualised*

	Joint Venture	Associate Company	
Synapsys Limited	*Acuity Partners (Pvt) Limited*	*National Asset Management Limited*	**Name**
No. 540, Nawala Road, Rajagiriya	*No. 53, Dharmapala Mawatha, Colombo 03*	*7th Floor, Union Bank Head Office, No. 64, Galle Road, Colombo 03*	**Address**
+94 11 288 0702	*+94 11 220 6206*	*+94 11 244 5911*	**Phone Nos.**
contactus@synapsys.sg	*info@acuity.lk*	*info@namal.lk*	**Email**
11 October 2006	*07 February 2008*	*28 September 1990*	**Incorporated On**
100%	*50%*	*30%*	**DFCC's Interest**
Information technology services and IT enabled services	*Investment banking and related activities such as corporate finance, debt structuring and IPOs*	*Management of unit trusts and private financial portfolios*	**Principal Activity**
A R Fernando – Chairman D J P Fernandopulle – CEO G S Dewaraja T W de Silva L H A L Silva Ms A Withana	*A R Fernando – Chairman M R Abeywardena – CEO A J Alles T W de Silva D A B Ellepola D P N Rodrigo Mrs I R D Thenabadu*	*A Lovell – Chairman A Herat – CEO Ms K S Bee W Dambawinne T W de Silva P Gamage S Madanayake M Samaratunga I Wickramasinghe*	**Directors**

31 December		31 December		31 December		**Financial Period/ Year-End**
2016	*2015*	*2016*	*2015*	*2016*	*2015*	**Financial Year**
(19.6)	*(12.5)*	*535 (before MI*) 299 (after MI*)*	*306 (before MI*) 133 (after MI*)*	*39*	*40*	**Profit/(Loss) after Tax (LKR million)**
NIL	*NIL*	*0.40*	*0.46*	*3.50*	*n.a.*	**Dividend per Share (LKR)**
n.a.	*n.a.*	*12*	*8*	*18*	*18*	**ROE (%)**

Our Portfolio

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

The Bank offers the full range of development and commercial banking solutions through its growing island-wide branch network.

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

Product/Service	Target Segment
Time deposits A wide range of tailor-made time deposit products at competitive interest rates	Corporates, SMEs and individuals
Loan syndication Loans provided by a group of lenders which is structured, arranged and administered by one or several banks	Corporates
Consultancy and advisory services Provision of legal, tax, finance, market and other advisory services to start up a new business or revamp existing businesses	Corporates, SMEs and entrepreneurs
Savings facilities Supreme *Vaasi* – Offers a superior rate of interest	Businesses and individuals aged 18 years and above
Mega Bonus – Interest rates grow in tandem with the savings deposits	Businesses and individuals aged 18 years and above
Xtreme Saver - Offers the highest interest rate for LKR and Dollar denominated savings based on the account balance	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 an attractive interest rate with a range of other benefits	Senior citizens above 55 years of age
Personal loans Loans that help meet personal financing requirements	Self-employed individuals, professionals and salaried individuals
Salary Booster Overdraft facility that allows an advance of up to 90% of a month's salary	Salaried individuals
Pawning services *Ranwarama* Pawning – Gold-pledged advances	Mass market/individuals
Housing loans *Sandella* – Flexible and convenient housing loans at affordable rates	Self-employed individuals, professionals and salaried individuals
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 such as current accounts, overdraft facilities, foreign currency accounts, credit card facilities, Vardhana Virtual Wallet, gift certificates, international trade services, off-shore banking, international payments, bancassurance, foreign money transfer via Western Union/Lanka Money Transfer and local payments.	Business community, entrepreneurs, professionals and individuals

For we grow as one!

At DFCC Bank, our employees are the key to growth. It is what they offer that differentiates us from the rest.

Members of our multi-disciplinary team at a brain storming session.

Operating Environment

The Global Economy

Global growth, which was 3.1% in 2016, was virtually the same as that of the previous year. However, the performance was uneven across different country groups. Advanced economies outperformed expectations, bolstered by recoveries in manufacturing output and a decreased lag in inventories. On the other hand, emerging market and developing economies (EMDEs) showed unexpected slowdowns.

The outlook for 2017 is somewhat bright, with growth projections for 2017 and 2018 estimated at 3.4% and 3.6% respectively. This growth is expected to be mainly fuelled by resurgence in growth of EMDEs. This reflects anticipated easing of conditions in some large economies that are currently undergoing macroeconomic strains. Only a modest growth is expected in advanced economies; this however could be changed by the policies of the new administration in the US.

China's performance was considerably better than expected and continued growth is expected based on anticipated policy support. Nevertheless the situation is also beset by uncertainties. Dependence on policies favourable to expansion of credit, lack of progress in addressing corporate debt and difficulties in imposing budgetary constraints on state-owned enterprises are some of the issues.

Regarding India, the growth forecasts for 2016 and 2017 have been trimmed due to adverse impact of cash shortages and the recent currency note withdrawal. Policy stimulus in the United States and/or China, could have positive impacts which could spill over to their respective trade partners. Nevertheless, some uncertainty hangs over this optimistic scenario due to the possibility of protectionist trade policies.

Headline inflation rates picked up in advanced economies with the recovery in commodity prices; core inflation rates have remained static and have generally been below inflation targets. Inflation in China showed an upwards trend buoyed by capacity cuts and higher commodity prices. The situation in other EMDEs was varied depending on exchange rate movements and factors peculiar to each country.

Uncertainties caused by political events resulted in major currency price movements. 'Brexit', the decision of the United Kingdom to leave the European Union, caused wide fluctuations in the pound; the outcome of the US election had similar effects on the US Dollar and the Mexican Peso. There were also unexpected changes in policy such as the withdrawal of the US from the Trans-Pacific partnership. An increase in geopolitical tensions, anti-globalisation sentiments and fears of terrorism have come to the forefront at the end of 2016. Proliferation of these in the years to come could have a dampening effect on economic confidence and worldwide market sentiments.

The Sri Lankan Economy

The Sri Lankan economy showed a lacklustre performance in 2016, recording only a 3.9% growth rate in the first six months of the year, compared with an annual growth of 4.8% in 2015. The prospects for 2017 are more favourable, with the World Bank anticipating results from reforms in key policy issues. Driven by private consumption and deferred foreign direct investment (FDIs), GDP is expected to grow at 5% in 2017. There are however, some threats on the horizon, such as slowdowns in key export markets, shifts in tourism and latent increases in global commodity prices.

According to the Colombo Consumer Price Index (CCPI), inflation as measured on a year-on-year basis increased from 3.4% in November 2016 to 4.1% in December 2016. Inflation on an annual average basis was reported as being at 3.7% in December 2016.

Coming to the external sector, growth rates for exports in September was 5.7%. This was despite a cumulative decrease of 3% up until September when compared with the preceding year. Overseas workers' remittances for the period January-September recorded in increase of 3.9% over the corresponding period in 2016. Tourism earnings continued to increase, continuing a trend from the previous year.

As per the Central Bank of Sri Lanka, the Balance of Payments (BOP) recorded a surplus for the period up to September 2016, compared to a deficit recorded for the corresponding period of 2015. Gross official reserves as at end September 2016 stood at USD 6.5 billion, amounting to an average of 4.1 months of imports. Total international reserves, comprising both gross official reserves and foreign assets of deposit-taking corporations were USD 9,200 million as at the end of August 2016.

The Rupee slid by 4.23% against the US Dollar during the year. The Dollar stood at LKR 150.00 as at 31 December 2016 compared to LKR 143.90 as at 31 December 2015. Regarding cross currency exchange rates the depreciation against the Japanese Yen, the Euro and the Indian Rupee was 15.5%, 3.7% and 1.4% respectively. On the other hand the Rupee appreciated by 17% against the British Pound; this was a result of the depreciation of the Pound against the US Dollar after the 'Brexit' vote in mid-2016.

The Banking Sector

The asset base of the Sri Lankan banking sector continued to expand during the year while maintaining capital and liquidity at requisite levels.

As in the preceding year deposits, which constituted 82.8% of the asset portfolio, represented the main source of funding of the sector for growing the lending portfolio during the first eight months of the year.

Total loans and advances reported an increase as at the end of August 2016. This growth was generated by increased lending by banks to the private sector, which more than compensated for a decrease in lending to the Central Government and state-owned enterprises.

Total non-performing loans (NPLs) showed a decrease at the end of the first eight months in 2016, compared to the corresponding period in 2015, reflecting the improved asset quality of the banking sector.

The profits of the sector increased during the first eight months of 2016 compared with the corresponding period in 2015. This was mainly driven by an increase of net interest income arising from expansion of lending and investment activities.

Strategic Direction

Accomplishments of the Year 2016

Increasing Market Share in all Key Business Segments

- Corporate Banking portfolio expanded by 14%
- Branch Banking portfolio recorded an increase of 19.5%
- Business Banking portfolio recorded a growth of 12%
- Retail Assets Portfolio, including finance leases recorded a growth of 12.3%
- Recorded lowest NPL ratio in the recent past of 2.97%
- Developed a comprehensive SME Strategy incorporating rural banking and small enterprise sectors
- Diversified the Corporate Banking portfolio by penetrating more segments
- Extended Premier Banking services
- Expanded the branch network

Cost Efficiency Funding

- Increased the customer deposit base YoY by 27%
- CASA improved to LKR 28,447 million as at 31 December 2016, recording a CASA ratio of 20%
- Developed innovative new products i.e. Vardhana Xtreme Saver, Vardhana Salary Booster
- Raised LKR five billion and LKR seven billion through two listed debenture issues
- Segmented customers effectively with greater emphasis on minors, pensioners and high net-worth (HNW) clients
- Increased the sales force to drive liability products
- Formed the Payments and Cash Management unit to promote CASA and Other Income

Diversifying Income Streams

- Attracted new trade business clients and increased utilisation of trade facilities
- Introduced the Vardhana Virtual Wallet
- Increased fee and commission income YoY by 13%
- Recorded income from Bancassurance was LKR 49.8 million
- Cross-sold fee-based products to existing clients
- Explored opportunities in investment advisory and treasury management services
- Offered tailor-made treasury products to selected corporate clients

Improving Employee Satisfaction

- Continued to ensure productivity amidst rapid growth and diversification of business by engaging in career development, rotations, transfers etc. in a timely manner
- Engaged with ‘Great Place To Work’ with the objective of building a sustainable integrated culture
- Maintained the staff attrition rate below 8% during the period (excluding retirements/contract expiries)
- Continued to invest in growth of staff by developing training plans based on job specific training schedules and individual development plans
- Successfully aligned talent profiles to job roles
- Reviewed Branch Banking functions and engaged in effective capacity planning and utilisation of resources

Improving Brand and Product Awareness

- Maintained brand presence throughout the year, engaging in mass media communications, market activations and revamping appearance of branches
- Established a clear Bank-wide understanding of customer expectations and the level of service delivery required
- Increased awareness on SME products and services offered by the Bank
- Participated in Education Fairs as banking partner and worked with selected educational institutions
- Engaged in sponsorships such as the World Export Development Forum, Economic Forum, Journalism Awards for Excellence and Global Shapers Conference as Exclusive Banking Partner
- Increased customer interaction and engagement on the Bank’s website and social media channels

Key Focus Areas for 2017

Consumer Banking

- Effective customer segmentation
- Deploy foot soldiers for personal selling
- Identify and introduce new product offerings and value additions
- Structure consumer banking at a branch level
- Implement an effective channel strategy
- Establish a strong presence through marketing and advertising
- Introduce the Premier proposition at selected branches
- Broad base retail banking customers
- Partner with local property developers for promotion of housing loans

Digital Strategy

Introduction of:

- Credit card system
- New work flow management system
- Payments and cash management solution
- Comprehensive treasury management system
- eStatements
- Enterprise alert platform
- Business intelligence tool

Small Enterprise Strategy

- Cluster leaders and field officers to promote small enterprise financing
- Centralise the loan approval process to enhance effectiveness of appraisals, documentation and disbursement
- Organise capacity building workshops in the North Western, Central and Western Provinces
- Introduce marketing campaigns to create awareness among the rural and semiurban business communities
- Capitalise on new *Swashakthi* line of credit for Micro, Small and Medium Enterprises

Stakeholders

Our stakeholders are the individuals and organisations we interact with on a continuous basis. They are influenced by our activities as a Bank, an investor, an employer or a business partner and their actions can have an effect on our business. Our adherence to the seven core values enables us to build healthy, sustainable relationships with them.

Stakeholder Engagement

Engagement is at the core of all decision making processes at DFCC Bank, as dynamic relationships with our stakeholders are imperative for success. We proactively engage with our stakeholders through regular communications, in line with our commitment towards responsible and sustainable value creation. The method and frequency of engagement and the nature of aspects to be addressed varies depending on the stakeholder group. These aspects are summarised below.

Investors

Banking is a capital-intensive business. Our investors, through the provision of equity and debt capital, ensure the expansion and growth of our organisation. In return, we work diligently to offer them optimal returns on their investments through sustained and profitable growth.

The Board-approved Corporate Communications Policy ensures that information pertaining to the financial performance and progress of the Bank is made available to shareholders through the Colombo Stock Exchange (CSE). Information is also communicated through the Annual Report, press and media releases and the Bank's website, providing context to and insights on the Bank's value creation process. Thus, investors are fully equipped to make sound decisions about any investments in the Bank.

Primary modes of communicating with investors include annual reports, the Annual General Meeting, the corporate website, stock exchange announcements, press conferences, media releases, the investor relations hotline, meetings and teleconferences. Key issues that are debated through these channels include Board governance, sustainable performance, and initiatives to improve shareholder returns.

Customers

They are the source of our earnings, and hence our existence. We present them with a comprehensive portfolio of financial products and services to meet their diverse needs.

We take into consideration the primary interests and concerns of our customers when formulating our products and services, terms and conditions, tariffs, service standards and financial advice. We mainly engage with them through front-line staff, relationship managers, advertising and promotion, media releases, branch personnel, the corporate website and social media platforms, alternate channels, the call centre, surveys and other automated services.

We utilise all insights gathered to further enhance our performance, deliver exceptional services and strengthen our relationships.

Employees

They are the pillars of our organisation and form the very essence of our competitive advantage. It is their drive, contribution and dedication that power our performance and sustainability. In turn, we ensure that they are fostered, inspired and rewarded for their efforts.

The Bank possesses an internal Code of Conduct for its employees, which is hosted on the internal web portal and is accessible to all. This sets out in detail all business ethics, in relation to avoidance of conflicts of interest, insider dealings, unfair business practices and the confidentiality of sensitive information.

All employees are guided by the Bank's core values (see Institutional Capital, page 44). 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 is in place to maintain sound employee relations and a fair, successful and productive environment at the workplace.

The main modes of employee engagement are via meetings, performance reviews, the human resource intranet portal, email bulletins, the weekly newsletter, training workshops and seminars, special events, employee surveys, the suggestion box and grievance procedures.

Business Partners

It is the support and participation of our business partners that assist us in our efforts to create sustainable value. Our key business partners include institutions that provide lines of credit (to manage or to on-lend) and vendors that provide goods and services required for business operations. These stakeholders are an important constituent of our value chain and share complementary business goals.

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

Regulators

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

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

Society and Environment

The communities in which we operate are a source of customers and employees. They also effectively hold our licence to operate. We strive to understand their perceptions and expectations of us, and tailor our operations and CSR activities accordingly to foster mutually beneficial partnerships.

We mainly engage with local communities through our network of branches and public events. Local communities are further supported through volunteer efforts and CSR activities that cover entrepreneurial development, education, environment conservation, emergency relief as well as through sponsorship of deserving causes.

In addition, we engage with the media through meetings, press conferences, press releases and our corporate website.

External Initiatives

DFCC Bank is a member of several associations and organisations, and our staff actively participate in activities coordinated by these institutions. Industry associations and organisations that DFCC Bank has obtained membership in or established affiliations with are listed on page 72 under Business Partner Capital.

Materiality

Materiality and Value Creation

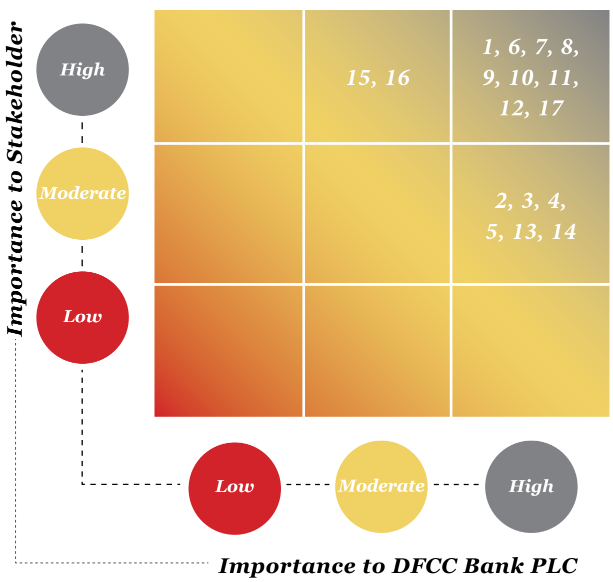
Materiality considers economic, social and environmental matters that can influence the Bank's ability to create sustainable value. All such aspects must be taken into consideration during the formulation of any strategic directions or priorities.

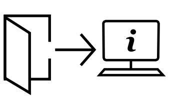
These aspects are analysed from the perspectives of importance to our stakeholders and importance to the Bank. An aspect is considered to be material if it is both relevant and significant. Significance takes into account the magnitude of the impact as well as the likelihood of its occurrence.

Materiality Matrix

As per the materiality analysis, we have identified the aspects that are of importance to stakeholders and of importance to the Bank in the context of our economic, social and environmental agenda for sustainable value creation. For the ease of focus and analysis, the aforementioned have been mapped on the two-dimensional matrix featured below as per the GRI G4 Sustainability Reporting Guidelines.

The insights derived will aid us in charting our course for sustainable value creation.





Details of the GRI content index are given in the online report [http://dfcc2016.annualreports.lk]

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

**Detailed GRI content index will be online*

Management Approach

Prudent execution of a mindfully-mapped portfolio of strategies enables the Bank and the Group to generate and deliver value to all its stakeholders and derive value in turn. Thus strategic goals, certifying the sustainability of operations of the Bank and the Group, are duly fulfilled. This process equally forges durable relationships with customers, offers mutually rewarding careers to employees, generates steady returns for investors, establishes profitable partnerships with partners while dealing responsibly with the society and the environment.

The Management Discussion and Analysis that follows describes in detail the initiatives that were undertaken during the period under review. They are organised as internal and external capital, within the context of the operating environment and the strategic direction detailed above.

Value Creation and Internal Capital Formation

Internal capital refers to the reciprocal value created by the Bank and the Group for its own benefits. This capital is generated through activities, relationships and linkages with the various stakeholders. Internal capital consists of financial and institutional capital. Financial capital is defined as being quantifiable and hence warranting representation in the Group's financial statements. It is therefore available for investitures in economic capital. Institutional capital consists of abstract entities such as organisational knowledge, systems and processes, corporate culture and values, brand equity, business ethics, and integrity and associated collateral. This repository gives the Bank and the Group a positive edge in their respective markets. These synergised capitals aid the Bank and the Group in delivering ever greater value to stakeholders. The Bank in turn derives complementary value to grow these capitals further.

FINANCIAL CAPITAL

Financial Performance

Overview

The year under review is the first complete year of operations after the amalgamation of DFCC Vardhana Bank PLC with DFCC Bank PLC. The amalgamation took place on 01 October 2015.

Comparative Financials given in the Income Statement include only nine months results of the Bank from 01 April 2015 to 31 December 2015 as the Bank changed its financial year from 31 March to 31 December in the year 2015. The comparative financials include results for six months of DFCC Bank PLC before the amalgamation from 01 April 2015 to 30 September 2015 and three months results of the amalgamated operation from 01 October 2015 to 31 December 2015.

In this analysis of the Bank's business results, for the purpose of a more equitable comparison, the current year's results are compared with the comparative financials given in the Supplementary Combined Income Statement on page 133 where the results of DFCC Vardhana Bank PLC for the period 01 January 2015 to 30 September 2015 and three months results of DFCC Bank PLC for the period 01 January 2015 to 31 March 2015 have also been incorporated as if the amalgamation and the change of financial year took place prior to 01 January 2015.

Net Interest Income

DFCC Bank PLC (Bank) recorded a credible improvement in all key performance indicators during the year ended 31 December 2016. The Bank recorded a total income of LKR 26,754 million for the year which reflects a growth of 34.4% over the previous year. Due to progressive increase in market interest rates, interest expense on deposits grew at a higher rate than increase in lending rates. The increase in deposit rates led to a shifting of funds towards time deposits. The resulting negative impact to profitability was managed effectively through timely decisions on asset/liability re-pricing and shift of lending rates to variable from fixed. These efforts generated positive results, recording a 25.2% growth in net interest income (NII) during the year. NII as a percentage of total operating income posted a credible 77.7%. The Bank's strategy to grow the core business was well demonstrated in interest income exceeding 90% of total income.

Fee and Commission Income

During the year, the Bank expanded its branch network by converting eight extension offices to fully-fledged branches and opening of two new branches in the Kandy City Centre and Main Street, Pettah. This approach along with increased focus on other ancillary services and usage of digital banking delivery channels helped the Bank to achieve 14.3% growth in net fee and commission income. Key contributors for this growth accounted from issue of guarantees and services related to Trade, Remittance and other products. In December 2016, the Bank entered into an exclusive strategic partnership with AIA Insurance Lanka PLC to grow Bancassurance business that would open up a sustainable revenue stream for the Bank.

Total Operating Income

The Bank effectively made use of market opportunities that helped to post 56.3% growth in trading results contributed from trading of Forex and in Government securities. The loss from forward exchange fair value changes and interest rate swap fair value changes totalling to LKR 179.7 million is recorded under 'Net gain/loss from financial instruments at fair value through profit or loss'.

The Bank's net gain from financial investments amounted to LKR 1,165 million mainly from the dividend of LKR 713 million received from its investment in equity of Commercial Bank of Ceylon PLC. New contracts entered during the year in foreign currency swaps to fund the Rupee book had increased the swap cost. This cost is recorded in 'Other operating (loss)/income (net)'. Corresponding Rupee income generated from this funding is reflected in interest income.

The overall positive results reported from income sources helped to surpass LKR 11 billion in Operating Income that enabled recording LKR 11,461 million for the 12 months ended 31 December 2016.

Impairment Charge on Loans and Other Losses

The Bank had a successful year in curtailing non-performing advances despite a growth of 15.9% (net) in its loan portfolio. The Bank's impaired loans (computed as per LKAS 39) recorded a decline to 4.5% as a percentage of total loans during the year under review from 5.1% of total loans as at end of the previous year. Accordingly, total impairment charge declined by 6.9% to LKR 937 million as compared to LKR 1,007 million in 2015 on combined results basis. There was no major change in the methodology adopted in computing collective impairment and specific impairment on individually significant loans during the year.

In view of the introduction of the new accounting standard in Financial Instruments, SLFRS 9 with effect from 01 January 2018, the Bank has already undertaken a project in developing methodologies and capturing data for implementation of SLFRS 9 reporting.

Operating Expenses

During the year, the Bank undertook aggressive marketing campaigns to reach untapped customer segments; especially to drive financial inclusivity and penetrate into the micro financing business. This along with the increased presence during the year in urban and rural geographies by expanding the Bank's fully-fledged branches had proportionately increased personal and other overhead expenses. Close monitoring of expenses and effective utilisation of resources along with the synergies realised from the amalgamation of the two Banks, helped to mitigate the operating expenses and record a slight decline compared to the cost in 2015 based on combined results. The Bank recorded a cost to income ratio of 44.7%, which is one of the lowest in the industry.

Profit before Tax (PBT)

The Bank recorded an operating profit (before value added, NBT and income tax) of LKR 5,400 million, a growth of 51.4% as against LKR 3,567 million based on combined results of the previous year. The rate of value added tax (VAT) on financial services was increased by 4% during the year with effect from 02 May 2016. This has increased the VAT charge by LKR 91 million during the year. The Bank reported a profit before income tax of LKR 4,414 million depicting a growth of 54.0% compared to previous year's combined results.

Profit after Tax (PAT)

The Bank continued its low effective income tax rate based on its strategic investments and prudent cost allocations that contributed to report a profit after tax of LKR 3,289 million, an increase of 60.2% compared to LKR 2,053 million in 2015, based on combined results.

Finance Position Analysis

Assets

The Bank's total assets grew by 17.9% mainly due to loans to and receivable from other customers increasing by LKR 25,439 million. Confirming the Bank's strong presence in project lending, loans related to projects (included in term loans) recorded a growth of LKR 8,923 million followed by LKR 5,984 million in trade finance-related loans. The Bank was able to book higher volumes of loans during the latter part of the year that would strengthen revenue streams in 2017.

Investments in Sri Lanka Development Bonds denominated in foreign currency increased by LKR 7,841 million during the year. The Government Bonds and Bills classified under held-to-maturity category increased by LKR 4,692 million which in turn improved the liquidity ratio as at end 2016.

Liabilities

Total liabilities increased by 20.1% during the year mainly due to the increase of customer deposits. The Bank's other borrowings increased by LKR 4,847 million. The Bank continued to have access to foreign currency credit lines at competitive rates that enabled to increase foreign currency borrowings by LKR 4,410 million during the year. In augmenting supplementary capital, the Bank successfully issued five and seven-year subordinated debentures totalling LKR 7,101 million in November 2016. The Bank also issued listed debentures totalling LKR 5,746 million in March 2016. The improved presence through the branch network and rationalisation of delivery channels helped the Bank to grow its customer deposits by LKR 29,624 million (26.7%) to LKR 140,514 million from LKR 110,891 million as at December 2015. Current and savings accounts (CASA) increased by LKR 7,368 million. CASA as a percentage of total deposits improved to 20.2% from 19.0% as at end 2015. The Bank took steps to strengthen its foreign currency deposit base to secure an adequate funding line for foreign currency-related lending. Accordingly, the Bank's foreign currency deposits increased by LKR 17,512 million year-on-year.

Equity and Capital Adequacy

The Shareholder's equity grew by 7.1% mainly from the increase in retained earnings. Other comprehensive income recorded a gain of LKR 404.7 million that brought the total comprehensive income to LKR 3,693.4 million.

Stock market movement year-on-year had contributed to favourable gains in fair value of investments in equity investments, particularly the investment in shares of Commercial Bank of Ceylon PLC. Investments in bonds and bills had resulted in mark-to-market losses consequent to increase in market interest rates. The net gain from aforesaid investments amounted to LKR 263.8 million net of taxes. Due to change in assumptions in relation to change in market trends, the Bank reported an actuarial gain of LKR 137.8 million (before tax) from defined benefit plans.

The Bank has been consistently maintaining higher capital adequacy ratios compared to its peers. The Tier I ratio slightly declined to 13.62% from 14.26% in 2015 mainly due to growth of loans while the total capital ratio improved to 17.09% from 14.88% in 2015 due to issue of LKR 7,101 million subordinated debentures during the year.

The Bank's return on assets (ROA) as at end 2016 was 1.3% compared to 1.0% as at end 2015. The Bank's return on equity as at end 2016 recorded at 10.99% compared to 5.0% reported as at end 2015 based on nine months results.

Credit Quality

Loans and advances recorded a considerable growth during the year under review. The Bank undertook successful recovery drives that enabled recovery of a significant component of non-performing advances which included a few large accounts. Improved processes in risk assessments and credit underwriting along with successes made in recoveries, brought down the NPA ratio (computed as per regulator's guidelines) to 2.97% as at 31 December 2016 being one of the lowest in the Bank's history, from 3.7% as at 31 December 2015. Provision cover of the Bank increased to 76.9% of the impaired loans.

Dividend Policy

The Bank has been maintaining an above average dividend payout ratio compared to the industry. The Directors approved a first and final dividend of LKR 4.50 per share for the year ended 31 December 2016. In deciding this payout, due consideration was given to the financial stability and future expansions planned in consolidating the Bank's position as a fully-fledged commercial Bank.

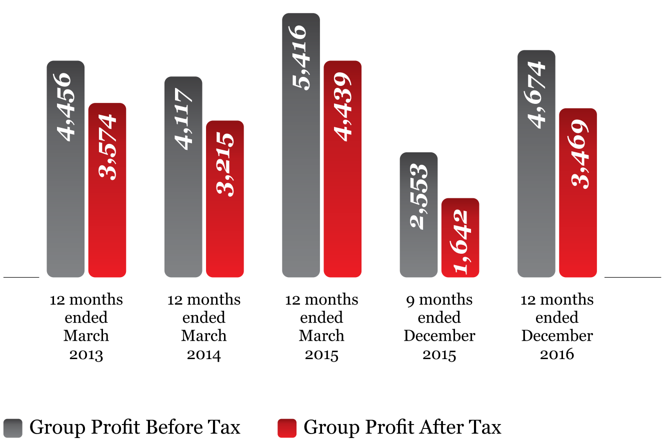
Group Performance

The DFCC Group consists of DFCC Bank PLC and its Subsidiaries; DFCC Consulting (Pvt) Limited, Synapsys Limited, Lanka Industrial Estates Limited (LINDEL), its associate company National Asset Management Limited (NAMAL) and its joint venture company Acuity Partners (Pvt) Limited. LINDEL is a March reporting entity while others are 31 December reporting entities. For the purpose of consolidated financials, 12 months results from 01 January to 31 December 2016 were accounted in all Group entities. Financials of 31 March entities were subject to a review by their respective External Auditors covering the period reported.

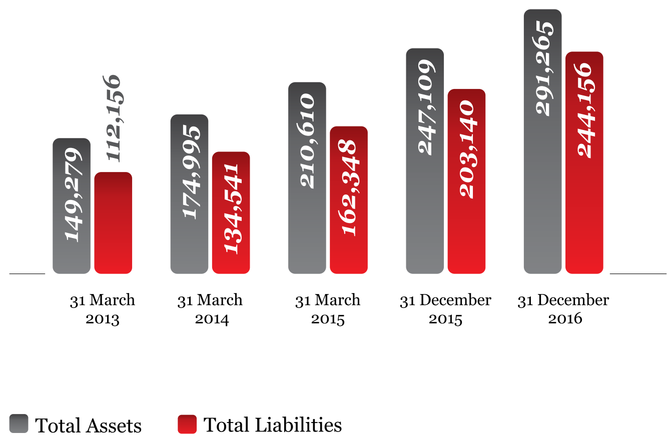
The Group made a profit after tax of LKR 3,469 million during the year ended 31 December 2016.

Major contributions for the Group performance apart from DFCC Bank accounted from Acuity Partners (Pvt) Limited, LINDEL and NAMAL which made profit after tax of LKR 298.8 million, LKR 110.8 million and LKR 39.1 million respectively in their individual financials. Other Subsidiaries, DFCC Consulting and Synapsys made losses of LKR 2.6 million and LKR 19.6 million respectively during the year under review.

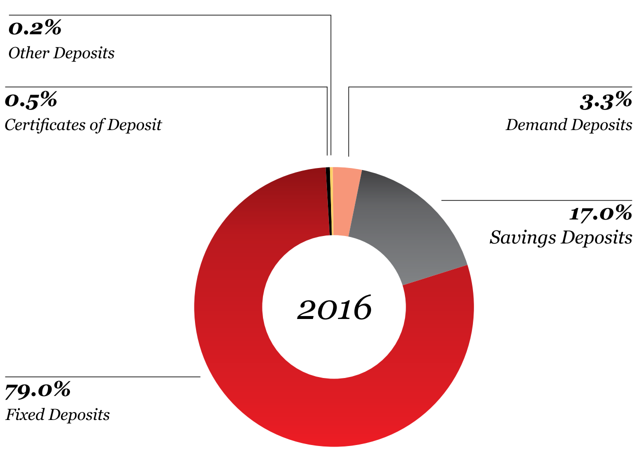
Group Profit Before and After Tax – LKR million

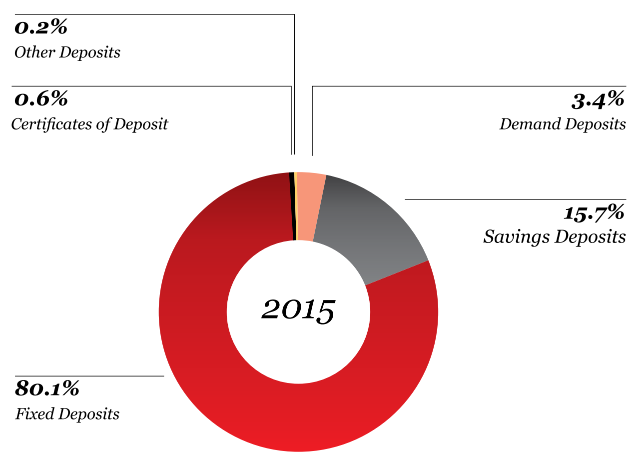


Group Assets and Liabilities – LKR million

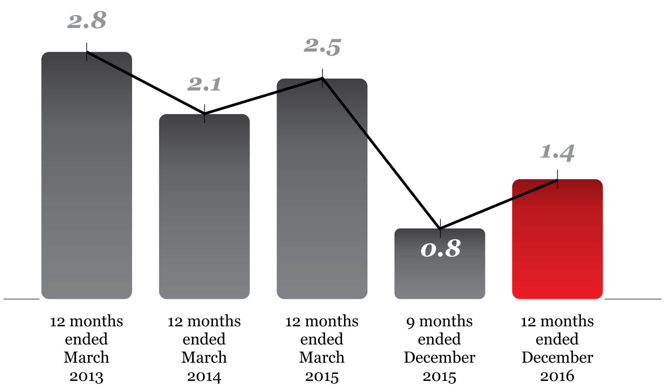


Group Deposit Mix

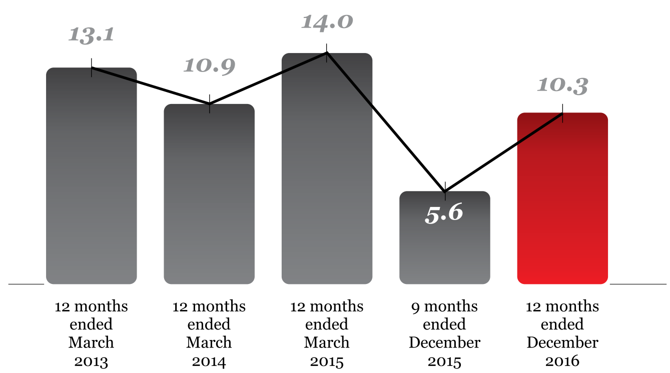




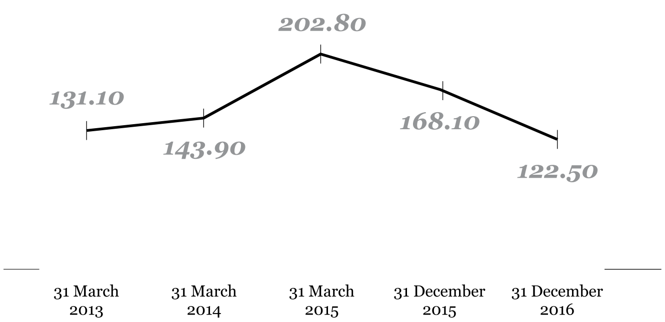
***Group Return on Assets** – (%)*



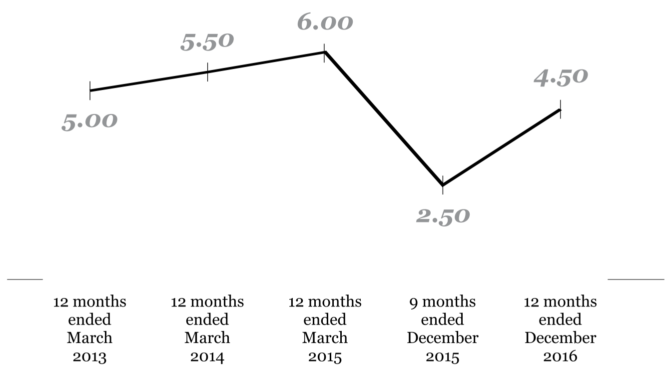
***Group Return on Equity** – (%)*



***Bank Share Price** – LKR*



***Bank Dividend per Share** – LKR*



More ways to grow!

At DFCC Bank,
we have been growing;
continuously, energetically
and diversely for decades.
The future is therefore
promising.

The Vardhana Virtual Wallet;
Virtual Banking at your fingertips.


Virtual Wallet
MERCHANT OUTLET

INSTITUTIONAL CAPITAL

Institutional capital encompasses the portfolio of non-financial, intangible constituents of capital that are unique to DFCC Bank. It includes organisational knowledge, systems, processes and ICT, corporate culture and values, brand equity, business ethics and integrity. These are all significant tools that we employ in creating sustainable, long-lasting value for our stakeholders.

Organisational Knowledge

The Bank places priority to sharing organisational knowledge amongst employees and refining itself as a learning institution. DFCC Bank gathers, organises, shares and analyses its knowledge in terms of resources, documentation and people skills. To develop people skills, the Bank organises customised internal, foreign and external knowledge disseminating training programmes with modules designed using the support of focus groups. The Bank has an internally developed e-learning platform with content produced by internal experts. Human Resources also communicates news and announcements to all employees in a much easier and faster manner through the Bank's Intranet portal.

Systems, Processes and ICT

DFCC Bank understands the importance of leading edge information technology solutions in enabling business and driving the digital strategy of the Bank. As a constituent of its digital transformation strategy, the Bank considered the utilisation of cloud-based application services for several non-financial systems in line with enhancing operational efficiency and minimising costs.

DFCC Bank was thus the first bank in Sri Lanka to move its entire collaboration platform onto Google's G Suite, from its legacy email and collaborating platform hosted on premise. This gave employees the freedom of working from virtually anywhere and on any device. The Bank has similarly envisaged shifting its enterprise budgeting platform to a cloud-based model by Oracle.

Special focus was given to the Vardhana Virtual Wallet (VVW) platform launched during the year and the Bank connected over 500 merchants to encourage cashless transactions. The VVW is now available to non-customers of the Bank as well and is explained in greater detail in the Customer Capital section.

The Bank also linked its ATM network to the LankaPay network giving its customers unbridled access to over 3,600 ATMs island-wide.

DFCC Bank is always cognisant of the increase in risks prevalent in the digital world. To address these, the Bank initiated a cutting-edge Security Information Event Management System to monitor ongoing security events from all systems on a single platform. Especially noteworthy is that the Bank's IT Department obtained the ISO 27001 certification by implementing the best practices in legal, physical and technical controls in the information security management processes.

In line with its value of being socially responsible, the Bank partnered with an electronic waste management company to recycle, reuse and dispose any acquired electronic waste under the imposed guidelines of the Central Environmental Authority. This is a combined effort in rectifying the damages posed by e-waste to the environment and human health.

Corporate Culture and Values

DFCC Bank encourages its staff to speak up, voice their concerns and share suggestions. The Bank gives prominence to creating an environment that stimulates discussion, professionalism, individual respect, outstanding customer service and invigorating teamwork. Following the amalgamation, the Bank's core values were revised, and all employees were encouraged to get involved in this process by giving their input. Consequently, seven core values were identified; 'Innovative', 'Customer centric', 'Professional', 'Ethical', 'Accountable', 'Team Oriented', and 'Socially Responsible'.

To help staff identify with and embrace these values, the Bank launched a campaign including a number of inspirational sessions and activities built around them, for employees across the branch network.

DFCC Bank's working culture is further nourished by recognising and rewarding positive behavioural attributes. The Bank diligently works towards ensuring an amicable, team oriented, supportive culture that encourages performance excellence, whilst enabling employees to strike a healthy work-life balance. Numerous social events and wellness related initiatives were hosted throughout the year, encouraging employees to find time to relax and enjoy with their colleagues.

One of the core Human Resources strategies of the Bank during the year was partnering with Great Place to Work Research and Consultancy (Pvt) Limited. The objective of this initiative was to assess the Bank's existing working culture and obtain useful insights into what improvements need to be addressed to ensure it remains an employer of choice, whilst encouraging optimal productivity and efficiency.

Branching out from this analysis, a variety of new projects are being introduced to revise the Bank's people management and development practices. These include providing more channels to encourage bottom-up communication, stimulating innovative thinking across all levels and introducing new motivational mechanisms in terms of peer-to-peer recognition and rewarding exceptional customer service.

The aforementioned are but a brief outline, and additional information is available in the Employee Capital section.

Brand Equity

The DFCC Bank brand enjoys a proud legacy of over 60 years in Sri Lanka as the premier development financial institution in the country. DFCC Bank has nurtured entrepreneurs and start-up enterprises across all economic sectors. The Bank's initial clientèle were primarily small and large scale businesses requiring the competencies of a development bank to oversee the financing of their projects.

Following the successful amalgamation with DFCC Vardhana Bank in October 2015, DFCC Bank is now a fully-fledged commercial bank offering a diversified range of financial solutions that enable all stakeholders to ***'Keep Growing'***.

By synchronising the joint aspects of development banking and commercial banking, DFCC Bank offers the best of both worlds, and is fully-equipped to fulfil the needs of a clientèle ranging from individuals, professionals and entrepreneurs to SMEs and corporates nationwide.

During the year under review, many brand-building initiatives were effectuated to firmly position DFCC Bank as a commercial bank. This included the launch of a marketing campaign, segmented product offerings catering to salaried employees and product campaigns showcasing the full range of savings, loans and current account products. The Vardhana Virtual Wallet; an innovative mobile solution was launched mid-year, which was a first in the banking industry. This revolutionary product enables users to simplify the way they transact at over 500 partner outlets distributed island-wide, as well as stay in control of their finances.

Further, a savings solution catering to the entire family was launched during the latter part of the year.

Customer engagement through social media platforms was also carried out to showcase and build the DFCC Bank brand.

The Bank's website was redesigned to simplify navigation and render it adaptable across all digital channels, to include mobile, tablet, laptop and desktop PCs. The new website reflects the Bank's dynamic and progressive personality. The site will further be accessible in Sinhala and Tamil. With its legacy site, DFCC Bank was the first bank in Sri Lanka to offer a trilingual website. DFCC Bank will further refine its online presence by adding a feature to process applications and 24/7 chat support.

Active customer research was also carried out to measure the level of customer service offered across the network of branches in order to enhance service levels.

Furthermore, several branch locations were made fully-fledged branches capable of catering to expanding customer bases.

DFCC Bank will strive to enhance its position amongst the top 25 brands in Sri Lanka and will ensure that it maintains its brand equity at favourable levels through continuous monitoring of its brand performance.

Finally, the DFCC Bank brand will continue to progress to remain relevant with changing times, with a strengthened focus on sustainable growth of all its stakeholders, true to its positioning; *Keep Growing*.

Business Ethics and Integrity

DFCC Bank maintains unwavering loyalty in its commitment towards upholding its business to the highest levels of ethics and integrity. Detailed governing mechanisms are in place to ensure the tenure of these, and the Corporate Governance Report appearing on page 97, elaborates on these procedures in detail.

Anti-Corruption

The Bank possesses a written Code of Conduct that sets out detailed provisions in anti-corruption. This is not just a legal prerequisite, but in the Bank's view, a fundamental ethical and business imperative. In order to streamline collective action by all Bank employees, these provisions have been thoroughly detailed to all members and are supplemented through necessary updates.

DFCC Bank is proud of its status as a responsible corporate citizen. It enjoys a transparent and unblemished track record of business which fortifies the Bank's resolve in ensuring sustainable action well into the future.

Compliance

As a financial services intermediary, DFCC Bank realises the importance of satisfying all laws, rules and regulations that are imposed upon it. Compliance is a key cornerstone of the Bank's organisational culture and all members of the Bank are fully cognisant of this responsibility. DFCC Bank's policies and procedures extend beyond default legal and regulatory requirements to incorporate wider benchmarks of integrity and ethical conduct. Measures taken to mitigate all compliance-related risks are laid out in detail under Operational Risk on page 90 of this Annual Report.

The Bank therefore maintains a faultless record with the above in mind. For the period under consideration, DFCC Bank has not been party to any fines imposed or actions implemented by Regulators in instances of non-compliance.

The Bank also invested more resources in training its personnel across all sectors in areas of regulatory compliance. The compliance team is fully dedicated to continuously improving systems and procedures in line with changing legislation and international standards. Further to this, the team will be investing in the latest technology to enhance performance in this area in 2017.

Let's grow to the stars!

We know that growth is always upwards. So join hands with us, together we will reach even higher.

Renewable Energy; DFCC Bank's commitment to a green future.

Value Creation and External Capital Formation

External capital alludes to the value underpinning the diverse stakeholders of the Bank and Group. This is defined by resilient relationships and profitable partnerships sustained over the years through activities, interactions and linkages. Unlike the financial and institutional capitals, external capital is derived directly from our stakeholders: to include investors, customers, employees, business partners, society and the environment. We synergise our access and utilisation of external capital together with internal capital in powering our business to deliver value to and derive value from our stakeholders. Likewise, any enhancements we will be able to foster in our external capital will guarantee a harmonious increase in the value we derive in years to come.

INVESTOR CAPITAL

Both institutional and individual persons, providing either equity or debt capital, make up the Bank's investors. Consequently, they expect superior returns over short, medium and long-term periods. In turn, the Bank generates future earnings, whilst operating under the umbrella of secure risk management policies and control frameworks.

Shareholder Profile

The Bank had 8,776 shareholders on 31 December 2016 (corresponding to a figure of 8,640 as at 31 December 2015), with the total number of shares in issue remaining fixed at 265,097,688 ordinary shares. Institutions account for approximately 86% of the Bank's share capital. 76% of the total number of shares are held by local shareholders, both institutional and individual. Similarly, local shareholders account for 98% of all shareholders.

Return to Shareholders

Financial Return

All shareholders of the Bank have equitable say on matters on the basis of one vote per ordinary share. The Bank has not issued any non-voting ordinary shares nor preference shares.

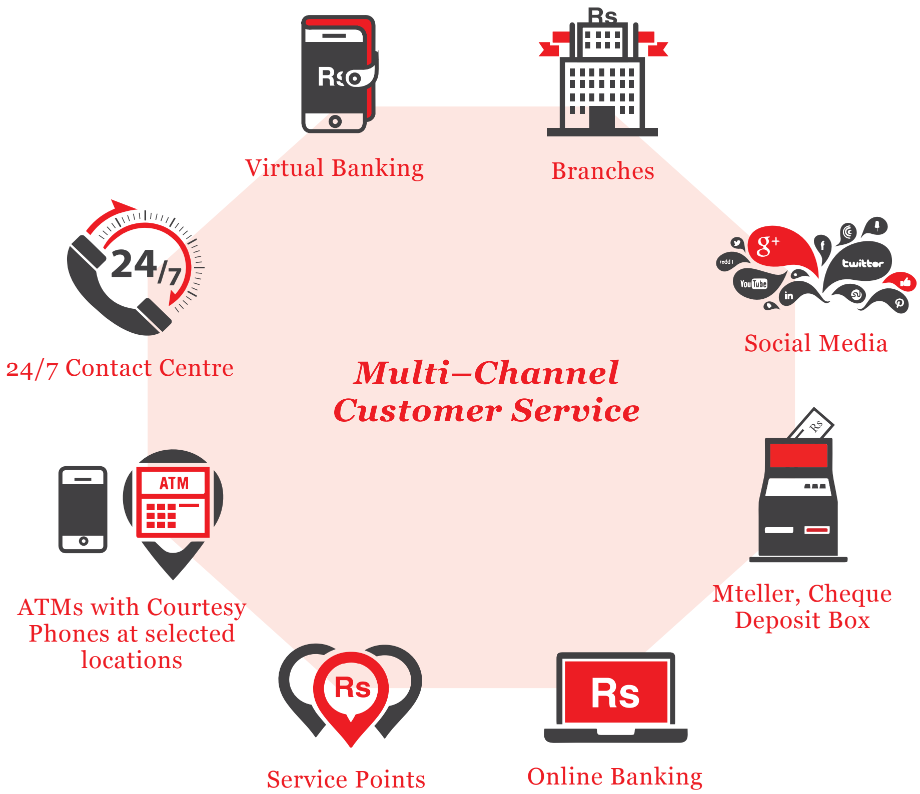
Dividends and share price appreciation are the primary benefits afforded to shareholders. The Bank aims to regularly provide high total shareholder returns through profitable and sustainable performance. Dividends are determined based on growth in profits while taking in to account future cash needs and the maintenance of prudent ratios. The Board of Directors has approved a first and final dividend of LKR 4.50 per share for the year under review (period ended 31 December 2015: LKR 2.50).

The DFCC Bank share closed at LKR 122.50 on 30 December 2016. For the period, the highest share value of LKR 170.00 was recorded on 03 May 2016, with the lowest share value of LKR 116.10, being recorded on 30 November 2016. The 12 month period recorded a loss in share price of LKR 46.40 (27.47%). The share price tracked the movement of the All Share Price Index (ASPI) closely during the period under review.

Additional details are featured under Investor Relations (on page 125).

CUSTOMER CAPITAL

Customers are an organisation's most important asset and delivering good customer service is essential for success.



There has been a considerable rise in the use of alternate channels. Customers have increasingly used the Bank's ATM network, eBanking platform, Mteller, the Vardhana Virtual Wallet and the cheque deposit units to conduct transactions.

Branch Network and Service Delivery

At DFCC Bank, our customers are at the heart of our strategy and the focus of our vision and values. We strive to provide professional services to them, to ensure that they experience the best we have to offer.

For the first time, DFCC Bank conducted a 'Customer Service Week' programme during the year, with the objective of driving the importance of customer service internally and creating a positive customer experience. The endeavour commenced with an address from the CEO and with all branches and service units signing a Customer Service Pledge which stated that the value of customer service will be upheld at all times.

The week was filled with various activities to educate staff on the importance of customer service as well as to appreciate both internal and external customers. A Customer Service Forum was also organised to conclude the week's activities featuring two prominent guest speakers.

In order to enable long-standing customer relationships, the Bank focused more on delivering value beyond customer expectations, during the year under review. DFCC Bank's value proposition was based on innovation, agility, technology and superior service standards. In line with these, the Bank implemented the following initiatives:

- The Bank expanded its ATM network to 86 units, of which two are located on off-site premises. Furthermore, aligning with the Bank's value of being socially responsible, the first Solar powered off-site ATM was opened at LINDEL, Sapugaskanda.
- DFCC Bank continued to increase its nationwide presence by converting eight Sri Lanka Postal Outlets to fully-fledged branches. In addition, two new branches were added at Kandy City Centre and Pettah Main Street. This increased the total branch and service unit network to 138.

- Lanka Money Transfer (LMT), DFCC Bank's remittance system operates in collaboration with seven exchange companies in the Middle East and ten financial institutions in Sri Lanka. The LMT system was upgraded to deliver remittances to a customer's Vardhana Virtual Wallet, providing greater convenience in obtaining cash from overseas. The Bank is in discussion with more financial institutions and exchange companies in the Middle East, Europe and South Asia to expand the global presence of this system.
- DFCC Bank joined the LankaPay common ATM network in the second half of 2016 which offers customers access to over 3,600 ATMs island-wide. The Bank bears the cost of all transactions carried out at member ATMs, so customers can enjoy a hassle-free service without additional transaction fees.
- Focusing efforts on improving service standards, an internally-developed Complaint Management System was introduced. This online platform permits the real time entry of customer complaints and monitors the rectification process to completion. An added feature allows for the reporting of any delays in providing fully satisfactory solutions. This system has enabled greater efficiency in delivering solutions to customers and has created positive customer experiences.
- DFCC Bank launched the Vardhana Virtual Wallet (VVW) in 2016 with a focus on technology-driven solutions and the service has rapidly captivated audiences, with increasing user engagement being reported across both customer and merchant levels. Whilst initially launched for DFCC Bank customers, the service was upgraded to extend its use to non-DFCC Bank customers within a short-span of time. Product promotions held at business locations and a series of marketing campaigns further helped drive market awareness of the product whilst simultaneously boosting the usage of the service amongst users.
- DFCC Bank operates a 24-hour call centre enabling customers to receive assistance at any time. In addition to being the Bank's primary point of contact, the centre also engages in supplementary activities such as the cross-selling of products and services across market segments. The Bank has also fixed courtesy phones at selected ATMs, offering customers the convenience of instantly accessing the call centre.
- The Bank placed mobile teller units at several branches. These units are proactively used for 'doorstep banking', where cash is collected from the customer and deposited immediately to the customer's account in the presence of both parties.
- Considering the rising importance of digital technologies, the Bank increased its focus on such solutions and took measures to encourage staff adoption of digital banking solutions as well.
- The Service Quality unit of DFCC Bank implemented time and motion studies in branches to determine issues in capacity planning. The unit further intends to develop a mechanism to monitor the performance of all branches against predetermined staff levels.
- The unit also continued to invest in training and development that helped staff across the network adopt a positive attitude when interacting with customers at branch level. Enthusiastic and keen employees are important in delivering excellent customer service and these areas were addressed through the programmes held. Further, Branch Service Levels were introduced to provide customers with faster and accurate services.
- The year under review also saw the continued centralisation of operational processes, with greater emphasis on the automation of steps for pre-centralised processes and upcoming procedures.

In the year 2017, the Payments and Cash Management Unit, a new department set-up at the Bank, will implement a cutting-edge cash management platform which will facilitate the redirection of customer payments and collections to and through the Bank.

This system will provide a virtual integrated payment and receivables system with automatic collection reconciliation that will help to manage customers' liquidity, by having access to their net cash position at any given time. This proposition will be an integrated solution for a diversified range of customers. Through the implementation of such initiatives, DFCC Bank will strengthen its position as a leading provider of personalised cash management solutions in the industry.

Corporate Banking

Despite lacklustre private sector credit growth on account of rising interest rates and challenging economic conditions, Corporate Banking increased its credit portfolio by 14%, bearing testimony to DFCC Bank's resilience amidst volatile market conditions.

The non-performing loan ratio of Corporate Banking, remained at 0.1% of the credit portfolio as at 31 December 2016. This is an impressive achievement for the unit in light of the difficult economic conditions and rising interest rates that prevailed throughout the year, and was as a result of the excellent credit evaluation practices adopted by the unit.

As a key lending unit, Corporate Banking continued to build on its strengths and to explore new avenues of growth during 2016 both locally as well as through off-shore lending.

The Bank reinforced its status as Sri Lanka's pre-eminent financier of renewable energy projects by financing new Solar and Hydro projects. A noteworthy milestone achieved during the year was the successful commissioning and grid connection of the nation's first 10MW Solar power project in December 2016, the financing of which was structured and syndicated by the Corporate Banking unit's multi-faceted project financing team. A further 10MW project for which financial closure was achieved during 2016 is slated to commence commercial operation in the first quarter of 2017.

The unit is actively pursuing business opportunities in emerging economies in Asia and Africa with a particular emphasis on projects promoted by Sri Lankan investors in Maldives, Bangladesh and Uganda. During the year, the first project loan was extended to Maldives in the form of a US Dollar term loan facility for a five-star tourist resort, with a room count of 150. The Bank is currently negotiating financing packages for several renewable energy projects in Uganda and Bangladesh as well, in line with its thrust towards building a sound off-shore credit portfolio.

Customer Centric Initiatives

The Corporate Banking business development strategy was based on developing new relationships while strengthening existing partnerships. In line with this, two dedicated Business Development Managers (BDMs) were deployed to procure new business and cross-sell the Bank's products and services. The unit also worked closely with the Business Initiatives Board Sub-Committee during the year, to identify and pursue new business opportunities.

Corporate Banking continued to adopt a holistic approach to providing financial solutions by offering the entire spectrum to its customers. Financial solutions such as leasing, payments and cash management, personal loans, mobile payments etc. are offered under one roof in addition to long-term and short-term lending products.

The unit continued to maintain a positive dialogue with its esteemed clientele by organising several customer functions throughout the year. The close interaction not only fostered closer relationships with clients, it was also a key driver of brand and product awareness.

Small and Medium Enterprises

Branch Banking

Launch of MSME Unit

DFCC Bank has observed that an emerging sub-segment within the Small and Medium Enterprise (SME) segment, titled Small Business Enterprise (SBE) has significant potential.

SBEs refer to enterprises that are positioned between SMEs and informal micro-enterprises. SBE financing is referred to as the 'missing middle' since the financial requirements of SBEs are too detailed for most microfinance institutions (MFIs) and they are considered as being too risky or costly for traditional commercial banks.

In order to address the requirements of this segment a new Strategic Business Unit named the 'MSME Unit' was set-up, to further increase the Bank's penetration into the SME sector. The unit provides a range of financial solutions under the brand name '*Vardhana Sahaya*' including loans, overdrafts, leases and bank guarantees, and is a one-stop financial solution for small enterprises.

Performance During the Year

During the year, Branch Banking reported a growth in assets and liabilities in light of the synergies achieved through the amalgamation with DFCC Vardhana Bank. This made a significant contribution to the Bank's bottom line growth. The unit exceeded the income budget of 2016 and the non-performing ratio showed sound management with the prudent follow up and recovery measures adopted in the year.

Project and SME financing remained the main focus of branch lending activities while there was an increased focus on retail assets.

The portfolio of advances of DFCC Bank increased to LKR 108,364 million during the year recording a growth of 20%. The boost in project lending was mainly attributed to credit lines and the proactive engagement in drawing down from the multiple lines of credit available for SME lending.

In spite of industry competition and challenges, Branch Banking contributed positively to the overall liability base of the Bank. The CASA ratio grew to 20.88% and time deposits grew by 45%.

Particular attention was devoted to the concessionary loan scheme advertised through SMILE III (RF) and the European Investment Bank (EIB). The total funds disbursed by the branches under these lines of credit amounted to LKR 2,178 million. The key sectors supported were agriculture food processing, health services, industrial services, manufacturing and tourism. Several other lines of credit, including the Commercial Scale Dairy Development Loan Scheme (CSDLS), *Saubhagya* and the Small and Medium sized Enterprise Line of Credit (SMELoC) were implemented to finance loans to the SME sector.

Unique projects are redirected to the Specialised Lending Unit of the Bank situated at its Head Office. The unit undertook six projects worth LKR 2,162 million in 2016.

Another noteworthy mention is DFCC Bank's commitment to the development of SMEs outside the Western Province of Sri Lanka. A substantial portion of these concessionary loan schemes were redirected to finance projects in outstation locations. Particularly, focus was given to projects in emerging provinces of the country to include the Northern, Eastern, Uva and North-Central Provinces.

Concurrently, DFCC Bank focused on the growth of the retail assets portfolio with particular attention given to personal loans, housing loans and leasing. Housing loans and personal loans reported a growth of 35% and 7.1% respectively.

The leasing market faced a number of challenges during the year, due to the Government mandating a loan-to-value (LTV) ratio of 70% and increasing the import duty leading to increased market prices of automobiles. Nevertheless, the unit was successful in growing the leasing portfolio by 3.1% in spite of these challenges.

The loan scheme *Vardhana Sahanaya* was launched to offer relief to individuals affected by the floods and landslides that occurred in mid 2016. This initiative was also expanded to the public affected by the fires in Salawa, Kosgama in June 2016. The loan scheme enabled individuals and businesses to rebuild homes and facilities with loans provided at concessionary interest rates.

The non-performing advances ratio of the branches declined to 3.07% from 3.91% during the period under consideration. This noteworthy accomplishment was due to the close monitoring of facilities reviewed on a daily basis by the branch, and on a monthly basis by the Regional Office and Head Office Teams.

Branch Network

The network of branches was further strengthened with the addition of two new centres and eight extension offices being revamped into fully-fledged branches.

Further, the number of regions were increased from six to seven, with the objective of securing greater control over the expanding branch network and regionalising the processing of credit facilities. In line with further improving the quality of credit evaluation and the speed of the approval process, the operations underwent a restructuring. Thus, experienced credit officers, under the guidance of regional managers were tasked with the challenge of processing larger facilities based on the grade of the branch.

Future Outlook

The Branch Banking Unit is in the process of implementing several new initiatives in the 2017 business plan, to optimise the operational efficiency of the branch network and drive forward business growth. These include:

- Planned proposals to increase the network of branches: In 2017, the Bank is planning to expand the network with 40 new branches, which includes the conversion of some extension offices into fully-fledged branches.
- Introducing consumer banking: The Retail Assets and Leasing Unit is to be revamped and assigned supplementary duties. The unit will manage consumer banking propositions throughout the Bank as well as devise and implement a Bank-wide card strategy.
- Introducing Institutional Business for SMEs: This unit will be set-up to achieve all non-consumer deposit targets and drive the trade finance activity of the Branch Banking Department.
- Set-up of Branch Credit Management Unit: Another unit will be set-up under the Branch Banking Department to manage non-performing assets and excess control.
- Assigning the Quality Assurance Department under Integrated Risk Management: The Department of Quality Assurance, which was previously attached to Branch Banking, will be assigned under Integrated Risk Management for improved independent credit assessment.

Business Banking for High End SMEs

DFCC Bank's Business Banking caters to the upper SMEs, lower corporate clientele and retail clients, and offers the entire range of banking services. These include; project loans, term loans, working capital facilities, trade facilities, overdraft facilities, debenture issues, fee-based products such as Letters of Credit and guarantees, as well as personal financial services including credit cards, leasing facilities, personal loans and housing loans.

A noteworthy achievement during the year was that DFCC Bank was recognised at the Karlsruhe Sustainable Finance Awards, winning a Certificate of Merit in the Outstanding Sustainable Project category, for funding a 4 MW Bio-mass project using Gliricidia Trees. This project was funded and structured by the Business Banking Unit's lending team.

Performance During the Year

During the period under review, the Business Banking term deposit base, consisting primarily of fixed deposits grew by LKR 1,434 million. The aggregate liability base stood at LKR 16,288 million as at 31 December 2016. Despite the high interest rates that prevailed in the market, Business Banking grew the total loans and advances portfolio by LKR 2,234 million and the aggregate asset base stood at LKR 20,472 million as at 31 December 2016.

Future Outlook

The Business Banking Unit will continue to focus on growing the deposit and CASA base in 2017 by promoting and cross-selling products and services to new and existing clients.

Personal Financial Services

The aforementioned amalgamation of entities resulted in DFCC Bank positioning itself as a fully-fledged commercial bank in Sri Lanka. 2016 was thus a noteworthy year for the retail assets portfolio. Much attention and commitment was dedicated towards growing the retail portfolio of the Bank, which was LKR 29,618 million as at the year-end, demonstrating a growth of 12.3%

The retail assets team introduced product and process innovations in the bundle of products offered comprising personal loans, housing loans, leases and gold-pledged loans. The product innovations launched were the Vardhana Salary Booster and Vardhana Hiflex (a pre-approved loan facility). Further, Vardhana Personal Loans were restructured to offer greater benefits to customers. The process innovations implemented were the introduction of incentive schemes to reward sales staff and putting in place internal service level agreements in an effort to provide a rapid and efficient service to borrowers.

The expansion in the network of branches with improved access to newer locations enabled DFCC Bank to widen its scope of retail products. Engaging marketing campaigns via above-the-line and below-the-line mediums as well as social media, further improved product awareness across all segments nationwide. DFCC Bank employs a pool of competent 'foot soldiers' dedicated to serving customers at all times to meet their financial requirements.

Personal Loans

The year under review was a noteworthy year for personal loans. Several new products were introduced to cater to the diversified requirements of borrowers. Personal loans are mainly for fixed-income earners of private and public organisations, but are also offered to self-employed borrowers.

DFCC Bank was proud to introduce Vardhana Salary Booster and Vardhana Hiflex, which includes an array of value-added benefits. Vardhana Salary Booster is a pre-approved overdraft facility covering up to 90% of the borrower's monthly earnings, catering to executives with fixed incomes. Vardhana Hiflex is a tailor-made service catering to high net-worth fixed-income individuals. This also acts as a pre-approved overdraft facility encompassing up to 90% of a borrower's monthly earnings. In addition, it can be combined with a personal loan of up to LKR 10 million as determined on the borrower's credit repayment potential.

Several collaborations were undertaken to provide loan facilities for the installation of solar panels, in line with the Bank's continuous commitment to investing in sustainable solutions. These initiatives were a success and will be continued in the future as well. Other mutual collaborations included tie-ups with educational institutions in providing funding for higher education.

Added emphasis was placed on the promotion of all retail asset products in the Northern and the Eastern Provinces of the country, as part of the North East reconciliation initiative. The strategy produced exceptional results, with the Eastern Province disbursing the highest percentage of personal loans.

A strong platform for growth in personal loans is further expected in the year to come, due to investments made in strengthening the Bank's physical and product infrastructure. Another key strategy in growing the portfolio will be the presentation of bundled products, with the opportunity of cross-selling products to fixed-income earners.

Housing Loans

DFCC Bank provides the *Sandella* Housing Loan *with a promise* to *make a borrower's dream home a firm reality*. This tailor-made product caters to the entire range of funding requirements for home ownership which includes the purchase/construction of a house, the purchase of land, investments or condominiums. It further encompasses renovations and extensions to existing properties, as well as miscellaneous additions such as solar panel installations.

The loans are intended for a wide cross-section of demographic, ranging from business and professional executives, to public and private-sector employees, self-employed individuals as well as Sri Lankan citizens in foreign employment. These loans are priced at attractive rates and the tenure can be structured to suit the repayment capacity of the borrower.

During the year, the housing loan portfolio recorded a growth of 35%, with most of the contribution coming from the outstation branches, accounting for 58% of the total portfolio.

The surge in the development of residential skyscrapers has made it possible to target the high net-worth segment for housing loans. Throughout 2016, the Bank was instrumental in negotiating contracts with the developers of apartments to mutually collaborate for business generation.

These activities contributed significantly to the loan portfolio whilst simultaneously enhancing the brand image of the Bank.

The expanding branch network has contributed significantly to the wide spread reach of our services. The focus of DFCC Bank in the coming year will be to enhance product value and pursue the financing of vertical living.

Finance Leasing

DFCC Bank has been recognised for its contribution to the development of the nation's economy and wider society by esteemed local and international organisations. Among its proficiencies in all spheres of the banking industry, the Bank has been the pioneer in providing leasing solutions since 1984.

The leasing industry experienced several setbacks during the year, mainly due to contracting economic and regulatory conditions. The Government mandated loan to value (LTV) ratio for financing of automobiles and hikes in vehicle duties curtailed credit growth. Furthermore, the rise in lending rates throughout the year confined credit growth to a minimum level throughout the year.

In spite of these preconditions, DFCC Bank recorded a net growth rate of 3% in the leasing portfolio. Outstation branches contributed significantly to this figure. A market growth was seen in the Northern and the Eastern regions of the country as contrasted with the preceding year. 2016 represented a landmark point in the Bank's leasing business and the Bank expects similar momentum and success in 2017.

The Bank maintained its market presence through the implementation of successful promotional campaigns nationwide, partnering with reputed vehicle suppliers. Further, successful regional promotional campaigns were also held in collaboration with regional motor vehicle suppliers. Through the combined efforts of these, the Bank has been able to communicate with a substantial customer base spread across differing sectors thus compiling a well-diversified geographic portfolio.

Existing processes, including incentive schemes for sales staff and flexible approval mechanisms, underwent several changes throughout the year. These were further consolidated by upgrading to the loan origination system which was introduced towards the early part of the year.

Gold-Pledged Lending

Gold-pledged lending or pawning is a popular loan product amongst the rural communities in Sri Lanka, due to the ease of obtaining funds. In 2016, there was a significant growth in the pawning portfolio in comparison to the preceding years, and the Bank is hopeful that the growth momentum will continue in the forthcoming year.

Marketing campaigns were primarily targeted at the North Eastern region of the country to create brand awareness.

At the same time, a below-the-line promotional campaign played a significant role in reversing negative growth. DFCC Bank is looking forward to an optimistic performance in 2017.

Card Operations

The Bank obtained Principal Membership status of Visa International and is in the process of obtaining direct connectivity for both credit and debit cards. A new card management system is also being developed.

The Bank launched the Visa International debit card in 2011 which provides unparalleled access to over 37 million accredited merchants worldwide for the purchase of goods and services. It can be used for withdrawing cash through a global network of over three million ATM's.

During the year, the Bank reported a total of over 112,000 debit cards with 28,000 new cards being issued. Debit card usage stood at, LKR 3,100 million representing 335,000 ATM transactions and LKR 480 million from 185,000 POS terminal transactions.

In addition to its standard Visa debit cards, DFCC Bank has introduced three unique cards for premier banking customers titled; Premier Plus, Premier and *Prabhu*.

EMV Chip technology is to be introduced to debit cards in 2017 following the completion of the direct Visa connectivity project. This new technology will reinforce the security of debit card transactions.

DFCC Bank's credit card range covers the internationally valid Visa Classic, Gold and Premium cards, with the Platinum cards issued to key customers of the Bank, having numerous additional features. Corporate cards are targeted at the Bank's corporate customers. The introduction of Visa Signature credit cards, mainly aimed at high net-worth individuals, is being considered for 2017.

All issued credit cards are chip-reinforced and provide stringent protection against credit card fraud. This includes SMS alert messages pertaining to transactions and a 24-hour support hotline.

The aggregate credit exposure of the credit card portfolio stood at LKR 806 million as at 31 December 2016, representing a card usage of LKR 485 million. The operation of credit cards remains a viable business line for DFCC Bank despite the Bank's late entry into the market. The card portfolio is free of material mismatches due to the prudent screening methods employed by the Bank in the issuing of credit cards.

DFCC Bank also offers the Multi Currency Global Travel card in its portfolio of products. This is a prepaid card which offers the option of pre-loading and accessing four international currencies in one card, at any given time, thus significantly helping the customer to reduce additional costs arising from multiple currency conversions.

The Bank provided credit card acceptance technology to merchants with the assistance of a local processor starting from the third quarter of 2015. As at the end of 2016, over 200 merchant establishments have been equipped with card acceptance technology.

Treasury and Resource Mobilisation

The Treasury Front Office (TFO) of DFCC Bank consists of three main income generating units. They are, the Foreign Exchange and Money Markets Unit, the Fixed Income Unit and the Treasury Sales Unit that report directly to the Head of Treasury. The Head of Treasury similarly oversees operations of the Resource Mobilisation Unit which handles all long-term funding through credit lines, syndicated loans, local and international debt issuance, related rating activities, strategic and non-strategic investments and divestments in equity and unit trust investments. The equity portfolio was consolidated under the Treasury and Resource Mobilisation Unit during the considered time frame, in line with the synergies of the respective operations, and with the objective of future business growth.

The operations of the Treasury Middle Office (TMO) were enhanced in line with the regulatory guidelines. This office functions autonomously and reports to the Chief Risk Officer.

The Treasury Back Office (TBO) is accountable for the preparation, verification and authorisation of the payments of all transactions made by the TFO. In order to operate independently, and as moderated by regulatory guidelines, the Treasury Back Office reports to the Head of Finance.

For the period under consideration, the Central Bank of Sri Lanka (CBSL) imposed a stringent monetary policy stance in light of the rising credit demands emanating mainly from the private sector. These measures were intended to tame demand-driven inflation and support the nation's Balance of Payments.

The CBSL raised the policy rates twice in the past year leaving policy rates Standard Deposit Facility (SDF) and Standard Lending Facility (SLF) at 7.00% and 8.50% respectively as at the end of December 2016, compared with rates of 6.00% and 7.50% at the beginning of the year.

In December 2015, the CBSL decided to increase the Statutory Reserve Ratio (SRR) applicable to all Rupee deposit liabilities of commercial banks by 1.50% to 7.50%, effective from the reserve week commencing 16 January 2016.

The credit growth in the private sector recorded a high of 28.5% in July, up from 25.7% at the beginning of the year. Nevertheless, these levels started to decline due to an upward adjustment in the interest rates with the tightening of monetary policy rates.

The economy faced numerous challenges during the year from both internal and external fronts. Government borrowings recorded a rise due to debt repayments and increasing public expenditure as the new administration continued its work.

Sri Lanka's sovereign credit rating was relegated from 'BB-' to 'B+' and assigned a negative outlook by Fitch Ratings. Standard and Poor's rating agency assigned a 'negative' outlook from a previous 'stable' view on the country's sovereign credit rating, referencing rising fiscal and external imbalances. The FED also raised their target rate in December by 0.25% each, leaving the rate at a range of 0.50% to 0.75%.

As a result of these events, Sri Lanka witnessed a huge outflow of foreign investments in both debt and equity markets, placing additional pressure on the Rupee. Nevertheless, the Extended Fund Facility (EFF) of USD 1,500 million assigned by the IMF to support the country's economic reform agenda built confidence in the minds of both foreign and local investors. This was further complemented by the raising of USD 500 million through a five year sovereign bond and USD 1,000 million through a 10 year sovereign bond in the international markets.

The interbank money market rates continued to rise during the year, due to continued Government borrowings as well as credit growth in the private sector. The overnight money market rates and repurchase rates closed the year at 8.40% and 8.50% respectively, compared with rates of 6.40% and 6.50% at the start of the year.

Market liquidity levels remained volatile, closing the year with a surplus of LKR 39,220 million. The benchmark Government Treasury Bill and Bond yields also increased incrementally during the period, taking a cue from the increase in policy rates. Treasury Bill rates rose to 10.17% from 7.30%, five year bonds increased to 11.90% from 9.60% and 10 year bonds expanded to 12.50%.

The Treasury Fixed Income (FI) desk made significant gains through trading activities and interest income under this less than favourable environment. The FI portfolio rested at LKR 46,604 million whilst the encumbered portfolio (reserved for REPO transactions) stood at LKR 16,310 million at the end of the year.

The local foreign exchange markets continued to be under strain having noted a full year depreciation of 4.23% mainly due to outflows in foreign investment as a consequence of expected increase of FED rates, debt repayments, and pressing importer demand, contrasted with the growth in the export sector. The exchange rate as at the end of December 2016 stood at LKR 150.00 compared to LKR 143.90 as at the end of December 2015.

The USD/LKR forward premiums increased during the latter part of the year, recording one month premiums at LKR 1.05, three month premiums at LKR 2.80, six month premiums at LKR 5.20 and 12 month premiums at LKR 10.20. In spite of this formidable environment, the DFCC Bank Treasury recorded LKR 176.35 million through FX trading activities while contributing to reducing the cost of funds through its FX swap operation.

During the year, the Treasury introduced Money Market based Rupee and US Dollar savings accounts namely Vardhana Xtreme Saver and Vardhana Xtreme Dollar Saver in order to support the CASA base of the Bank. These two products made significant contributions during the latter part of the year to achieve the desired CASA ratios.

The Treasury also catered to the increasing demand for floating rate fixed term FCY deposit products by introducing the Sri Lanka Development Bond (SLDB) linked deposits that helped the Bank in attracting new funds to grow the balance sheet.

Moving forward, with customer service at its core, treasury will engage in a series of process improvements with the support of the IT Department. The main focus will be on upgrading existing systems to improve the handling of growing volumes whilst improving the efficiency in the pricing of fund transfers.

DFCC Bank's Investment Portfolio

As at 31 December 2016, the combined cost of investments in DFCC Bank's holdings of quoted shares [excluding the investment in the voting shares of Commercial Bank of Ceylon (CBC) PLC], unquoted shares and unit holdings amounted to LKR 1, 648 million.

The composition of the investment portfolio is detailed as follows:

Investment Portfolio as at 31 December 2016

	Cost LKR million	Market Value LKR million
Quoted share portfolio (excluding CBC voting)	693	999
Unit Trust portfolio	843	996
Unquoted share portfolio	112	112
Total	**1,648**	**2,107**

The cost of the unquoted share portfolio is carried at cost on the balance sheet. The market value of the holding in the voting shares in CBC was at LKR 17,798 million as at the end of December 2016, against a cost of LKR 3,508 million.

During the period under review, DFCC Bank made particular divestitures in mature quoted shares and unquoted shares. By implementing this, the Bank was able to realise notable returns amounting to LKR 152.18 million as capital gains. During this time frame, DFCC Bank also made new strategic investments in quoted shares at LKR 37.3 million.

Credit Line Management

EIB SME & Green Energy Global Loan

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

The entire loan of €90 million was allocated within the stipulated period. Net of cancellations, this amounted to approximately LKR 14,662 million for 171 projects from three participating intermediary banks including DFCC Bank. Of the amount allocated, by the year-end, LKR 12,406 million had been disbursed as refinance to intermediary banks for the benefit of their customers.

SME projects in a variety of sectors island-wide were approved for funding. Prominent sectors were auto services & repair, bakery products, construction, education, healthcare, manufacturing including agro-processing, printing, retailing, tourism, and trading. Under 'Green Energy', notable achievements during the year were a 10MW Solar power plant and a 4MW sustainable Bio-mass based combined heat and power co-generation plant commencing the supply of power to the national grid.

International Banking

Trade Services

In 2016, trade services recorded total fees and commissions of LKR 381.6 million. The business volume handled by trade services consisting of Letters of Credit and received import bills stood at LKR 55,572 million.

Despite the setbacks, the macroeconomic environment of the country was not conducive for the import and export sectors during the year. The introduction of Loan to Value (LTV) ratios and increase in import tax of vehicles contributed to a decline in vehicle imports. According to CBSL statistics, the import of vehicles was reduced by 53.7% as at 31 August 2016.

The tea industry faced similar challenges, primarily due to droughts, and volatile situations in the Middle East.

However, the Bank continued to increase its trade client base comprising corporates as well as SMEs through corporate banking, business banking and branches. The correspondent banking network was further expanded to ensure that clients are able to do their transactions hassle-free, through the respective banks of buyers and sellers. The unit has continued to improve service standards attributable to its efficient and dedicated team and implementation of improved technology.

In order to reinforce its commitment towards the trade and business community, DFCC Bank sponsored the World Export Development Forum (WEDF) as the Exclusive Banking Partner, which was conducted in Sri Lanka in October 2016. Further information on this event is given on page 75.

During this period, DFCC Bank introduced a unique package for exporters with the intention of attracting new clients through the WEDF platform.

Remittance Services

The period under consideration was a productive one for remittances as DFCC Bank comfortably exceeded the 30% budgeted increase in income. This was mainly as a result of increasing outward remittances and inward telegraphic transfers processed during the year. The income from Western Union, drafts, issuance of currency notes and purchases remained static during the year.

The branches, together with the Business Development Department were key players in growing the business volumes during 2016. The remittances team was also able to build customer relationships by offering exceptional customer service. The team was successful in detecting a significant number of payment requests that were the target of cyber attacks and thus helped to eliminate the loss of valuable foreign exchange to the customer and the country.

Throughout the year, internal service agreements were fine-tuned to develop the customer portfolio. The team is confident in its ability to grow remittance income lines in the future, thus contributing significantly to the Bank's bottom line.

Bancassurance

The Bank has demonstrated a strong performance in Bancassurance, within a short time frame, since its official launch in 2014.

During the year, the life insurance operation at DFCC Bank was further enhanced with the signing of a long-term agreement with AIA Insurance Lanka PLC. This strategy has paved the way for a dynamic product and service offering to the Bank's clientèle.

Initiatives in raising customer awareness on the mitigation of risks associated with business and life were also implemented through events and programmes conducted by AIA and DFCC Bank at branch level. Customers were able to seek personalised consultation on financial planning, retirement planning, planning for their children's higher education etc. Similarly, loan and lease customers benefited from insurance advisory, and rate and claim settlements through the centralised general insurance operation which comes under the purview of the Bancassurance unit.

Bancassurance has contributed significantly to the Bank's bottom line as a key Other Income source, denoting high future potential.

The main objective of the Bancassurance business is to offer products at an international quality standard. This unit thus works diligently towards protecting its customer base from all possible risks associated with business and life.

EMPLOYEE CAPITAL

Building an Integrated Culture

The year under consideration was one of consolidation and unification, following the amalgamation with DFCC Vardhana Bank in 2015. Although DFCC Vardhana Bank was an integrated subsidiary of DFCC Bank, with many operations being executed centrally, certain cultural differences existed between the two entities mainly due to the differing staff profiles required by the respective pre-amalgamation business models.

Consequently, 2016 saw greater focus being given to strengthening a sustainably integrated culture developed on a foundation of shared values, aspirations and philosophies.

DFCC Bank implemented the *Great Place to Work* initiative in July 2016, aimed at building a transformational working culture. The assignment was conducted in several phases and encompassed; aligning the Bank's values to business strategy, interpreting individual behaviours demonstrating these values, carrying out a culture audit to identify strengths and possible changes required to key practices to ensure alignment to support behavioural change, engaging all employees through large group interventions to create positive energy and building ownership of values and associated behaviours. In addition, customised people management workshops were conducted for all levels of management, aimed at improving consistency in people management capability and providing managers with the necessary tools to foster an encouraging environment for their staff, inspiring them to 'live the values'.

Following the successful conclusion of the assignment, 50 plus initiatives are being further implemented to enhance the People practices of the Bank.

Other initiatives that were introduced to facilitate integration included, reviewing operational and business structures and taking steps towards fulfilling necessary alignments towards optimising efficiency and delivery.

DFCC Bank remained aware of the strategic imperative in ensuring employee productivity, in harmony with rapid growth and diversification of its businesses. Capacity planning and staff rationalisation methodologies initiated in 2015 continued in 2016 as well. With focused intervention, the ratio of business facing staff to support staff showed continued improvement over the last two years.

Many operations in branches were centralised, resulting in a sizable pool of staff being available for re-skilling and redeployment in business roles. Targeted re-skilling programmes were initiated for identified staff who were provided with the necessary training and mentors to guide them through the transition. The HR Department closely monitored their progress through regular performance updates from their supervisors and one-on-one interactions.

Encouraging Communication

DFCC Bank holds firm to its belief that diverse and unencumbered channels of communication are decisive factors in its journey towards a progressive and integrated working environment.

The Bank has many systems in place to keep its employees informed of internal events and external developments that may impact them. In addition, it possesses multiple platforms that enable employees to voice their opinions, concerns and suggestions. DFCC Bank practices an open-door policy whereby all employees have direct and easy access to senior management and the CEO. The Bank's newsletter, *The Weekly Round Up* shares frequent updates on internal developments. Regular meetings are organised with the participation of different staff groups, to enlighten employees on strategic considerations and new developments. These meetings also serve as forums, enabling employees to interact with senior management and express their views or concerns. Video communication is used from time to time to disseminate information to the regionally dispersed workforce. The e-Learning platform and HR portal also provides employees with access to information on HR practices and policies that may impact them. A comprehensive staff handbook can also be accessed online, enabling employees to learn and refresh themselves on workplace practices, regulations, benefits, conduct etc.

The Bank also inaugurated an HR Business Partner initiative, whereby an HR officer was assigned to the larger business and service units. The Business Partner interacts with supervisors and staff to aid them in expediting and resolving issues relating to business strategy or operations. The HR officers visit the branch network on a planned roster throughout the year to meet staff on a one-on-one basis to identify and address any concerns they may have.

In keeping with its value of being innovative, the Bank proactively encourages bottom-up feedback on process improvements, cost management and business enhancement measures. During 2016, employees were encouraged to express ideas and suggestions at 'Open Days' held with the presence of the Chairman, CEO and Deputy CEO. The younger millennial employees were given a platform to gain visibility and showcase their ideas on topics of relevance for future growth and strategic initiatives of the Bank, to members of the Board and Senior Management.

The latter part of the year saw the DFCC Innovators; a team of cross-functional volunteers, being set-up with a mandate to encourage the surfacing of novel ideas and innovations through multiple channels and ensure that promising ideas are selected, honed, and further developed for the benefit of all.

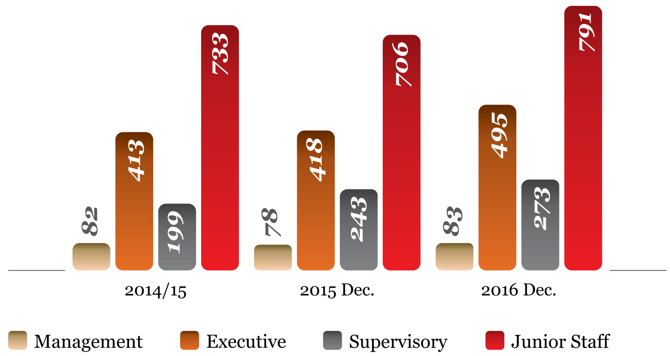
Staff Distribution

DFCC Bank reported an aggregate head count of 1,642 employees as at the end of December 2016. This is an increase of 13.8% from the corresponding figure in 2015. The employee distribution ratio, with regard to gender, stood at respectable levels; at a ratio of 53% male to 47% female.

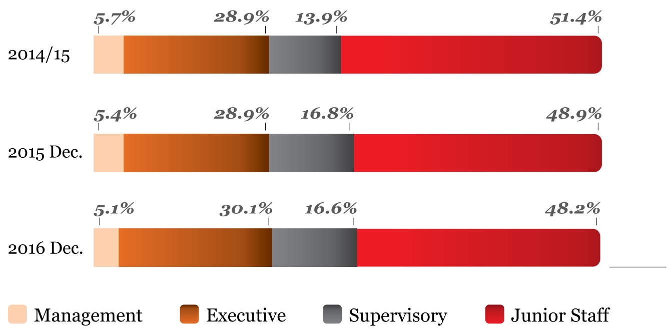
As in previous years, the Western Province accounted for the largest number of employees. For the period under review, 55% of employees were stationed in the Western Province with the Southern and the Central Provinces, accounting for the next highest dispersion at 9% each. The Northern and the Eastern Provinces, with 16 branches, accounted for 8% of the total workforce.

The following graphs offer a detailed and numerical representation of several other relevant aspects of staff demographics:

Change in Total Head Count – Nos.



Composition of Total Head Count – (%)



Permanent Employees by Employment Type and Gender

Grade	December 2016 Male	Female	Total	December 2015 Male	Female	Total	2014/15 Male	Female	Total
Management	51	19	70	51	15	66	53	17	70
Executive Staff	255	186	441	210	171	381	203	165	368
Supervisory Staff	130	142	272	123	117	240	106	92	198
Junior Staff	243	299	542	249	332	581	271	369	640
Total	679	646	1,325	633	635	1,268	609	626	1,235

Workforce by Employment Type/Contract and Gender

	Permanent			Contract/Casual/Part time			Total Number of Employees		
Grade	Male	Female	Total	Male	Female	Total	Male	Female	Total
Management	51	19	70	12	1	13	63	20	83
Executive	255	186	441	35	19	54	290	205	495
Supervisory Staff	130	142	272	1	0	1	131	142	273
Junior Staff	243	299	542	147	102	249	390	401	791
Total	**679**	**646**	**1,325**	**195**	**122**	**317**	**874**	**768**	**1,642**

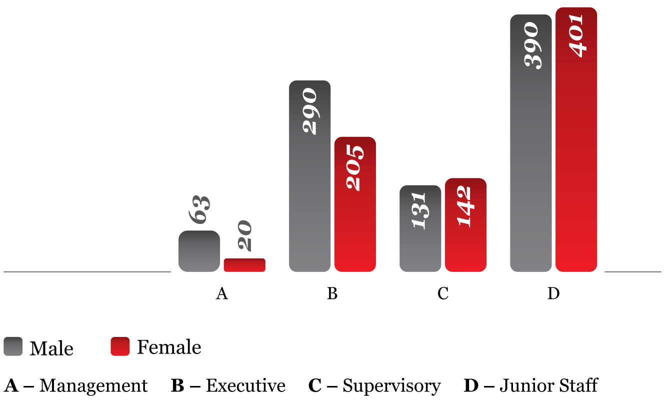
Workforce by Employment Contract and Gender

	Number of Employees			Composition of Employees (%)		
Employee Type	**Dec. 2016**	Dec. 2015	2014/15	**Dec. 2016**	Dec. 2015	2014/15
Full-time - Male	**874**	726	707	**53**	50	50
Full-time - Female	**768**	719	720	**47**	50	50
Total						
Outsourced - Male	**0**	0	0	**0**	0	0
Outsourced - Female	**0**	0	0	**0**	0	0
Total	**1,642**	1,445	1,427	**100**	100	100

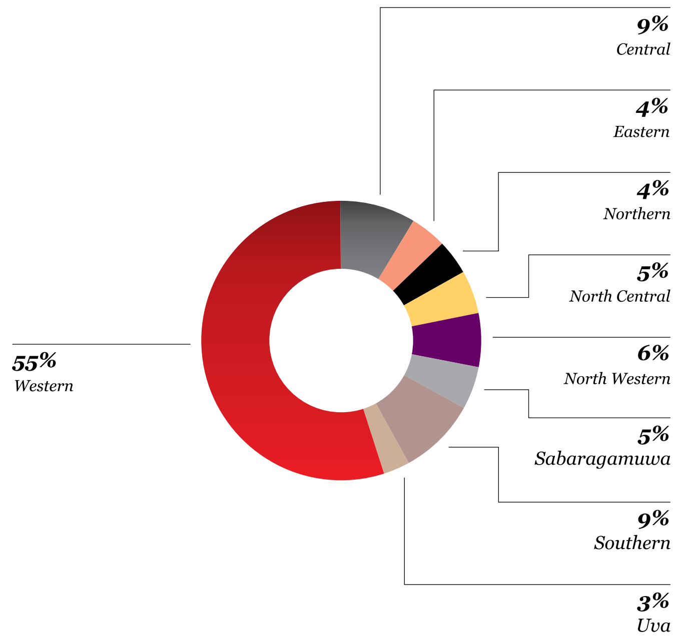
Workforce by Grade and Age

	Management		Executives		Supervisory Staff		Junior Staff	
Age Group	Count	%	Count	%	Count	%	Count	%
18-25	0	0	18	4	1	0	437	55
26-30	0	0	144	29	95	35	282	36
31-40	6	7	245	49	130	48	48	6
41-50	52	63	77	16	42	16	16	2
51-55	16	19	7	1	4	1	6	1
56 +	9	11	4	1	1	0	2	0
Total	**83**	**100**	**495**	**100**	**273**	**100**	**791**	**100**

Workforce by Grade and Gender – Nos.



Breakdown of Employees by Province

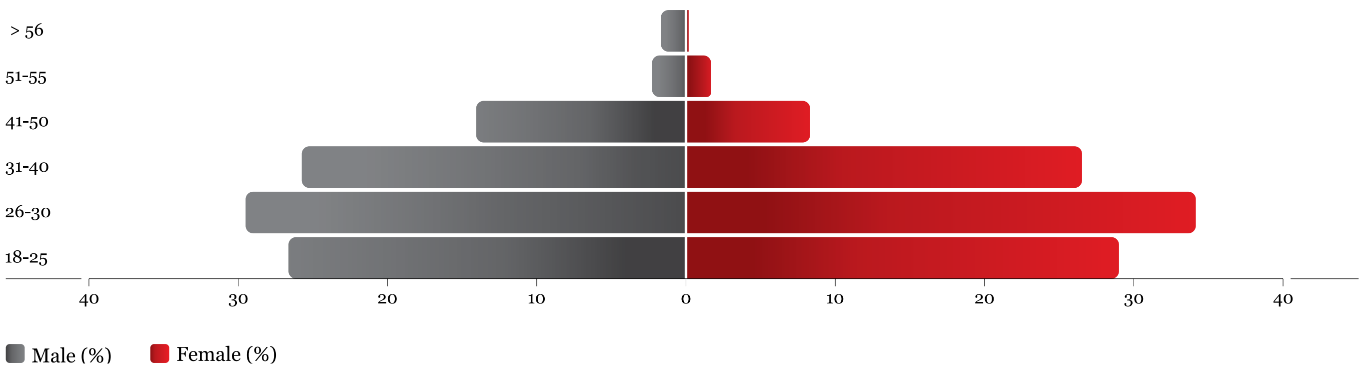


Workforce by Region and Gender

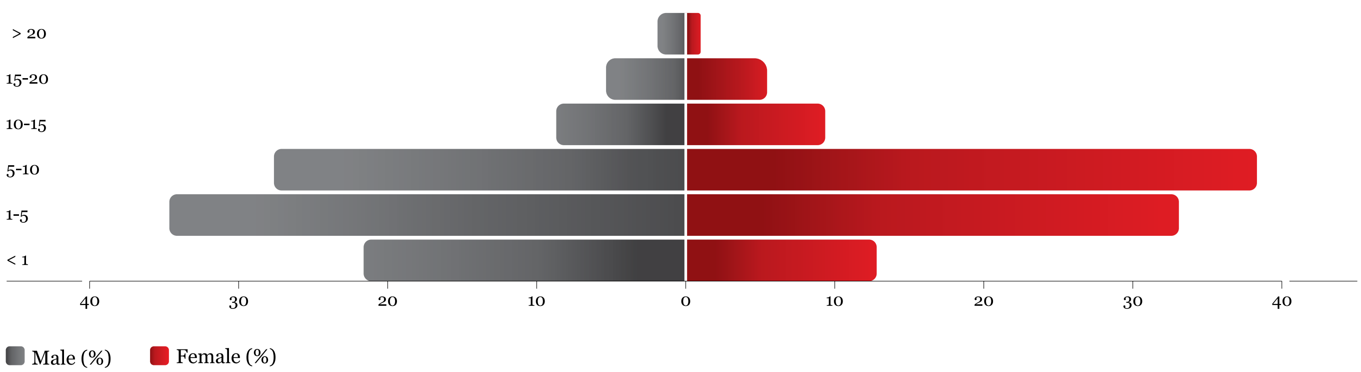
Province/Departments and Other Business Units	December 2016 No. of Branches	December 2016 No. of SLP Units	December 2016 No. of Employees Male	December 2016 No. of Employees Female	December 2016 No. of Employees Total	December 2015 No. of Branches	December 2015 No. of SLP Units	December 2015 No. of Employees Male	December 2015 No. of Employees Female	December 2015 No. of Employees Total	2014/15 No. of Branches	2014/15 No. of SLP Units	2014/15 No. of Employees Male	2014/15 No. of Employees Female	2014/15 No. of Employees Total
Central	11	4	95	45	140	10	4	69	47	116	10	4	62	47	109
Eastern	8	2	52	21	73	7	4	50	22	72	7	4	48	22	70
Northern	6	0	38	23	61	6	0	34	21	55	6	0	36	22	58
North-Central	6	3	50	25	75	3	6	42	20	62	3	6	39	23	62
North-Western	7	3	51	46	97	6	4	36	38	74	6	4	34	40	74
Sabaragamuwa	7	8	43	40	83	5	10	36	35	71	5	10	32	36	68
Southern	9	14	72	73	145	9	14	67	67	134	8	15	69	65	134
Uva	4	5	38	19	57	4	5	38	18	56	4	5	41	20	61
Western	32	8	185	188	373	29	11	146	176	322	29	11	144	175	319
Departments and Other Business Units	69	0	250	288	538	63	0	208	275	483	74	0	202	270	472
Total			874	768	1,642	79	58	726	719	1,445	78	59	707	720	1,427

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

Age Analysis – Years



Service Analysis – Years



Managing Resourcing

Keeping in mind the long-term strategic implications of optimising productivity and managing costs, a capacity review was conducted across the branch network which accounts for the majority of the Bank's workforce and several departments deploying larger staff numbers. Following the review, certain redeployments were done with selected employees being allocated to more value-adding roles.

At year-end, the employee head count reflected a significant increase from the preceding year, given that the head count was maintained at relatively stable levels for the past couple of years. The increase was necessitated primarily due to boosting of the dedicated sales cadre, new branch openings and adoption of new business offerings. Some recruitments to mid-level and senior-level positions were also done during the year to address critical talent gaps.

New employees were mainly sourced through referrals, print and social media advertising. To position the Bank's brand as an employer of choice, a concerted effort was made to participate in career fairs, during which career guidance and tips on interview techniques were provided to prospective applicants.

The Management Trainee Programme was recommenced after three years.

The thousands of applications received for the programme were an encouraging endorsement of the DFCC brand. The large number of applicants were culled through a series of selection criteria culminating in welcoming on board ten management trainees. These trainees will be provided with classroom and on-the-job skilling, opportunities for cross-functional exposure through planned job rotations and participation in special assignments and projects to further broaden their exposure.

Further, to facilitate the integration of the new team members into the Bank and its culture, a 'Buddy Programme' was implemented. New recruits are assigned a 'buddy' who is tasked with ensuring they are welcomed, introduced to colleagues, provided with the required facilities, and advised on navigating internal systems and procedures.

For the year under consideration, 365 new employees joined the Bank, of which almost 83% were below 30 years of age. In line with the Bank's commitment to growing talent from within, it was noteworthy that recruitment to management grades was less than 2%.

New Hires by Age Group and Gender

Grade	New Employees Joining in the Current Financial Year						
	Age Group				Gender		
	Less Than 30 Years	Between 30-50 Years	Above 50 Years	Total	Male	Female	Total
Management		6	1	7	5	2	7
Executive	59	33	2	94	67	27	94
Non-Executive	2	13		15	14	1	15
Other/SLP	241	8	0	249	163	86	249
Total	**302**	**60**	**3**	**365**	**249**	**116**	**365**

During the year, 124 employees resigned from service out of which the majority was sales staff. This reflects previous trends, as this is a particular segment of the workforce that tends to show high volatility in terms of retention. The annual attrition rate, excluding sales staff amounted to 6.4%.

Of 719 eligible employees, 9.3% availed of parental leave, with 99% returning to work. Employees who continued to stay employed at the Bank after 12 months of returning to work following parental leave constituted a figure of 85%.

Grade	Number of Employees Resigned*						
	Age Group				Gender		
	Less Than 30 Years	Between 30-50 Years	Above 50 Years	Total	Male	Female	Total
Management	0	2	3	5	4	1	5
Executive	14	24	0	38	19	19	38
Supervisory Staff	4	9	0	13	8	5	13
Junior Staff	65	3	0	68	44	24	68
Total	**83**	**38**	**3**	**124**	**75**	**49**	**124**

**Excluding terminations/retirements/contract expiries*

Career Planning and Advancement

Proactive career planning continued to be a priority in 2016 as well. In keeping with the Bank's focus to adopt a collaborative and inclusive approach in employment practices, an internal cross-functional team was set-up and mandated with reviewing and recommending improvements to the performance management framework.

The team thus presented a revised framework synthesising feedback obtained from employees, which was adopted for the year under consideration.

The 'Nine Box' talent identification and differentiation process continued to be practiced, with all executive personnel being assessed annually, and consequently being provided with development opportunities and individualised attention, if so warranted. Two new talent management programmes; *Ascendants!* and *Rise!* were launched, focusing on career enhancement and performance improvement respectively.

Other initiatives, such as the supervisory level operations certification programme continued with the participation of 45 individuals of which 25 successfully completed the certification. The career advancement programme continued into its fourth consecutive year of operation, from its inauguration in 2012. The programme has enjoyed continued success and has enabled 34 employees since its inception to transition to executive roles.

The Bank's promotion framework is structured around multiple factors such as the availability of job roles, individual competencies, experience and qualifications. As a component of the Bank's post-amalgamation integration initiatives towards rectification of inequities, an interim promotion framework was adopted whereby alternate qualifications are accommodated for a period of two years, so that employees satisfying other criteria are able to successfully advance in their careers.

In addition, a customised assessment programme was developed in collaboration with the Institute of Bankers in Sri Lanka, to enable experienced staff who do not possess any qualifications to aspire for advancement opportunities. A total of 22 employees took part in the initiative and assessment, following which 16 were selected for placement at a higher grade.

Furthermore, during the year, 255 employees, representing 16.5% of the average workforce, were promoted to higher positions reiterating the Bank's continued commitment towards enabling internal career advancement opportunities for staff.

Investing in Learning

Throughout the year, the Bank demonstrated dedication towards the advancement and growth of its employees with 7,110 participants attending 355 programmes. Out of these, 146 were organised in-house, primarily utilising internal resources. Cumulative training hours amounted to 60,035 demonstrating a marked increase of 34% over the preceding year.

Classroom training was supplemented by sources such as e-learning, job rotations and role enhancements aimed at developing a versatile and competent workforce. Of the classroom-based training, 69% was concentrated on technical and sales programmes. Ensuring value generation from training investments continued to be a priority with relevant programmes being pegged to ROI measures.

DFCC Bank's e-learning platform continued to be a popular learning tool for its regionally-dispersed workforce. Over 17,600 learning hours were clocked in during the year. The platform was widely used to conduct assessments and product quizzes as well. A survey showed that 58% and 42% of respondents rated the service as 'excellent' and 'very good' respectively.

For the year under review, the cumulative average training hours per employee was 50.25. This represented an increase of 14.7% over the preceding year.

	Number of Person Hours of Training			Average Training Hours Per Employee		
	Male	Female	Total	Male	Female	Total
Management	2,375	823	3,197	37.70	41.13	38.52
Executives	11,571	8,035	19,605	39.90	39.19	39.61
Non Executives	20,675	16,556	37,232	39.68	30.49	34.99
Total	**34,621**	**25,414**	**60,035**	**39.61**	**33.09**	**36.56**

** Excluding e-learning*

January to December 2016

	Total Person Hours
In-house	55,002
External	4,633
Foreign	400
Total	**60,035**

Focusing on Sales

As DFCC Bank secures its position as a fully-fledged commercial bank, the necessity of maintaining a strong sales-oriented mindset is critical towards its continued success and relevance in the industry. This was addressed through regular communications to staff emphasising on sales, redeployment of staff to front-line roles and on attracting and developing a competent and dedicated sales force.

During the year, sales recruitments amounted to 34% of total resourcing. While sourcing and retaining talent with the necessary competencies and interest in sales continued to be a challenge during the year, much attention was devoted towards attraction and retention of such talent by introducing a dedicated sales career path, more flexible promotion mechanisms, ensuring competitive incentive structures and revamping sales orientation and refresher training programmes. During the year, 13 in-house sales focused programmes were conducted benefiting 628 participants. Achievements were recognised and rewarded at the Annual Sales Awards Night held in June.

Appreciation and Recognition

Through the quarterly held *Rewarding Excellence Scheme*, the Bank acknowledged the achievements of 18 employees nominated by their supervisors and peers. The nominees were recognised and rewarded in the presence of members of the Board of Directors and Senior Management.

At the Annual Dinner Dance, branch, team and individual awards were presented in recognition of exceptional contribution and service delivery. Supplementary recognition awards in the fields of sales, bancassurance, retail assets and leasing were also distributed throughout the year.

In addition, the employee appreciation scheme was conducted successfully for the second consecutive year with supervisors utilising the allocated annual budgets provided to them to organise a variety of year-end activities for their teams.

Embracing Diversity, Inclusion and Equality

DFCC Bank remains committed to integrating diversity, inclusion and equality into its ethos. As an equal opportunity employer, the Bank strives to ensure that the most suitable candidate is appointed for the job irrespective of age, gender, disability or cultural background.

Employee Benefits

Employment Type	Housing Loan	Vehicle Loan*	Educational Expenses*	Professional Subscription*	Social Club Gymnasium*	Miscellaneous Staff Loan	Festival Advance**	MBA Loan	Holiday Grant***
Permanent	√	√	√	√	√	√	√	√	√
Contract	x	x	x	x	x	x	x	x	x

* *Executive Trainees and Management Trainees on fixed term contracts are also provided this benefit*
** *Only for non-executive staff*
*** *Based on the offer of employment this also may be provided to contract staff*

DFCC Bank believes that its commitment to securing an integrated workforce is a direct precursor to its success and ensures innovative thinking, stronger collaborative performances and resilient partnerships well into the coming years.

Ratio of Salary of Men to Women by Employee Category

Grade	Number of Employees			Basic Salary Ratio,
	Male	Female	Total	Male/Female
Management	63	20	83	48:52
Executive	290	205	495	51:49
Supervisory Staff	131	142	273	51:49
Junior Staff	390	401	791	50:50
Total	**874**	**768**	**1642**	**50:50**

Surfacing and Addressing Grievances

The Bank has a zero tolerance policy towards workplace harassment or marginalisation.

Employees are able to express dissatisfaction and grievances without constraint. A formal Board-endorsed Grievance Policy is in place and provides employees with detailed guidelines on the appropriate measures to be taken to address grievances and means of escalation.

A *Secure Environment Policy* sets out appropriate workplace conduct and the recourse available to employees experiencing harassment from colleagues or superiors.

A Grievance Committee consisting of a team of mid and senior-level staff functions as an alternate channel for employees to express concerns, both on an individual and collective basis.

During the latter part of the period under consideration, the 'Reach Out Programme' aimed at women employees was launched. Women employees now have access to a team of women colleagues to confidentially obtain advice on personal and professional issues impacting them.

Furthering Employee Wellness

Throughout the year, continued focus was accorded to employee wellness. Regular advice on topics ranging from nutrition to exercise and mental health were disseminated. At the Annual Sports Day of the Bank, a healthy lifestyle stall was made available offering staff an opportunity to assess their BMI and fitness levels as well as obtain advice from doctors and nutritionists.

Two special fitness programmes were also conducted. In the Pedometer Challenge, volunteer staff were divided into teams and equipped with pedometers to monitor their step count. Prizes were awarded weekly to teams and individuals recording the highest step count. At the end of this two month long challenge, the leading team recording the highest weight loss was recognised and rewarded. Similarly, an intensive fitness programme, the 'sweatshop workshop', was also launched in January, with all participants being subjected to an extensive physical check up prior to being selected for the programme.

A programme was held for female employees of the Bank in collaboration with the Family Health Bureau giving employees an opportunity to discuss topics impacting them, including balancing career and motherhood, reproductive health, family nutrition identification, prevention of breast cancer etc.

In tandem with this, an extensive awareness campaign honouring breast cancer awareness month was carried out. Wellness packages were negotiated with hospitals at attractive discounted rates and made available to employees and their families. The programme culminated with a breast cancer awareness walkathon/runathon towards which employees contributed generously by dedicating both their time and money to the cause. The Bank matched the total contributions and donations were made towards an awareness and support programme arranged by a non-profit organisation in January 2017, for which survivors of breast cancer from across the island participated.

A fitness committee was set-up during the year, tasked with furthering employee awareness on the importance of physical and mental well-being.

Throughout the year, the weekly visits of a doctor continued to be made available to staff at the main offices of the Bank. Employees were also provided financial assistance for gym and social club memberships.

Work Life Integration

Employees were provided with ample opportunities for leisure and interaction, both individually and with their families, in 2016. The DFCC Welfare and Recreation Club organised a sports day, an overnight staff trip to Dambulla; at which 1,002 staff and their families participated, a cricket tournament in Kandy, a Christmas party for employees' children and many other activities dispersed throughout the year.

The DFCC REDS, a very active club, was set-up several years ago with the mandate of providing Gen Y executives who join the Bank the opportunity to engage with the Bank and its culture and have a collective voice in expressing themselves. The DFCC REDS organised many activities during the year including an overnight adventure based team building programme, quiz night, blood drive, field trip and a memorable scavenger hunt. The Dance Committee organised an epic annual dance at Stein Studios at which the highest recorded number of staff participated.

Employees were also afforded the personal satisfaction of participating in many CSR initiatives during the year. The DFCC Welfare and Recreation Club and DFCC REDS Committee very successfully spearheaded relief efforts for victims of floods and landslides in affected areas. It was heartening to witness the immediate and generous monetary contributions made by employees and their selfless devotion of personal time towards relief efforts. The DFCC REDS also organised a renovation project at the Ambakolawawe Primary School. Many employees also enthusiastically contributed towards the donation programme towards raising awareness on breast cancer, which was initiated in October.

In addition, many departments and branches routinely organised diverse supplementary community projects further demonstrating the commitment of the Bank's employees towards the betterment of society. In December, in keeping with the spirit of giving, employees contributed towards school supplies for underprivileged kids, the proceeds of which were donated to two worthy institutions in January 2017.

BUSINESS PARTNER CAPITAL

DFCC Bank is cognisant of the fact that successful business operations always depend on the continued support and benefits from a variety of trusted and committed partners. To that extent, the Bank has forged relationships with reputed local and global organisations. These include multilateral and bilateral development institutions, local financial institutions, Government bodies, industry associations and suppliers of goods and services. All of the aforementioned actively engage with us in our efforts to create long-term sustainable value. We share joint strategic objectives and the synergies provide greater opportunities for growth.

Multilateral and Bilateral Institutions

From its inception in 1955, on the recommendation of the World Bank, DFCC Bank has fostered resilient relationships with diverse bilateral and multilateral institutions.

Some of these institutions include the aforementioned World Bank, the European Investment Bank (EIB), Asian Development Bank (ADB), Kreditanstalt fűr Wiederaufbau (KfW), Germany, Deustche Investitionsund Entwicklungsgesellschaft (DEG), a subsidiary of KfW, Nederlandse Financierings – Maatschappij voor Ontwikkelingslanden (FMO), Netherlands and Proparco, a subsidiary of Agence Francaise de Developement (AFD), France.

DFCC Bank's primary role within these partnerships has been; functioning as an effective credit institution for the on-lending of funds to end users, implementing credit programmes, administering grant funds and smart subsidiaries for market development, and capacity building.

DFCC Bank implemented a dedicated housing loan credit scheme funded by ADB, and was appointed as a participating bank in a USD 100 million ADB credit line for SMEs. The Bank formerly initiated the credit component of the ADB-funded Plantation Development Project (PDP) and similarly managed the Plantation Trust Fund component of the PDP in tandem with associate aid from National Asset Management Limited.

The entities DEG, FMO and Proparco promoted several efforts in developing and emerging economies. DFCC Bank possesses an ongoing loan from DEG, and both DEG and FMO were former shareholders of the Bank, and had representation on the Board.

In 2016, DFCC Bank made inroads to the Middle Eastern sector for funding requirements and currently enjoys a bilateral funding relationship with RAKBANK, also known as the National Bank of Ras Al Khaimah, of the United Arab Emirates. DFCC Bank has secured similar channels of understanding with other reputed banks and financial institutions in the region.

Correspondent Banks

DFCC Bank enjoys sustained relationships with the entities listed below, in order to facilitate transactions of customers which originate in or involve foreign countries. These organisations also act as the Bank's agents in the respective countries.

Bank	Country
Commonwealth Bank of Australia	Australia
Commerzbank AG	Germany
Zurcher Kantonal Bank	Switzerland
Bank of China	China
UniCredit Bank AG	Germany
Bank of Ceylon (UK) Limited	UK
Bank of Ceylon	Maldives
Bank of Ceylon	India
Sumitomo Mitsui Banking Corporation	Japan
Deutsche Bank Trust Company Americas	USA
HSBC Bank USA N.A.	USA
Mashreqbank PSC	USA
Mashreqbank PSC	India
Standard Chartered Bank	USA
Standard Chartered Bank	Germany
Standard Chartered Bank	India
Standard Chartered Bank	Bangladesh
Standard Chartered Bank (Pakistan) Limited	Pakistan
Standard Chartered Bank	Singapore
HDFC Bank	India

The Supply Chain

As per the procurement policy of DFCC Bank, the selection of suppliers and the acquisition of goods and services is done in a non-discriminatory, transparent and economically sound manner.

The selection of suppliers entails a rigorous process of evaluation paying close attention to pricing, quality, after sales support, adequate references, timely delivery and technical proficiency.

Previously registered suppliers who fail to qualify under the metrics implemented are subsequently reviewed once in every three years. DFCC Bank honours its commitment to help local communities flourish and these suppliers can receive financial advice and assistance from the Bank, if so required.

Partners for Service Delivery

DFCC Bank works with a diverse base of reputable vendors for services such as:

- Cash collection, counting, storage, delivery and transport of security goods
- Printing of account and credit card statements, printing cheque books, personalisation and dispatch services
- Processing of payroll and other reimbursements
- Visa connectivity for debit and credit cards
- Personalisation of chip based credit cards
- Delivery of personalised credit cards
- Internal audit functions such as monitoring and compliance with existing internal control procedures, reporting on non-compliance/control gaps and offering recommendations
- IT support, issues of warranty, maintenance calls, time and material services, and software issues related to the Bank
- Help desk problem management, hardware and software handling and general queries

The Bank also collaborates with over 500 merchants encompassing a range of industries in operating the Vardhana Virtual Wallet. These include restaurants, grocery stores, supermarkets, hotels, hospitals and specialised retail stores, all of which are fully equipped with the technology to operate Vardhana Virtual Wallet services. Further details can be found under Industry Initiatives on page 71.

Industry Initiatives

Lanka Money Transfer

Lanka Money Transfer (LMT) is a cutting-edge, web-based remittance system designed by DFCC Bank and developed by the Group's IT subsidiary, Synapsys Limited. This service is currently in the process of being deployed across the globe to establish worldwide correspondence for inward remittances to Sri Lanka, targeting migrant worker earnings. The LMT system is capable of disbursing remittance proceeds as cash payouts and account credits. However, its operation is currently focused on account credit transactions taking into consideration the need to build long-term customer loyalty/retention as well as stringent anti-money laundering policies.

LMT is being rolled out to other Sri Lankan banks and financial institutions, mainly those who do not possess an individual remittance system. These institutions can then have a straightforward arrangement with the service to receive direct remittances for their account holders, as remittance transactions received from exchange companies to LMT will be retransmitted instantly to the respective partner bank/financial institution via a secure network.

Currently, such partner banks/financial institutions include Hatton National Bank, Pan Asia Bank, the Regional Development Bank, Sanasa Development Bank, Union Bank PLC, Amana Bank, HDFC Bank, Lanka Orix Finance Limited, Sarvodaya Development Finance Limited and Citizens Development Finance PLC.

Tea Integrated Payment System

DFCC Bank introduced a revolutionary supplier settlement system that supports Sri Lanka's well-established community of private tea manufacturers and tea leaf suppliers. The system enables suppliers to have revenues from their sales managed by a bank and be transferred directly into their bank accounts.

DFCC Bank operates the 'V Cash Card' as part of this initiative, enabling tea leaf suppliers to withdraw cash from over 700 ATMs nationwide. The system encourages efficiency, visibility and increased accountability, resulting in tea leaf suppliers possessing greater confidence in the collection process and control over their receipts.

Vardhana Virtual Wallet

With a focus on technology driven solutions, the Bank launched the Vardhana Virtual Wallet (VVW) in June 2016.

The VVW is an innovative mobile payment solution that is the first of its kind in the country's banking industry. It serves both retail consumers and businesses, offering ease and convenience and the guaranteed assurance of safety of funds.

Once registered and upon downloading the app from the App store or Google Play, the individual user can access funds from the user's Bank account which is linked to the VVW and use it to purchase goods and services at merchant points or at online stores, pay utility bills, and send and receive money anywhere, anytime.

Users can also use it to top up funds at selected merchant outlets or receive funds from overseas through DFCC Bank's Lanka Money Transfer service.

Merchants across all trades can also benefit from the VVW, which enables them to accept payments for goods and services electronically; regardless of the scope of their business operation. The primary benefit is that it reduces operating costs as the transaction costs are higher when accepting other payment instruments. The VVW can be integrated at point of sales terminals if so required. Since the system can be accessed on the go, it is an ideal tool for executing transactions that require delivery or mobile vending.

The product has rapidly captivated audiences, with increasing usage reported at both merchant and individual levels. The merchant base has expanded into large scale supermarkets, fast food chains, retail clothing chains, online stores, salons, cinemas and many more attractive places will be introduced in the near future, making the VVW the most convenient payment method.

Promotions conducted at business locations and other prominent marketing campaigns have flourished in increasing market awareness of the product whilst simultaneously increasing the number of transactions routed through the application by existing users. The application will be marketed further in 2017 through promotions, campaigns and effective cross-selling. In addition, the Bank will further refine the product by continuously adding new developments.

Strategic Alliances

Through sustained growth via mindful management of its business, DFCC Bank has diversified itself through a succession of well-planned and sound strategic acquisitions, alliances and partnerships over the years and has significantly benefited from the ensuing synergies.

The DFCC Group currently comprises of its subsidiaries; DFCC Consulting (Pvt) Limited, Lanka Industrial Estates Limited, Synapsys Limited, joint venture; Acuity Partners (Pvt) Limited and the associate company; National Asset Management Limited. The combination of all these entities guarantees the provision of a range of services to the financial sector.

DFCC Consulting (Pvt) Limited

DFCC Consulting (Pvt) Limited was established in 2004 as a fully owned subsidiary of DFCC Bank to engage in project consultancy and related fields.

Through its shared resources model, DFCC Consulting draws upon a multidisciplinary, highly skilled resource pool of nearly 600 executive staff of DFCC Bank, as well as a pool of reputed external individuals who are experts in various fields. The company also plays a supporting role to DFCC Bank by providing expertise in the fields of environment, engineering and renewable energy.

DFCC Consulting also carries out international consultancy assignments, some of which in partnership with overseas consulting firms.

Lanka Industrial Estates Limited (LINDEL)

Lanka Industrial Estates (LINDEL), occupies a strategic location in Sapugaskanda on 125 acres of land. It is located in close proximity to the Colombo Harbour (at 18 km) and to the Bandaranaike International Airport (at 25 km). This industrial estate offers lands and buildings for lease and basic infrastructure to set up industries. Out of the 19 production facilities that are currently in operation, six are managed by Fortune 500 Companies. Furthermore, 95% of the leasable land has been let to industries.

Synapsys Limited

Synapsys Limited was set up in 2006 as a fully owned subsidiary of DFCC Bank to provide software development, MIS solutions and IT support to DFCC Bank as well as other customers. The company has proved to be a dynamic and innovative technology firm with an array of products and services supporting Banks, Capital Markets, Insurance and Retail Payments across Asia and Pacific. The domain knowledge and skills of its employees has enabled Synapsys to originate two flagship and NBQSA award winning platforms, as well as other notable Fintech solutions.

Acuity Partners (Pvt) Limited

Acuity Partners (Pvt) Limited, representing a joint venture between DFCC Bank and Hatton National Bank (HNB), is a fully-fledged investment bank. It is the only integrated, fully-fledged investment bank in Sri Lanka offering an all-inclusive range of products and services in fixed income securities, stock brokering, corporate finance, margin trading, asset management and venture capital financing.

The following subsidiaries, associates and business units fall under the umbrella of Acuity Partners:

- Acuity Corporate Finance: Provides corporate finance and advisory services
- Acuity Securities Limited: A primary dealer for Government Securities
- Acuity Stockbrokers (Pvt) Limited: A member of the Colombo Stock Exchange
- Lanka Ventures PLC: A venture capital company
- Guardian Acuity Asset Management Limited: A dedicated fund management entity

National Asset Management Limited (NAMAL)

National Asset Management Limited (NAMAL) is the pioneer Unit Trust management company in Sri Lanka established in 1991 with 25 years of experience and a successful track record of investing in equity and fixed income markets. NAMAL launched the first Unit Trust to be licensed in Sri Lanka (National Equity Fund) and the first listed Unit Trust (NAMAL Acuity Value Fund). NAMAL operates eight Unit Trusts and offers private portfolio management services.

Memberships in Industry Associations

DFCC Bank has obtained membership in or established alliances with the industry associations and organisations listed below. The Bank's fellowship with them yields numerous opportunities for networking, along with contributing towards upholding industry standards, and in weaving a collective voice representing the industry on matters of regulation and policy.

- Assocation of Development Financing Institutions in Asia and the Pacific (ADFIAP)
- American Chamber of Commerce in Sri Lanka
- Association of Compliance Officers of Banks – Sri Lanka
- Banks CIO Forum
- Businessmen's Association – Kadawatha
- Central Bank of Sri Lanka
- Colombo Stock Exchange
- Fitch Ratings Lanka Limited
- Frontier Research (Private) Limited
- Genesiis Software (Pvt) Limited
- Hambantota District Chamber of Commerce
- International Chamber of Commerce, Sri Lanka
- Lanka Clear (Pvt) Limited
- Mary Martin Book Sellers Pte Limited
- Matale District Chamber of Commerce Industry and Agriculture
- Reed Business Information Limited
- Registrar of Companies
- Sabaragamuwa Chamber of Commerce and Industry
- Securities & Exchange Commission of Sri Lanka
- Sri Lanka Banks' Association (Guarantee) Limited
- Sri Lanka Forex Association
- The Ceylon Chamber of Commerce
- The Ceylon National Chamber of Industries
- The Employers' Federation of Ceylon
- The European Chamber of Commerce of Sri Lanka
- The Financial Ombudsman Sri Lanka (Guarantee) Limited
- The Institute of Bankers of Sri Lanka
- The Institute of Chartered Accountants of Sri Lanka
- The Mercantile Service Provident Society
- The National Chamber of Commerce of Sri Lanka

SOCIAL AND ENVIRONMENTAL CAPITAL

DFCC Bank strives to ensure sustainability in terms of caring for the society and environment, having built it into its core values and strategy. Thus, the Bank uses all its resources to address any social and environmental issues in the communities in which it operates.

Moreover, employees are encouraged to engage in community development efforts and any issues and concerns regarding the society and environment can always be brought to the knowledge of the Management and the Board of Directors.

Social Capital

Socioeconomic Impact

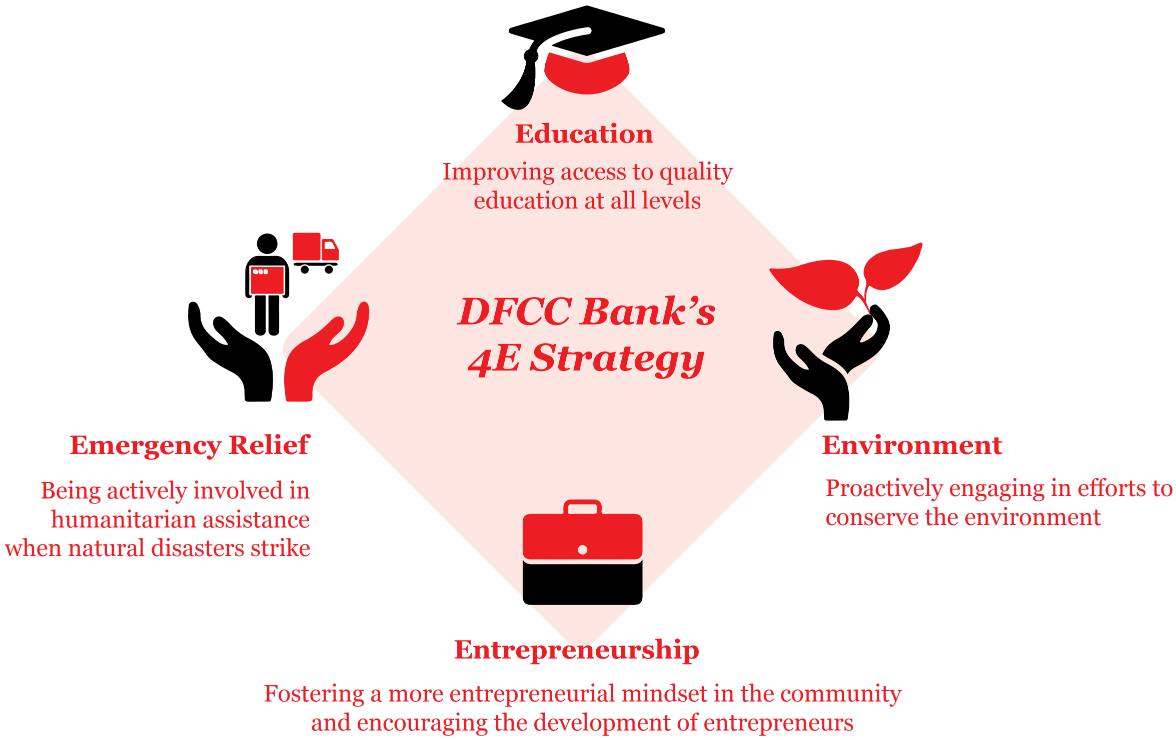
DFCC Bank has played a pivotal role in supporting economic development initiatives in Sri Lanka, since commencing operations in 1955. The Bank has transformed rural economies, enhanced livelihoods, generated employment and encouraged capital formation across every district. It remains steadfast in its commitment to advance financial inclusion through its ongoing expansion programmes, taking its product and service offerings to the rural populace of the country.

In addition to providing financial services, the Bank provides value added services for emerging communities, such as training and development programmes for entrepreneurs and SMEs.

Furthermore, whilst expanding its traditional brick and mortar structures, the Bank is focused on developing electronic mediums backed by the latest technology to provide customers with greater accessibility and the ease and convenience of conducting cashless transactions via the Vardhana Virtual Wallet.

Province	GDP (LKR million) 2013	Provincial % of Total GDP	DFCC Branches	DFCC's Provincial Presence (%)	Rank Based on Total GDP
Western	3,643,241	42	39	28.26	1
Central	959,918	11	15	10.87	2
Southern	954,518	11	23	16.67	3
North Western	887,083	10	12	8.70	4
Eastern	542,905	6	10	7.25	5
Sabaragamuwa	526,155	6	15	10.87	6
North Central	438,896	5	9	6.52	7
Uva	409,972	5	9	6.52	8
Northern	311,542	4	6	4.35	9
	8,674,230	**100**	**138**	**100.00**	

Source – Adapted from Central Bank of Sri Lanka, Sri Lanka Socio-Economic Data 2015 released in June 2015



Strategic CSR

DFCC Bank implemented a 4E strategy to further strengthen its corporate social responsibility (CSR) measures. This holistic approach goes in tandem with the Bank's brand values, strengths and processes. The aspects covered under the strategy includes entrepreneurship, environment, emergency relief and education.

DFCC Bank is especially focused on education, recognising its vital importance in equipping the next generation of leaders and influencers. Therefore, the Bank has views of introducing an English education programme to enhance competency in English amongst youth, equipping them to face the corporate world. A pilot programme will be launched in April 2017.

Schemes Launched Under Strategic CSR During the Year

Launch of Sahanaya Scheme for Flood Affected Citizens

DFCC Bank introduced an initiative to help victims of flood affected regions rebuild their lives. Going beyond providing short-term relief, the Bank focused its efforts on facilitating a long-term rebuilding initiative by providing affected individuals and enterprises with low cost personal and business loans.

Salaried earners were eligible for personal loans to rebuild damaged properties. They were also able to secure loans for the repurchase of educational material and similar collateral that were displaced due to the floods. Businesses were provided the loans to restore damaged assets and working capital.

Community based CSR Initiatives

Breast Cancer Awareness Walk and Contribution

A breast cancer awareness walk was organised in October 2016 as a part of DFCC Bank's sports day. Employees were provided the opportunity of making financial contributions; the aggregate of which was matched by the Bank and donated towards a deserving cancer project.

CSR by DFCC REDS

The DFCC REDS engage in CSR activities every year as a team building exercise.

In 2016, the REDS organised a renovation project at the Ambakolawawe Primary School in Tangalle.

The school has over 150 young students, and was in urgent need of assistance to renovate the roof of their main school building. The roof was in such a poor condition, that students found it impossible to study inside their classrooms; especially due to adverse weather conditions.

The REDS secured funding for the project through an internally circulated raffle draw and donations from staff. As part of the renovation, the entire roof of the building was replaced and the building in its entirety was repainted. The project was successfully completed in October 2016.

Sponsorships

DFCC Bank funds and supports numerous events conducted across the country. All sponsorships are verified based on internal policies of eligibility, transparency and due process. The following are some of the significant initiatives that DFCC Bank supported during the period under consideration:

Strategic Partner for Reforms: The Way Forward Top Forum

DFCC Bank was the strategic partner of the symposium, Reforms: The Way Forward, which was conducted in May 2016. The event was organised by the University of Colombo MBA Alumni Association and the Daily FT. Over 30 public and private sector experts came together at the event to elaborate on pressing reforms needed in diverse sectors of the national economy including agriculture, finance, industry, labour, public enterprises, services and trade.

Official Banking Partner for Shape South Asia 2016

The Shape South Asia 2016 event was held in September, based on the theme of Shaping Identities. Organised by the Global Shapers Colombo Hub, the event used Colombo and Sri Lanka as a backdrop to explore the role that committed and dynamic members of the youth (millennials) could play in driving their communities forward towards positive change.

The Global Shapers Community is a global network of hubs developed and led by enterprising young leaders.

As the official banking partner for this occasion, the Bank highlighted the range of products and services it offers for youth; notably the Vardhana Virtual Wallet.

Exclusive Banking Partner for the World Export Development Forum

The World Export Development Forum (WEDF) was held in Colombo in the month of October. The WEDF is a singular global conference and business-to-business (B2B) platform for supporting trade backed development. It is the premier event of the International Trade Centre (ITC), a United Nations subsidiary.

The event brought together over 600 business leaders, policy makers, heads of state, investment support institutions and international trade officials, to address issues of global competitiveness for emerging economies under the theme Connect, Compete and Change.

DFCC Bank complemented its participation in the event by introducing a suite of value added services targeted at the export segment of the national economy.

Tourism Fest

DFCC Bank was a partner of Tourism Fest 2016 conducted in Colombo in December 2016. The highly popular event was organised by the Ministry of Tourism Development and held under the patronage of senior Government officials.

The Bank sponsored the set-up of the venue's Christmas tree at the event which featured live musical performances, festive games and activities, bringing together the general public to celebrate the season in harmony.

In addition to the above, DFCC Bank also undertook miscellaneous activities supporting local communities, educational and professional institutions, charities and sports events.

Environmental Capital

DFCC Bank remains committed to protecting and preserving the environment. As a provider of financial services, the Bank realises that its consequences on the environment are mostly indirect. Nevertheless, we encourage our clients, employees and service providers to adopt environmentally and socially responsible practices.

The environmental concerns that the Bank will touch on below are the sourcing and use of material, consumption of energy and issues pertaining to waste and transport.

Managing Resource Consumption

The Bank continually assesses its rate of consumption of resources and strives to utilise innovative solutions to address any deviations from ideal objectives.

The concept of reduce, reuse and recycle is stringently used during the procurement and utilisation of any resource.

All internal operations of the Bank are extensively digitised to minimise the use of paper. Likewise, all correspondence within the Bank is mostly electronic.

All waste, including any hazardous products, are adequately disposed of with the assistance of verified recyclers.

Some continuing initiatives to reduce the consumption of electricity include optimising the efficiency of air conditioning units, guaranteeing that LED lights are used for lighting, procuring energy saving office equipment, and ensuring that existing equipment is outfitted with reliable energy saving technologies. These measures have seen marked results, with the Bank's aggregate consumption of electricity showing a continuing decline for the period under consideration.

GHG Emissions

We are reporting our greenhouse gas (GHG) emissions on a voluntary basis for the fifth consecutive year. The physical boundary remains the same as in the previous year.

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

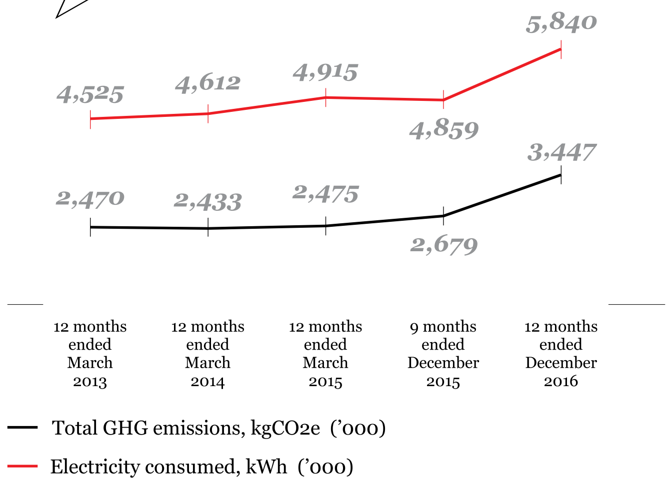
Carbon Footprint of the Bank

Scope	Source	GHG emissions 2016		2015	
		tCO_2e	%	tCO_2e	%
Scope 1 (direct)	Stationary combustion	**38.1**	**1.1**	0.2	0
	Mobile combustion	**117.3**	**3.4**	215.0	8.0
	Total Scope 1	**155.4**	**4.5**	215.2	8.0
Scope 2 (indirect)	Purchased electricity (CEB)	**1,032.3**	**30.0**	988.2	36.9
	Total Scopes 1 and 2	**1,187.6**	**34.5**	1,203.4	44.9
Scope 3 (indirect)	Stationary combustion	**102.4**	**3.0**	47.1	1.8
	Purchased electricity (CEB)	**2,132.8**	**61.9**	1,423.6	53.1
	Employee air travel	**24.0**	**0.7**	5.1	0.2
	Total Scope 3	**2,259.1**	**65.5**	1,475.9	55.1
	Total Scopes 1, 2 and 3	**3,446.8**	**100.0**	2,679.3	100.0

Note: Totals may not tally exactly due to rounding

The total GHG emissions during the period under review amounted to 3,447 tonnes carbon dioxide equivalent (tCO2e), an increase of 28.6% over the previous year.

Managing Our Environmental Impact



Indirect GHG emissions from purchased electricity was by far the single largest contributor, accounting for 30% of the total in respect of Bank-owned premises (2015: 37%) and another 62% of the total in respect of rented premises (2015: 53%), bringing its total share to 92% (2015: 90%).

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

Integration with Business Process

- Development and implementation of the Social and Environmental Management System (SEMS)

DFCC Bank is wholly dedicated to delivering sustainable financial solutions.

The Bank recognises that development projects possess social and environmental (S&E) risks. Much of these tend to be indirect and they arise from the provision of financial services for projects in sensitive sectors. Such projects may have tendencies to have unfavourable causalities on both society and environment, as well as expose the Bank to risks in the domains of liability, finance, reputation, credit and market.

The general public and other stakeholders, including funding agencies, are increasingly concerned about S&E issues linked to development projects. Therefore, compliance with environmental, social, health and safety standards is of paramount importance and ensures the continuity of a project.

The Bank manages S&E issues internally and externally by monitoring both existing and past projects financed by the Bank on a continuous basis.

With the intention of blending environmental and social prerequisites with project evaluation and follow-up activities, the Bank successfully developed and implemented a Social and Environmental Management System (SEMS).

Furthermore, during the year, the Bank participated at the Environmental and Social Management for Financial Institutions: CEO Round table 2015 – Sri Lanka, and pledged its commitment to adapt the 11 sustainable banking principles developed for Sri Lanka, in its operations.

- Winning two international Sustainability Awards

DFCC Bank was recognised by the Association of Development Financing Institutions in Asia and The Pacific (ADFIAP), winning a plaque of merit in recognition of its impact on development, by financing a coconut based production facility in Sri Lanka.

The Bank also won a certificate of merit under the Outstanding Sustainable Project Financing Category at the annual Global Sustainable Finance Conference in Karlsruhe, Germany. This was for financing a Bio-mass based, grid-connected, combined heat and power plant in Sri Lanka. These awards reflect exemplary success in long-term financing of industrial, commercial or infrastructure projects that benefit local communities and secure environmental protection, whist simultaneously ensuring consistent returns to investors and lenders.

Employee Awareness

Regular communication to employees on sustainability related aspects is conducted through various means which include:

- Circulation of the Sustainability thought for the day/week to all staff
- Featuring regular Eco articles on the weekly internal e-Newsletter
- Modules on the e-Learning portal
- Internal training on the subject

Supporting Environmental Initiatives

Initiation of the Tree Planting Campaign in June 2016

The Bank launched a tree planting campaign on World Environment Day on 05 June 2016. *Na* trees were planted at the Keththarama Temple in Colombo 10 as a part of this initiative. This was a joint effort in collaboration with Reforest Sri Lanka: a non-profit society dedicated to protecting and extending the natural forest cover of the country.

Similarly, the following day, a tree planting ceremony took place on the front lawn of the DFCC Bank Head Office premises in Colombo, with the participation of the CEO, Deputy CEO and senior management of the Bank.

Earth Hour 2016

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

Thus, the Bank switched off all signboard lights across branches nationwide on 19 March 2016 serving as an example to the wider community to adopt a more responsible attitude towards the environment.

e-Waste Drive at DFCC Bank

An e-Waste drive, initiated by the Sustainability Unit of DFCC Bank, was conducted successfully at the Bank's Head Office. In addition to the e-Waste generated by the Bank, staff also brought in e-Waste from their households for recycling.

The above was conducted in partnership with the Access Group. Through this process, the Bank continued to honour its adherence to the sustainable banking principle of regulating its environmental and social footprint.

The Sustainability Unit plans to make this a regular event and introduce this programme across the branch network.

DFCC Bank Enters into an MOU for Disposal of e-Waste

DFCC Bank entered into a Memorandum of Understanding (MOU) for disposal of e-Waste with Think Green (Pvt) Limited on 28 November 2016. This is another Green Banking initiative in line with the Sustainable Banking Principles that the Bank adheres to.

Think Green (Pvt) Limited is a Company approved by the Central Environment Authority (CEA) for collection and proper disposal of e-Waste. As per the agreement, Think Green (Pvt) Limited will collect e-Waste from the DFCC Bank Head Office and the offices located at Ramanayake Mawatha and Nawala for proper disposal/recycling.

This MOU is a joint effort to solve the damages caused by e-Waste to the environment and human health by practicing green compliance for sustainable management of electronic waste. Responsible recycling with no cost to the environment is the way forward to achieve this goal.

Awards and Accolades

Category	Awards	Project	Institution	Month
Local Economic Development	Merit	Coconut-based Product Facility in Sri Lanka	Association of Development Financing Institutions in Asia and the Pacific (ADFIAP)	May 2016
Outstanding Sustainable Project Finance Award	Certificate of Merit	Financing a Biomass-based Combined Heat and Power Plant	Global Sustainable Finance Conference, City of Karlsruhe, Germany	July 2016
Business Today – Top – 30	Position – 21	Corporate	Business Today Magazine	November 2016

Integrated Risk Management

Risk Culture and Vision

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

Credit risk amounts to the highest quantum of quantifiable risk faced by the Bank based on the currently effective quantification techniques. DFCC Bank PLC's credit risk accounted for 91% of risk-weighted assets. Additionally, the Bank takes necessary measures to proactively manage operational and market risk as very important risk categories. Operational risk incidents may be with high frequency but low impact or with low frequency but high impact all of which warrant being closely monitored and managed prudently.

The 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

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

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

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

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

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

E. Centralised integrated risk management function which is independent from the risk assuming functions.

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

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

H. Adoption of the principle of risk-based pricing.

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

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

K. Ensuring comprehensive, transparent and objective risk disclosures to the Board, corporate management, regulators, shareholders and other stakeholders.

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

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

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

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

Risk Governance

Approach of 'Three Lines of Defence'

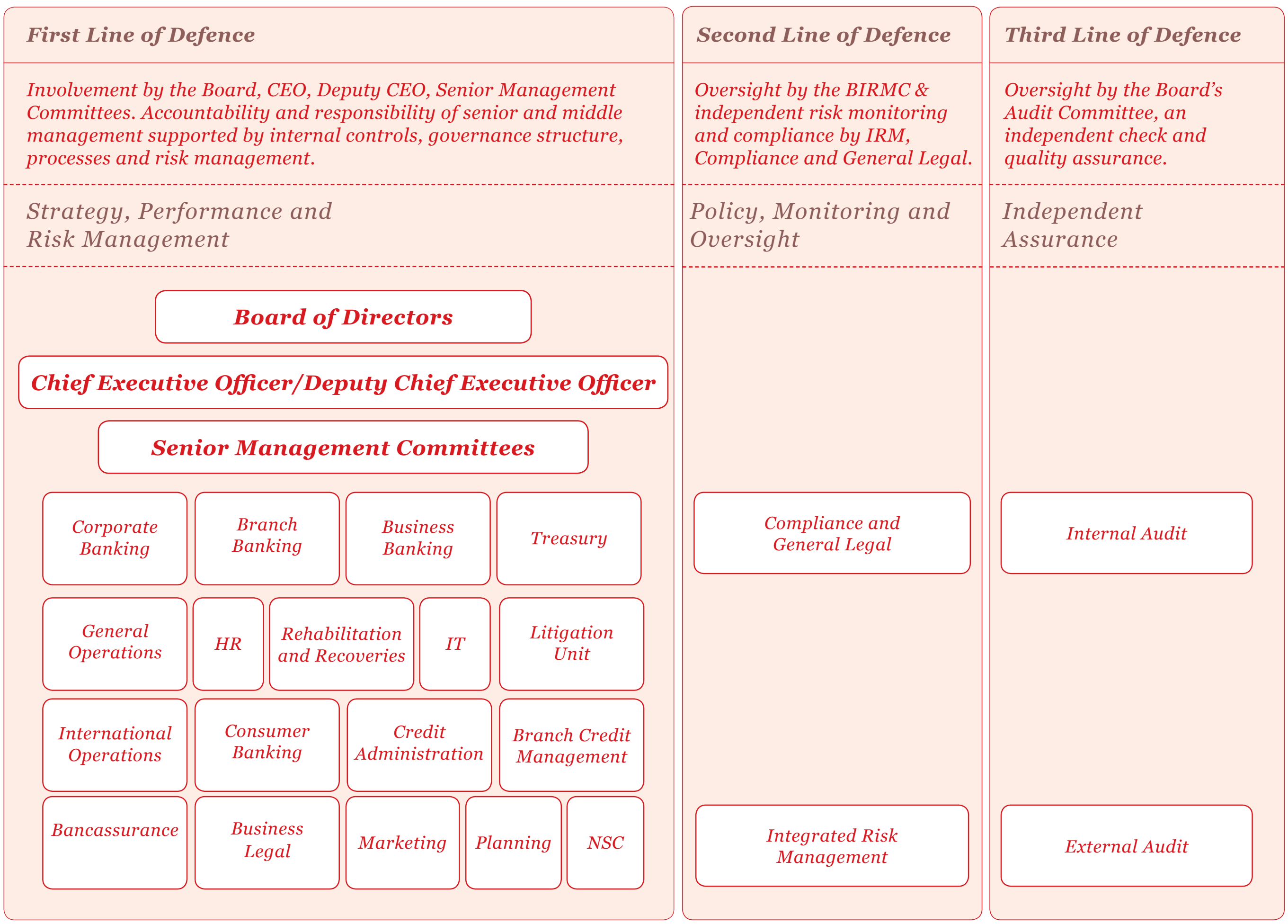
DFCC Bank PLC advocates strong risk governance applied pragmatically and consistently with a strong emphasis on the concept of 'Three Lines of Defence'. The governance structure encompasses accountability, responsibility, independence, reporting, communication and transparency, both internally and with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

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

Governance Structure for Risk Management in DFCC Bank PLC

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



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 the Bank in an integrated approach. This framework defines risk integration and the aggregation approaches for different risk categories. In addition, separate policy frameworks detail the practices for management of key specific risk categories such as credit risk, market risk, credit concentration risk, liquidity risk and operational risk. These policy frameworks are reviewed annually and 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 limits for prudential purposes. The Limits System forms a key part of the risk indicators and covers key risk areas such as credit, interest rate, liquidity, operational, foreign exchange, concentration and risk capital position amongst others. Lending limits cover the industry sectors and geographical regions as part of the prudential internal limits. These limits are monitored monthly and quarterly on a 'Traffic Light' system. These risk appetite limits are reviewed at least annually in line with the risk management capacities, business opportunities, business strategy of the Bank and regulatory specifications. Industry sector limits for the lending portfolio considers the inherent diversification within the sub-sectors and the borrowers within broader sectors.

Board Integrated Risk Management Committee (BIRMC)

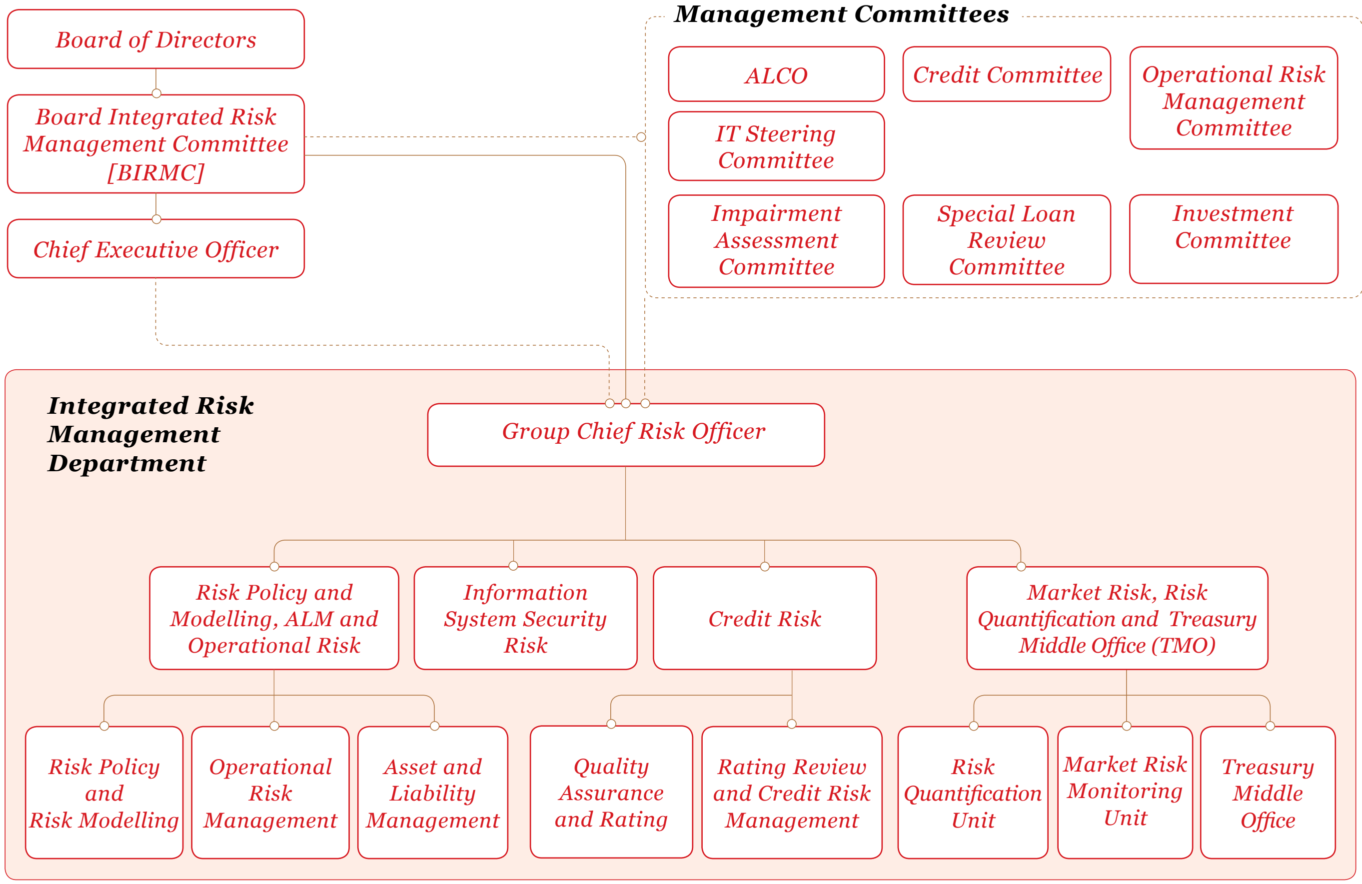
The BIRMC is a Board sub-committee, which oversees the risk management function and the provisions of Basel II and III implementation as required by the Regulator from time to time in line with Board-approved policies and strategies. The Central Bank has already implemented the liquidity standards (Liquidity Coverage Ratio) under Basel III while the minimum capital requirements including the Capital Conservation Buffer have been implemented on a phased in basis starting from 2017 up to 2019.

The BIRMC functions under the responsibilities set out in the Board-approved Charter for the BIRMC, which incorporates corporate governance requirements for Licensed Commercial Banks issued by the Central Bank of Sri Lanka (CBSL). BIRMC sets the policies for bank-wide risk management including credit risk, market risk, operational risk and liquidity risk. In addition to the Board representatives, the BIRMC consists of the CEO and CRO as members. Further, Heads representing Credit, Finance, Treasury, Information Technology and Operations attend the meeting as invitees. A summary of the responsibilities and functions of the BIRMC is given in the Report on the Board Integrated Risk Management Committee on page 118 of this Annual Report.

Involvement of Management Committees

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

Organisational Structure for Integrated Risk Management



The Integrated Risk Management Department (IRMD) is responsible for measuring and monitoring risk at operational levels on an ongoing basis to ensure compliance with the parameters set out by the Board/ BIRMC and other executive committees for carrying out the overall risk management function in the Bank. It consists of separate units such as Risk Policy and Modelling, Credit Risk Management and Quality Assurance, Market Risk Monitoring, Operational Risk Management, Risk Quantification, Information Systems Security Risk Monitoring and Treasury Middle Office. IRMD is involved with product or business strategy development or entering into new business lines and gives input from the initial design stage through to the task/ process from a risk management perspective.

Key Developments in Risk Management Function During the Period Under Review

Several significant initiatives were undertaken focusing continuously on regulatory developments and reassessing the Bank's existing risk management policies, guidelines and practices for necessary improvements. In addition to these regulatory specifications, changes in business strategy, industry factors and international best practices were also considered in the improvement process. The following are the key initiatives during the period under review which led to further improvements in the overall integrated risk management function:

Prudential risk limits were reviewed in order to reflect the current risk appetite of the Bank setting new limits wherever necessary. The Bank set new milestones to improve the Advances to Deposits Ratio and CASA Ratio, and targets were set in order to maintain adequate Liquid Asset Ratios.

All the Board approved risk management frameworks, charters and TORs were reviewed during the period especially considering the changes in new regulations and the Bank's business model.

Periodic validation of the credit rating models was carried out for better discriminatory power, while new scorecards were introduced for retail lending. As part of establishing an independent model validation process, the Bank has engaged the services of a foreign risk management consultancy firm to obtain an independent validation for its corporate banking and leasing rating models. This task was completed during the year and certain recommended improvements have been incorporated for the corporate rating model. Additionally, development of new models are in progress for new business areas the Bank intends to focus more on such as credit cards. A two dimensional scorecard catering to all types of personal financial services was developed during the year, which will replace the standalone models previously used.

The risk reporting process was improved during the period as per the requirements stated in ICAAP framework and the ICAAP document and process was formulated for the amalgamated bank. This involved assessing the required capital level for the Bank covering all types of risks under a certain stress level, forecasting of future capital levels and setting up of appropriate capital targets for the future. Based on the recommendations of the ICAAP process, the Bank issued a subordinated debt in November 2016, which will be eligible for Tier II capital and would also facilitate future planned lending growth and expansion without having undue pressure on total capital.

Treasury Middle Office (TMO) which is functionally segregated from the Treasury Department, directly reports to the Group CRO and monitors the Treasury-related market risk limits. The TMO uses a dashboard that facilitates the timely reporting of Treasury market positions independently to the Management. During the period, the dashboard was further improved to provide timely and more comprehensive information, including information on Government security portfolios, stress testing results and limit positions.

Commencing from 2014 and continuing in 2015, interest margins came under pressure with the sharp drop in the market rates, where lending rates dropped faster than the deposit rates. Scenario analysis and simulations by the ALM unit to assess the expected behaviour of interest margins enabled ALCO to take proactive measures to manage the erosion of margins. Looking at the trends in the market rates, ALCO proactively changed the pricing methods from fixed basis to variable basis, thus enhancing the net interest margins of the Bank in 2016. DFCC Bank PLC, being net asset sensitive to interest rate changes was able to improve the interest margins from mid 2015, with the increase in the market rates.

IRMD continued to calculate loss ratios for key lending products using historical recovery data in support of impairment assessment under IFRS. 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 in arriving at advance rates and interest rates for pawning products while managing the market and credit risk aspects.

As part of the risk management practices, the Bank computed the key credit risk quantification parameters such as Probability of Default (PD), Loss Given Default (LGD) and the loss ratios which are defined and recommended under the Basel II and IFRS. The results indicated improvements in the credit risk rating process, rating models, recovery process and the collateral quality in the Bank.

The credit workflow of the Bank was further improved during the year with the absorption of the Quality Assurance Unit under IRMD. The new workflow ensures that every credit proposal except for centrally processed retail loans is evaluated by an independent authority not connected to business lines, being either the Credit Risk Management Unit (CRMU) or the Quality Assurance Unit (QAU) of IRMD, based on the size of the accommodation and the approving authority.

Having duly recognised the global trend on increasing threats on systems and information security, the Bank increased its focus on IT systems security under its operational risk management practices. Staff awareness programmes on operational risk were held across the Bank on a regional basis especially for the newly appointed Operational Risk Co-ordinating Officers (ORCOs) while assigning specific reporting responsibilities to them. The Bank has strengthened the operational risk incident reporting system by implementing an online reporting mechanism through its intranet. The Bank is in the process of developing a model for Risk and Control Self-Assessment and Key Risk Indicators for operational risks across all functions and departments.

A new unit was formed in 2016 under the Integrated Risk Management Department to proactively manage the information security risk of the Bank. The Operational Risk Management Committee oversees the effectiveness of security initiatives and directs the management of information security risks within the Bank.

Management of Information Systems Security (ISS) Risk Under IRMD

The objectives of ISS risk management are to be compliant with regulatory and contractual requirements, establish best practices and information security governance across the Bank, align information security risk management with the Bank's corporate risk management objectives and preserve Confidentiality, Integrity and Availability (CIA) requirements in the organisation's information assets.

The ISS Risk Unit has taken up the following key responsibilities of the Information Security Management process at DFCC Bank PLC:

- Establish and manage the Information Security Management System (ISMS) based on ISO 27001:2013 security standards
- Identify security risks related to the Bank's information assets and propose/implement controls to maintain residual risks at acceptable levels
- Set and monitor information security KPIs and report the status of the indicators to the Information Security Steering Committee (ISSC) and ORMC
- Perform trend analysis on information security incidents and reporting, which are regularly reviewed at the ORMC and the BIRMC

The Bank has an established Information Security Management System which provides a systematic approach to managing sensitive company information. It includes people, processes and information systems by applying a risk management process.

The Bank became certified in ISO/IEC 27001:2013 standards for its IT operations in December 2016. The compliance audit was conducted and accredited by Bureau Veritas in conjunction with UKAS Management Systems.

External Credit Rating

During the period under review, the Bank's local currency rating of 'AA-' was maintained while Fitch Ratings downgraded the outlook from stable to negative.

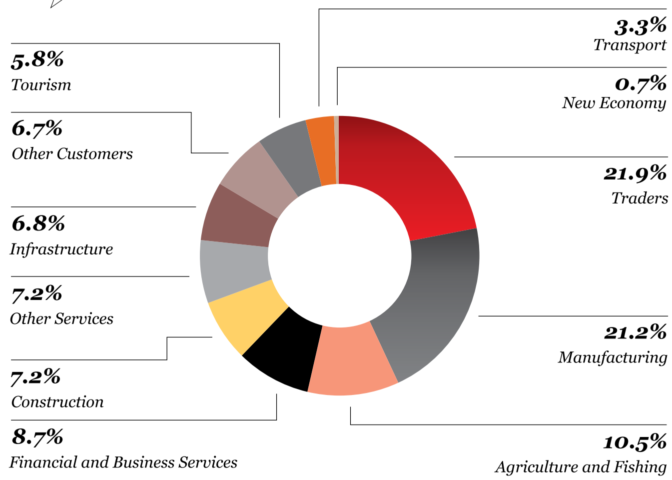
The Bank continued to maintain its foreign currency credit rating of B+ (stable outlook) by Fitch Ratings and B (stable outlook) assigned by Standard & Poor's. The sovereign rating of B+ assigned for the Government of Sri Lanka is the benchmark for the foreign currency rating of other institutions within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

Credit Risk

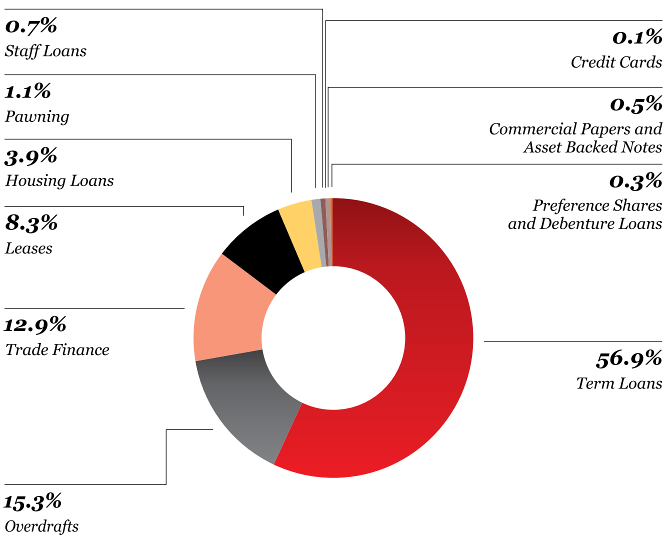
Credit risk is the risk of loss to the Bank if a customer or counterparty fails to meet its financial obligations in accordance with agreed terms and conditions. It arises principally from On-Balance Sheet Lending such as loans, leases, trade finance and overdrafts as well as through Off-Balance Sheet products such as guarantees and letters of credit. A deterioration of counterparty credit quality can lead to potential credit-related losses for a bank. Credit risk is the largest component of the quantified risk accounting for 91% of Risk-Weighted Assets of DFCC Bank PLC.

The challenge of credit risk management is to maximise the risk adjusted rate of return by maintaining the credit risk exposure within acceptable levels.

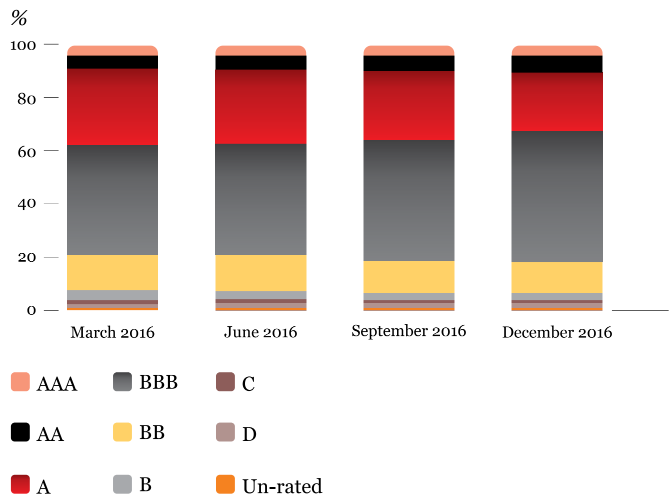
Sectorwise Portfolio Distribution



Product Composition

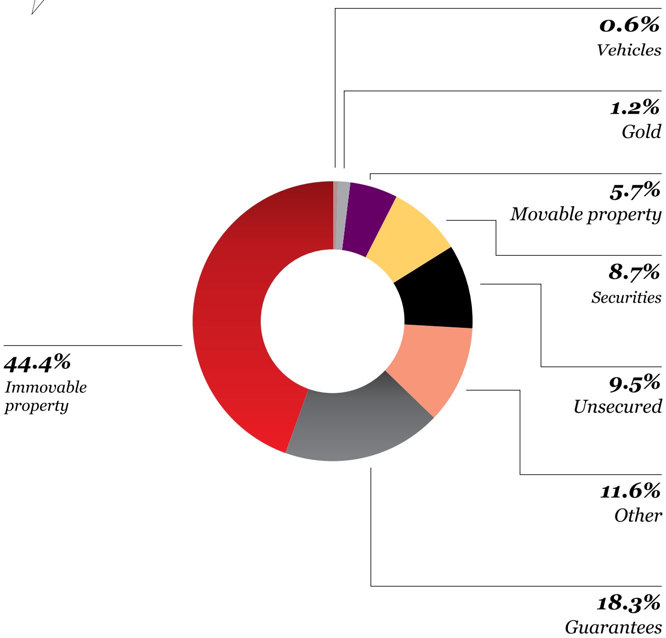


Rating Distribution of Portfolio



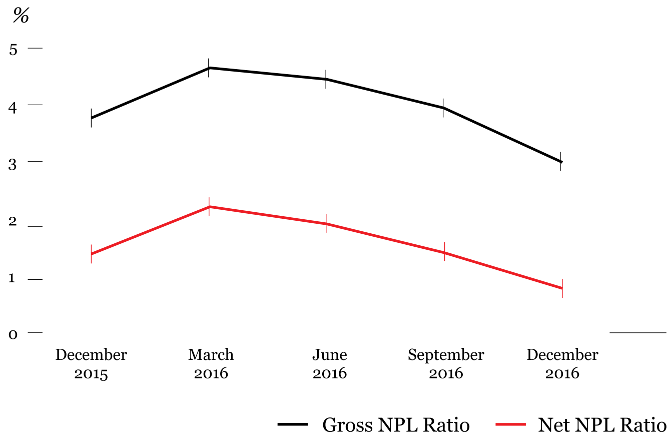
Note: *Includes overdrafts, loans, retail and housing loans, credit cards and leases.*

Collateral Distribution of Lending & OD Portfolio

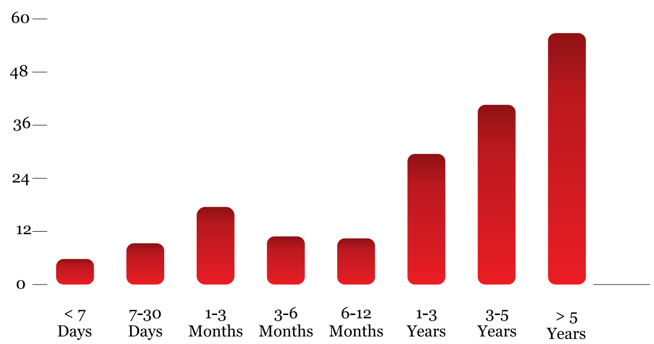


Note: *Collateral concentration in product categories of loans, ODs and pawning facilities are captured above. Leases, credit cards, investment securities and staff loans are excluded.*

Movement of NPL Ratios



Residual Maturity of Total Advances – LKR billion



Credit Risk Management Process at DFCC Bank PLC

The Bank's credit policies approved by the Board of Directors define the credit objectives, outlining the credit strategy to be adopted at the Bank. The policies are based on CBSL Direction on integrated risk management, Basel recommendations, business practices and risk appetite of the Bank.

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

Credit Risk Culture	→ Credit Risk Management Framework and Credit Policy → Governance structure and specific organisational structure for credit risk management → IRMD creates awareness of credit risk management through training programmes and experience sharing sessions
Credit Approval Process	→ Structured and standardised credit approval process as documented in the credit manual. The entire gamut of activities involving credit appraisal, documentation, funds disbursement, monitoring performance, restructuring and recovery procedures are described in detail in the manual which is 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 levels, as defined by risk rating and security type, loan size, proposed tenure, borrower and group exposure. IRM's involvement in independent rating reviews of borrowers above a defined threshold for credit proposals → CRO is an observer of the Credit Committee, evaluates credit proposals from a risk perspective → Risk-based pricing is practiced at the Bank, any deviations being allowed only for funding through credit lines and where strong justification is made due to business development purposes
Control Measures	→ Negative sectors and special clearance sectors are identified based on the country's laws and regulations, the Bank's corporate values and policies and level of risk exposure. Negative sectors are recognised as industry sectors to which lending is disallowed while special clearance sectors are industry sectors and credit products to which the Bank practices caution in lending → Exposure limits on single borrower, group exposure, and advisory limits on industry sectors, large group borrowers and selected geographical regions are set by the Board of Directors on recommendation of IRMD
Credit Risk Management	→ Timely identification of problem credits through product-wise and concentration analysis in relation to industries, specific products and geographical locations such as branches/regions/provinces → Industry reports/periodical economic analysis provide direction to lending units to identify profitable business sectors to grow the Group's portfolio and to identify industry-related risk sources and their impact → Evaluation of new products from a credit risk perspective → Post sanction review of loans within a stipulated time frame is in place in accordance with Loan Review Policy to ensure credit quality is maintained → Independent rating review by the Credit Risk Management Unit or the Quality Assurance Unit of IRMD ensures proper identification of credit quality at the time of credit origination and annual credit reviews

Credit Risk Monitoring and Reporting	→ Analysis of total portfolio in terms of NP movement, product distribution, industry sectors, Top 20 exposures, borrower rating distribution, branch-wise portfolio distribution and collateral distribution is carried out periodically and reported to BIRMC → Watch listing of clients with significant arrears and receiving feedback from regional offices on recovery action taken to regularise the position and information is disseminated to decision-makers on frequently watch-listed clients and their NP crossovers → Reporting quarterly to BIRMC on credit concentration risk positions with regard to regulatory limits such as single borrower and group exposure limits and internal advisory limits on industry sectors, large group borrowers and selected geographical regions as well as exposure based on credit rating grades → Monthly reporting on Top Key Risks to BIRMC and the Board
Credit Risk Mitigation	→ Borrower's ability to pay is the primary source of recovery, whereas collateral acts as the secondary source in the event borrower's cash inflow is impaired

Market Risk

Market risk is the possibility of losses arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, equity prices and commodity prices. As a financial intermediary, the Bank is exposed primarily to the interest rate risk and as an authorised dealer, the commercial banking business is exposed to exchange rate risk on foreign currency portfolio positions. Market risk could impact the Bank mainly in two ways: viz, Loss of cash flows or loss of economic value. Market risk can be looked at in two dimensions; as traded market risk, which is associated with the trading book and non-traded market risk, which is associated with the banking book.

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

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

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

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

Interest Rate Risk

Interest rate risk can be termed as the risk of loss in the net interest income (earnings perspective) or the net worth (economic value perspective) due to adverse changes in the market interest rates. The Asset and Liability Management (ALM) Unit routinely assesses the Bank's asset and liability profile in terms of interest rate risk and the trends in costs and yields are reported to ALCO for necessary realignment in the asset and liability structure and the pricing mechanism. ALM performed a number of scenario analysis and simulations on the effect of interest rate changes to the Bank's interest income during the year, to facilitate pricing decisions taken at ALCO.

Foreign Exchange Rate Risk

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

The Bank manages the foreign currency risk using a set of tools which includes limits for net unhedged exposures, hedging through forward contracts and hedging through creating offsetting foreign currency assets or liabilities. TMO monitors the end of the day NOP as calculated by the TBO and the NOP movement in relation to the spot movement. The daily inter-bank foreign currency transactions are monitored for consistency with preset limits and any excesses are reported to the management and to BIRMC.

The unhedged foreign currency exposure of the Bank is closely monitored and necessary steps are taken to hedge in accordance with the market volatilities. In October 2013, the Bank issued its debut foreign currency international bond of USD 100 million with an original maturity of five years. The Bank actively manages the exchange risk arising from a minor part of this transaction where a majority has been hedged with the Central Bank.

DFCC Bank has obtained approval from the Central Bank for its foreign currency borrowings and credit lines as per regulatory requirements. The Bank has commenced planning and evaluating options available for the repayment of the international bond due in 2018.

Indirect Exposures to Commodity Prices Risk – Gold Prices

The Bank's pawning portfolio amounted to LKR 2,110 million as at 31 December 2016, which was only 0.73% of total assets. The Market Risk Management Unit manages the risk emanating from Gold through constant analysis of the international and local market prices and adjusting the Bank's preferred Loan to Value (LTV) ratio.

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 price risk by the Bank arises from the trading and available-for-sale equity portfolios. Indirect exposure to equity price risk arises through the margin lending portfolio of the Bank in the event of crystallisation of margin borrowers credit risk. The Investment Committee of the Bank is responsible for managing equity portfolio in line with the policies and the guidelines set out by the Board and the BIRMC. Allocation of limits for equities taken as collateral for loans and margin trading activities of customers and for the Bank's investment/trading portfolio forms part of the tools for managing the equity portfolio. Rigorous appraisal, proper market timing and close monitoring of the portfolio performance in relation to the market performance facilitate the management of the equity portfolio within the framework of investment strategy and the risk policy.

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. The Bank has a well set out framework for liquidity risk management and a contingency funding plan. The liquidity risk management process includes regular analysis and monitoring of the liquidity position by ALCO and maintenance of market accessibility. Regular cash flow forecasts, liquidity ratios and maturity gap analysis are used as analytical tools by the ALCO. Any negative mismatches up to the next quarter revealed through cash flow gap statements are matched against cash availability either through incremental deposits or committed lines of credit. Whilst comfortably meeting the regulatory requirements relating to liquidity, for internal monitoring purposes, the Bank takes into consideration the liquidity of each eligible instrument relating to the market at a given point in time as well as undrawn commitments to borrowers when stress testing its liquidity position. The maintenance of a strong credit rating and reputation in the market enables the Bank to access domestic wholesale funds.
For short-term liquidity support the Bank also has access to the money market at competitive rates.

The CBSL Direction No. 07 of 2011 specifies that liquidity can be measured through stock or flow approaches. Under the stock approach, liquidity is measured in terms of key ratios which portray the liquidity in the Balance Sheet. Under the flow approach banks should prepare a statement of maturities of assets and liabilities placing all cash inflows and outflows in the time bands according to their residual time to maturity in major currencies. The Bank has adopted both methods in combination to assess liquidity risk. In line with the long-term project financing business, the Bank focuses on long-term funding through dedicated credit lines while its commercial banking business focuses on Current and Savings Accounts (CASA) and Term Deposits as the key source of funding for its lending. The structure and procedures for Asset and Liability Management at the Bank have been clearly set out in the Board approved ALCO Charter, which is reviewed on an annual basis.

The minimum liquidity standards (Liquidity Coverage Ratio) under Basel III was implemented from April 2015. Accordingly, banks were required to maintain an adequate level of unencumbered High Quality Liquid Assets (HQLAs) that can be easily and readily converted into cash to meet their liquidity needs for a 30-calendar day time horizon under a significantly severe liquidity stress scenario. The computations of LCR performed for the Bank indicated that the Bank was comfortably in compliance with the Basel III minimum requirement, shaving sufficient High Quality Liquid Assets well in excess of the minimum requirements specified by the Central Bank. (The minimum requirement is 70% of HQLAs to be maintained over the immediate 30-day net cash outflow for the year 2016.)

Operational Risk

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

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

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

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

- Monitoring of Risk and Control-Self Assessments (RCSA) and Key Risk Indicators (KRIs) for the functions under defined threshold limits using a 'Traffic Light' system
- Operational risk incident reporting system and 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 assessment of the reasons. The necessary risk and business impact is evaluated. Rectification measures are introduced when the tolerance levels are compromised
- Review of HR attrition and exit interview comments in detail including a trend analysis with the involvement of the IRMD. The key findings of the analysis are evaluated at the ORMC and the BIRMC in an operational risk perspective
- Reporting on grievances and investigation reports on Whistleblowing to ORMC
- Establishment of the Bank's complaint management process under the Board approved Complaints Management Policy. IRMD analyses the complaints received to identify any systematic issues and reports to ORMC
- Conduct product and process reviews in order to identify the operational risks and recommend changes to the product and related processes
- Evaluate the operational risks associated with any new product developments

Reputational Risk

Reputational risk is the risk of losing public trust or tarnishing of the Bank's image in the public eye. It could arise from environmental, social, regulatory or operational risk factors. Events that could lead to reputational risk are closely monitored, utilising an early warning system that includes inputs from frontline staff, media reports and internal and external market survey results. Though all policies and standards relating to the conduct of the Bank's business have been promulgated through internal communication and training, a specific policy was established to take action in case of an event which hinders the reputation. The Bank has zero tolerance for knowingly engaging in any business, activity or association where foreseeable reputational damage has not been considered and mitigated. While there is a level of risk in every aspect of business activity, appropriate consideration of potential harm to the Bank's good name is a part of all business decisions. The complaint management process and the Whistleblowing 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 Bank's medium term-strategic plan and annual business plan form a strategic road map for sustainable growth. Continuous competitor and customer analysis and monitoring of the macroeconomic environment enables the Bank to formulate its strategies for growth and business risk management. Processes such as Planning, ALM, IT and Product Development in collaboration with business functions facilitate the management of business risk through recognition, measurement and implementation of tasks. Business risk relating to customers is assessed in the credit rating process and is priced accordingly.

Legal Risk

Legal risk arises from unenforceable transactions in a court of law or the failure to successfully defend legal action instituted against the Bank. Legal risk management commences from prior analysis, and a thorough understanding of, and adherence to related legislation by the staff. Necessary precautions are taken at the design stage of transactions to minimise legal risk exposure.

In the event of a legal risk factor, the legal unit of the Bank takes immediate action to address and mitigate these risks. External legal advice is obtained or Counsel retained when required.

Compliance Risk

Compliance risk can be termed as the risk of legal or regulatory sanctions, financial losses or damage to the reputation of the Bank as a result of its failure to comply with all applicable laws, regulations, Codes of Conduct and standards of good practice. The Bank ensures that effective compliance policies and procedures are followed and appropriate corrective actions are taken to rectify any breaches of laws, rules and standards as and when identified. A robust compliance culture has been established within the Bank with processes and work flows designed with the required checks and balances to facilitate compliance. The compliance function works closely with the business and operational units to ensure consistent management of compliance risk.

Compliance is a key area of focus during the process of new product development and review. The Head of Compliance submits quarterly reports on the compliance status to 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 the Bank with regular training and knowledge sharing provided by internal as well as external experts in the area.

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

In response to international best practices and global standards, 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 the Know Your Customer (KYC) and Customer Due Diligence (CDD) processes, to identify and report suspicious transactions. The Bank has taken necessary measures to implement these regulatory and legislative requirements for AML and CTF. The steps taken in this regard include customer identification and verification, maintenance of records, ascertaining sources of funds, monitoring and maintenance of AML/CTF programmes. The customers of the Bank are subject to appropriate KYC/CDD measures.

Business Continuity Management

The Business Continuity Plan (BCP) of the Bank ensures timely recovery of critical operations that are required to meet stakeholder needs based on identified disruptions categorised into various severity levels. BCP has been designed to minimise risk to human resources and to enable the resumption of critical operations within reasonable time frames with minimum disruption to customer service and payment settlement systems. The DR 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 employees are fully aware of their role within the BCP.

DFCC Bank's Risk Capital Position and Financial Flexibility

The Bank adopts a proactive approach to ensure satisfactory risk capital level throughout its operations. In line with its historical practice and the capital targets, the Bank aims to maintain its risk capital position higher than the regulatory minimum requirements of 5% for Tier I and 10% for Total Capital under Basel II.

As at 31 December 2016, DFCC Bank PLC maintains a healthy risk capital position of 13.62%. core capital ratio and 17.09% total capital ratio based on the local regulatory guidelines. This demonstrates a cushion of about 8.62% and 7.09%, respectively, for Tier I and total capital over the minimum regulatory requirements

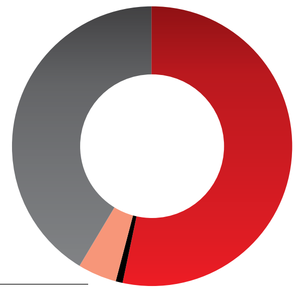
Capital Adequacy Management

Capital adequacy measures the adequacy of the Bank's aggregate capital in relation to the risk it assumes. The capital adequacy of the Bank 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

The graph below shows the Bank's capital allocation and available capital buffer as at 31 December 2016, based on the quantified risk as per the applicable regulatory guidelines. Out of the regulatory risk capital (total capital) available as at 31 December, capital allocation for credit risk is 53.39% of the total capital while the available capital buffer is 41.49%.

Capital Distribution



Capital Adequacy Ratio and Risk-Weighted Assets of DFCC Bank PLC on a Solo and Group Basis Under Basel II and Basel III

Quantified as per the CBSL Guidelines	31 December 2016		31 December 2015	
	Bank	**Group**	Bank	Group
Credit Risk Weighted Assets (LKR million)	**194,737**	**195,094**	169,201	169,547
Market Risk Weighted Assets (LKR million)	**3,169**	**3,169**	1,218	1,218
Operational Risk Weighted Assets (LKR million)	**15,512**	**16,252**	14,395	14,385
Total Risk Weighted Assets (LKR million)	**213,418**	**214,515**	184,814	185,150
Tier I Capital Adequacy Ratio – Basel II	**13.62%**	**14.60%**	14.26%	15.39%
Total Capital Adequacy Ratio – Basel II	**17.09%**	**17.47%**	14.88%	15.32%
CETI Capital Adequacy Ratio – Basel III	**13.80%**	**15.43%**		
Total Tier I Capital Adequacy Ratio – Basel III	**13.80%**	**15.43%**		
Total Capital Adequacy Ratio – Basel III	**18.11%**	**19.72%**		

Basel II Capital guidelines will be revoked by CBSL with the implementation of Basel III guidelines by mid 2017.

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

The capital forecast performed under the ICAAP process has indicated the ability of the Bank to maintain a comfortable level of capital cushion in the next few years.

Financial Flexibility in the DFCC Group's Capital Structure

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

Local Supervisory Background

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

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

B. CBSL Direction No. 11 of 2007 on the Corporate Governance of Licensed Banks in Sri Lanka. In this Direction, 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 Frameworks for banks and includes specific guidelines for the structure, quantification and management of risks taking an integrated approach

D. CBSL Direction No. 5 of 2013 – Supervisory Review Process (Pillar II of Basel II) for Licensed Commercial Banks and 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 banks will be recognised in eight 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 banks) under Basel III. These guidelines were implemented from April 2015 through the CBSL Direction No 1 of 2015 on Liquidity Coverage Ratio under Basel III Liquidity Standards for LCBs and LSBs

G. Guidelines on Stress Testing of Licensed Commercial Banks and Licensed Specialised Banks were released by the 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 Licensed Commercial Banks and Licensed Specialised Banks to increase their core capital (equity capital) to LKR 10 billion and LKR 5 billion respectively, commencing 1 January 2016. This new CBSL direction did not have an impact on DFCC Group

I. Consultative guidelines on implementation of Basel III, Minimum Capital Requirements and Leverage Ratio have been issued in June 2015. This consultation paper provided the proposed framework to implement the Basel III Minimum Capital Requirements across the banking sector with a view to further improving the quantity and quality of capital. Further, a second consultative paper was issued in November 2016 specifying requirements under all three pillars and having regard to the comments received from the banks on the first consultation paper. Accordingly, The Basel III capital regulations will continue to be based on the three mutually reinforcing pillars introduced under Basel II, i.e., minimum capital requirement, supervisory review process and market discipline, which are planned to be implemented on a phased manner by 2019. These requirements will be in force with effect from July 2017 as per Direction No. 1 of 2016.

Assessment of Integrated Risk

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

Risk Category	Impact	Key Risk Indicators	Statutory/Internal Limit	Position as at 31 Dec. 2016
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 assets)	Regulatory	Complied
		Capital Adequacy Ratio (Total capital as a percentage of total risk-weighted assets)	Regulatory	Complied
		Capital Adequacy Ratio (Tier I as a percentage of total risk-weighted assets) (Total capital as a percentage of total risk-weighted assets)	Internal	Complied
Concentration/ Credit Risk Management	When the credit portfolio is concentrated to a few borrowers or a few groups of borrowers with large exposures, there is a high risk of a substantial loss due to failure of one such borrower.	Single Borrower Limit – Individual (Amount of accommodation granted to any single company, public corporation, firm, association of persons or an individual/capital base)	Regulatory	Complied
		Single Borrower Limit – Group	Regulatory	Complied
		Aggregate large accommodation (Sum of the total outstanding amount of accommodation granted to customers whose accommodation exceeds 15% of the capital base/outstanding amount of accommodation granted by the Bank to total customers excluding the Government of Sri Lanka)	Regulatory	Complied
		Aggregate limits for related parties (Accommodation to related parties as per the CBSL Direction/Regulatory Capital)	Internal	Complied
		Exposure to agriculture sector (As per 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 and OD – Exposure in BB and below grades	Internal	Complied
		Loan and 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

Risk Category	Impact	Key Risk Indicators	Statutory/Internal Limit	Position as at 31 Dec. 2016
Liquidity Risk Management	If adequate liquidity is not maintained, the Bank will be unable to fund the Bank's commitments and planned assets growth without incurring costs or losses.	Liquid Asset Ratio for DBU (Average monthly liquid assets/total monthly liabilities)	Regulatory	Complied
		Liquid Asset Ratio for FCBU	Regulatory	Complied
		Liquidity Coverage Ratio (All currencies and Rupee only)	Regulatory	Complied
Market Risk Management		Forex Net Open Long Position	Regulatory	Complied
		Forex Net Open Short Position	Regulatory	Complied
		Limit for counterparty Off-Balance Sheet Market Risk	Internal	Complied
		Net interbank borrowing exposure	Internal	Complied
		Limit for settlement risk arising from market risk	Internal	Complied
		Max holding period for trading portfolio	Internal	Complied
		Treasury trading securities portfolio	Internal	Complied
Investment Risk		Equity exposure – Individual (Equity investment in a private OR public company/Capital funds 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 funds of the Bank)	Regulatory	Complied
		Aggregate equity exposure in private companies (Aggregate amount of equity investments in private companies/capital funds of the Bank)	Regulatory	Complied
		Aggregate equity exposure in private and public companies (Total investments in private and public companies/capital funds of the Bank)	Regulatory	Complied
		Equity exposure (Equity exposure as a percentage of Total Lending Portfolio plus Securities Portfolio)	Internal	Complied
		Equity exposure in each sector	Internal	Complied
		Single equity exposure	Internal	Complied
Operational Efficiency		Cost to income ratio (Solo) – Operational Cost/Operational Income	Internal	Complied

Risk Category	Impact	Key Risk Indicators	Statutory/Internal Limit	Position as at 31 Dec. 2016
Operational Risk	Adequately placed policies, processes and systems will ensure and mitigate against excessive risks arising. This will result in the stability of the Bank.	Reputation risk of the Bank and Group (Zero risk appetite)	Internal	Complied
		Significant regulatory breaches (Zero risk appetite)	Internal	Complied
		Inability to recover from business disruptions over and above the Recovery Time Objectives (RTO) as defined in the BCP of the Bank (Zero risk appetite)	Internal	Complied
		Mis-selling of financial products and services (Zero risk appetite)	Internal	Complied
		Failure to undertake risk-based customer due diligence (Zero risk appetite)	Internal	Complied
		Internal fraud (Zero tolerance for losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or bank policy, excluding diversity/discrimination events, which involves at least one internal party)	Internal	Complied
		External fraud (Very low appetite for losses due to act of a type intended to defraud misappropriate property or circumvent laws, by a third party)	Internal	Complied
		Employee practices and workplace safety (Zero appetite for losses arising from acts inconsistent with employment, health or safety laws or agreements from payment of personal injury claims, or from diversity/discrimination events)	Internal	Complied
		Client products and business practices (Zero risk appetite for losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements) or from the nature or design of a product)	Internal	Complied
		Damage to physical assets (Very low appetite for loss arising from loss or damage to physical assets from natural disaster or other events)	Internal	Complied
		Business disruption and systems failures (Very low appetite for business disruptions/system failures for more than 30 minutes during service hours)	Internal	Complied
		Execution, delivery and process management (Very low appetite for losses from failed transaction processing or process management)	Internal	Complied

Corporate Governance

Good corporate governance is a mechanism that harmonises the interests of a wide range of stakeholders of an institution, while contributing to sustainable growth by attracting outside sources of capital. The corporate governance practices of DFCC Bank PLC (Bank) are in accordance with the Board approved Corporate Governance Charter of the Bank. During the year, the Governance Charter of the Bank was reviewed and revised as required. The Board also formally adopted a Code of Conduct for Directors.

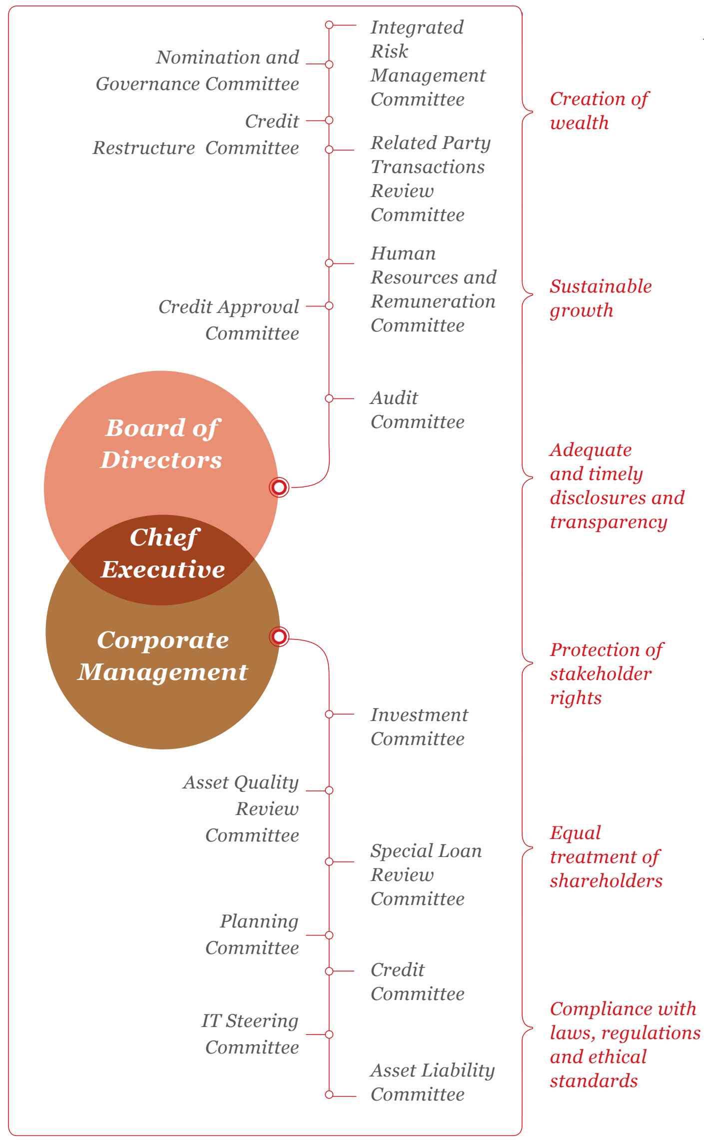
The Bank practices high standards of corporate governance based on the OECD principles of good governance. OECD principles of good governance are based on the following six guidelines:

- Promoting transparency, being consistent with laws and clearly articulating division of responsibilities
- Protecting and facilitating the exercise of shareholder rights and ensuring equitable treatment of all shareholders
- Exercising due diligence and responsibility in capital market operations
- Recognising the rights of stakeholders and encouraging co-operation between stakeholders in creating wealth and sustainability
- Timely and accurate disclosure on all material matters regarding the 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

During the year, Terms of Reference of the Board Nomination Committee was enhanced and the Committee was renamed as the Nomination and Governance Committee.

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

Our Goals of Good Corporate Governance



Permanent Board Committees as at 31 December 2016

Board Committees

- Audit Committee
- Human Resources and Remuneration Committee
- Nomination and Governance Committee
- Integrated Risk Management Committee
- Credit Approval Committee
- Credit Restructure Committee*
- Related Party Transactions Review Committee

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

Name of Director	Attendance of Directors at Meetings: Main Board	Audit Committee	Human Resources and Remuneration Committee	Nomination and Governance Committee	Integrated Risk Management Committee	Credit Approval Committee	Related Party Transactions Review Committee
Total No. of Meetings	13	14	5	5	4	12	9
H A Ariyaratne	3/3				1/1		
K D N R Asoka	12/13	11/14			2/2		
A W Atukorala	8/8		4/4	1/1		6/7	
K P Cooray	12/13			5/5		11/12	8/9
T Dharmarajah	13/13	14/14				12/12	9/9
A R Fernando	13/13				4/4		8/9
P M B Fernando	13/13	14/14		5/5	4/4		
A N Fonseka	7/7				2/2		
C R Jansz	13/13		5/5	5/5	2/2	12/12	9/9
Ms V J Senaratne	13/13		5/5				
L H A L Silva	12/13						
Ms S R Thambiayah	12/13		1/1				
L N de S Wijeyeratne	13/13	11/14			4/4		

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

The Bank has procedures to promptly disseminate price sensitive information and trading in shares by the Directors to the CSE as required by the Listing Rules. In instances where this is not possible, the Head of Compliance/Chief Financial Officer advises closed periods for trading in Bank's shares by employees and Directors. During the year, the Board formally adopted a Statement of Policy Prohibiting Insider Trading. As a general rule, the period after the end of each quarter up until two market days after the financial information is released, is treated as closed periods. Procedures are in place to detect any violations.

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

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

Annual General Meeting

The Annual General Meeting of the Bank is normally 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 December 2016 published in terms of Section 3 (1) (xvi) of the Banking Act Direction No. 11 of 2007

Rule	Governance Principle	Compliance	Remarks
3.1	**Responsibilities of the Board**		
3.1 (i)	Safety and soundness of the Bank The Board has strengthened the safety and soundness of the Bank through the implementation of the following:		
	(a) Strategic objectives and corporate values	Compliant	The Bank sets its strategic objectives and goals through the Annual Business Plan which is approved by the Board. These goals and the corporate values approved by the Board are communicated to the business units and other staff. The corporate values are posted on the internal web and all employees are guided by these values.
	(b) Overall business strategy	Compliant	The Bank's strategic plan for the medium term was approved by the Board in February 2016. The Board engages in the strategic planning and control of the Bank by overseeing the formulation of business objectives and targets, assessing risks by engaging qualified and experienced personnel,delegating them with the authority for conducting operational activities and monitoring the performance through a formal reporting process.
	(c) Principal risks	Compliant	The identification of principal risks, approving of overall risk policy and risk appetite is carried out through the Board Integrated Risk Management Committee and reviewed annually.
	(d) Communication with stakeholders	Compliant	The Board approved Corporate Communications Policy ensures that information is made available to shareholders and other stakeholders through timely disclosures made to the Colombo Stock Exchange (CSE), by publicity through the press and electronic media and posts on the Bank's website. The Bank has an internally developed code of conduct for its employees which is posted on the internal web and is accessible by all employees.

Rule	Governance Principle	Compliance	Remarks
	(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 122. The Independent Assurance Report by the External Auditor on the Directors Statement on Internal Control is given on page 124.
	(f) Key Management Personnel (KMP)	Compliant	The Board has identified and designated its Key Management Personnel.
	(g) Authority and responsibility	Compliant	Areas of authority and key responsibilities of Directors have been set out in the Corporate Governance Charter which has been adopted by the Board. The Board has also identified matters specifically reserved for the Board. The duties and responsibilities of other KMPs are formally documented in their job descriptions. Delegation of authority levels for KMPs have also been clearly specified in Board approved circulars.
	(h) Oversight of the affairs of the Bank by KMPs	Compliant	Oversight is exercised through Board Committees, reporting to the Board as appropriate. Policies and decisions of the Board requiring appropriate follow up are communicated by the Board Secretary to the relevant KMPs. Minutes of relevant management committee meetings headed by CEO are submitted to the Board for information. KMPs are called upon to clarify matters and make presentations on matters within their purview at the monthly Board meetings.
	(i) Board's own governance practices	Compliant	An annual self-assessment is carried out on a structured format where the Directors submit their individual responses direct to the Company Secretary. The responses are collated by the Company Secretary and submitted to the Board. The effectiveness of the Board's own governance practices are reviewed by the Board 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 by the Nomination and Governance Committee and approved by the Board.
	(k) Regular meetings with KMPs to monitor progress	Compliant	Meetings are attended by relevant executives when required. Additional information sought by Directors on papers submitted to the Board is clarified by the respective officers. The Board has free access to senior management. During the year, a few business initiative Board Committees were formed in order to drive key business areas relating to CASA, lending, SME business, investments and media & branding, where the members of the Board met KMPs on a regular basis to discuss the status of implementation of identified strategies.
	(l) Regulatory environment	Compliant	The Board Secretary provides all regulatory information required to the Board members. The Chief Executive Officer (CEO) briefs the Board on specific issues. Senior management maintains continuous dialogue with the Regulator to ensure an effective relationship.
	(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 CEO. While the Chairman provides leadership to the direction, oversight and control process exercised by the Board, the CEO is responsible for management of the Bank.
3.1 (iii)	Board meetings	Compliant	The Board held 13 Board meetings during the year. The Directors actively participated in the Board's decision-making process as evident from the Board minutes. Seeking approval of the Board by disseminating of circulars was done only in exceptional circumstances due to urgency.

Rule	Governance Principle	Compliance	Remarks
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 suggest 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 seven 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 start 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 98.
3.1 (vii)	Duties and qualifications of the Company Secretary	Compliant	The Company Secretary possesses the qualifications specified in Section 43 of the Banking Act. The Company Secretary while performing the secretariat services 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 meetings 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 and the Secretary. Copies of minutes are provided and Directors have access to the original minutes at all reasonable times.
3.1 (x)	The form and contents of the minutes of Board meetings	Compliant	The Board minutes are drawn with reference to Board Circulars with sufficient details to indicate the decisions made by the Board of Directors. The information used in making such decisions, the reasons and rationale of making them and each Director's contribution, if considered material, is included in the minutes.
3.1 (xi)	Independent professional advice on request for Directors to perform their duties	Compliant	The Board has put in place a procedure where the Directors can obtain independent professional advice, at the Bank's expense, to perform their duties.
3.1 (xii)	The Directors' avoidance of conflict of interest	Compliant	The Companies Act No. 07 of 2007 require Directors who are directly or indirectly interested in contracts or a proposed contract with the Bank to declare the nature of such interest. The Directors have declared their interests in contracts involving the Bank and have not participated in the decision-making.
3.1 (xiii)	Schedule of matters reserved for the decisions of the Board	Compliant	Schedule of matters reserved for the Board have been decided on.
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 under review, 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.

Rule	Governance Principle	Compliance	Remarks
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 performances of the respective committees are also evaluated by the other members who are not members of the respective 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 the CEO is given in 3.5 (xi).
3.2 Composition of the Board			
3.2 (i)	Number of Directors	Compliant	The Board of Directors comprised eleven Directors at the end of the year 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 CEO and the Deputy CEO are the only Executive Directors of the Board.
3.2 (iv)	Number of Independent Directors	Compliant	There were six Independent Directors at the end of the year under review.
3.2 (v)	Alternate Directors to represent Independent Directors	Compliant	Persons who are appointed as Alternate Directors to existing Independent Directors of the Board are subject to the same criteria applicable to such Directors. During the year, Independent Directors did not appoint any Alternates.
3.2 (vi)	The skills, experience and track records of Non-Executive Directors	Compliant	Non-Executive Directors who held office had professional backgrounds, strong track records and high level managerial experience in banking, business, industry, law, or auditing.
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)	Appointments of new Directors	Compliant	Appointments of new Directors are formally evaluated by the Nomination and Governance 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 details of retirement/resignation of Directors from office during the year under review are given in the Directors Report. No Director was removed during the year under review. There were no matters that needed to be brought to the attention of the shareholders as a consequence of the resignation of A N Fonseka and A W Atukorala since each of them resigned due to their personal wish.
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.
3.3 Fitness and Propriety of Directors			
3.3 (i)	Maximum age of Directors	Compliant	All Directors who reached the age of 70 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 CEO are two separate individuals.
3.5 (ii)	The Chairman to be a Non-Executive Director	Compliant	The Chairman is a Non-Executive Director. The Board appointed an Independent Director as the Senior Director as disclosed in the Annual Report. The Board has approved Terms of Reference for the Senior Director.
3.5 (iii)	Disclosure of relationship between the Chairman, CEO and other Directors	Compliant	No relationships exist between the Chairman, CEO and the other Directors according to the declarations made by them except being Directors of subsidiaries, and the Chairman and one other Director being on the Board of two companies outside the Group.
3.5 (iv)	Role of the Chairman	Compliant	The Chairman provides leadership to the Board and ensures that the Board discharges its responsibilities effectively. The Chairman 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/Deputy CEO to maintain a dialogue with institutional investors and to bring any matters of concern to the notice of the Board. The Communications Policy approved by the Board includes a provision for communication with shareholders.
3.5 (xi)	CEO to be in charge of the management of operations and business	Compliant	The CEO is the Head of the management team and is in charge of 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 113.
	(a) Chairman of the Committee	Compliant	During the year under review, 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 the External Auditor and assists in the general oversight of financial reporting, internal controls and compliance with laws, regulations and codes of conduct. The Committee ensures that the engagement of the audit partner does not exceed five years.
	(d) Independence and effectiveness of the audit process	Compliant	The Committee reviewed the statement issued by the External Auditor pursuant 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 the External Auditor to perform non-audit services is in place.
	(f) Nature and Scope of external audit	Compliant	The Committee met with the External Auditor to discuss and finalise the scope of the audit to ensure that it is in compliance with guidelines issued by the Central Bank of Sri Lanka.
	(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 December 2016.
	(h) Meetings with External Auditor	Compliant	The Committee met with the External Auditor on five occasions and at two meetings without the presence of the management.
	(i) Review of Management Letter	Compliant	The Committee considered the Management Letter issued by the External Auditor for the period ended 31 December 2015 and the management responses thereto.
	(j) Internal audit function	Compliant	The Committee reviews the adequacy of the internal audit function to ensure that it is in conformity with the Audit Committee Charter. The annual audit plan is approved by the Committee. The plan covers the scope and resource requirement. The annual performance appraisal of the Head of Internal Audit and the senior staff members are reviewed by the Committee. The Committee was apprised of the resignation of the former Head of Internal Audit and the Committee recommended to the Board the appointment of the new Head of Internal Audit. 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	Vice President – Internal Audit attends all Committee meetings. CEO, Deputy CEO, CFO, other Heads of units and 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 Executive Directors.
	(m) Terms of Reference	Compliant	The Committee is guided by the Audit Committee Charter.
	(n) Meetings	Compliant	During the financial year-ended 31 December 2016, 14 meetings were held. Attendance of Committee members is given in the table on page 98.
	(o) Audit Committee activities	Compliant	Please refer Committee Report on page 113.
	(p) Secretary	Compliant	Vice President –Internal Audit serves as the Secretary of the Committee.

Rule	Governance Principle	Compliance	Remarks
	(q) Process of raising issues in confidence	Compliant	The Board has adopted a Whistleblowing Policy to encourage employees to communicate legitimate concerns on any illegal or unethical practices. Arrangements are in place to ensure that all employees are duly informed of the effective use of this process.
3.6 (iii)	Board Human Resources and Remuneration Committee		Please refer page 116.
	(a) Remuneration Policy	Compliant	A formal Remuneration Policy approved by the Board is in place.
	(b) Goals and targets for KMPs	Compliant	The business plan which is approved by the Board encompasses the annual goals and targets of the CEO and other Key Management Personnel.
	(c) Review of performance of KMPs	Compliant	The Committee annually reviews the performance against the set targets of the CEO and other KMPs and the remuneration levels of the CEO and other KMPs, while ensuring appropriate compensation levels are maintained in order to retain and motivate staff.
	(d) CEO's presence	Compliant	The CEO attends meetings by invitation and participates in deliberations except when matters relating to him are discussed.
3.6 (iv)	Board Nomination and Governance Committee		Please refer page 117.
	(a) Appointment of new Directors and KMPs	Compliant	During the year, the Committee considered and recommended to the Board the appointment of one new Director and candidates to fill key management positions.
	(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 44 and 46 (ii) while ensuring that they are fit and proper persons to hold such office.
	(c) Criteria relating to appointment of KMPs	Compliant	The Committee evaluates the qualifications, experience and key attributes required for eligibility for appointment of KMPs.
	(d) Fit and proper test	Compliant	The fitness and propriety of KMPs are monitored by the Committee.
	(e) Succession planning	Compliant	The Committee evaluates the need for additional/new expertise to the Board and succession for retiring KMPs.
	(f) Composition	Compliant	The Committee consists of three Non-Executive Directors and is chaired by an Independent Director.
3.6 (v)	Board Integrated Risk Management Committee (BIRMC)		Please refer page 118.
	(a) Composition	Compliant	Please refer page 118.
	(b) Assessment of risk	Compliant	The Committee has put in place a Board approved risk framework. The risk exposures of the Bank are assessed on a monthly basis through Key Risk Indicators. The risk assessment of subsidiaries, joint venture and the associate are reviewed quarterly.
	(c) Review of Adequacy of Management Committees	Compliant	The Committee assesses 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 with regard to any officer responsible for failure to identify specific risks, and appropriate corrective action is taken to remedy such situations.

Rule	Governance Principle	Compliance	Remarks
	(g) Submission of Risk Assessment Reports to the Board	Compliant	By submitting BIRMC minutes, the Board is informed of proceedings. The required approvals are obtained through specific submissions to the Board.
	(h) Compliance function	Compliant	The compliance function is headed by a dedicated officer identified as a KMP in terms of the Corporate Governance Direction. The Compliance Officer reports to the BIRMC. The Committee overseas the function and reviews the quarterly reports on compliance.
3.7 Related Party Transactions			
3.7 (i) to (iii)	Avoidance of conflicts of interest and favourable treatment in transactions with related parties	Compliant	The Bank has adhered to the law as specified in the Banking Act and the Directions issued thereunder with regard to transactions with related parties. The Board ensures that no related party benefits from any favourable treatment except as indicated in 3.7 (vi). A Related Party Transactions Review Committee was established by the Board to be effective from 1 January 2016. During the year, the Board also formally adopted a Policy on Related Party Transactions. 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 granted to Directors or their close relations	Compliant	The Bank complies with the law as specified in the Banking Act and the Directions issued thereunder 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 granting 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 granted to employees, close relations of employees and/or entities in which any employee or close relation of such employee holds substantial interest are subject to normal commercial terms applicable to such transactions and secured by security approved by the Monetary Board except in the case of accommodation under approved schemes, uniformly applicable to all or specific categories of employees.
3.7 (vii)	Not to remit part of accommodation or interest without prior approval of Monetary Board	Compliant	No such situation has arisen.

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

(i) The Board shall ensure that:		
	The annual audited financial statements and quarterly financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and 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 131.

<table>
<tr><td>(b)</td><td>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.</td><td>Complied with. Please refer to the Directors' Statement of Internal Control on page 122.</td></tr>
<tr><td>(c)</td><td>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.</td><td>Complied with. Please refer Assurance Report of the External Auditor on page 124.</td></tr>
<tr><td>(d)</td><td>Details of Directors, including names, fitness and propriety, transactions with the Bank and the total fees/remuneration paid by the Bank</td><td>Complied with. Please refer to pages 12, 13 and 109 and Note 55.6 to the financial statements.</td></tr>
<tr><td>(e)</td><td>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</td><td>Complied with.
<table>
<tr><td></td><td colspan="2">31 December 2016</td></tr>
<tr><td>Category of related party</td><td>LKR 000</td><td>%</td></tr>
<tr><td>Key Management Personnel and close family members</td><td>35,393</td><td>0.1</td></tr>
<tr><td>Total net accommodation</td><td>35,393</td><td>0.1</td></tr>
<tr><td>Regulatory capital – Solo basis</td><td>36,340,233</td><td></td></tr>
</table>
The total net accommodation was 0.1% of the Bank's regulatory capital on solo basis. Maximum limit determined by Directors is 25% of the Bank's regulatory capital on solo basis.</td></tr>
<tr><td>(f)</td><td>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.</td><td>Complied with.
The aggregate value of compensation and transactions with the Bank by Key Management Personnel as defined by LKAS 24 for financial reporting purposes are given in Note 55.6 to the financial statements.

Further, in addition to the above, compensation, total deposits and investments made and accommodation obtained as at 31 December 2016 by the other Key Management Personnel (officers performing executive functions referred to in Banking Act Determination No. 3 of 2010) amounted to LKR 97.44 million, LKR 109.52 million and LKR 26.13 million respectively.</td></tr>
<tr><td>(g)</td><td>All findings of the 'Factual Findings Report' of the External Auditor to be incorporated in this Report.</td><td>Complied with.</td></tr>
<tr><td>(h)</td><td>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.</td><td>Complied with. See Annual Report of the Board of Directors.</td></tr>
<tr><td>(i)</td><td>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.</td><td>The Monetary Board has not required any disclosure to be made.</td></tr>
</table>

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 on 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 on the Colombo Stock Exchange with the name 'DFCC Bank PLC'.

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

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

Going Concern

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

Financial Statements

The financial statements of the Bank and the Group are given on pages 135 to 220 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.

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 December 2016	LKR 000
Profit for the period	3,288,723
Appropriations	
Transfer to:	
Reserve Fund (statutory requirement)	170,000
First and final dividend approved for financial year ended 31 December 2016	1,192,940
Unappropriated profit for the period	1,925,783

Accounting Policies

The accounting policies adopted in the preparation of the financial statements of the Bank and the Group are stated on pages 144 to 220 of the Annual Report.

There were no changes to the accounting policies of the Group in the year under review.

Auditors' Report

The Auditors' Report on the financial statements, which is unqualified, is given on page 134.

Reappointment of Auditors

The present Auditors, Messrs KPMG have expressed their willingness to continue as Auditors of the Bank for the next financial year-ending 31 December 2017. 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 Auditor's, they have no relationship or interest with the Bank or with any of its subsidiaries which would impair the Auditor's independence. A Resolution pertaining to their reappointment and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting for adoption.

The Board of Directors

The Board of Directors of the Bank presently consist of 11 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 12 to 13. The following were the Directors of the Bank as at 31 December 2016 categorised in accordance with criteria specified in the Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka:

Non-Executive Directors

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

Independent Non-Executive Directors

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

Executive Directors

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

**Appointment in terms of Article 46 (ii) of the Articles of Association*

K D N R Asoka represents a specific stakeholder and as such does not qualify to be designated as an Independent Director. C R Jansz and Ms V J Senaratne also do not meet the criteria set out in the Direction to be designated as Independent Directors by virtue of the fact that Mr Jansz and Ms Senaratne are common Directors of two companies outside the Group.

Senior Director

P M B Fernando has been designated as the Senior Director in terms of Central Bank of Sri Lanka Direction on Corporate Governance.

Resignation and Retirement of Directors

A N Fonseka and A W Atukorala resigned from the Board with effect from 9 July 2016 and 25 August 2016 respectively.

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

Appointment and Re-election of Directors

H A Ariyaratne was appointed a Director with effect from 12 October 2016. H A Ariyaratne will retire in terms of Article 46 (ii) of the Articles of Association and is offering himself for re-election at the Annual General Meeting. The Nomination and Governance Committee has recommended his re-election and the Board having concluded that he is a fit and proper person to be a Director in terms of the provisions of the Banking Act, unanimously endorsed the recommendation of the Nomination and Governance Committee.

Retirement by Rotation and Re-election of Directors

The Directors retiring by rotation in terms of Article 44 of the Articles of Association are K P Cooray and Ms S R Thambiayah, who offer themselves for re-election under the said Article with the unanimous support of the Directors.

Directors' Remuneration

The Directors' remuneration in respect of the Bank and the Group for the financial year-ended 31 December 2016 is given below.

	Year-ended 31 December 2016	Nine Months Ended 31 December 2015
Bank	**68,748**	48,690
Group	**90,223**	95,107

Directors' Meetings

The Bank held 13 Board meetings during the year. The attendance of Directors is shown in the Table on page 98 of the Annual Report.

Directors' Interests in Shares

	No. of Shares as at 31 December 2016	No. of Shares* as at 31 December 2015
H A Ariyaratne[1]	**102,710**	–
K D N R Asoka	**Nil**	Nil
A W Atukorala[2]	–	14,500
K P Cooray	**Nil**	Nil
T Dharmarajah	**500**	500
A R Fernando	**4,470**	4,470
P M B Fernando	**1,000**	1,000
A N Fonseka[2]	–	142,006
C R Jansz	**1,000**	1,000
Ms V J Senaratne	**1,296**	1,296
L H A L Silva	**3,476**	3,476
Ms S R Thambiayah	**Nil**	Nil
L N de S Wijeyeratne	**Nil**	Nil

[1] Not a Director as at 31 December 2015
[2] Not a Director as at 31 December 2016

** Includes shares held by the spouse.*

Directors' Interests in Debentures

	31 December 2016 LKR 000	31 December 2015 LKR 000
A R Fernando	**Nil**	5,000
L H A L Silva	**2,000**	Nil

No Director directly or indirectly holds options of the Bank.

Directors' Interests Register

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

Directors' Interests in Transactions with the Bank

The Directors' interests in transactions with entities/ persons (other than subsidiaries, the joint venture and associate) is listed under each Director for the year-ended 31 December 2016 and are as follows:

	LKR '000
A R Fernando	
Aggregate amount of accommodation	25,000
A R Fernando	
LVL Energy Fund Limited Aggregate amount of accomodation	300,000
Credit Information Bureau of Sri Lanka Aggregate amount of payments made for services	9,572
P M B Fernando	
Asia Asset Finance PLC Aggregate amount of accommodation	200,000
C R Jansz	
Distilleries Company of Sri Lanka PLC Pericyl (Pvt) Limited Aggregate amount of accommodation	3,300,000
Lanka Bell Limited Aggregate amount of payments made for services	2,425
Ms V J Senaratne	
Distilleries Company of Sri Lanka PLC Aggregate amount of accommodation	3,000,000
L H A L Silva	
Aggregate amount of accommodation	2,000
Lanka Financial Services Bureau Limited Aggregate amount of payments made for services	3,564
L N de S Wijeyaratne	
Royal Ceramics PLC Rockland Distilleries (Pvt) Limited Talawakelle Tea Estates PLC Aggregate amount of accommodation	842,000
The Kingsbury PLC Aggregate amount of payments made for services	383

A R Fernando and L H A L Silva are or have 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 55.2-55.4 in the Notes to the financial statements.

Corporate Donations

During the year, the Bank made donations amounting to LKR 1.36 million.

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

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

Credit Approval Committee

C R Jansz – Chairman
T Dharmarajah
K P Cooray

Credit Restructure Committee

C R Jansz – Chairman
Ms S R Thambiayah
T Dharmarajah

Human Resources and Remuneration Committee

C R Jansz – Chairman
Ms V J Senaratne
Ms S R Thambiayah

Nomination and Governance Committee

P M B Fernando – Chairman
C R Jansz
K P Cooray

Integrated Risk Management Committee

L N de S Wijeyeratne – Chairman
P M B Fernando
K D N R Asoka
H A Ariyaratne
A R Fernando – Chief Executive Officer

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

Related Party Transactions Review Committee

T Dharmarajah – Chairman
C R Jansz
K P Cooray

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

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

Dividend

The Directors have approved the payment of a first and final dividend of LKR 4.50 per share, (final dividend paid in the previous period, LKR 2.50 per share). The total dividend for the year will amount to approximately LKR 1,193 million (LKR 663 million in the previous period), which amounts to 38% of the Bank's distributable profit.

The Directors unanimously declare that, DFCC Bank PLC 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 a certificate of solvency from its Auditor is obtained.

Property, Plant and Equipment and Leasehold Property

The total expenditure of acquisition on property, plant and equipment during the year amounted to LKR 219 million of which intangible assets amounted to LKR 59 million. Details of these are given in the Note 38 and 39 to the financial statements.

Reserves

Total reserves and retained profit amounted to LKR 41,134 million.

Market Value of Freehold Properties

The information on market value of freehold properties are given in Note 38.1.3 to the financial statements.

Stated Capital and Subordinated Debentures

The stated capital as at 31 December 2016 was LKR 4,716 million. The number of shares in issue as at 31 December 2016 was 265,097,688. Further information is given on pages 195 and 196.

Share Information

Information relating to earnings, net asset and market value per share are given on pages 5 and 126 of the Annual Report and also contains information pertaining to the share trading during the period.

Shareholders

As at 31 December 2016, there were 8,776 registered shareholders and the distribution is indicated on page 127.

The 20 largest shareholders as at 31 December 2016 are listed on page 127.

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 Articles of Association of the Bank. DFCC Bank PLC 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.

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 on time.

Review of Related Party Transactions

The Related Party Transactions Review Committee is responsible for ensuring compliance with the code specified in Section 9 of the CSE Listing Rules. The Committee reviewed the related party transactions carried out during the year and noted that the transactions were in compliance with the said code.

Compliance with Laws, Regulations and Prudential Requirements

DFCC Bank PLC 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 58 to the financial statements.

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 Auditors' assurance on effectiveness of the internal control mechanism and compliance with the Direction 11 of 2007 of the Central Bank of Sri Lanka on Corporate Governance.

Details of governance practices and the required disclosures are given on pages 97 to 107.

Rule 3 (8) of the Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka prescribe disclosures in the Annual Report. These disclosures have been made in this Annual Report as shown in the following Table:

The Table below provides cross references to facilitate easy reference.

Reference to Rule	Requirement	Reference to Annual Report
3 (8) (i)	Financial statements on prescribed format	Financial statements on pages 135 to 220
3 (8) (ii) (a)	Affirmative assurance of compliance with accounting standards and requirements	Directors' Responsibility Statement on page 131
3 (8) (ii) (b)	Affirmative assurance of the integrity of financial reporting system	Directors' Statement of Internal Control on page 122
3 (8) (ii) (c)	Assurance report issued by the External Auditor	Independent Assurance Report on page 124
3 (8) (ii) (d)	Information on Directors	Pages 12 and 13
3 (8) (ii) (d)	Remuneration of Directors	Annual Report of the Directors on page 109
3 (8) (ii) (e)	Net accommodation granted to each category of related party	Corporate Governance Report. Table on page 107
3 (8) (ii) (f)	Compensation and other transactions with Key Management Personnel	Corporate Governance Report on page 107
3 (8) (ii) (h)	Compliance with prudential requirements and regulations	This report.

Acknowledgement of the Content of the Report

As required by Section 161 (1) (k) of the Companies Act No. 07 of 2007, the Board of Directors does hereby acknowledge the contents of this Report.

For and on behalf of the Board of Directors,

C R Jansz
Chairman

A R Fernando
Director and Chief Executive Officer

Ms A Withana
Company Secretary

20 February 2017

Report of the Audit Committee

The Board Audit Committee comprises of three Independent Non-Executive Directors and one Non-Executive Director. The Committee is chaired by P M B Fernando, who is a fellow member of the Institute of Chartered Accountants and possesses considerable experience in the fields of Finance and Auditing.

The members of the Board appointed Audit Committee are as follows:

- P M B Fernando - Chairman
- L N De S Wijeyeratne
- T Dharmarajah
- K D N R Asoka

Profiles of the members are given in pages 12 to 13.

Meetings

The Head of Group Internal Audit, functioned as the Secretary to the Committee for the year-ended 31 December 2016. During the year, 14 Audit Committee Meetings were held and proceedings of the Audit Committee Meetings were reported regularly to the Board.

Attendance by the Committee members at the meetings is given in the table on page 98 of this Annual Report.

The Chief Executive Officer, Chief Financial Officer and Chief Operating Officer attend meetings by invitation. Senior Management also attend the meetings on invitation in order to brief the Audit Committee on specific matters. The Committee held two meetings with the External Auditor; KPMG independently, without the presence of executive management, to discuss the progress and conclusion of the Audit.

Mandate and Role

The Terms of Reference of the Committee, which is subject to review periodically by the Board of Directors, clearly defines the mandate and role of the Committee. The Committee is responsible to the Board of Directors and reports on its activities regularly. The Committee assists the Board of Directors in fulfilling its general oversight of financial reporting, internal controls, internal and external audits.

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

Financial Reporting

The Committee reviews effectiveness of the Financial Reporting System in place, to ensure reliability of information provided to the stakeholders. The Committee reviews that to the best of its knowledge and belief, the financial statements issued for external purposes by DFCC Bank PLC (Bank), complied with generally accepted principles of accounting as enunciated in Sri Lanka Accounting Standards, and complies with the statutory provisions of Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988, and subsequent amendments thereto.

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. The Committee reviews 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. In accordance with the mandate, the Committee reviewed and discussed with the management and internal/external Auditors on the critical accounting policies, practices, related changes thereto, alternative accounting treatments, major judgment areas, material audit adjustments, compliance with accounting standards, going concern assumptions, financial reporting controls and compliance with applicable laws and regulations that could impact the Bank's financial statements, its Annual Report and its quarterly financial statements prepared for publication.

The Committee reviewed all quarterly non-audited interim financial statements and financial statements for the year-ended 31 December 2016, together with supporting information that included significant assumptions and judgments made in the preparation of financial statements. The Committee also took into consideration the Internal Audit reports, management letter issued by the External Auditor and the responsibility statements in relation to the financial statements issued by the Chief Financial Officer and Chief Executive Officer in making an overall assessment on the integrity of the Financial Reporting system.

The Committee also discussed the operations and future prospects of the Bank with management regularly and is satisfied that all relevant matters have been taken into account in the preparation of the financial statements and that the 2016 financial statements are reliable and presents a true and fair view of the state of affairs of the Bank.

Internal Controls

The Audit Committee assessed the effectiveness of internal control over financial reporting as at 31 December 2016 as required to comply with section 3(8) (ii) (b) of the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks, issued by the Central Bank of Sri Lanka. This process assesses the adequacy and effectiveness of the internal controls and the processes for controlling business risks to ensure compliance with laws and regulations. The Committee ensures that appropriate action is taken by the management on the recommendations of the Internal Auditors to improve the effectiveness of the internal control system of the Bank. The Board of Directors performs its responsibilities on the basis of the internal control framework, which enables the Board to pursue its functions and take necessary measures. The Board's statement on effectiveness of the Bank's internal control mechanism is published on pages 122 and 123.

Internal Audit

The Audit Committee ensures that the Internal Audit function is independent of the activities it audits and that it is performed with impartiality proficiency and due professional care. The Audit Charter authorises and guides the Head of Group Internal Audit (HGIA) in carrying out the independent audit function of the Bank and its subsidiaries. The HGIA enjoys operational independence in conducting duties and has the authority to initiate, carry out and report on any action, which is considered necessary. For the performance of duties, the HGIA and audit staff shall have unrestricted, unlimited, direct and prompt access to all records of the Bank and subsidiaries, officials or personnel holding any contractual status of the Bank and its subsidiaries and to all the premises of the Bank and its subsidiaries. The Audit Committee monitored and reviewed the scope, resources, extent and effectiveness of the activities of the Bank's Internal Audit Department.

With the concurrence of the Board of Directors, 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 certain branches and few other assignments for the period ended 31 December 2016. The outsourced Internal Audit function is supervised by the Head of Internal Audit of the Bank and a representative of outsourced bodies participates for Audit Committee meetings by invitation.

The Committee reviewed the progress of the risk based audits carried out in accordance with the Internal Audit plan approved by the Committee for the year 2016. During the year, the Internal Audit Department has reviewed business lines, critical operational processes, risk and compliance functions, branches and subsidiary operations. Further, the department has conducted thematic audits focusing on particular audit objectives across the audited units/branches. The department formed a Potential Fraud Monitoring Unit under Internal Audit to carry out testing and data analytics related to potential fraud risk areas on a continuous basis.

The Internal Audit Department suggested simplified and efficient business processes where it was deemed necessary. In 2016, the Board Audit Committee reviewed audit reports of branches and departments, IS Audits, Thematic Audits and special investigations of the Bank. The Committee reviewed the Internal Audit reports of the Bank's subsidiaries as well.

The Committee had necessary interactions with the Head of Internal Audit throughout the year. The Board Audit Committee advised Corporate Management to take precautionary measures on significant audit findings. The Committee reviewed the structure, resources and performance of the Bank's Internal Audit Department at the year-end.

External Audit

The Committee reviewed and monitored the External Auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements. The Committee approved the policy in place on Non-Audit Services provided by the External Auditors.

The Committee discussed with the Auditors their audit plan, scope and the methodology they propose to adopt in conducting the annual audit prior to its commencement. The Auditors were also provided with opportunities to meet the Audit Committee separately, without the presence of executive management, to ensure that the Auditors had the independence to discuss and express their opinions on any matter. There was no limitation of scope and the management has fully provided all information and explanations requested by the Auditors. The Committee also met the Auditors to review the management letter with responses from the management.

The Audit Committee has recommended to the Board of Directors that KPMG Chartered Accountants be reappointed for the financial year-ending 31 December 2017, subject to the approval of shareholders at the next Annual General Meeting.

Whistleblowing Policy

The Whistleblowing Policy of the Bank and its subsidiaries was reviewed and recommended by the Audit Committee during the year 2016 in order to further strengthen the policy as a communication channel to raise any genuine concerns. The Committee continuously emphasised on sustaining ethical conduct amongst staff members. In this regard, a Code of Ethics and Whistlelowing Policy was put in place and all members of staff were educated and encouraged to practice whistleblowing if they suspect any wrong doing. All appropriate procedures and techniques are in place to conduct independent investigations into incidents reported through whistleblowing or identified through other channels. The Whistleblowing Policy guarantees the maintenance of strict confidentiality of the identity of whistleblowers. The Policy is subject to annual review in order to further improve its effectiveness.

Evaluation

The effectiveness of the Committee is self-evaluated annually by its members. An independent 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.

P M B Fernando
Chairman - Audit Committee

20 February 2017

Report of the Human Resources and Remuneration Committee

The Composition

The Human Resources and Remuneration Committee appointed by the Board of Directors, presently consists of three Non-Executive Directors. C R Jansz is the Chairman of the Committee. Ms V J Senaratne and Ms S R Thambiayah are the other members. A W Atukorala also functioned as a member of the Committee until his resignation in August 2016.

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

The Mandate

The Committee adopted as its mandate the tasks specified in Section 3(6) (iii) of Direction No. 11 of 2007 of the Central Bank of Sri Lanka on Corporate Governance for Licensed Commercial Banks. During the year, the Terms of Reference of the Committee was formally adopted by the Board.

The Committee, in determining the remuneration policy relating to Directors, Chief Executive Officer and Key Management Personnel of DFCC Bank PLC (Bank), in terms of Directions, ensures appropriate compensation levels in order to attract, retain and motivate talented staff with 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 mix of fixed and variable pay to reward employees.

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 Officer, 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 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 Bank where it was deemed necessary.

Meetings

The Committee held five meetings during the financial year to carry out its tasks. The attendance by members is given on page 98 of the Annual Report.

C R Jansz

Chairman -
Human Resources and Remuneration Committee

20 February 2017

Report of the Nomination and Governance Committee

Composition

The Nomination and Governance Committee of the Board of Directors consists of three Non-Executive Directors. P M B Fernando, an independent Director, is the Chairman with C R Jansz and K P Cooray, serving as members. A W Atukorala also functioned as a member of the Committee until his resignation in August 2016.

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

Mandate

During the year under review, the Nomination Committee was replaced with the Nomination and Governance Committee. Accordingly, the Terms of Reference of the Committee was enhanced and the revised terms of Reference was adopted by the Board. The Terms of Reference encompass the tasks set out in Section 3(6) (iii) of Direction No. 11 of 2007 of the Central Bank of Sri Lanka on Corporate Governance in Licensed Commercial Banks. The Committee carried out the tasks in-line with the Terms of Reference which was adopted by the Board. In terms of the mandate, the role of the Committee is to review governance policies and procedures, evaluate the performance of the Board and 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 also responsible for the task of putting in place, a procedure for the appointment of the CEO and Key Management Personnel.

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

Five meetings were held during the financial year. The Committee considered and recommended to the Board, the appointment of one new Director, identified possible candidates to fill key management positions, reviewed succession planning including the CEO succession 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 98 of the Annual Report. The Committee has recommended the re-election of the Directors offering themselves for re-election at the Annual General Meeting.

P M B Fernando

Chairman – Nomination and Governance Committee

20 February 2017

Report of the Board Integrated Risk Management Committee

Composition of Board Integrated Risk Management Committee (BIRMC)

During the financial year-ended December 2016, the composition of the Board Integrated Risk Management Committee (BIRMC) of DFCC Bank PLC (Bank) changed as recommended by the Board of Directors. C R Jansz, the Chairman of DFCC Bank PLC and the BIRMC, handed over responsibilities to L N de S Wijeyaratne (Non-Executive Director of DFCC Bank PLC) and appointed him as the new Chairman of the Committee from June 2016. Further, K D N R Asoka and H A Ariyaratne were appointed as members representing Non-Executive Directors, while A N Fonseka retired from the membership during the year.

The Committee comprises of four Non-Executive Directors and one Executive Director as at 31 December 2016. The 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 voting members of the BIRMC as at 31 December 2016 was as follows:

- L N de S Wijeyaratne – Chairman/Non-Executive Director
- A R Fernando – Chief Executive Officer/Executive Director
- P M B Fernando – Non-Executive Director
- K D N R Asoka – Non-Executive Director
- H A Ariyaratne – Non-Executive Director
- P Gamage – Chief Risk Officer

Charter and the Responsibilities of the BIRMC

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

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

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

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

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

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

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

BIRMC Meetings

The BIRMC meets on a quarterly basis. During the year, the Bank convened five BIRMC meetings including a special meeting in December 2016. The attendance of members is listed on page 98 of this 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 the Bank for the amalgamated entity, 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. They included strengthening of the Tier II capital by issuing subordinated debt in the last quarter and taking steps to enhance retained earnings by considering options such as a reducing dividend payout and issuing scrip dividends.

B. In relation to the management of compliance risk, compliance risk indicators with different risk scales were reviewed and specific areas of focus were identified, 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 the Bank, from time to time, as required.

D. The Committee approved the revisions of credit rating models for corporate exposures, subsequent to an external validation of the model. This revision focused on taking a better approach of recognise the borrower risk profile, and reducing 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 the credit appraisal process, credit pricing and risk management.

F. The annual review of effectiveness and adequacy of the management committees was conducted by the BIRMC.

G. Reviewed and approved new products and redesigned existing products of the Bank, from a business and risk management perspective.

H. Reviewed the CBSL recommendations based on the examination report requirements in relation to the integrated risk management function of the Bank.

I. Having duly recognised the trends in increasing threats on systems and information security, the Committee increased its focus by reviewing the adequacy of the security in information systems and closely monitoring the action plans and implementation of new projects for further improving information systems security in the Bank.

J. Reviewed Top and Emerging Risks on a monthly basis.

K. All existing risk policies and practices were reviewed by the Committee, in line with the Bank's 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. Other specific matters are submitted separately for the Boards' approval on recommendation of the BIRMC. The recommendations made by the BIRMC during the year under review were approved by the Board.

L N de S Wijeyaratne
Chairman – Board Integrated Risk Management Committee

20 February 2017

Report of the Credit Approval Committee

The Composition

The Credit Approval Committee of the Board of Directors consists of three Non-Executive Directors. C R Jansz is the Chairman with T Dharmarajah and K P Cooray serving as members. A W Atukorala also functioned as a member of the Committee until his resignation in August 2016.

The Company Secretary functions as the Secretary of the Committee.

The Mandate

The Committee carried out the tasks set out in the Terms of Reference approved by the Board. The primary purpose of the Committee is to review and where appropriate, recommend or approve credit facilities which require approval above the delegated limit of the Management Credit Committee of the Bank.

The Procedure

The Committee meets at least once a month and as and when required. The Committee invites the relevant officers to these meetings to clarify issues and for discussions relating to proposals that are submitted for review, and also guides the management in improving the credit policies, procedures and process improvements for monitoring and recovery action.

Meetings

The Committee held 12 meetings during the financial year to carry out its tasks. The attendance by members is given on page 98 of the Annual Report. The proceedings of the Committee meetings have been regularly reported to the Board of Directors. Credit facilities, recommended by the Committee, were submitted to the monthly meeting of the Board for approval.

C R Jansz
Chairman – Credit Approval Committee

20 February 2017

Report of the Related Party Transactions Review Committee

The Composition

The Related Party Transactions Review Committee was established by the Board in December 2015 to be effective from 1 January 2016. The Related Party Transactions Review Committee appointed by the Board of Directors, presently consists of three Non-Executive Directors and the Chief Executive Officer. T Dharmarajah, an Independent Director is the Chairman of the Committee. C R Jansz, K P Cooray and A R Fernando are the other members.

The Company Secretary functions as the Secretary of the Committee.

The Mandate

The Committee adopted as its mandate, the tasks specified in Section 9 of the Colombo Stock Exchange (CSE) Listing Rules and the Terms of Reference, was formally approved by the Board during the year.

The primary purpose of the Committee is to evaluate and consider all transactions with related parties of the Bank, except the exempted transactions as set out in Rule 9.5 of the Listing Rules of the CSE, in order to ensure that transactions with related parties are on normal commercial terms, similar to those afforded to non-related parties. During the year, the Board formally adopted a Policy on Related Party Transactions.

The Procedure

The Committee meets as and when required and at least once in a calendar quarter and makes recommendations to the Board for consideration.

The Committee has put in place, the necessary processes to identify, review, disclose and monitor related party transactions according to the provisions contained in the Board approved Related Party Transactions Policy.

The Bank obtains on a quarterly basis a declaration from all Key Management Personnel on a structured format to assist in the process of collating related party transactions. Relevant officers are informed of the applicable regulatory requirement relating to related party transactions and have been advised to submit a report on the prescribed format for transactions that require a review by the Committee.

Meetings

The Committee held nine meetings during the financial year to carry out its task. The attendance by members is given on page 98 of the Annual Report. The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

T Dharmarajah

Chairman – Related Party Transactions Review Committee

20 February 2017

Directors' Statement on Internal Control

Introduction

Section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007, requires the Board of Directors ('the Board') to report on the 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. This report is prepared to be in line with the said regulatory requirement.

Internal Control System

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

The Internal Control System of the Bank 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 acknowledges the 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 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 captured and recorded 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 them in exercising 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 adequacy and 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 is 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 Report of the Audit Committee on pages 113 to 115.
- The Board Integrated Risk Management Committee (BIRMC) was 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 operational areas of the Bank and the Board is assisted 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, Credit Committees, the Asset/Liability Committee, the Impairment Assessment Committee and the Information Technology Steering Committee.

Assessment of the Adequacy and Effectiveness of Internal Control

Although this process is carried out every year on a continuous basis, the Direction on Corporate Governance issued by the Central Bank of Sri Lanka, requires the Board 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 and significance based Internal Audit Plan, implemented by the Internal Audit Department, in consultation with the Board Audit Committee, specifically included on a sample basis, independent verification that the internal control process documented by the Bank,which is 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 2012, the Bank implemented a process to ensure changes arising from new accounting standards are adequately identified, recognised and disclosed in the financial statements. The process for making necessary adjustments based on Sri Lanka Accounting Standards – LKAS 39 continue to be made based on excel software application, for which the feasibility of developing or acquiring a separate system is currently being evaluated. The process followed by the Bank for quantification of adjustments is continuously reviewed and further improvements were made during the current year. The testing of such processes by the internal audit was carried out during the year. These processes will be further improved on an ongoing basis.

The Board also has taken into consideration the requirements of 'SLFRS 9 - Financial Instruments' accounting standard which is to be effective from 01 January 2018, as it is expected to have significant impact on the calculation of impairment on financial instruments of the Bank. The high level impact assessment of potential impact on transition to SLFRS 9 has been completed with the assistance of an external consultant. The next phase being the implementation phase, will commence from end March 2017.

The computation of impairment losses from Loans and Advances has not been automated yet. Considering the complexity and level of estimation involved in this process, the Board is evaluating the options available for automation. This evaluation process will also address the new parameter requirements, which will become applicable with the adoption of SFLRS 9.

Management Information

The comments made by the External Auditors in connection with the internal control system for the financial year ended 31 December 2015, were reviewed during the year and appropriate steps have been taken to rectify them.

The recommendations made by the External Auditor in the financial year ended 31 December 2016, 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 in 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.

Confirmation

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

Review of the Statement by External Auditors

The External Auditors have reviewed the above Directors' Statement on Internal Control for the year ended 31 December 2016 and their Independent Assurance Report is on page 124 of the Annual Report.

By Order of the Board,

P M B Fernando
Chairman - Audit Committee

C R Jansz
Chairman - Board of Directors

A R Fernando
Chief Executive/Director

20 February 2017

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 December 2016.

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 on pages 122 and 123 is inconsistent with our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Bank.

Chartered Accountants

Colombo

20 February 2017

Investor Relations

Investor Engagement

Listening to and maintaining a dialogue with the investors, both existing and potential, help us understand their expectation as well as concerns. That understanding in turn, helps us to fine-tune our engagement and structure reporting, so that information will be relevant to them, leading to building up mutual trust and a loyal following of investors who will take a long-term view of the value of their investments in the Bank, without being swayed by short-term fluctuations in performance. The section on Stakeholders (page 34), details various frameworks that govern our engagement process and how we communicate with our investors in general.

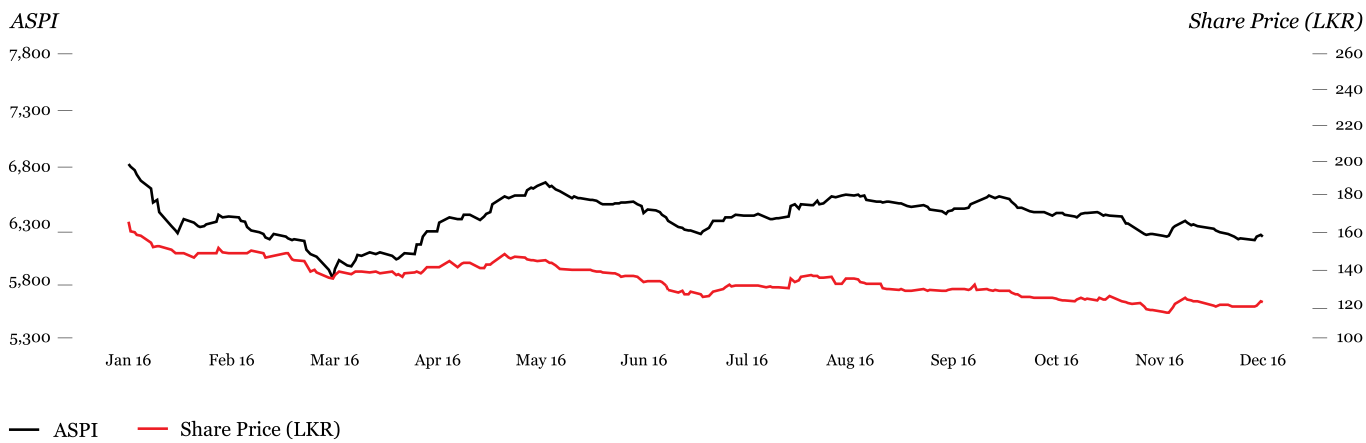
The Chief Executive and the Deputy Chief Executive maintain a dialogue with key institutional investors and bring any matters of concern to the notice of the Board. The Board approved Communication Policy of the Bank ensures that information is made available to shareholders and other stakeholders through timely disclosures made to the CSE, publicity through press and electronic media and posts on the bank's website. The Annual General Meeting held on 30 March 2016 gave an opportunity for shareholders to interact with the Board and the Management.

Performance of the Share

The market value of the DFCC Bank PLC ordinary share on 31 December 2016 was LKR 122.50 compared to LKR 168.90 on 31 December 2015. During the 12 months period, the highest price recorded was LKR 170.00 while the lowest price recorded during the period was LKR 116.10.

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

Share Price Movement of DFCC Bank From January 2016 to December 2016



DFCC Bank Share Price Information

	Period 1 January to 31 December 2016	Period 1 April to 31 December 2015	Period 1 April to 31 March 2015	Period 1 April to 31 March 2014
Price Indices				
ASPI	**6,228.26**	6,894.50	6,820.34	5,968.31
S&P SL20	**3,496.44**	3,625.69	3,852.43	3,279.92
Share Price				
Lowest Price (LKR)	**116.8**	155.0	144.7	115.0
Highest Price (LKR)	**168.1**	230.0	239.0	154.0
Closing Price (LKR)	**122.5**	168.90	202.9	143.0
Market Capitalisation				
Value (LKR million)	**32,474**	44,775	53,788	38,148
Percentage of total market cap	**1.18%**	1.52	1.86	1.53
Rank	**18**	14	11	13
Value of Shares Traded				
Value (LKR million)	**1,308.91**	1,717	6,761	906
Percentage of total market turnover	**0.73%**	0.91	1.91	0.46
Rank	**29**	25	9	45
Days Traded				
Number of days traded	**240**	182	239	241
Total number of market days	**240**	183	239	243
Percentage of market days traded	**100.0%**	99.5	100.0	99.2
Frequency of Shares Traded				
Number of transactions	**5350**	4654	9020	5444
Percentage of total frequency	**0.51%**	0.41	0.45	0.37
Rank	**60**	81	78	82

Distribution of Shareholding

Categories of Shareholders

As at	31 December 2016			31 December 2015		
Shareholding , %	**Foreign**	**Local**	**Total**	Foreign	Local	Total
Individual	**5.76**	**8.35**	**14.11**	5.78	8.33	14.11
Institutional	**17.79**	**68.10**	**85.89**	19.89	66.00	85.89
	23.55	**76.45**	**100.00**	25.67	74.33	100.00

Size-wise Distribution of Shareholding

Share Range	31 December 2016			31 December 2015		
	No. of Holders	Total Holding	%	No. of Holders	Total Holding	%
01 - 1,000	**5,630**	**1,817,586**	**0.69**	5,457	1,763,749	0.66
1001 - 5,000	**2,405**	**4,955,001**	**1.87**	2,436	5,002,934	1.89
5,001 - 10,000	**329**	**2,350,001**	**0.88**	324	2,336,279	0.88
10,001 - 50,000	**299**	**6,622,534**	**2.50**	303	6,522,498	2.46
50,001 - 100,000	**42**	**2,997,452**	**1.13**	41	2,929,838	1.10
100,001 - 500,000	**44**	**8,633,347**	**3.26**	46	9,261,557	3.49
500,001 - 1,000,000	**4**	**2,489,278**	**0.93**	8	5,509,745	2.08
1,000,000 & above	**23**	**235,232,489**	**88.74**	25	231,771,088	87.44
	8,776	**265,097,688**	**100.00**	8,640	265,097,688	100.00

Twenty Major Shareholders of the Bank as at 31 December 2016

Name of Shareholder/Company	31 December 2016		31 December 2015*	
	No. of shares	**%**	No. of shares	%
Bank of Ceylon A/c No.2	**38,039,994**	**14.35**	38,039,994	14.35
Hatton National Bank PLC A/c No.1	**32,396,140**	**12.22**	32,396,140	12.22
Sri Lanka Insurance Corporation Limited – Life Fund	**26,509,832**	**10.00**	26,509,832	10.00
Employees' Provident Fund	**24,368,995**	**9.19**	24,368,995	9.19
Melstacorp Limited	**22,175,280**	**8.36**	17,042,856	6.43
M A Yaseen	**20,296,700**	**7.66**	20,296,700	7.66
Seafeld International Limited	**15,286,794**	**5.77**	15,286,794	5.77
HSBC Intl Nom. Limited – BPSS Lux-Aberdeen Global Asia Pacific Equity Fund	**12,216,146**	**4.61**	12,216,146	4.61
Renuka City Hotels PLC	**6,926,870**	**2.61**	6,926,870	2.61
HSBC Intl Nom Limited – BP2S LDN-Aberdeen Asia Pacific Equity Fund	**6,750,000**	**2.55**	6,750,000	2.55
HSBC Intl Nominees Limited – BP2S London-Edinburg Dragon Trust PLC	**5,620,164**	**2.12**	5,620,164	2.12
Renuka Hotels Limited	**4,073,360**	**1.54**	4,073,360	1.54
Employees' Trust Fund Board	**3,987,952**	**1.50**	3,599,793	1.36
HSBC Intl Nominees Limited – BP2S London-Aberdeen Asia Smaller Companies Investment Trust	**3,889,870**	**1.47**	3,889,870	1.47
Cargo Boat Development Company PLC	**2,498,200**	**0.94**	2,098,200	0.79
Mrs L E M Yaseen	**2,000,000**	**0.75**	2,000,000	0.75
HSBC Intl Nominees Limited – BP2S-London-Aberdeen New Dawn Investment Trust XCC6	**1,800,000**	**0.68**	1,800,000	0.68
Anverally & Sons (Pvt) Limited A/c No 1	**1,528,395**	**0.58**	1,092,319	0.41
Crescent Launderers & Dry Cleaners Pvt Limited	**1,482,548**	**0.56**	1,076,200	0.41
Akbar Brothers (Pvt) Limited A/c No. 1	**1,255,747**	**0.47**	1,221,269	0.46
Total of the 20 Major Shareholders	**233,102,987**	**87.93**		
Other Shareholders	**31,994,701**	**12.07**		
Total	**265,097,688**	**100.00**		

** Shareholding as at 31 December 2015 of the twenty largest shareholders as at 31 December 2016*

Financial Reports

Financial Calendar - 2016

LKR 2.50 per share Final Dividend for 2015 paid on	*16 March 2016*
Audited financial statements signed on	*20 February 2017*
61st Annual General Meeting to be held on	*30 March 2017*
LKR 4.50 per share Final Dividend for 2016 payable on	*13 March 2017*
1st Quarter Interim Results released on	*13 May 2016*
2nd Quarter Interim Results released on	*8 August 2016*
3rd Quarter Interim Results released on	*31 October 2016*

Proposed Financial Calendar - 2017

1st Quarter Interim Results to be released in	*May 2017*
2nd Quarter Interim Results to be released in	*August 2017*
3rd Quarter Interim Results to be released in	*November 2017*
62nd Annual General Meeting to be held in	*March 2018*

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 DFCC Bank PLC (Bank) and the Group for that year. The statutory provisions are in the Companies Act No. 07 of 2007 and 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 performance.

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 ended 31 December 2016 and the comparative period have been prepared and presented 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 responsibility to take reasonable steps to safeguard the assets of the Bank. In discharging these responsibilities, the Directors have instituted a system of internal financial controls and a system for monitoring its effectiveness. These provide reasonable but not absolute assurance of safeguarding of the Bank's assets, maintenance of proper accounting records and the reliability of financial information.

The Board appointed Audit Committee chaired by an Independent, Non-Executive Director who possesses qualifications and experience in accountancy and audit assists the Directors to discharge their responsibility on the integrity of financial reporting system and monitoring the effectiveness and adequacy of internal control system. This Committee has made an independent assessment of the financial reporting system of the Bank and confirmed that to the best of its knowledge and belief the financial statements issued for external purposes by the Bank complied with Sri Lanka Accounting Standards and complies with the statutory provisions of the Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988 as amended. The Report of the Committee is on pages 113 to 115.

The Directors are in agreement with the assessment of the Audit Committee on the reliability of financial reporting system of the Bank and confirm that the financial statements prepared for external use is in accordance with relevant accounting principles and regulatory requirements. As part of institutional checks and balances and accountability, in addition to this Statement of Directors' Responsibilities in relation to financial statements, the Directors' have included the Chief Executive's and the Chief Financial Officer's Responsibility Statement on page 132.

By Order of the Board,

Ms A Withana
Company Secretary

Colombo
20 February 2017

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

The financial statements of DFCC Bank PLC ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries as at 31 December 2016 are prepared and presented in compliance with the requirements of the following:

- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka),
- Companies Act No. 07 of 2007,
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995,
- Banking Act No. 30 of 1988 (as amended),
- Listing Rules of the Colombo Stock Exchange,
- Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka (as amended from time to time) and
- Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka.

The formats used in the preparation of the financial statements and disclosures made, comply with the formats prescribed by the Central Bank of Sri Lanka.

The Accounting Policies used in the preparation of the financial statements are appropriate and are consistently applied by the Group. There are no departures from the prescribed Accounting Standards in their adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation. The Board of Directors and the Management of the Bank accept responsibility for the integrity and objectivity of these financial statements. The estimates and judgments relating to the financial statements were made on a prudent and reasonable basis, in order that the financial statements reflect true and fair view. 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. The Board of Directors assessed the effectiveness of the Bank's internal controls over financial reporting during the year ended 31 December 2016, as required by the Banking Act Direction No. 11 of 2007, result of which is given on pages 122 to 123 in the Annual Report, the Directors Statement on Internal Control. External Auditor's Independent Assurance Report on the "Directors' Statement on Internal Control" is given on page 124 of the Annual Report.

It is confirmed that the Bank has adequate resources to continue its operations in the foreseeable future. Therefore, the Bank will continue to adopt the 'going concern' basis in preparing these financial statements.

The Bank's 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 Messrs KPMG. The Associate company National Asset Management Limited, is also audited by Messrs KPMG.

The Audit Committee of the Bank meets periodically with the internal auditors and the independent auditors to review the manner in which the external auditor performs 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. Details of which are given in the 'Audit Committee Report' on pages 113 to 115.

The Audit Committee approves the audit and non-audit services provided by external auditor, Messrs KPMG, in order to ensure that the provision of such services does not impair KPMG's independence.

We confirm that,

- the Bank and its subsidiaries have complied with all applicable laws, regulations and prudential requirements;
- there are no material non-compliances; and
- there are no material litigations that are pending against the Group other than those disclosed in the Note to the financial statements in this Annual Report.

A R Fernando
Director/Chief Executive

Ashok Goonesekere
Chief Financial Officer

Colombo

20 February 2017

Supplementary Income Statement – Combined

DFCC Vardhana Bank PLC, which was a subsidiary of the Group was amalgamated with DFCC Bank PLC on 1 October 2015 with DFCC Bank PLC as the surviving entity. Subsequent to the amalgamation, the financial year of the Bank was changed to a calendar year commencing the year 2015.

The following combined income statement for the comparative period (1 January 2015 to 31 December 2015) has been prepared and presented to compare the business results as if both the amalgamation and the change of financial year took place prior to 1 January 2015.

The financial result for the 12 months ended 31 December 2016 are as reported in the income statement on page 135.

This information has been presented for comparability purpose only and are unaudited.

	12 months ended 31 December 2016 LKR 000	12 months ended 31 December 2015 LKR 000	Change %
Income	**26,753,895**	19,906,706	34
Interest income	**24,194,158**	17,257,604	40
Interest expense	**15,293,022**	10,146,326	51
Net interest income	**8,901,136**	7,111,278	25
Fee and commission income	**1,309,049**	1,155,211	13
Fee and commission expenses	–	9,914	(100)
Net fee and commission income	**1,309,049**	1,145,297	14
Net gain from trading	**340,456**	217,822	56
Net (loss)/gain from financial instruments at fair value through profit or loss	**(179,727)**	181,766	(199)
Net gain from financial investments	**1,165,389**	1,155,215	1
Other operating (loss)/income – net	**(75,430)**	(60,912)	(24)
Total operating income	**11,460,873**	9,750,466	18
Impairment for loans and other losses	**937,267**	1,007,253	(7)
Net operating income	**10,523,606**	8,743,213	20
Operating expenses			
Personnel expenses	**2,809,742**	2,879,892	(2)
Other expenses	**2,314,224**	2,296,493	1
Operating profit before value added tax and nation building tax on financial services	**5,399,640**	3,566,828	51
Value added tax and nation building tax on financial services	**986,110**	701,191	41
Operating profit after value added tax and nation building tax on financial services	**4,413,530**	2,865,637	54
Share of profits of associate and joint venture	–	–	
Profit before income tax	**4,413,530**	2,865,637	54
Income tax expense	**1,124,807**	812,192	38
Profit for the year	**3,288,723**	2,053,445	60

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 subsidiaries ("Group"), which comprise the statement of financial position as at December 31, 2016, income statement, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 135 to 220 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 December 31, 2016, 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 December 31, 2016, 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.

CHARTERED ACCOUNTANTS
20 February 2017
Colombo, Sri Lanka

Income Statement

	Notes	Page No.	BANK Year ended 31 December 2016 LKR 000	BANK 9 months ended 31 December 2015 LKR 000	GROUP Year ended 31 December 2016 LKR 000	GROUP 9 months ended 31 December 2015 LKR 000
Income	10	153	**26,753,895**	10,036,280	**26,980,083**	17,502,868
Interest income			**24,194,158**	8,918,343	**24,206,112**	15,308,568
Interest expenses			**15,293,022**	5,560,354	**15,262,906**	8,923,243
Net interest income	11	154	**8,901,136**	3,357,989	**8,943,206**	6,385,325
Fee and commission income			**1,309,049**	400,066	**1,309,049**	1,179,505
Fee and commission expenses			**–**	1,208	**–**	9,914
Net fee and commission income	12	155	**1,309,049**	398,858	**1,309,049**	1,169,591
Net gain from trading	13	155	**340,456**	87,062	**340,456**	215,575
Net (loss)/gain from financial instruments at fair value through profit or loss	14	155	**(179,727)**	(330)	**(179,727)**	74,583
Net gain from financial investments	15	156	**1,165,389**	640,637	**1,081,129**	507,528
Other operating (loss)/income – net	16	156	**(75,430)**	(9,498)	**223,064**	217,109
Total operating income			**11,460,873**	4,474,718	**11,717,177**	8,569,711
Impairment for loans and other losses	17	157	**937,267**	224,939	**916,344**	795,327
Net operating income			**10,523,606**	4,249,779	**10,800,833**	7,774,384
Operating expenses						
Personnel expenses	18	159	**2,809,742**	1,248,261	**2,980,069**	2,629,739
Other expenses	19	161	**2,314,224**	1,069,755	**2,321,637**	2,080,538
Operating profit before value added tax and nation building tax on financial services			**5,399,640**	1,931,763	**5,499,127**	3,064,107
Value added tax and nation building tax on financial services	20	161	**986,110**	342,498	**986,110**	589,330
Operating profit after value added tax and nation building tax on financial services			**4,413,530**	1,589,265	**4,513,017**	2,474,777
Share of profits of associate and joint venture			**–**	–	**161,151**	78,693
Profit before income tax			**4,413,530**	1,589,265	**4,674,168**	2,553,470
Income tax expense	21	162	**1,124,807**	520,915	**1,205,094**	911,842
Profit for the year/period			**3,288,723**	1,068,350	**3,469,074**	1,641,628
Profit attributable to:						
Equity holders of the Bank			**3,288,723**	1,068,350	**3,414,980**	1,592,303
Non-controlling interests					**54,094**	49,325
Profit for the year/period			**3,288,723**	1,068,350	**3,469,074**	1,641,628
Basic earnings per ordinary share (LKR)	22	163	**12.41**	4.03	**12.88**	6.01

The notes to the financial statements from pages 144 to 220 form part of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Profit for the year/period	**3,288,723**	1,068,350	**3,469,074**	1,641,628
Other comprehensive income/(expenses) for the year/period, net of tax				
Items that are or may be re classified subsequently to income statement				
Available-for-sale financial assets:				
Net change in fair value of available-for-sale financial assets	**206,916**	(3,157,505)	**206,916**	(3,246,069)
Net amount transferred to income statement on disposal of available-for-sale financial assets	**(8,533)**	(36,682)	**(8,533)**	(56,933)
Tax expense relating to available-for-sale financial assets	**65,447**	(360)	**65,447**	30,108
Share of other comprehensive (expenses)/income of equity accounted joint venture	**–**	–	**(21,154)**	17,041
Share of other comprehensive expenses of equity accounted associate	**–**	–	**(3,359)**	(12)
Total other comprehensive income/(expenses) that are or may be reclassified subsequently to income statement	**263,830**	(3,194,547)	**239,317**	(3,255,865)
Items that will not be reclassified to income statement				
Actuarial gains and losses on defined benefit plans	**137,764**	(102,755)	**140,509**	(104,118)
Tax expense relating to actuarial gains and losses on defined benefit plans	**3,082**	1,112	**2,844**	1,553
Total other comprehensive income/(expenses) not to be reclassified to income statement	**140,846**	(101,643)	**143,353**	(102,565)
Other comprehensive income/(expenses) for the year/period, net of tax	**404,676**	(3,296,190)	**382,670**	(3,358,430)
Total comprehensive income/(expenses) for the year/period	**3,693,399**	(2,227,840)	**3,851,744**	(1,716,802)
Total comprehensive income/(expenses)				
Attributable to:				
Equity holders of the Bank	**3,693,399**	(2,227,840)	**3,797,474**	(1,765,468)
Non-controlling interests			**54,270**	48,666
Total comprehensive income/(expenses) for the year/period	**3,693,399**	(2,227,840)	**3,851,744**	(1,716,802)

The notes to the financial statements from pages 144 to 220 form part of these financial statements.

Statement of Financial Position

As at	Notes	Page No.	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000
Assets						
Cash and cash equivalents	25	166	**4,330,934**	4,305,247	**4,344,260**	4,314,777
Balances with Central Bank of Sri Lanka	26	167	**8,062,567**	5,553,809	**8,062,567**	5,553,809
Placements with banks	27	167	**1,351,117**	–	**1,415,985**	1,718
Derivative assets held-for-risk management	28	167	**122,977**	198,776	**122,977**	198,776
Loans to and receivables from banks	29	168	**12,300,398**	4,574,319	**12,300,398**	4,602,263
Loans to and receivables from other customers	30	169	**185,784,979**	160,345,530	**185,784,979**	160,343,155
Financial investments – available-for-sale	31	171	**49,272,243**	48,957,015	**49,272,243**	48,957,015
Financial investments – held-to-maturity	32	175	**23,189,085**	17,903,885	**23,189,085**	17,903,885
Investments in subsidiaries	33	177	**111,932**	132,855	**–**	–
Investment in associate	34	178	**35,270**	35,270	**64,873**	66,980
Investment in joint venture	35	179	**755,000**	655,000	**1,378,254**	1,180,819
Due from subsidiaries	36	180	**19,855**	17,394	**–**	–
Investment property	37	180	**–**	–	**231,352**	195,732
Property, plant and equipment	38	182	**927,857**	943,017	**1,042,619**	1,042,301
Intangible assets	39	184	**203,742**	247,115	**208,382**	247,945
Goodwill on consolidation	40	185	**–**	–	**156,226**	156,226
Government grant receivable	41	185	**861,915**	539,758	**861,915**	539,758
Deferred tax asset	42	186	**–**	–	**628**	1,536
Prepayments			**53,803**	36,708	**53,803**	36,708
Other assets	43	188	**2,728,340**	1,705,379	**2,775,017**	1,765,199
Total assets			**290,112,014**	246,151,077	**291,265,563**	247,108,602
Liabilities						
Due to banks	44	188	**18,103,587**	24,364,403	**18,103,587**	24,365,653
Derivative liabilities held-for-risk-management	28	167	**105,741**	85,333	**105,741**	85,333
Due to other customers	45	188	**140,514,373**	110,890,685	**140,219,872**	110,551,220
Other borrowing	46	189	**40,802,490**	35,955,297	**40,787,444**	35,955,297
Debt securities issued	47	189	**29,179,185**	23,292,660	**29,179,185**	23,292,660
Current tax liability			**607,333**	251,551	**626,470**	266,723
Deferred tax liability	42	186	**851,662**	880,490	**873,912**	880,490
Government grant – deferred income	41	185	**701,665**	476,008	**701,665**	476,008
Other liabilities	48	190	**4,190,675**	3,368,558	**4,352,331**	3,500,012
Subordinated term debt	49	195	**9,205,637**	3,767,081	**9,205,637**	3,767,081
Total liabilities			**244,262,348**	203,332,066	**244,155,844**	203,140,477

As at	Notes	Page No.	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000
Equity						
Stated capital	50	196	**4,715,814**	4,715,814	**4,715,814**	4,715,814
Statutory reserve	51	196	**2,004,275**	1,834,275	**2,004,275**	1,834,275
Retained earnings	52	196	**10,800,251**	8,203,426	**14,231,009**	11,506,206
Other reserves	53	196	**28,329,326**	28,065,496	**25,898,721**	25,659,404
Total equity attributable to equity holders of the Bank			**45,849,666**	42,819,011	**46,849,819**	43,715,699
Non-controlling interests					**259,900**	252,426
Total equity			**45,849,666**	42,819,011	**47,109,719**	43,968,125
Total equity and liabilities			**290,112,014**	246,151,077	**291,265,563**	247,108,602
Contingent liabilities and commitments	54	196	**101,452,101**	76,014,851	**101,452,101**	76,014,851
Net assets value per share, LKR			**172.95**	161.52	**176.73**	164.90

The notes to the financial statements from pages 144 to 220 form part of these financial statements.

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

Ashok Goonesekere
Chief Financial Officer

For and on behalf of the Board of Directors,

C R Jansz
Chairman

A R Fernando
Director and Chief Executive

Colombo
20 February 2017

Statement of Changes in Equity

		Statutory reserves	Other reserves			
	Stated capital LKR 000	Reserve fund LKR 000	Fair value reserve LKR 000	General reserve LKR 000	Retained earnings LKR 000	Total equity LKR 000
Bank						
Balance as at 31.03.2015	4,715,814	1,545,000	17,512,960	13,779,839	6,541,651	44,095,264
Super gain tax (Note 21.2)	–	–	–	–	(776,593)	(776,593)
Adjusted Balance as at 01.04.2015	4,715,814	1,545,000	17,512,960	13,779,839	5,765,058	43,318,671
Balances transferred on amalgamation	–	229,275	(32,756)	–	3,122,247	3,318,766
	4,715,814	1,774,275	17,480,204	13,779,839	8,887,305	46,637,437
Total comprehensive income/(expenses) for the period						
Profit for the period	–	–	–	–	1,068,350	1,068,350
Other comprehensive expenses net of tax	–	–	(3,194,547)	–	(101,643)	(3,296,190)
Total comprehensive income/(expenses) for the period	–	–	(3,194,547)	–	966,707	(2,227,840)
Transfers	–	60,000	–	–	(60,000)	–
Transactions with equity holders, recognised directly in equity						
Final dividend approved on 30.06.2015	–	–	–	–	(1,590,586)	(1,590,586)
Total contributions from and distribution to equity holders	–	–	–	–	(1,590,586)	(1,590,586)
Balance as at 31.12.2015	4,715,814	1,834,275	14,285,657	13,779,839	8,203,426	42,819,011
Profit for the year	–	–	–	–	3,288,723	3,288,723
Other comprehensive income net of tax	–	–	263,830	–	140,846	404,676
Total comprehensive income for the year	–	–	263,830	–	3,429,569	3,693,399
Transfers	–	170,000	–	–	(170,000)	–
Transactions with equity holders, recognised directly in equity						
Final dividend approved on 24.02.2016	–	–	–	–	(662,744)	(662,744)
Total contributions from and distribution to equity holders	–	–	–	–	(662,744)	(662,744)
Balance as at 31.12.2016	4,715,814	2,004,275	14,549,487	13,779,839	10,800,251	45,849,666

	Attributable to the equity holders of the Bank								
		Statutory reserves	Other reserves						
	Stated Capital	Reserve fund	Fair value reserve	Exchange equalisation 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 31.03.2015	4,715,814	1,545,000	15,112,861	2,358	13,779,839	12,752,999	47,908,871	353,882	48,262,753
Super gain tax (Note 21.2)	–	–	–	–	–	(794,705)	(794,705)	(16,663)	(811,368)
Adjusted balance as at 01.04.2015	4,715,814	1,545,000	15,112,861	2,358	13,779,839	11,958,294	47,114,166	337,219	47,451,385
Profit for the period	–	–	–	–	–	1,592,303	1,592,303	49,325	1,641,628
Other comprehensive income/(expenses) net of tax	–	–	(3,255,206)	19,552	–	(122,117)	(3,357,771)	(659)	(3,358,430)
Total comprehensive income/ (expenses) for the period	–	–	(3,255,206)	19,552	–	1,470,186	(1,765,468)	48,666	(1,716,802)
Transfers	–	289,275	–	–	–	(289,275)	–	–	–
Transactions with equity holders, recognised directly in equity									
Increase in ownership interest by the Bank that does not result in change of control	–	–	–	–	–	(45,667)	(45,667)	(76,741)	(122,408)
Change in holding through joint venture	–	–	–	–	–	9,830	9,830	–	9,830
Final dividend approved on 30.06.2015	–	–	–	–	–	(1,590,586)	(1,590,586)	–	(1,590,586)
Preference share dividend paid by subsidiary of joint venture	–	–	–	–	–	(6,576)	(6,576)	–	(6,576)
Dividend distributed to non-controlling interest by subsidiaries	–	–	–	–	–	–	–	(56,718)	(56,718)
Total contributions from and distribution to equity holders	–	–	–	–	–	(1,632,999)	(1,632,999)	(133,459)	(1,766,458)
Balance as at 31.12.2015	4,715,814	1,834,275	11,857,655	21,910	13,779,839	11,506,206	43,715,699	252,426	43,968,125
Profit for the year	–	–	–	–	–	3,414,980	3,414,980	54,094	3,469,074
Other comprehensive income net of tax	–	–	227,799	11,518	–	143,177	382,494	176	382,670
Total comprehensive income for the year	–	–	227,799	11,518	–	3,558,157	3,797,474	54,270	3,851,744
Transfers	–	170,000	–	–	–	(170,000)	–	–	–
Transactions with equity holders, recognised directly in equity									
Change in holding through joint venture	–	–	–	–	–	(610)	(610)	–	(610)
Final dividend approved on 24.02.2016	–	–	–	–	–	(662,744)	(662,744)	–	(662,744)
Dividend distributed to non-controlling interest by subsidiaries	–	–	–	–	–	–	–	(46,796)	(46,796)
Total contributions from and distribution to equity holders	–	–	–	–	–	(663,354)	(663,354)	(46,796)	(710,150)
Balance as at 31.12.2016	4,715,814	2,004,275	12,085,454	33,428	13,779,839	14,231,009	46,849,819	259,900	47,109,719

Statement of Cash Flows

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Cash flows from operating activities				
Interest receipts	**19,317,134**	7,238,360	**19,315,252**	12,887,530
Interest payments	**(13,071,125)**	(5,375,259)	**(13,039,859)**	(8,432,834)
Recoveries on loans previously written-off	**24,499**	23,267	**24,499**	31,463
Receipts from other operating activities	**1,643,470**	2,237,257	**1,923,001**	3,556,605
Cash payments to employees and suppliers	**(4,657,702)**	(1,790,725)	**(4,802,292)**	(3,669,959)
Value added tax and nation building tax on financial services	**(798,410)**	(327,844)	**(798,410)**	(589,020)
Other levies	**(157,564)**	(29,199)	**(157,564)**	(37,844)
Operating cash flows before changes in operating assets and liabilities	**2,300,302**	1,975,857	**2,464,627**	3,745,941
(Increase)/decrease in operating assets				
Deposits held for regulatory or monetary control purposes	**(2,508,759)**	(2,308,744)	**(2,508,757)**	(2,937,403)
Funds advanced to customers	**(33,070,446)**	(12,925,166)	**(33,070,447)**	(27,448,299)
Others	**(339,086)**	576,482	**(330,443)**	660,963
Increase in operating liabilities				
Deposits from customers	**27,978,909**	13,298,437	**28,239,834**	17,122,636
Negotiable certificates of deposit	**32,898**	18,055	**32,898**	143,675
Others	**668,519**	135,829	**668,834**	137,817
Net cash flows from/(used in) operating activities before income tax	**(4,937,663)**	770,750	**(4,503,454)**	(8,574,670)
Income tax paid	**(649,287)**	(951,490)	**(694,286)**	(1,248,318)
Net cash flows used in operating activities	**(5,586,950)**	(180,740)	**(5,197,740)**	(9,822,988)
Cash flows from investing activities				
Dividend received	**688,785**	563,704	**604,526**	284,255
Interest received	**3,190,625**	1,104,679	**3,226,799**	1,398,108
Government Securities – net	**(4,102,903)**	(4,818,751)	**(4,102,903)**	(9,002,938)
Proceeds from sale and redemption of securities	**748,838**	558,085	**748,838**	558,085
Purchase of securities	**(778,566)**	(2,496,929)	**(778,566)**	(2,214,741)
Investment in joint venture	**(100,000)**	–	**(100,000)**	–
Purchase of property, equipment, intangibles and investment property	**(277,384)**	(118,534)	**(370,960)**	(318,201)
Proceeds from sale of equipment and investment property	**10,647**	2,810	**10,654**	2,873
Net cash used in investing activities	**(619,958)**	(5,204,936)	**(761,612)**	(9,292,559)

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Cash flows from financing activities				
Payment to minority shareholders on amalgamation	**–**	(122,408)	**–**	(122,408)
Issue of debentures	**12,315,450**	–	**12,315,450**	–
Redemption of debentures	**(2,096,000)**	–	**(2,096,000)**	–
Borrowing, medium and long-term	**4,484,011**	3,318,581	**4,484,011**	3,315,727
Other borrowing – net	**(2,628,484)**	7,094,903	**(2,628,484)**	20,167,940
Repayment of borrowing, medium and long-term	**(3,836,433)**	(3,505,648)	**(3,836,433)**	(3,505,649)
Dividends paid	**(654,832)**	(1,572,012)	**(835,442)**	(1,628,735)
Net cash flows from financing activities	**7,583,712**	5,213,416	**7,403,102**	18,226,875
Net increase/(decrease) in cash and cash equivalents	**1,376,804**	(172,260)	**1,443,750**	(888,672)
Cash and cash equivalents at the beginning of period	**4,305,247**	498,619	**4,316,495**	5,205,167
Cash and cash equivalents of DFCC Vardhana Bank PLC as at the date of amalgamation	**–**	3,978,888	**–**	–
Cash and cash equivalents at the end of period	**5,682,051**	4,305,247	**5,760,245**	4,316,495
Reconciliation of cash and cash equivalents with items reported in the statement of financial position				
Cash and cash equivalents (Note 25)	**4,330,934**	4,305,247	**4,344,260**	4,314,777
Placements with banks (Note 27)	**1,351,117**	–	**1,415,985**	1,718
	5,682,051	4,305,247	**5,760,245**	4,316,495

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

Reconciliation of profit for the year/period to net cash flows used in operating activities.

	BANK		GROUP	
	12 months ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**12 months ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Profit for the year/period	**3,288,723**	1,068,350	**3,469,074**	1,641,628
Add/(deduct) items not using cash:	**1,236,907**	350,718	**1,099,602**	846,098
Depreciation – Property, equipment and investment property	**233,079**	114,781	**271,332**	247,234
Amortisation – Intangible assets	**98,262**	42,538	**98,567**	102,158
Unrealised gain on Treasury Bills and Bonds	**(164,110)**	(95,558)	**(164,110)**	(96,659)
Net gain/(loss) from financial instruments at fair value				
– Contracts with commercial banks	**93,944**	14,368	**93,944**	(60,545)
– CBSL Swap	**83,606**	(14,038)	**83,606**	(14,038)
– Interest rate Swap	**2,177**	–	**2,177**	–
Amortisation of deferred income on Government grant	**(180,106)**	130,288	**(180,106)**	130,288
Foreign exchange loss/(gain)	**330,157**	(17,139)	**330,154**	(77,984)
Impairment for loans and other losses	**937,267**	224,939	**916,344**	795,327
Notional tax credit on Treasury Bills and Bonds	**(249,914)**	(73,394)	**(249,914)**	(148,712)
Share of profits of associate and joint venture	–	–	**(161,151)**	(78,693)
Provision for defined benefit plans	**52,545**	23,933	**58,759**	47,722
Deduct items reported gross under investing activities:	**(4,119,146)**	(1,570,987)	**(4,052,777)**	(1,878,276)
Dividend income	**(856,306)**	(536,276)	**(772,046)**	(218,569)
Gains on sale of financial investment	**(152,186)**	(37,018)	**(152,186)**	(37,018)
Gain on sale of equipment and investment property	**(7,694)**	(2,654)	**(13,631)**	(3,050)
Interest income from investments	**(3,102,960)**	(995,039)	**(3,114,914)**	(1,619,639)
Deduct changes in operating assets and liabilities:	**(5,993,434)**	(28,821)	**(5,713,639)**	(10,432,438)
(Increase)/decrease in accounts receivable	**(1,565,071)**	1,090,271	**(1,579,615)**	1,128,570
Increase in accounts payable	**2,334,083**	516,589	**2,323,939**	1,096,079
Increase/(decrease) in income tax payable	**446,392**	(36,940)	**509,872**	(94,908)
Decrease/(Increase) in deferred tax	**29,127**	(393,634)	**246**	(241,568)
Increase in operating assets	**(35,918,291)**	(14,657,428)	**(35,909,647)**	(29,724,739)
Increase in operating liabilities	**28,680,326**	13,452,321	**28,941,566**	17,404,128
Net cash used in operating activities	**(5,586,950)**	(180,740)	**(5,197,740)**	(9,822,988)

Notes to the Financial Statements

1 Reporting Entity

DFCC Bank PLC ('Bank') is a limited liability public company incorporated and domiciled in Sri Lanka.

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

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

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

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

The registered office of the Bank is at 73/5, Galle Road, Colombo 3.

The Bank does not have an identifiable parent of its own. The Bank is the ultimate parent of the Group company.

The Bank's Group comprises subsidiary companies viz, DFCC Consulting (Pvt) Limited, Lanka Industrial Estates Limited and Synapsys Limited.

A joint venture company, Acuity Partners (Pvt) Limited which is equally owned by the Bank and Hatton National Bank PLC.

The Bank has one associate company viz, National Asset Management Limited.

Total employee population of the Bank and the Group on 31 December 2016 was 1,642 and 1,760 respectively (31 December 2015 – 1,445 and 1,659 respectively).

A summary of principal activities of DFCC Bank PLC, its subsidiary companies, associate company and Joint Venture Company is as follows:

DFCC Bank PLC

Range of financial services such as accepting deposits, corporate credit and retail banking, personal financial services, project financing, investment banking, foreign currency operations, trade finance and dealing in Government Securities and Treasury-related products.

Subsidiaries

DFCC Consulting (Pvt) Limited

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

Lanka Industrial Estates Limited

Leasing of land and buildings to industrial enterprises.

Synapsys Limited

Information technology services and information technology enabled services.

Associate

National Asset Management Limited

Fund management.

Joint Venture

Acuity Partners (Pvt) Limited

Investment banking-related financial services.

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

2 Basis of Preparation

2.1 Statement of Compliance

The consolidated financial statements of the Bank (Group) and the separate financial statements of the Bank (Bank), which comprise the statement of financial position, income statement, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and notes thereto, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act, No. 07 of 2007 and the Banking Act, No. 30 of 1988 and amendments thereto.

2.2 *Approval of Financial Statements by Directors*

The financial statements are authorised for issue by the Board of Directors on 20 February 2017.

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 – 'Separate Financial Statements'. In addition to the consolidated financial statements, separate financial statements are also presented as per the Companies Act, No. 07 of 2007 and Banking Act, No. 30 of 1988 and amendments thereto. The separate financial statements of the Bank consists of the financial performance of the amalgamated entity (DFCC Bank) for the year ended 31 December 2016. The comparative information presented in the Income Statement and Statement of Profit and Loss and other Comprehensive Income consists of the performance of the DFCC Bank PLC (prior to amalgamation) for the six months ended 30 September 2015 and performance of the amalgamated entity for the three months ended 31 December 2015.

2.4 *Basis of Measurement*

The consolidated and separate financial statements of the Bank 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. Financial assets available-for-sale are measured at fair value.

iv. 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.

v. The liability for defined benefit statutory end of service gratuity obligations is as the present value of the defined benefit gratuity obligation.

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 *Functional and Presentation Currency*

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.

2.7 *Critical Accounting Estimates and Judgments*

2.7.1 *General*

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

Management discusses with the Board Audit Committee the development, selection and disclosure of critical accounting policies and their application, and assumptions made relating to major estimation uncertainties.

The use of available information and application of judgment are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared.

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

Management believes that Bank's critical accounting policies where judgment is necessarily applied are those which relate to impairment of loans and advances, financial leases and goodwill, the valuation of financial instruments, deferred tax assets and provisions for liabilities.

Further information about key assumptions concerning the future and other key sources of estimated uncertainty are set out in the notes to the financial statements.

2.7.2 *Loan Losses*

The assessment of loan loss as set out in Note 30.2 involves considerable judgment and estimation. Judgment is required firstly to determine whether there are indications that a loss may already have been incurred in individually significant loans and secondly to determine the recoverable amount.

2.7.3 *Pension Liability*

The estimation of this liability determined by an independent, qualified actuary, necessarily involves long-term assumptions on future changes to salaries, future income derived from pension assets, life expectancy of covered employees, etc. Key assumptions are disclosed in Note 48.1.3.8 on page 193.

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

2.7.4 End of Service Gratuity Liability

The estimation of this liability, which is not externally funded, determined by an independent qualified actuary necessarily involves long-term assumptions on future changes to salaries, resignations prior to the normal retirement age and mortality of covered employees. Key assumptions are disclosed in Note 48.1.3.8 on page 193.

2.7.5 Current Tax

The estimation of current tax liability include 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 in the period in which the assessment is issued, if so warranted.

2.7.6 Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available and can be utilised against such tax losses. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. Refer Note 42.2 on page 187 for details.

2.7.7 Impairment of Tangible and Intangible Assets

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

2.8 Changes in Accounting Policies

There are no changes to the accounting policies of the Group and the Group has consistently applied the accounting policies for all periods presented in these consolidated and separate financial statements.

2.8.1 Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax

As per the provisions of Part III of the Finance Act, No. 10 of 2016, which was certified on 30 October 2016, the Bank is liable for Super Gain Tax of LKR 777 million. According to the Act, the Super Gain Tax shall be deemed to be an expenditure in the financial statements relating to the year of assessment, which commenced on 1 April 2013.

The Act supersedes the requirements of the Sri Lanka Accounting Standards, hence the expense of Super Gain Tax is accounted in accordance with the requirements of the said Act as recommended by the Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax, issued by The Institute of Chartered Accountants of Sri Lanka, dated 24 November 2016.

This SoAT supersedes paragraph 46 of LKAS 12 – 'Income Taxes'. Further, this SoAT must be applied by all companies who are liable to pay Super Gain Tax as required under Part III of the Finance Act, No. 10 of 2016 without any option.

3 Basis of Consolidation

3.1 General

The consolidated financial statements are the financial statements of the Group, prepared by consistent application of consolidation procedures, which include amalgamation of the financial statements of the parent and subsidiaries and accounting for the investments in associate company and joint venture company on the basis of reported results and net assets of the investee instead of the direct equity interest.

Thus, the consolidated financial statements present financial information about the Group as a single economic entity, distinguishing the equity attributable to the parent (controlling interest) and attributable to minority shareholders with non-controlling interest.

3.2 Transactions Eliminated on Consolidation

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

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

Audited financial statements are used for consolidation of companies which has a similar financial year end, as the Bank and for other a special review is performed.

Financial statements of Lanka Industrial Estates Limited included in the consolidation have financial years ending 31 March.

The financial statements of DFCC Consulting (Pvt) Limited, Acuity Partners (Pvt) Limited, Synapsys Limited and National Asset Management Limited included in the consolidation have financial years ending on 31 December.

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

No adjustments to the results of subsidiaries, associate company and Joint Venture Company have been made as there were no significant events or transactions.

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

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

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

The distribution of the undistributed earnings of the subsidiaries, associate company and Joint Venture Company is remote in the foreseeable future. As such, 10% withholding tax applicable on the distribution has not been 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 acquiree's 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 in the income statement.

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Note 33 on page 177 contains the financial information relating to subsidiaries.

4.2 Associate Company

Associate company is the enterprise 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 34 on page 178 contain 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 35 on page 179 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

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured.

5.1.1 Interest Income and Expense

Details of interest income and expenses are given on Note 11 on pages 153 to 154.

5.1.2 Net Fees and Commission

Details of commission income and expenses are given on Note 12 on pages 154 to 155.

5.1.3 Net Gain from Trading

Details of net gain/loss from trading are given on Note 13 on page 155.

5.1.4 Net Gain/(Loss) from Financial Instruments at Fair Value Through Profit or Loss

Details of Net Gain/(Loss) from Financial Instruments at Fair Value Through Profit or Loss are given on Note 14 on page 155.

5.1.5 Net Gain/(Loss) from Financial Investments

Details of net gain/(Loss) from financial instruments are given on Note 15 on page 156.

5.1.6 Foreign Exchange Gain/(Loss)

Items included in the financial statements of the Bank are measured in Sri Lankan Rupees denoted as LKR which is the currency of the primary economic environment in which the Bank operates ('the functional currency') as well as the presentation currency.

Transactions in foreign currencies are recorded in the functional currency at the average exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the average exchange rate ruling at the reporting date (viz. date of the statement of financial position) and consequently recognised in the 'other operating (loss)/income' in the income statement of the Bank. The average exchange rate used is the middle rates quoted by commercial banks for purchase or sale of the relevant foreign currency.

The Bank does not have any non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency.

Foreign exchange income recognised in the income statement is presented as follows, based on the underlying classification:

i. Foreign exchange gain/(loss) which is part of a trading activity comprising profit or loss from the sale and purchase of foreign currencies for spot exchange is included as net gain/(loss) from trading (Note 14).

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 14).

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 Other Expenses

All other expenses are recognised on an accrual basis.

5.2 Financial Assets

5.2.1 Recognition and Measurement

The financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction cost that are directly attributable to its acquisition.

Loans and advances are initially recognised on the date at which they are originated at fair value which is usually the loan amount granted and subsequent measurement is at amortised cost.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

All other financial assets are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

5.2.2 Classification

At the inception, a financial asset is classified and measured at fair value and classified as follows:

- **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.

- **Fair value through profit or loss** – 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.
  - **Derivative assets** – are mandatorily measured at fair value with fair value changes recognised in the income statement.
- **Available-for-sale** – this is measured at fair value and is the residual classification with fair value changes recognised in other comprehensive income.

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 minimise 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 end of the reporting period during which the change has occurred.

5.2.6 Identification and Measurement of Impairment

At each reporting date, the Bank assesses whether there is an objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) that can be estimated reliably.

5.2.6.1 Loans and Advances and Held-to-Maturity Investment Securities

Objective evidence that loans and advances and held-to-maturity investment securities (e.g., debt instruments quoted in the Colombo Stock Exchange, Treasury Bills and Bonds) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group or economic conditions that correlate with defaults in the Group.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific and collective level. Details of the individual and collective assessment of impairments are given in Note 17 on pages 157 and 158.

5.2.6.2 Available-for-Sale Financial Assets

At each date of statement of financial position an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

5.2.6.3 Available-for-Sale Debt Securities

When assessing available-for-sale debt securities for objective evidence of impairment at the reporting date. Bank considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial recognition, or the disappearance of an active market for the debt security.

These types of specific events and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

5.2.6.4 Available-for-Sale Equity Securities

Objective evidence of impairment for available-for-sale equity securities may include specific information about the issuer and information about significant changes in technology, markets, economics or the law that provide evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, a decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement. If there is no longer objective evidence that the debt security is impaired, the impairment loss is also reversed through the income statement.
- For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses 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 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 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 immediately recognised in the income statement. The recoverable amount is the value in use.

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 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 transactions.

5.2.8 Fiduciary Assets

Assets held in a fiduciary capacity are not reported in these financial statements as they do not belong to the Bank.

5.3 Financial Liabilities

5.3.1 Recognition and Initial Measurement

Deposits, borrowing from foreign multilateral, bilateral sources and domestic sources, debt securities issued and subordinated liabilities are initially recognised on the date at which they are originated. A financial liability is measured initially at fair value plus, transaction costs that are directly attributable to its acquisition or issue.

Subsequent measurement of financial liability is at fair value or 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 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 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.

5.3.5 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.

5.4 Stated Capital

Share 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 Directors’ Responsibility

The Directors acknowledge the responsibility for true and fair presentation of the financial statements in accordance with Sri Lanka Accounting Standards.

8 New SLFRS Issued and Not Yet Effective

8.1 SLFRS Applicable for Financial Periods beginning on or after 1 January 2018

8.1.1 SLFRS 9 – 'Financial Instruments'

SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 – Financial Instruments: Recognition and Measurement. SLFRS 9 contains three principal classification categories for financial assets – i.e. measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The existing LKAS 39 categories of fair value through profit or loss, held-to-maturity, loans and receivables and available-for-sale are removed.

SLFRS 9 replaces the 'incurred loss' model in LKAS 39 with an 'expected credit loss' model. The new model applies to financial assets that are not measured at FVTPL.

The model uses a dual measurement approach, under which the loss allowance is measured as either:

- 12 months expected credit loss; or
- Lifetime expected credit losses.

The measurement basis will generally depend on whether there has been a significant increase in credit risk since initial recognition.

A simplified approach is available for trade receivables, contract assets and lease receivables, allowing or requiring the recognition of lifetime expected credit losses at all times. Special rules apply to assets that are credit impaired at initial recognition. The new standard carried guidance on new general hedge accounting requirements.

SLFRS 9 introduces new presentation requirements and extensive new disclosure requirements.

Effective date of SLFRS 9 has been deferred till 01 January 2018.

The Group/Bank, has completed the initial high level assessment of the potential impact on its Consolidated Financial Statements resulting from the application of SLFRS 9 with the assistance of an external consultant.

The next phase being the implementation phase, will commence from end February 2017. During this Phase the Group will –

- Implement a business model approach and solely payment of principal and interest criteria to ensure that financial assets are classified into the appropriate categories
- Build a model with appropriate methodologies and controls to ensure that judgment exercised to assess recoverability of loans and make robust estimates of expected credit losses and point at which there is significant increase in credit risk.

Judgment will need to be applied to ensure that the measurement of expected credit losses reflects reasonable and supportable information.

Given the nature of the Group/Bank's operations, this standard is expected to have a pervasive impact on the Bank/Group's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss model is expected to result in an increase in the overall level of impairment allowances

8.1.2 SLFRS 15 – 'Revenue from Contracts with Customers'

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. New qualitative and quantitative disclosure requirements aim to enable financial statements users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Entities will apply five step model to determine when to recognise revenue and at what amount. The model specified that revenue is recognised when or as an entity transfers control of goods and services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recignised.

It replaces existing revenue recognition guidance, including LKAS 18 on 'Revenue' and LKAS 11 on 'Construction Contracts' and IFRIC 13 on 'Customer Loyalty Programmes'.

SLFRS 15 is effective for annual reporting periods beginning on or after 01 January 2018, with early adoption permitted.

The Group/Bank does not expect significant impact on its financial statements resulting from the application of SLFRS 15.

8.1.2 SLFRS 16 – 'Leases'

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between On-Balance Sheet finance leases and Off-Balance Sheet operating leases. Instead, there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting.

SLFRS 16 is effective for annual reporting periods beginning on or after 01 January 2019.

The Group/Bank is assessing the potential impact on its financial statements resulting from the application of SLFRS 16.

9 The Effect to the Results of the Group Due to Change in Financial Year End

Current year results of the Bank and Group include the results for the year ended 31 December 2016. DFCC Bank PLC changed its financial year end to 31 December during last financial year. Accordingly the comparative Bank and the consolidated financial statements for the period ended 31 December 2015 include the results of the DFCC Bank PLC and subsidiaries with year ending 31 March for the nine months to 31 December 2015 and results of 31 December financial year ending subsidiaries, associate and joint venture company for 12 months to 31 December 2015.

10 Income

Accounting Policy →

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured.

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Interest income	**24,194,158**	8,918,343	**24,206,112**	15,308,568
Fee and commission income	**1,309,049**	400,066	**1,309,049**	1,179,505
Net gain from trading	**340,456**	87,062	**340,456**	215,575
Net (loss)/gain from financial instruments at fair value through profit or loss	**(179,727)**	(330)	**(179,727)**	74,583
Net gain from financial investments	**1,165,389**	640,637	**1,081,129**	507,528
Other operating (loss)/income – net	**(75,430)**	(9,498)	**223,064**	217,109
	26,753,895	10,036,280	**26,980,083**	17,502,868

11 Net Interest Income

Accounting Policy →

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, the 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 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.

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Interest income				
Placements with banks	**203,105**	37,700	**215,059**	42,536
Loans to and receivables from banks	**531,828**	79,630	**531,828**	190,431
Loans to and receivables from other customers	**20,559,370**	7,843,674	**20,559,370**	13,498,498
Other financial assets held-for-trading	**154,544**	101,665	**154,544**	211,877
Financial investments - Available-for-sale	**1,587,178**	466,404	**1,587,178**	748,920
Financial investments - Held-to-maturity	**1,158,133**	388,080	**1,158,133**	615,116
Others	**–**	1,190	**–**	1,190
	24,194,158	8,918,343	**24,206,112**	15,308,568
Interest expenses				
Due to banks	**1,293,423**	404,237	**1,293,423**	628,280
Due to other customers	**9,552,556**	2,665,807	**9,522,440**	5,584,815
Other borrowing	**1,366,328**	879,155	**1,366,328**	879,155
Debt securities issued	**3,080,715**	1,611,155	**3,080,715**	1,830,993
	15,293,022	5,560,354	**15,262,906**	8,923,243
Net interest income	**8,901,136**	3,357,989	**8,943,206**	6,385,325
Interest income on Sri Lanka Government Securities	**2,462,600**	733,936	**2,462,600**	1,487,117

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

12 *Net Fee and Commission Income*

Accounting Policy →

Fee & commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Fees for guarantees and trade related commissions are recognised on a straight-line basis over the period of the contract. Other fees and commission expense relate mainly to transaction and service fees, which are expensed, as the services are received.

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Fees for guarantees and trade related commissions are recognised on a straight-line basis over the period of the contract. Other fees and commission expense relate mainly to transaction and service fees, which are expensed, as the services are received.

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Fee and commission income	**1,309,049**	400,066	**1,309,049**	1,179,505
Fee and commission expenses	**–**	1,208	**–**	9,914
Net fee and commission income	**1,309,049**	398,858	**1,309,049**	1,169,591
Comprising:				
Loans and advances	**403,589**	135,388	**403,589**	379,921
Credit cards	**4,820**	958	**4,820**	22,634
Trade and remittances	**390,020**	80,707	**390,020**	349,021
Customer accounts	**281,056**	65,244	**281,056**	22,628
Guarantees	**161,805**	66,992	**161,805**	139,268
Management and consulting fees	**67,759**	49,569	**67,759**	256,119
Net fee and commission income	**1,309,049**	398,858	**1,309,049**	1,169,591

13 *Net Gain 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 foreign exchange differences.

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Foreign exchange from banks	**176,346**	(8,496)	**176,346**	118,916
Fixed income	**164,110**	95,558	**164,110**	96,659
	340,456	87,062	**340,456**	215,575

14 *Net (Loss)/Gain from Financial Instruments at Fair Value through Profit or Loss*

Accounting Policy →

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 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.

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Forward exchange fair value changes				
Contracts with commercial banks	**(93,944)**	(14,368)	**(93,944)**	60,545
Contract with CBSL (Note 41.1)	**(83,606)**	14,038	**(83,606)**	14,038
Interest rate swap fair value changes	**(2,177)**	–	**(2,177)**	–
	(179,727)	(330)	**(179,727)**	74,583

15 Net Gain from Financial Investments

Accounting Policy →

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.

Net Gain/loss from Financial Investments 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.

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Assets available-for-sale				
Gain on sale of equity securities	**152,186**	37,018	**152,186**	37,018
Gain on sale of Government Securities	**4,202**	424	**4,202**	774
Dividend income	**772,046**	218,249	**772,046**	218,569
Dividend income from subsidiaries, joint venture and associate	**84,260**	318,027	**–**	–
Net gain from repurchase transactions	**152,695**	66,919	**152,695**	251,167
	1,165,389	640,637	**1,081,129**	507,528

16 Other Operating (Loss)/Income – Net

Accounting Policy →

Rental income and 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.

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Premises rental income	**37,815**	41,577	**228,951**	162,661
Gain on sale of property, plant and equipment	**7,694**	2,654	**13,631**	3,050
Foreign exchange (loss)/gain	**(330,157)**	17,139	**(330,154)**	77,984
Recovery of loans written off	**24,499**	23,267	**24,499**	31,463
Amortisation of deferred income on Government grant – CBSL Swap (Note 41.2)	**180,106**	(130,288)	**180,106**	(130,288)
Others	**4,613**	36,153	**106,031**	72,239
	(75,430)	(9,498)	**223,064**	217,109

17 Impairment for Loans and Other Losses

Accounting Policy →

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.*

For all loans and held-to-maturity debt instruments that are considered individually significant, Bank assesses on a case by case basis, whether there is any objective evidence of impairment. The criteria used by the Bank to determine that there is such objective evident include

- *contractual payments for either principal or interest being past due for a prolonged period;*
- *the probability that the borrower will enter bankruptcy or other financial realisation;*
- *a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees, where the concession is not insignificant; and*
- *there has been deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.*

For those loans and held-to-maturity investment securities where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- *Bank's aggregate exposure to the customer;*
- *Thee viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;*
- *the amount and timing of expected receipts and recoveries;*
- *the likely dividend available on liquidation or bankruptcy;*
- *the extent of other creditors' commitments ranking ahead of or pari passu with, the Bank and*
- *the likelihood of other creditors continuity to support the Company;*
- *the realisable value of security (or other credit mitigants) and likelihood of successful repossession or enforcement of security;*
- *the likely deduction of any costs involved in recovery of amounts outstanding.*

Impairment allowance on loans and advances and held-to-maturity investment securities measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Collective Assessment, this includes:

All loans and advances of smaller value where there is no evidence of impairment and those individually assessed for which no evidence of impairment has been specifically identified on an individual basis.

- *Import loans*
- *Export loans*
- *Corporate term loans*
- *Overdraft*
- *Personal loans*
- *Finance leases*
- *Project Loans*
- *Credit Cards*

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 the Bank has incurred as a result of events occurring before the reporting date, which the Bank is not able to identify on an individual basis and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available, which identifies losses on individual loans and held-to-maturity investment securities within the Group, these are removed from the Group and assessed on an individual basis for impairment. The collective impairment allowance is based on historical loss experience adjusted by management's experienced judgment.

Impairment allowance on loans and advances and held-to-maturity investment securities measured at a mortised 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.

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.

Renegotiated Loans

Loans subject to collective impairment assessment, whose terms have been renegotiated are no longer considered past due, but are treated as up-to-date loans for measurement purposes once a minimum number of payments required have been received.

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired. The carrying amounts of loans that have been classified as renegotiated retain this classification until maturity or derecognition.

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.

Asset-Backed Securities

These are included in loans and advances. When assessing for objective evidence of impairment, the Bank considers the performance of underlying collateral.

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Loans to and receivables from other customers				
Specific allowance for impairment (Note 30.2.1)	**792,389**	325,635	**792,389**	757,051
Collective allowance for impairment (Note 30.2.2)	**81,772**	(104,907)	**81,772**	23,483
Impairment charge/(recoveries) – other debts	**5,371**	(3,034)	**5,371**	918
Impairment charge – Investment in other equity securities	**33,929**	–	**33,929**	–
Impairment charge – Investment in subsidiaries (Note 33.1)	**20,923**	1,681	**–**	–
Write-offs – Loans to and receivables from other customers	**2,883**	5,564	**2,883**	13,875
	937,267	224,939	**916,344**	795,327

18 Personnel Expenses

Accounting Policy →

Employee Benefits

Defined Benefit Plans (DBPs)

A Defined Benefit Plan is a post-employment benefit plan other than a Defined Contribution Plan as defined in the Sri Lanka Accounting Standard – LKAS 19 on 'Employee Benefits'.

Pension Liability Arising from Defined Benefit Obligations

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 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).

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.

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.

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.

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

Description of the Plan and Employee Groups Covered

The Bank provides for the gratuity payable under the Payment of Gratuity Act, No. 12 of 1983, as amended for all employees who do not qualify under the pension scheme. Therefore, this applies to employees recruited to the permanent cadre on or after 1 May 2004, on tenured or fixed term contract employment in the Bank. The subsidiary companies, which do not have a non-contributory pension scheme, provide for the gratuity payable under the Payment of Gratuity Act, No. 12 of 1983 for all employees. The promised benefit is half a month pre-termination salary for each completed year of service, provided a minimum qualifying period of 5 years is served, prior to termination of employment.

The Bank however, recognises the liability by way of a provision for all employees in tenured employment from the date they joined the permanent cadre, while fixed term employees liability is recognised only if the fixed term contract of service provides for unbroken service of 5 years or more either singly or together with consecutive contracts.

Funding Arrangement

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

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.

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 an event, the Bank will adopt the accounting policy currently used for the defined benefit pension plan.

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.

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Salaries and other benefits	**2,429,063**	1,044,277	**2,574,073**	2,303,921
Provision for staff retirement benefits (Note 18.1)	**380,679**	203,984	**405,996**	325,818
	2,809,742	1,248,261	**2,980,069**	2,629,739

18.1 Provision for Staff Retirement Benefits

18.1.1 Amount Recognised as Expense

18.1.1.1 Funded Pension Liability

Current service cost	**71,746**	58,048	**71,746**	58,048
Interest on obligation	**206,681**	144,561	**206,681**	144,561
Expected return on pension assets	**(193,785)**	(139,779)	**(193,785)**	(139,779)
	84,642	62,830	**84,642**	62,830

18.1.1.2 Unfunded Pension Liability

Interest on obligation	**5,688**	4,569	**5,688**	4,569
	5,688	4,569	**5,688**	4,569

18.1.1.3 Unfunded end of Service Gratuity Liability

Current service cost	**29,417**	12,404	**33,853**	28,636
Interest on obligation	**17,440**	6,960	**19,218**	14,517
	46,857	19,364	**53,071**	43,153
Total defined benefit plans	**137,187**	86,763	**143,401**	110,552

18.1.1.4 Defined Contribution Plan

Employer's contribution to Employees' Provident Fund	**202,910**	97,685	**218,284**	178,821
Employer's contribution to Employees' Trust Fund	**40,582**	19,536	**44,311**	36,445
Total defined contribution plans	**243,492**	117,221	**262,595**	215,266
Total expense recognised in the income statement	**380,679**	203,984	**405,996**	325,818

19 Other Expenses

For the period end	BANK Year ended 31 December 2016 LKR 000	BANK 9 months ended 31 December 2015 LKR 000	GROUP Year ended 31 December 2016 LKR 000	GROUP 9 months ended 31 December 2015 LKR 000
Directors' remuneration	**18,582**	13,006	**19,472**	24,682
Auditors' remuneration				
Audit fees and expenses	**3,900**	4,723	**4,623**	6,270
Audit related fees and expenses	**1,265**	1,733	**1,316**	2,145
Fees for non-audit services and expenses	**1,150**	–	**1,150**	–
Depreciation – Investment property	–	–	**13,800**	9,706
– Property, plant and equipment	**233,079**	114,781	**257,532**	237,528
Amortisation- Intangible assets	**98,262**	42,538	**98,567**	102,158
Expenses on litigation	**2,767**	2,232	**2,767**	2,401
Premises, equipment and establishment expenses	**1,049,987**	467,195	**1,048,935**	894,586
Other overhead expenses	**905,232**	423,547	**873,475**	801,062
	2,314,224	1,069,755	**2,321,637**	2,080,538

Directors' remuneration consists of fees paid to Non-Executive Directors. Remuneration paid to Executive Directors are included under salaries and other benefits in Note 18.

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

Accounting Policy →

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.

Nation Building Tax on Financial Services (NBT)

NBT on financial services is calculated in accordance with Nation Building Tax Act, No. 09 of 2009 and subsequent amendments thereto. NBT is chargeable on the same base used for calculation of VAT on financial services.

	BANK Year ended 31 December 2016 LKR 000	BANK 9 months ended 31 December 2015 LKR 000	GROUP Year ended 31 December 2016 LKR 000	GROUP 9 months ended 31 December 2015 LKR 000
20.1 Value Added Tax on Financial Services				
Financial services VAT – Current year/period	**854,680**	294,804	**854,680**	493,857
– Under/(Over) provision in respect of previous years	**2,495**	(4,732)	**2,495**	6,236
	857,175	290,072	**857,175**	500,093
20.2 Nation Building Tax on Financial Services				
Nation building tax on financial services - Current year/period	**137,105**	53,601	**137,105**	90,412
- Over provision in respect of previous years	**(8,170)**	(1,175)	**(8,170)**	(1,175)
	128,935	52,426	**128,935**	89,237
	986,110	342,498	**986,110**	589,330

21 Income Tax Expense

Accounting Policy →

Income Tax expense comprise of 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 Taxation

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. Taxable profit is determined in accordance with the provisions of Inland Revenue Act no 10 of 2006, as amended.

Deferred Taxation

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 that 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.

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's financial statements, as a consolidation adjustment.

21.1 Composition

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Current tax	**1,027,194**	341,911	**1,084,646**	624,801
Under provision in previous years	**57,912**	11,070	**57,827**	16,885
Deferred tax – origination and reversal of temporary differences	**39,701**	167,934	**62,621**	270,156
	1,124,807	520,915	**1,205,094**	911,842

21.1.1 Reconciliation of Effective Tax Rate with Income Tax Rate

	BANK				GROUP			
	Year ended 31 December 2016		9 months ended 31 December 2015		**Year ended 31 December 2016**		9 months ended 31 December 2015	
	%	**LKR 000**	%	LKR 000	**%**	**LKR 000**	%	LKR 000
Tax using 28% tax rate on profit before tax (PBT)	**28.00**	**1,235,788**	28.00	444,994	**28.00**	**1,308,767**	28.00	714,972
Non-deductible expenses	**16.64**	**734,605**	17.78	282,581	**15.94**	**745,177**	18.18	464,095
Allowable deductions	**(7.79)**	**(343,916)**	(8.89)	(141,310)	**(7.54)**	**(352,204)**	(13.50)	(344,652)
Dividend income	**(5.24)**	**(231,478)**	(10.06)	(159,887)	**(4.95)**	**(231,478)**	(5.15)	(131,526)
Tax incentives	**(7.36)**	**(324,683)**	(7.76)	(123,382)	**(6.95)**	**(324,973)**	(5.13)	(131,092)
Taxable timing difference from capital allowances on assets	**0.64**	**28,148**	(6.27)	(99,645)	**0.60**	**28,143**	(1.67)	(42,566)
Tax losses from prior year	**(1.61)**	**(71,270)**	(2.66)	(42,320)	**(1.53)**	**(71,651)**	(1.67)	(42,591)
Adjustments	**–**	**–**	11.38	180,880	**(0.37)**	**(17,135)**	5.41	138,161
Current tax expense	**23.28**	**1,027,194**	21.52*	341,911	**23.02**	**1,084,646**	24.47	624,801

** Effective tax rate is computed, including the additional tax arising on financial year change.*

21.2 Super Gain Tax

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Related to the taxable profits for the year of assessment 2015/2016	**–**	776,593	**–**	811,368

As per the provisions of part III of Finance Act No. 10 of 2015, which was certified on 30 October 2015, the Bank and Group were liable for Super Gain Tax. The method of accounting is explained in Note 2.8.1.

22 *Basic Earnings per Ordinary Share*

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

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

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Profit attributable to equity holders of the Bank	**3,288,723**	1,068,350	**3,414,980**	1,592,303
Number of ordinary shares (Note 50)	**265,097,688**	265,097,688	**265,097,688**	265,097,688
Basic earnings per ordinary share – LKR	**12.41**	4.03	**12.88**	6.01

23 Dividend per Share

	BANK		GROUP	
	Year ended 31 December 2016	9 months ended 31 December 2015	**Year ended 31 December 2016**	9 months ended 31 December 2015
Dividend per share (LKR)	**4.50**	2.50	**4.50**	2.50

The Board of Directors of the Bank has approved the payment of a first and final dividend of LKR 4.50 per share for the year ended 31 December 2016

24 Analysis of Financial Instruments by Measurement Basis

As at 31 December 2016	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
24.1 Bank						
Financial Assets						
Cash and cash equivalents	–	–	–	4,330,934	–	4,330,934
Balances with Central Bank of Sri Lanka	–	–	–	8,062,567	–	8,062,567
Placements with banks	–	–	–	1,351,117	–	1,351,117
Derivative assets held-for-risk management	122,977	–	–	–	–	122,977
Loans to and receivables from banks	–	–	–	12,300,398	–	12,300,398
Loans to and receivables from other customers	–	–	–	185,784,979	–	185,784,979
Financial investments	–	–	49,272,243	–	23,189,085	72,461,328
Due from subsidiaries	–	–	–	19,855	–	19,855
Government grant receivable	861,915	–	–	–	–	861,914
Other assets	–	–	–	2,562,978	–	2,562,978
	984,892	–	49,272,243	214,412,828	23,189,085	287,859,047
Financial Liabilities						
Due to banks	–	–	–	18,103,587	–	18,103,587
Derivative liabilities held-for-risk management	105,741	–	–	–	–	105,741
Due to other customers	–	–	–	140,514,373	–	140,514,373
Other borrowing	–	–	–	40,802,490	–	40,802,490
Debt securities issued	–	–	–	29,179,185	–	29,179,185
Subordinated term debt	–	–	–	9,205,637	–	9,205,637
Other liabilities	–	–	–	3,850,825	–	3,850,825
	105,741	–	–	241,656,097	–	241,761,838

As at 31 December 2015	Fair value through profit or loss mandatory LKR 000	Fair value held-for-trading LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Held-to-maturity LKR 000	Total LKR 000

24.2 Bank

Financial Assets						
Cash and cash equivalents	–	–	–	4,305,247	–	4,305,247
Balances with Central Bank of Sri Lanka	–	–	–	5,553,809	–	5,553,809
Derivative assets held-for-risk management	198,776	–	–	–	–	198,776
Loans to and receivables from banks	–	–	–	4,574,319	–	4,574,319
Loans to and receivables from other customers	–	–	–	160,345,530	–	160,345,530
Financial investments	–	–	48,957,015	–	17,903,885	66,860,900
Due from subsidiaries	–	–	–	17,394	–	17,394
Government grant receivable	539,758	–	–	–	–	539,758
Other assets	–	–	–	1,705,379	–	1,705,379
	738,534	–	48,957,015	176,501,678	17,903,885	244,101,112
Financial Liabilities						
Due to banks	–	–	–	24,364,403	–	24,364,403
Derivative liabilities held-for-risk management	85,333	–	–	–	–	85,333
Due to other customers	–	–	–	110,890,685	–	110,890,685
Other borrowing	–	–	–	35,955,297	–	35,955,297
Debt securities issued	–	–	–	23,292,660	–	23,292,660
Subordinated term debt	–	–	–	3,767,081	–	3,767,081
Other liabilities	–	–	–	2,977,560	–	2,977,560
	85,333	–	–	201,247,686	–	201,333,019

As at 31 December 2016	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	–	–	–	4,344,260	–	4,344,260
Balances with Central Bank of Sri Lanka	–	–	–	8,062,567	–	8,062,567
Placements with banks	–	–	–	1,415,985	–	1,415,985
Derivative assets held-for-risk management	122,977	–	–	–	–	122,977
Loans to and receivables from banks	–	–	–	12,300,398	–	12,300,398
Loans to and receivables from other customers	–	–	–	185,784,979	–	185,784,979
Financial investments	–	–	49,272,243	–	23,189,085	72,461,328
Government grant receivable	861,914	–	–	–	–	861,914
Other assets	–	–	–	2,609,655	–	2,609,655
	984,891	–	49,272,243	214,517,844	23,189,085	287,964,063
Financial Liabilities						
Due to banks	–	–	–	18,103,587	–	18,103,587
Derivative liabilities held-for-risk management	105,741	–	–	–	–	105,741
Due to other customers	–	–	–	140,219,872	–	140,219,872
Other borrowing	–	–	–	40,787,444	–	40,787,444
Debt securities issued	–	–	–	29,179,185	–	29,179,185
Subordinated term debt	–	–	–	9,205,637	–	9,205,637
Other liabilities	–	–	–	3,961,249	–	3,961,249
	105,741	–	–	241,456,974	–	241,562,715

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
24.4 Group						
Financial Assets						
Cash and cash equivalents	–	–	–	4,314,777	–	4,314,777
Balances with Central Bank of Sri Lanka	–	–	–	5,553,809	–	5,553,809
Placements with banks	–	–	–	1,718	–	1,718
Derivative assets held-for-risk management	198,776	–	–	–	–	198,776
Loans to and receivables from banks	–	–	–	4,602,263	–	4,602,263
Loans to and receivables from other customers	–	–	–	160,343,155	–	160,343,155
Financial investments	–	–	48,957,015	–	17,903,885	66,860,900
Government grant receivable	539,758	–	–	–	–	539,758
Other assets	–	–	–	1,765,199	–	1,765,199
	738,534	–	48,957,015	176,580,921	17,903,885	244,180,355
Financial Liabilities						
Due to banks	–	–	–	24,365,653	–	24,365,653
Derivative liabilities held-for-risk management	85,333	–	–	–	–	85,333
Due to other customers	–	–	–	110,551,220	–	110,551,220
Other borrowing	–	–	–	35,955,297	–	35,955,297
Debt securities issued	–	–	–	23,292,660	–	23,292,660
Subordinated term debt	–	–	–	3,767,081	–	3,767,081
Other liabilities	–	–	–	3,083,161	–	3,083,161
	85,333			201,015,072		201,100,405

25 *Cash and Cash Equivalents*

Accounting Policy →

For the purpose of the statement of cash flows, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with three months or less than three months' maturity from the date of acquisition.

Cash and cash equivalents include cash and short-term Treasury Bills with maximum three months' maturity from date of acquisition.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

	BANK		GROUP	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
Cash in hand	**3,193,720**	2,330,722	**3,193,825**	2,330,827
Balances with banks	**1,137,214**	1,550,457	**1,150,435**	1,559,882
Money at call and short notice	**–**	424,068	**–**	424,068
	4,330,934	4,305,247	**4,344,260**	4,314,777

26 *Balances with Central Bank of Sri Lanka*

Accounting Policy →

Balances with Central Banks are carried at amortised cost in the Statement of Financial Position.

	BANK		GROUP	
As at	**31 .12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
Statutory balances with Central Bank of Sri Lanka	**8,062,567**	5,553,809	**8,062,567**	5,553,809

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 is 7.5%. There are no reserve requirement for deposit liabilities of the Foreign Currency Banking Unit and foreign currency deposit liabilities in the Domestic Banking Unit.

27 *Placements with Banks*

	BANK		GROUP	
As at	**31 .12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
Placements with Banks	**1,351,117**	–	**1,415,985**	1,718

28 *Derivatives Held-for-Risk Management*

Accounting Policy →

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.

The 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 counter party, a legal right of offset exists and the parties intend to settle cash flows on a net basis.

28.1 Assets

	BANK		GROUP	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
Forward foreign exchange contracts - Currency Swaps	**104,902**	143,233	**104,902**	143,233
- Others	**18,075**	55,543	**18,075**	55,543
	122,977	198,776	**122,977**	198,776

28.2 Liabilities

As at		BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000
Forward foreign exchange contracts	- Currency Swaps	**94,327**	13,377	**94,327**	13,377
	- Interest Rate Swaps	**2,177**	–	**2,177**	–
	- Others	**9,237**	71,956	**9,237**	71,956
		105,741	85,333	**105,741**	85,333

29 Loans to and Receivables from Banks

Accounting Policy →

Loans and receivables from Bank include amount due from Banks.

The carrying amount includes interest receivable from the banks on these loans. This also includes investment by the Bank in any debentures, bonds, commercial paper or any other debt instrument which is not listed in the Colombo Stock Exchange or in any recognised market. The amount includes the principal amount and interest due and/or accrued on the date of the statement of financial position.

Principal amount of loans and advances (for example, over drawn balances in current account) are recognised when cash is advanced to a borrower. They are derecognised when either the borrower repays its obligations, or the loans are written-off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less any reduction for impairment or uncollectibility.

As at	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000
Gross loans and receivables	**12,300,398**	4,574,319	**12,300,398**	4,602,263
Allowance for impairment	–	–	–	–
Net loans and receivables	**12,300,398**	4,574,319	**12,300,398**	4,602,263

29.1 Analysis

29.1.1 By Product

Securities purchased under resale agreements	–	–	–	27,944
Refinanced loans – Plantation development project	**84,148**	142,593	**84,148**	142,593
KFW* DFCC (V) SME in the North and the East	**2,940**	59,535	**2,940**	59,535
Sri Lanka Development Bonds	**12,213,310**	4,372,191	**12,213,310**	4,372,191
Gross loans and receivables	**12,300,398**	4,574,319	**12,300,398**	4,602,263

** KFW – Kreditanstalt Fur Wiederaufbau*

29.1.2 By Currency

Sri Lankan Rupee	**87,208**	202,128	**87,208**	230,072
United States Dollar	**12,213,190**	4,372,191	**12,213,190**	4,372,191
Gross loans and receivables	**12,300,398**	4,574,319	**12,300,398**	4,602,263

30 Loans to and Receivables from Other Customers

Accounting Policy →

Loans to and receivables from other customers include loans and advances and lease receivables of the Group.

The carrying amount includes interest receivable from the customers and banks on these loans. This also includes investment by the Bank in any debentures, bonds, commercial paper or any other debt instrument which is not listed in the Colombo Stock Exchange or in any recognised market. The amount includes the principal amount and interest due and/or accrued on the date of the statement of financial position.

Principal amount of loans and advances (for example, over drawn balances in current account) are recognised when cash is advanced to a borrower. They are derecognised when either the borrower repays its obligations, or the loans are written-off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less any reduction for impairment or uncollectibility.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risk and rewards incidental to the ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

	BANK		GROUP	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
Gross loans and receivables	**192,454,529**	166,511,168	**192,454,529**	166,508,793
Specific allowance for impairment (Note 30.2.1)	**(4,778,752)**	(4,240,756)	**(4,778,752)**	(4,240,756)
Collective allowance for impairment (Note 30.2.2)	**(1,890,798)**	(1,924,882)	**(1,890,798)**	(1,924,882)
Net loans and receivables	**185,784,979**	160,345,530	**185,784,979**	160,343,155

30.1 Analysis

30.1.1 By Product

Overdrafts	**29,115,220**	24,272,954	**29,115,220**	24,272,954
Trade finance	**24,726,990**	18,742,710	**24,726,990**	18,742,710
Lease rentals receivable (Note 30.1.1.1)	**15,909,152**	15,436,155	**15,909,152**	15,433,780
Credit cards	**242,091**	204,406	**242,091**	204,406
Pawning	**2,109,667**	1,532,181	**2,109,667**	1,532,181
Staff loans	**1,397,579**	1,241,687	**1,397,579**	1,241,687
Term loans	**116,395,228**	102,135,760	**116,395,228**	102,135,760
Commercial papers and asset back notes	**962,763**	1,934,126	**962,763**	1,934,126
Debenture loans	**71,119**	71,189	**71,119**	71,189
Preference shares unquoted	**517,500**	940,000	**517,500**	940,000
Securities purchased under resale agreements	**1,007,220**	–	**1,007,220**	–
Gross loans and receivables	**192,454,529**	166,511,168	**192,454,529**	166,508,793

As at	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000

30.1.1.1 Lease Rentals Receivable

Gross investment in leases:				
Lease rentals receivable				
- within one year	**7,260,287**	6,756,288	**7,260,287**	6,756,288
- one to five years	**11,667,471**	11,546,339	**11,667,471**	11,543,964
	18,927,758	18,302,627	**18,927,758**	18,300,252
Less: Deposit of rentals	**11,480**	15,932	**11,480**	15,932
Unearned income on rentals receivable				
- within one year	**1,483,826**	1,371,442	**1,483,826**	1,371,442
- one to five years	**1,523,300**	1,479,098	**1,523,300**	1,479,098
	15,909,152	15,436,155	**15,909,152**	15,433,780

30.1.2 By Currency

Sri Lankan Rupee	**175,840,682**	152,436,592	**175,840,682**	152,434,217
United States Dollar	**16,021,231**	13,399,942	**16,021,231**	13,399,942
Great Britain Pound	**428,982**	495,468	**428,982**	495,468
Australian Dollar	**18,140**	20,568	**18,140**	20,568
Euro	**145,494**	158,598	**145,494**	158,598
Gross loans and receivables	**192,454,529**	166,511,168	**192,454,529**	166,508,793

30.1.3 By Industry

Agriculture and fishing	**21,177,351**	17,644,788	**21,177,351**	17,644,788
Manufacturing	**42,467,362**	39,710,497	**42,467,362**	39,710,497
Tourism	**11,345,823**	8,905,273	**11,345,823**	8,905,273
Transport	**6,561,001**	5,723,242	**6,561,001**	5,723,242
Construction	**14,769,286**	15,699,860	**14,769,286**	15,699,860
Trading	**42,917,888**	35,994,005	**42,917,888**	35,994,005
Financial and business services	**8,285,786**	7,440,214	**8,285,786**	7,437,839
Infrastructure	**13,767,614**	10,855,351	**13,767,614**	10,855,351
Other services	**14,643,050**	15,751,910	**14,643,050**	15,751,910
Consumer durables	**8,096,930**	4,211,387	**8,096,930**	4,211,387
New economy	**1,399,681**	1,257,448	**1,399,681**	1,257,448
Others	**7,022,757**	3,317,193	**7,022,757**	3,317,193
Gross loans and receivables	**192,454,529**	166,511,168	**192,454,529**	166,508,793

As at	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000

30.2 Movement in Specific and Collective Allowance for Impairment

30.2.1 Specific Allowance for Impairment

Balance at beginning	**4,240,756**	1,932,635	**4,240,756**	4,001,868
Balance transferred on amalgamation	**–**	2,278,723	**–**	–
Charge to income statement	**792,389**	325,635	**792,389**	757,051
Effect of foreign currency movement	**22,903**	7,471	**22,903**	22,591
Write-off loans and receivables	**(277,296)**	(303,708)	**(277,296)**	(540,754)
Balance on 31 December	**4,778,752**	4,240,756	**4,778,752**	4,240,756

30.2.2 Collective Allowance for Impairment

Balance at beginning	**1,924,882**	968,820	**1,924,882**	2,007,988
Balance transferred on amalgamation	**–**	1,114,051	**–**	–
Charge/(Write-back) to income statement	**81,772**	(104,907)	**81,772**	23,483
Effect of foreign currency movement	**3,712**	791	**3,712**	1,155
Transfer to dues on terminated leases*	**(3,344)**	(16,037)	**(3,344)**	(16,037)
Write-off of loans and receivables	**(116,224)**	(37,836)	**(116,224)**	(91,707)
Balance on 31 December	**1,890,798**	1,924,882	**1,890,798**	1,924,882
Total	**6,669,550**	6,165,638	**6,669,550**	6,165,638

Included in debtors under other Assets Note 43

31 Financial Investments – Available-for-Sale

Accounting Policy →

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, where upon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as are classification adjustment.

As at	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000
Government of Sri Lanka Treasury Bills	**16,993,058**	20,856,663	**16,993,058**	20,856,663
Government of Sri Lanka Treasury Bonds	**12,372,198**	8,833,930	**12,372,198**	8,833,930
Equity securities				
Quoted ordinary shares (Note 31.1)	**18,797,639**	18,123,603	**18,797,639**	18,123,603
Unquoted ordinary shares (Note 31.2)	**112,484**	147,374	**112,484**	147,374
Preference shares (Note 31.3)	**500**	500	**500**	500
Quoted units in Unit Trusts (Note 31.4)	**190,153**	197,759	**190,153**	197,759
Unquoted units in Unit Trusts (Note 31.5)	**806,211**	797,186	**806,211**	797,186
	49,272,243	48,957,015	**49,272,243**	48,957,015

All the financial investments are carried at fair value except for unquoted equity securities and irredeemable preference shares whose fair value cannot be reliably measured, is carried at cost.

As at	31.12.2016			31.12.2015		
	Number of ordinary shares	**Cost* LKR 000**	**Fair value LKR 000**	Number of ordinary Shares	Cost* LKR 000	Fair value LKR 000
31.1 Quoted Ordinary Shares						
Banks, Finance and Insurance						
Commercial Bank of Ceylon PLC – voting	**122,747,994**	**3,508,069**	**17,798,459**	121,005,515	3,290,259	17,001,276
Commercial Bank of Ceylon PLC – non-voting	**230,726**	**18,246**	**26,649**	227,045	17,838	27,949
National Development Bank PLC	**2,000,000**	**352,369**	**312,000**	2,000,000	352,369	392,000
		3,878,684	**18,137,108**		3,660,466	17,421,225
Beverages, Food and Tobacco						
Ceylon Tobacco Company PLC	**59,532**	**3,360**	**47,626**	59,532	3,360	59,234
Distilleries Company of Sri Lanka PLC**	–	–	–	417,485	69,829	102,701
		3,360	**47,626**		73,189	161,935
Chemicals and Pharmaceuticals						
Chemical Industries (Colombo) PLC – voting	**247,900**	**14,131**	**22,311**	247,900	14,131	24,864
Chemical Industries (Colombo) PLC – non-voting	**389,400**	**15,577**	**26,479**	389,400	15,577	31,619
		29,708	**48,790**		29,708	56,483
Construction and Engineering						
Access Engineering PLC	**473,000**	**9,737**	**11,730**	400,000	8,010	9,280
Colombo Dockyard PLC	**160,000**	**12,160**	**12,160**	160,000	22,645	24,480
		21,897	**23,890**		30,655	33,760
Diversified Holdings						
Carson Cumberbatch PLC	**46,967**	**12,681**	**8,360**	46,967	13,635	16,204
Hayleys PLC	**7,333**	**2,225**	**1,980**	7,333	2,225	2,262
Hemas Holdings PLC	**496,560**	**16,297**	**49,159**	496,560	16,297	46,131
John Keells Holdings PLC	**219,907**	**18,362**	**31,886**	144,294	10,080	25,756
John Keells Holdings PLC – Warrants	–	–	–	8,016	–	258
Melstacorp Limited**	**1,669,940**	**69,829**	**100,196**	–	–	–
Richard Pieris & Co. PLC	**1,000,000**	**8,234**	**8,100**	1,000,000	8,234	8,500
		127,628	**199,681**		50,471	99,111

Sector classification and fair value per share are based on the list published by Colombo Stock Exchange, as at the reporting date.

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

** *In terms of the 'Arrangement' between Distilleries Company of Sri Lanka PLC (DCSL) and Melstacorp Limited (ML) announced in August 2015, every 1 share of DCSL was alloted 4 shares of Melstacorp Limited.*

As at	31.12.2016			31.12.2015		
	Number of ordinary shares	**Cost* LKR 000**	**Fair value LKR 000**	Number of ordinary Shares	Cost* LKR 000	Fair value LKR 000
Healthcare						
Ceylon Hospitals PLC – voting	**100,000**	**2,306**	**8,740**	100,000	2,306	10,100
Ceylon Hospitals PLC – non-voting	**240,000**	**4,167**	**17,976**	240,000	4,167	18,072
		6,473	**26,716**		6,473	28,172
Hotels and Travels						
Dolphin Hotels PLC	**100,000**	**964**	**3,940**	100,000	964	5,420
		964	**3,940**		964	5,420
Investment Trusts						
Ceylon Guardian Investment Trust PLC	**152,308**	**5,918**	**17,058**	152,308	5,918	26,639
Ceylon Investment PLC	**288,309**	**9,429**	**14,704**	288,309	9,429	22,921
		15,347	**31,762**		15,347	49,560
Telecommunications						
Dialog Axiata PLC	**2,050,000**	**18,860**	**21,525**	2,050,000	18,860	21,935
Manufacturing						
Ceylon Grain Elevators PLC	**48,997**	**1,297**	**4,042**	48,997	1,297	4,483
Chevron Lubricants Lanka PLC	**761,628**	**27,907**	**119,576**	330,814	11,020	114,131
Piramal Glass Ceylon PLC	**5,000,000**	**14,024**	**26,500**	7,500,000	21,036	45,750
Royal Ceramics Lanka PLC	**139,800**	**16,996**	**16,217**	139,800	16,996	15,518
Tokyo Cement Company (Lanka) PLC – voting	**100,000**	**5,734**	**5,950**	–	–	–
Tokyo Cement Company (Lanka) PLC – non-voting	**1,227,096**	**25,759**	**63,196**	1,127,096	21,040	44,520
		91,717	**235,481**		71,389	224,402
Power and Energy						
Vallibel Power Erathna PLC	**2,400,000**	**6,400**	**21,120**	2,400,000	6,400	21,600
		6,400	**21,120**		6,400	21,600
Total Quoted Ordinary Shares – Bank/Group		**4,201,038**	**18,797,639**		3,963,922	18,123,603

Sector classification and fair value per share are based on the list published by Colombo Stock Exchange, as at the reporting date.

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

As at	31.12.2016		31.12.2015	
	Number of ordinary shares	**Cost* LKR 000**	Number of ordinary Shares	Cost* LKR 000
31.2 Unquoted Ordinary Shares				
Credit Information Bureau of Sri Lanka	**9,184**	**918**	9,184	918
Durdans Medical and Surgical Hospital (Private) Limited	**1,273,469**	**16,029**	1,273,469	16,029
Fitch Ratings Lanka Limited	**62,500**	**625**	62,500	625
Lanka Clear (Private) Limited	**100,000**	**1,000**	100,000	1,000
Lanka Financial Services Bureau Limited	**100,000**	**1,000**	100,000	1,000
Plastipak Lanka Limited	–	–	240,000	2,400
Sampath Centre Limited	–	–	1,000,000	10,000
Samson Reclaim Rubber Limited	**116,700**	**2,334**	116,700	2,334
Sinwa Holdings Limited	**460,000**	**9,200**	460,000	9,200
Society for Worldwide Interbank Financial Telecommunication	**6**	**3,385**	6	3,385
Sun Tan Beach Resorts Limited	**9,059,013**	**67,943**	9,059,013	90,433
The Video Team (Private) Limited	**30,000**	**300**	30,000	300
Wayamba Plantations (Private) Limited	**2,750,000**	**9,750**	2,750,000	9,750
Total unquoted ordinary shares – Bank/Group		**112,484**		147,374

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

As at	31.12.2016			31.12.2015		
	Number of ordinary shares	**Cost LKR 000**	**Fair value LKR 000**	Number of ordinary shares	Cost LKR 000	Fair value LKR 000
31.3 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
31.4 Quoted Units in Unit Trusts						
NAMAL Acuity Value Fund	**2,112,810**	**106,070**	**190,153**	2,112,810	106,070	197,759
Total investments in quoted units – Bank/Group		**106,070**	**190,153**		106,070	197,759

As at	31.12.2016			31.12.2015		
	Number of units	**Cost LKR 000**	**Fair value LKR 000**	Number of units	Cost LKR 000	Fair value LKR 000
31.5 Unquoted Units in Unit Trusts						
NAMAL Growth Fund	**2,125,766**	**251,539**	**272,867**	2,125,766	251,539	272,481
NAMAL Income Fund	**11,162,129**	**113,961**	**143,719**	11,162,129	113,961	139,080
NAMAL Money Market Fund	**11,679,366**	**118,457**	**125,616**	11,085,879	112,239	116,512
National Equity Fund	**250,000**	**2,657**	**8,352**	250,000	2,657	8,495
Guardian Acuity Equity Fund	**9,052,504**	**150,000**	**151,432**	9,052,504	150,000	155,341
JB Vantage Value Equity Fund	**5,224,660**	**100,000**	**104,225**	5,224,660	100,000	105,277
Total investments in unquoted Unit Trusts – Bank/Group		**736,614**	**806,211**		730,396	797,186

	Ordinary Shares		Preference	Unit Trusts		Total	
	Quoted LKR 000	Unquoted LKR 000	Unquoted LKR 000	Quoted LKR 000	Unquoted LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
31.6 Equity Securities							
31.6.1 Composition*							
31.6.1.1 Bank							
Performing investments	18,797,639	34,491	500	190,153	533,344	**19,556,127**	18,891,058
Non-performing investments	–	77,993	–	–	272,867	**350,860**	375,364
	18,797,639	112,484	500	190,153	806,211	**19,906,987**	19,266,422
31.6.1.2 Group							
Performing investments	18,797,639	34,491	500	190,153	533,344	**19,556,127**	18,891,058
Non-performing investments	–	77,993	–	–	272,867	**350,860**	375,364
	18,797,639	112,484	500	190,153	806,211	**19,906,987**	19,266,422

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

32 Financial Investments – Held-to-maturity

Accounting Policy →

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 there classification 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.*

As at	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000
Quoted debentures (Note 32.1)	**5,949,747**	5,356,587	**5,949,747**	5,356,587
Sri Lanka Government Securities				
Treasury Bills	**2,357,188**	–	**2,357,188**	–
Treasury Bonds	**14,882,150**	12,547,298	**14,882,150**	12,547,298
Total	**23,189,085**	17,903,885	**23,189,085**	17,903,885

32.1 Quoted Debentures

As at	31.12.2016 Number of debentures	31.12.2016 Cost of investment LKR 000	31.12.2015 Number of debentures	31.12.2015 Cost of investment LKR 000
Abans PLC	**2,500,000**	**267,917**	2,500,000	268,053
Access Engineering PLC	**2,500,000**	**253,031**	2,500,000	252,958
Alliance Finance Company PLC	**5,721,693**	**623,823**	5,721,693	623,836
Central Finance Company PLC	**2,075,700**	**221,626**	2,210,100	236,050
Commercial Credit & Finance PLC	**4,500,000**	**461,879**	4,500,000	461,549
HDFC Bank	**532,200**	**55,227**	532,200	55,232
Hemas Holdings PLC	**827,900**	**85,049**	827,900	85,080
Lanka ORIX Leasing Company PLC	**3,000,000**	**306,787**	3,000,000	306,805
Lion Brewery (Ceylon) PLC	**1,462,200**	**195,446**	1,483,500	217,514
People's Leasing & Finance PLC	**13,326,300**	**1,391,578**	13,326,300	1,391,370
Richard Pieris and Company PLC	**1,201,000**	**123,303**	1,201,000	123,347
Senkadagala Finance PLC	**3,650,000**	**371,981**	–	–
Singer (Sri Lanka) PLC	**8,975,800**	**942,964**	6,475,800	685,476
Siyapatha Finance Limited	**2,000,000**	**217,802**	2,000,000	217,809
Softlogic Finance PLC	**706,500**	**72,429**	706,500	72,479
Vallibel Finance PLC	**3,500,000**	**358,905**	3,500,000	359,029
Total investments in quoted debentures – Bank/Group		5,949,747		5,356,587

33 Investments in Subsidiaries

Accounting Policy →

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.

	DFCC Consulting (Pvt) Limited Ownership 100% LKR 000	Lanka Industrial Estates Limited Ownership 51.16% LKR 000	Synapsys Limited Ownership 100% LKR 000	BANK **31.12.2016 LKR 000**	BANK 31.12.2015 LKR 000
Balance at beginning	5,000	97,036	70,000	**172,036**	5,995,064
Adjustment on amalgamation	–	–	–	–	(5,823,028)
Balance before impairment	5,000	97,036	70,000	**172,036**	172,036
Less: Allowance for impairment (Note 33.1)	–	–	60,104	**60,104**	39,181
Balance net of impairment	5,000	97,036	9,896	**111,932**	132,855

33.1 Movement in Impairment Allowance

	31.12.2016	31.12.2015
Balance at beginning	**39,181**	37,500
Charge to income statement	**20,923**	1,681
Balance on 31 December	**60,104**	39,181

33.2 Non-Controlling Interest (NCI) in Subsidiaries

Accounting Policy →

The non-controlling interest are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition . Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted as equity transactions.

	Percentage of Ownership Interest held by NCI	Percentage of Voting Rights held by NCI	Share of Total Comprehensive Income of NCI for the Period ended		NCI as at		Dividends Paid to NCI for the Period ended	
	31.12.2016 %	31.12.2015 %	**31.12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
Lanka Industrial Estates Limited	**48.84**	48.84	**54,270**	48,666	**259,900**	252,426	**46,796**	54,600
			54,270	48,666	**259,900**	252,426	**46,796**	54,600

33.3 Summarised Financial Information of Subsidiaries

Lanka Industrial Estates Limited

As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000
Assets	**702,868**	629,868
Liabilities	**170,777**	113,071
Equity	**532,091**	516,797
For the year ended		
Revenue	**293,687**	191,567
Profit after tax	**110,748**	88,085
Other comprehensive income	**361**	–
Total comprehensive income	**111,109**	88,085

34 *Investments in Associate (Unquoted)*

Accounting Policy →

Investments in associates 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 are eliminated to the extent of Bank's interest in the respective associate. Unrealised losses are also eliminated to the extent of Bank's interest in the associate.

	BANK		GROUP	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
National Asset Management Limited (Ownership 30%)				
Balance at beginning	**35,270**	35,270	**66,980**	63,960
Share of profit after tax	–	–	**11,752**	12,032
Share of other comprehensive expenses	–	–	**(3,359)**	(12)
Dividend received – Elimination on consolidation	–	–	**(10,500)**	(9,000)
Balance on 31 December	**35,270**	35,270	**64,873**	66,980

As at	31.12.2016 LKR 000	31.12.2015 LKR 000

34.1 Summarised Financial Information of Associate

National Asset Management Limited		
Assets	**239,051**	241,052
Liabilities	**22,861**	17,837
Equity	**216,190**	223,215
For the year ended		
Revenue	**134,075**	133,565
Profit after tax	**39,174**	40,107
Other comprehensive expenses	**(11,198)**	(39)
Total comprehensive income	**27,976**	40,068

35 Investments in Joint Venture (Unquoted)

Accounting Policy →

Investments in Joint Ventures 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 Joint Ventures are eliminated to the extent of Bank's interest in the respective Joint Ventures. Unrealised losses are also eliminated to the extent of Bank's interest in the Joint Ventures.

As at	31.12.2016 Cost of Investment LKR 000	31.12.2015 Cost of Investment LKR 000

35.1 Investments in Joint Venture – Bank

Acuity Partners (Pvt) Limited (Ownership 50%)	**755,000**	655,000
	755,000	655,000

As at	31.12.2016 LKR 000	31.12.2015 LKR 000

35.2 Investment in Joint Venture – Group

Share of identifiable asset and liabilities of joint venture as at the beginning of the period	**1,365,507**	1,308,713
Share of unrealised profit on disposal of investments	**(184,688)**	(184,688)
Balance at beginning	**1,180,819**	1,124,025
Investment made during the period	**100,000**	–
Share of profit net of tax	**149,399**	66,661
Share of other comprehensive income	**(21,154)**	17,041
Change in holding – through subsidiary of joint venture	**(610)**	9,830
Preference share dividend paid by the subsidiary of joint venture	**–**	(6,576)
Dividend received during the period	**(30,200)**	(30,162)
Group's share of net assets	**1,378,254**	1,180,819

35.3 Summarised Financial Information of Joint Venture

For the year ended	31.12.2016 LKR 000	31.12.2015 LKR 000
Acuity Partners (Pvt) Limited		
Revenue	**671,603**	576,723
Depreciation	**34,654**	34,163
Income tax expense	**61,499**	68,748
Profit after tax	**534,885**	305,979
Other comprehensive (expenses)/income	**(48,143)**	64,450
Total comprehensive income	**486,742**	370,429

As at	31.12.2016 LKR 000	31.12.2015 LKR 000
Current assets	**4,085,610**	5,487,054
Non-current assets	**7,488,394**	3,629,739
Current liabilities	**6,098,931**	4,348,748
Non-current liabilities	**1,063,494**	945,056

	BANK	
As at	31.12.2016 LKR 000	31.12.2015 LKR 000
36 Due from Subsidiaries		
DFCC Consulting (Pvt) Limited	**2,265**	452
Synapsys Limited	**17,590**	16,942
	19,855	17,394

37 Investment Property

Accounting Policy →

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.

As at	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000
Cost		
Balance at beginning	**313,909**	294,541
Acquisitions	**49,420**	19,368
Cost as at 31 December	**363,329**	313,909
Less: Accumulated Depreciation		
Balance at beginning	**118,177**	108,471
Charge for the year	**13,800**	9,706
Accumulated depreciation as at 31 December	**131,977**	118,177
Carrying amount as at 31 December	**231,352**	195,732

37.1 Details of Investment Property

As at 31 December 2016	Buildings Sq. Ft.	Extent of land Perches*	Cost LKR 000	Accumulated depreciation/ impairment LKR 000	Net Book value LKR 000	Fair value LKR 000
Pattiwila Road, Sapugaskanda, Makola	**280,000**	**20,000**	**363,329**	**131,977**	**231,352**	**1,096,558**

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

The fair value of investment property as at 31 December 2016 situated at Pattiwila Road, Sapugaskanda, Makola was based on market valuation carried out in April 2014 by P B Kalugalagedara Fellow Member of Institute of Valuers (Sri Lanka).

Rental income from investment property of Group for 2016 – LKR 198 million (2015 – LKR 137 million).

Operating expenses on investment property of Group for 2016 – LKR 28 million (2015 – LKR 15 million).

38 Property, Plant and Equipment

Accounting Policy →

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.

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.

Depreciation

Items of property, plant and equipment are depreciated from the month they are available-for-use up to the month of disposal. 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

Derecognition

The carrying amount of property, plant and equipment is derecognised on disposal or when non-future economic benefits are expected from its use. The gain or loss arising from the derecognition (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the income statement.

38.1 Composition – Bank

	Land & buildings LKR 000	Office equipment LKR 000	Furniture & fittings LKR 000	Motor vehicles LKR 000	**Total 31.12.2016 LKR 000**	Total 31.12.2015 LKR 000
Cost at beginning	467,821	1,421,990	782,993	275,093	**2,947,897**	1,409,936
Balance transferred on amalgamation	–	–	–	–	–	1,479,475
Acquisitions	40	153,617	58,303	6,590	**218,550**	82,529
Less: Disposals	–	1,797	1,115	12,407	**15,319**	24,043
Cost as at 31 December	467,861	1,573,810	840,181	269,276	**3,151,128**	2,947,897
Accumulated depreciation at beginning	195,311	1,111,616	456,071	241,882	**2,004,880**	1,058,729
Balance transferred on amalgamation	–	–	–	–	**–**	855,257
Depreciation for the period	19,230	128,245	68,946	16,658	**233,079**	114,781
Less: Accumulated depreciation on disposals	–	1,630	651	12,407	**14,688**	23,887
Accumulated depreciation as at 31 December	214,541	1,238,231	524,366	246,133	**2,223,271**	2,004,880
Carrying amount as at 31 December	253,320	335,579	315,815	23,143	**927,857**	943,017

As at 31 December 2016	Buildings Sq. Ft.	Extent of land Perches*	Cost LKR 000	Accumulated depreciation/ impairment LKR 000	Carrying Amount LKR 000

38.1.2 List of Freehold Land and Buildings

73/5, Galle Road, Colombo 3	57,190	106.81	85,518	71,325	14,193
5, Deva Veediya, Kandy	6,260	12.54	16,195	7,233	8,962
259/30, Kandy Road, Bambarakelle, Nuwara-Eliya	–	93.50	7,279	–	7,279
73, W A D Ramanayake Mawatha, Colombo 2	37,538	45.00	191,268	125,106	66,162
4 A, 4th Cross Lane, Borupana, Ratmalana	–	20.00	2,600	–	2,600
454, Main Street, Negombo	19,087	29.00	165,001	10,877	154,124
			467,861	214,541	253,320

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

	LKR million	Date of valuation

38.1.3 Market Value of Properties

73/5, Galle Road, Colombo 3	946	30.12.2013
5, Deva Veediya, Kandy	72	30.12.2013
73, W A D Ramanayake Mawatha, Colombo 2	440	30.12.2013
4 A, 4th Cross Lane, Borupana, Ratmalana	10	30.12.2013
454, Main Street, Negombo	250	05.05.2015
259/30, Kandy Road, Bambarakelle, Nuwara-Eliya	80	26.05.2015

(Valued by A A M Fathihu – Former Government Chief Valuer and J S M I B Karunatilaka. Associate Member of the Institute of Valuers of Sri Lanka.)

38.1.4 Fully-Depreciated Property, Plant and Equipment – Bank

The initial cost of fully-depreciated property, plant and equipment as at 31 December 2016, which are still in use as at the reporting date is as follows:

	BANK	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000
Land & buildings	**58,739**	58,571
Office equipment	**909,043**	813,158
Furniture & fittings	**158,184**	102,096
Motor vehicles	**183,925**	187,386
	1,309,891	1,161,211

	Land & buildings LKR 000	Office equipment LKR 000	Furniture & fittings LKR 000	Motor vehicles LKR 000	**Total 31.12.2016 LKR 000**	Total 31.12.2015 LKR 000
38.2 Composition – Group						
Cost at beginning	678,973	1,459,722	795,963	320,080	**3,254,738**	3,056,121
Acquisitions	12,597	165,729	58,606	21,560	**258,492**	228,723
Less: Disposals	–	4,455	1,115	20,790	**26,360**	30,106
Write-off	–	–	360	–	**360**	–
Cost as at 31 December	691,570	1,620,996	853,094	320,850	**3,486,510**	3,254,738
Accumulated depreciation at beginning	325,742	1,139,961	472,215	274,519	**2,212,437**	2,004,189
Depreciation for the year	31,241	133,189	69,964	23,138	**257,532**	237,528
Less: Accumulated depreciation on disposals	–	4,277	651	20,790	**25,718**	29,280
Write-off	–	–	360	–	**360**	–
Accumulated depreciation as at 31 December	356,983	1,268,873	541,168	276,867	**2,443,891**	2,212,437
Carrying amount as at 31 December	334,587	352,123	311,926	43,983	**1,042,619**	1,042,301

39 Intangible Assets

Accounting Policy →

Intangible Assets – Computer Application Software

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

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

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

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

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use and subsequent disposal.

	BANK		GROUP	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
Cost at beginning	**1,313,816**	426,807	**1,316,581**	1,246,674
Balance transferred on amalgamation	–	851,004	–	–
Acquisitions	**58,833**	36,005	**62,948**	69,907
Less: Write-off*	**348,199**	–	**348,199**	–
Cost as at 31 December	**1,024,450**	1,313,816	**1,031,330**	1,316,581
Accumulated amortisation at beginning	**1,066,701**	344,427	**1,068,636**	966,478
Balance transferred on amalgamation	–	679,736	–	–
Amortisation for the period	**98,262**	42,538	**98,567**	102,158
Less: Write-off*	**344,255**	–	**344,255**	–
Accumulated amortisation as at 31 December	**820,708**	1,066,701	**822,948**	1,068,636
Carrying amount as at 31 December	**203,742**	247,115	**208,382**	247,945

**Software not in use.*

40 Goodwill on Consolidation

Accounting Policy →

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.

	GROUP	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000
DFCC Vardhana Bank PLC	**146,603**	146,603
Lanka Industrial Estates Limited	**9,623**	9,623
	156,226	156,226

In accordance with the provisions of part VIII of the Companies Act, DFCC Vardhana Bank PLC (DVB) has been amalgamated with DFCC Bank PLC with effect from 1 October 2015. The amalgamation between two entities is considered as a common control transaction, as DFCC Bank continues to control the operations of DVB after amalgamation. Thus the results of amalgamation of two entities are economically the same before and after the amalgamation as the entity will have identical net assets. Therefore, DFCC will continue to record carrying values including the remaining goodwill that resulted from the original acquisition of DVB in the consolidated financial status.

41 Government Grant Receivable/Deferred Income – CBSL Swap

Accounting Policy →

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 asystematic basis in the period in which the expenses (losses) are recognised.

	BANK		GROUP	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
41.1 Government Grant – Receivable				
Fair value at beginning	**539,758**	483,727	**539,758**	483,727
Change in fair value on the renewal of contract	**405,763**	41,993	**405,763**	41,993
Change in fair value during the period	**(83,606)**	14,038	**(83,606)**	14,038
Fair value as at 31 December	**861,915**	539,758	**861,915**	539,758
41.2 Government Grant – Deferred Income				
Fair value at beginning	**476,008**	303,727	**476,008**	303,727
Change in fair value on the renewal of contract	**405,763**	41,993	**405,763**	41,993
Change in fair value during the period	**(83,606)**	14,038	**(83,606)**	14,038
Foreign exchange (loss)/gain on revaluation	**(96,500)**	116,250	**(96,500)**	116,250
Amortisation of deferred income on Government grant – CBSL Swap	**(180,106)**	130,288	**(180,106)**	130,288
Fair value as at 31 December	**701,665**	476,008	**701,665**	476,008

DFCC Bank PLC in October 2013 raised USD 100 million by Issue of Notes abroad repayable in October 2018. The proceeds of this note issue are to be deployed predominantly in LKR denominated monetary assets. In order to hedge the resulting net open foreign currency liability position, DFCC Bank PLC has entered into a annually renewable currency SWAP arrangement with Central Bank of Sri Lanka (CBSL) for 75% of the US Dollar (USD) denominated liability. Accordingly, this contract was renewed in November 2016.

The currency SWAP arrangement, pursuant to Government policy for the principal amount only is designed to reimburse DFCC Bank by CBSL for any exchange loss incurred and conversely for DFCC Bank to pay CBSL any exchange gain arising from depreciation of LKR vis-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 into forward exchange contracts with market participants providing 100% discount to the USD LKR spot rate at the time of the maturity of the contract. Thus, this arrangement has features of both derivative instrument and Government grant through the agency of CBSL.

The initial gain by reference to forward price of an equivalent forward exchange dollar purchase contract is recognised as a Government grant and deferred income.

The deferred income is amortised on a systematic basis over the period in which the Bank recognises the fall in value of derivative which the grant is intended to compensate.

	BANK		GROUP	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000

42 *Deferred Tax Asset/Liability*

Deferred tax liability (Note 42.1)	**851,662**	880,490	**873,912**	880,490
Deferred tax asset (Note 42.2)	**–**	–	**628**	1,536
Net total	**851,662**	880,490	**873,284**	878,954

42.1 Deferred Tax Liability

Balance at beginning	**1,021,744**	506,553	**1,022,192**	742,729
Balance transferred on amalgamation	**–**	394,498	**–**	–
Recognised in income statement	**(30,252)**	120,693	**(8,002)**	309,571
Recognised in other comprehensive income	**–**	–	**(448)**	(30,108)
	991,492	1,021,744	**1,013,742**	1,022,192
Transferred from deferred tax asset	**(139,830)**	(141,254)	**(139,830)**	(141,702)
Balance as at 31 December	**851,662**	880,490	**873,912**	880,490

As at	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000

42.2 Deferred Tax Asset

Balance at beginning	**141,254**	19,699	**143,238**	102,270
Balance transferred on amalgamation	–	168,044	–	–
Recognised in income statement	**(69,953)**	(47,241)	**(70,623)**	39,415
Recognised in other comprehensive income	**68,529**	752	**67,843**	1,553
	139,830	141,254	**140,458**	143,238
Offset against deferred tax liability	**(139,830)**	(141,254)	**(139,830)**	(141,702)
Balance as at 31 December	–	–	**628**	1,536

42.3 Recognised Deferred Tax Assets and Liabilities

Assets				
Property, equipment and software	–	–	**(1,234)**	–
Gratuity liability and actuarial losses on defined benefit plans	**61,868**	50,445	**63,730**	52,429
Fair value of available-for-sale financial assets	**77,962**	12,515	**77,962**	**12,515**
Unutilised tax losses – Finance leases	–	78,294	–	**78,294**
Balance as at 31 December	**139,830**	141,254	**140,458**	143,238
Liabilities				
Property, equipment and software	**133,762**	136,954	**156,012**	137,402
Finance leases	**857,730**	884,790	**857,730**	884,790
	991,492	1,021,744	**1,013,742**	1,022,192

42.4 Unrecognised Deferred Tax Assets

Accumulated tax losses		
DFCC Consulting (Pvt) Limited – Subsidiary	**6,114**	6,022
Synapsys Limited – Subsidiary*	**7,321**	3,968
	13,435	9,990

**Tax effect at 10%*

As at	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000

43 Other Assets

Refundable deposits and advances	**323,819**	169,712	**330,694**	171,501
Dividends due	**–**	24,068	**–**	24,068
Debtors (net of provisions)	**718,135**	565,639	**757,936**	623,670
Clearing account balances	**1,521,023**	945,960	**1,521,024**	945,960
Defined benefit asset	**165,363**	–	**165,363**	–
	2,728,340	1,705,379	**2,775,017**	1,765,199

44 Due to Banks

Balances with foreign banks	**1,536,573**	75,369	**1,536,573**	75,369
Borrowing – local banks	**12,063,868**	13,269,916	**12,063,868**	13,271,166
Borrowing – other local sources	**–**	–	**–**	–
Securities sold under repurchase (Repo) agreements	**4,503,146**	11,019,118	**4,503,146**	11,019,118
	18,103,587	24,364,403	**18,103,587**	24,365,653

45 Due to Other Customers

Total amount due to other customers	**140,514,373**	110,890,685	**140,219,872**	110,551,220

45.1 Analysis

45.1.1 By Product

Demand deposits (current accounts)	**4,649,369**	3,705,529	**4,648,714**	3,705,529
Savings deposits	**23,798,492**	17,374,347	**23,776,214**	17,337,514
Fixed deposits	**111,052,817**	88,854,449	**110,781,249**	88,551,817
Certificate of deposits	**739,483**	699,080	**739,483**	699,080
Other deposits	**274,212**	257,280	**274,212**	257,280
	140,514,373	110,890,685	**140,219,872**	110,551,220

45.1.2 By Currency

Sri Lankan Rupee	**112,168,697**	100,056,541	**111,881,136**	99,721,458
United States Dollar (USD)	**23,790,651**	6,766,779	**23,783,711**	6,762,397
Great Britain Pound (GBP)	**1,521,875**	1,110,474	**1,521,875**	1,110,474
Others	**3,033,150**	2,956,891	**3,033,150**	2,956,891
	140,514,373	110,890,685	**140,219,872**	110,551,220

As at	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000

46 *Other Borrowing*

Repayable in Foreign Currency				
Borrowing sourced from				
Multilateral institutions	**7,027,937**	3,540,230	**7,027,937**	3,540,230
Bilateral institutions	**4,046,689**	3,124,940	**4,046,689**	3,124,940
	11,074,626	6,665,170	**11,074,626**	6,665,170
Repayable in Rupees				
Borrowing sourced from				
Multilateral institutions	**15,328,484**	18,648,230	**15,328,484**	18,648,230
Bilateral institutions	**1,154,259**	1,036,860	**1,154,259**	1,036,860
Central Bank of Sri Lanka – refinance loans (secured)	**250,548**	392,314	**250,548**	392,314
Securities sold under repurchase (Repo) agreements	**12,994,573**	9,212,723	**12,979,527**	9,212,723
	29,727,864	29,290,127	**29,712,818**	29,290,127
	40,802,490	35,955,297	**40,787,444**	35,955,297

46.1 Assets Pledged as Security

Nature	Amount 31.12.2016 LKR 000
Assignment in terms of Section 88 A of the Monetary Law of Loans refinanced by Central Bank of Sri Lanka	248,222

47 *Debt Securities Issued*

Year of issuance	Face value LKR 000	Interest rate %	Repayment terms	Issue date	Maturity date	BANK/GROUP 31.12.2016 LKR 000	BANK/GROUP 31.12.2015 LKR 000
Issued by Bank							
i. Debenture issue (LKR)							
- Unlisted	506,000	16.5	3 Years	22-Jan-13	22-Jan-16	–	506,212
- Listed	5,000,000	8.36	3 Years	18-Aug-14	18-Aug-17	**5,138,232**	5,122,538
	3,000,000	9.10	5 Years	10-Jun-15	10-Jun-20	**3,131,330**	3,136,376
	5,315,450	10.63	3 Years	18-Mar-16	18-Mar-19	**5,745,558**	–
ii. Notes issue (USD)	15,010,000	9.625	5 Years	1-Nov-13	31-Oct-18	**15,164,065**	14,527,534
						29,179,185	23,292,660
Due within one year						**5,138,232**	506,212
Due after one year						**24,040,953**	22,786,448
						29,179,185	23,292,660

Carrying values are the discounted amounts of principal and interest.

47.1 Debt Securities Issued – Listed Debentures

Debenture category	Interest payable frequency	Applicable interest rate %	Interest rate of Comparative Government Securities (Gross) p.a. %	Balance as at 31.12.2016 LKR 000	Market price			Yield last traded %
					Highest	Lowest	Last traded	
Fixed Rate:								
2014/2017	Annually	8.5	10.05	**3,937,104**	N/T	N/T	N/T	N/A
2014/2017	Semi-annually	8.33	10.05	**899,979**	N/T	N/T	N/T	N/A
2014/2017	Quarterly	8.24	10.05	**301,149**	N/T	N/T	N/T	N/A
2015/2020	Annually	9.1	12.05	**3,131,330**	N/T	N/T	N/T	N/A
2016/2019	Annually	10.625	11.55	**5,745,558**	N/T	N/T	N/T	N/A

N/T - Not Traded

Other ratios – Bank	31.12.2016	31.12.2015
Debt to equity ratio (times)	**2.12**	2.04
Interest cover (times)	**1.01**	0.98
Liquid asset ratio (%)	**27.19**	22.5

	BANK		GROUP	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
48 Other Liabilities				
Accruals	**395,545**	356,337	**412,010**	360,215
Prior year's dividend	**57,538**	39,805	**57,538**	39,805
Security deposit for leases	**4,065**	4,065	**44,888**	41,692
Prepaid loan and lease rentals	**57,166**	85,033	**84,442**	85,033
Accounts payable	**2,925,313**	2,162,651	**2,978,449**	2,226,747
Provision for staff retirement benefits (Note 48.1)	**282,684**	305,965	**306,640**	331,818
Other provisions (Note 48.2)	**468,364**	414,702	**468,364**	414,702
	4,190,675	3,368,558	**4,352,331**	3,500,012
48.1 Provision for Staff Retirement Benefits				
Defined benefit – unfunded pension (Note 48.1.1)	**61,728**	66,994	**61,728**	66,994
– unfunded end of service gratuity (Note 48.1.2)	**220,956**	180,163	**244,912**	206,016
– funded pension (Note 48.1.3)	–	58,808	–	58,808
	282,684	305,965	**306,640**	331,818

As at	BANK/ GROUP 31.12.2016 LKR 000	31.12.2015 LKR 000
48.1.1 Unfunded Pension Liability		
Balance at beginning	**66,994**	67,686
Interest on obligation	**5,688**	4,569
Benefit paid	**(6,995)**	(4,664)
Actuarial experience loss/(gain)	**608**	(597)
Actuarial gain due to changes in assumptions	**(4,567)**	–
Present value of defined benefit pension obligations	**61,728**	66,994

As at	BANK 31.12.2016 LKR 000	31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	31.12.2015 LKR 000
48.1.2 Unfunded End of Service Gratuity				
Balance at beginning	**180,163**	70,355	**206,016**	172,678
Liability transferred	**3,416**	–	–	–
Current service cost	**29,417**	12,404	**33,853**	28,636
Interest on obligation	**17,440**	6,960	**19,218**	14,517
Balances transferred on amalgamation	–	97,950	–	–
Benefits paid	**(20,488)**	(11,477)	**(22,396)**	(15,148)
Actuarial experience loss	**11,306**	3,971	**8,519**	5,333
Actuarial gain due to changes in assumptions	**(298)**	–	**(298)**	–
Present value of defined benefit pension obligations	**220,956**	180,163	**244,912**	206,016

As at	BANK/GROUP 31.12.2016 LKR 000	31.12.2015 LKR 000
48.1.3 Funded Pension (Asset)/Liability		
Present value of defined benefit pension obligations (Note 48.1.3.1)	**2,280,943**	2,296,454
Fair value of pension assets (Note 48.1.3.2)	**(2,446,306)**	(2,237,646)
Defined benefit liability/(asset)	**(165,363)**	58,808

As per LKAS 19 – ‘employee benefits’ if a plan is in surplus, then the amount recognised as an asset in the Statement of Financial Position is limited to the ‘asset ceiling’. The asset ceiling is the present value of any economic benefits available to the entity in the form of a refund or a reduction in future contributions. By analysing all the future economic benefits available to the DFCC Pension Fund, the independent actuary Mr Piyal S Goonetilleke of Priyal S Goonetilleke & Associate has estimated the asset ceiling as at 31 December 2016 to be LKR 169.45 million in his report dated 13 February 2017. Based on the estimated asset ceiling, the Bank has recognised a surplus asset amounting to LKR 165.36 million under other assets in Note 43.

As at	BANK/GROUP 31.12.2016 LKR 000	BANK/GROUP 31.12.2015 LKR 000
48.1.3.1 Movement in Defined Pension Obligation		
Present value of defined benefit pension obligations at beginning	**2,296,454**	2,141,649
Current service cost	**71,746**	58,048
Interest on obligation	**206,681**	144,561
Benefits paid	**(155,931)**	(125,982)
Actuarial experience loss	**85,266**	78,178
Actuarial gain due to changes in assumptions	**(223,273)**	–
Present value of defined benefit pension obligations	**2,280,943**	2,296,454

As at	BANK/GROUP 31.12.2016 LKR 000	BANK/GROUP 31.12.2015 LKR 000
48.1.3.2 Movement in Pension Assets		
Pension assets at beginning	**2,237,646**	2,139,052
Expected return on pension assets	**193,785**	139,779
Employer's contribution	**164,000**	106,000
Benefits paid	**(155,931)**	(125,982)
Actuarial experience gain/(loss)	**6,806**	(21,203)
	2,446,306	2,237,646
48.1.3.3 Plan Assets Consist of the Following		
Debentures	**216,555**	321,754
Government Bonds	**1,439,581**	1,517,319
Fixed deposits	**789,623**	397,209
Others	**547**	1,364
	2,446,306	2,237,646

As at	Unfunded Pension Liability* 31.12.2016 LKR 000	Unfunded End of Service Gratuity* 31.12.2016 LKR 000	Funded Pension Liability* 31.12.2016 LKR 000
48.1.3.4 The Expected Benefit Payout in the Future Years to the Defined Benefit Obligation – Bank			
Within next 12 months	**6,995**	**21,416**	**188,223**
Between 2 and 5 years	**27,980**	**118,953**	**738,595**
Beyond 5 years	**34,975**	**266,670**	**1,314,638**

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

48.1.3.5 Unfunded Pension Liability

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

48.1.3.6 Actuarial Valuation

Actuarial valuation was carried out by Piyal S Goonetilleke, Fellow of the Society of Actuaries USA of Piyal S Goonetilleke & Associates, on 31 December 2016.

48.1.3.7 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.

	31 December 2016		31 December 2015	
	Pension benefit (%)	End of service gratuity (%)	Pension benefit (%)	End of service gratuity (%)
48.1.3.8 Principal Actuarial Assumptions Bank				
Discount rate per annum				
Pre-retirement	10	10	9	9.5
Post-retirement	10	Not applicable	9	Not applicable
Future salary increases per annum	10.5	10.5	10.5	10
Expected rate of return on pension assets	10	–	9	–
Actual rate of return on pension assets	11.8	–	7	–
Mortality	UP 1984 mortality table	RP-2000 mortality table	UP 1984 mortality table	RP-2000 mortality table
Retirement age	55 years	55 years	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	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	10.0	10.0
25	10.0	10.0	10.0	10.0
30	10.0	10.0	10.0	10.0
35	7.5	7.5	7.5	7.5
40	5.0	5.0	5.0	5.0
45	2.5	2.5	2.5	2.5
50/55	1.0	1.0	1.0	1.0

Other than the discount rate, the future salary increase and the expected rate of return on pension assets, the principal actuarial assumptions in the previous year has not changed. The discount rate is the yield rate on 31 December 2016 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.

48.1.3.9 Principal Actuarial Assumptions – Group

The subsidiaries have used discount rates ranging 11% - 11.5% and the salary increment rate ranging 8% - 10.5%.

48.1.3.10 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		
1%	109,496	(109,496)
-1%	(223,273)	223,273
Salary Increment Rate		
1%	(47,452)	47,452
-1%	44,521	(44,521)
Unfunded Pension Liability*		
Discount rate		
1%	4,015	(4,015)
-1%	(4,566)	4,566
Unfunded End of Service Gratuity		
Discount rate		
1%	22,916	(22,916)
-1%	(27,078)	27,078
Salary Increment Rate		
1%	(26,129)	26,129
-1%	22,592	(22,592)

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

48.1.3.11 Historical Information

As at	31.12.2015 LKR 000	31.03.2015 LKR 000	31.03.2014 LKR 000	31.03.2013 LKR 000	31.03.2012 LKR 000
Present value of the defined benefit obligation	2,296,454	2,141,649	1,866,434	1,750,987	1,494,887
Fair value of plan assets	(2,237,646)	2,139,052	2,027,664	1,821,009	1,607,025
Deficit/(surplus) in the plan	58,808	2,597	(161,230)	(70,022)	(112,138)

As at	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000

48.2 Other Provisions

Balance at beginning	**414,702**	237,743	**414,702**	327,707
Provisions for the financial period	**468,364**	308,427	**468,364**	414,702
Provisions used during the period	**(401,927)**	(234,647)	**(401,927)**	(324,611)
Provisions reversed during the period	**(12,775)**	(3,096)	**(12,775)**	(3,096)
Balance transferred on amalgamation	**–**	106,275	**–**	–
Balance as at 31 December	**468,364**	414,702	**468,364**	414,702

	Face value LKR 000	Interest rate %	Repayment terms	Issue date	Maturity date	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000

49 Subordinated Term Debt

Listed Debentures									
Issued by Bank	6,043,140	12.75	7 Years	9-Nov-16	9-Nov-23	**6,131,261**	672,600	**6,131,261**	672,600
	956,860	12.15	5 Years	9-Nov-16	9-Nov-21	**970,094**		**970,094**	
Transferred on amalgamation	2,000,000	9.4	5 Years	10-Jun-15	10-Jun-20	**2,104,282**	833,584	**2,104,282**	833,584
	9,000,000					**9,205,637**	1,506,184	**9,205,637**	1,506,184
Due within one year							1,672,888	–	1,672,888
Due after one year						**9,205,637**	2,094,193	**9,205,637**	2,094,193
						9,205,637	3,767,081	**9,205,637**	3,767,081

49.1 Subordinated Term Debt – Listed Debentures

Debenture category	Interest rate frequency %	Applicable interest rate	Interest rate of comparative government securites (Gross) p.a. %	Balance as at 31.12.2016 LKR 000	Market price Highest	Market price Lowest	Market price Last Traded	Yield last traded %
Fixed Rate								
2006/2020	Annually	9.4	12.05	**2,104,282**	N/T	N/T	N/T	N/A
2011/2021	Annually	12.15	12.25	**970,094**	N/T	N/T	N/T	N/A
2015/2023	Annually	12.75	12.35	**6,131,261**	N/T	N/T	N/T	N/A

N/T – Not traded

Bank's debt equity ratio, interest cover and liquid asset ratios are given in Note 47.1.

As at	BANK/GROUP 31.12.2016 LKR 000	31.12.2015 LKR 000

50 Stated Capital

Balance as at 31 December (Number of shares – 265,097,688)	**4,715,814**	4,715,814

51 Statutory Reserve

51.1 Reserve Fund

Five percent 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.

52 Retained Earnings

This represents cumulative net earnings, inclusive of final dividend approved amounting to LKR 1,193 million. The balance is retained and reinvested in the business of the Bank.

	BANK		GROUP	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
53 Other Reserves				
General reserve	**13,779,839**	13,779,839	**13,779,839**	13,779,839
Fair value reserve	**14,549,487**	14,285,657	**12,085,454**	11,857,655
Exchange equalisation reserve	–	–	**33,428**	21,910
	28,329,326	28,065,496	**25,898,721**	25,659,404

54 Contingent Liabilities and Commitments

Accounting Policy →

Commitments and Contingencies

Contingent liabilities, which include guarantees are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

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.

54.1 Commitments and Contingencies

	BANK		GROUP	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
Guarantees issued to –				
Banks in respect of indebtedness of customers of the Bank	**34,403**	41,122	**34,403**	41,122
Companies in respect of indebtedness of customers of the Bank	**5,092,952**	3,750,570	**5,092,952**	3,750,570
Principal collector of customs (duty guarantees)	**313,295**	172,090	**313,295**	172,090
Shipping guarantees	**1,541,757**	620,806	**1,541,757**	620,806
Documentary credit	**9,763,476**	10,367,005	**9,763,476**	10,367,005
Bills for collection	**3,148,059**	2,175,953	**3,148,059**	2,175,953
Performance bonds	**2,461,709**	2,066,268	**2,461,709**	2,066,268
Forward exchange contracts (net)	**26,704,132**	16,943,219	**26,704,132**	16,943,219
Commitments in ordinary course of business – Commitments for unutilised credit facilities	**52,059,192**	39,719,549	**52,059,192**	39,719,549
Capital expenditure approved by the Board of Directors				
Contracted	**202,692**	90,030	**202,692**	90,030
Not contracted	**130,434**	68,239	**130,434**	68,239
	101,452,101	76,014,851	**101,452,101**	76,014,851

54.2 Litigations Against the Bank

54.2.1 A client has filed action against five defendants including the Bank in the District Court of Kurunegala, claiming that a property mortgaged by him to the Bank had been unlawfully transferred to a third party under the parate process to be set aside, and also claiming LKR 6 million as damages from the Bank. The Bank is defending the case before the District Court.

54.2.2 There are four cases filed in the District Court of Kandy and one case filed in District Court of Negombo and another case in District Court of Moratuwa, where third parties are claiming ownership of properties acquired by the Bank under recovery action. The Bank is defending the cases before the respective District Courts.

54.2.3 There is one cases filed in the District Court of Bandarawela, where a third party is claiming ownership of a property mortgaged to the Bank. The Bank is defending the cases before the District Court.

54.2.4 There are two cases filed in the District Court of Anuradhapura, by a customer claiming damages due to a cancellation by the insurer of an insurance policy covering a mortgaged asset and claiming damages for not insuring a mortgaged asset. The Bank is defending the cases before the District Court.

54.2.5 The Bank has appealed to the High Court to set aside an award made in favour of an ex-employee by the Labour Tribunal.

54.2.6 Case filed in the Labour Tribunal by one ex-employee of the Bank, claiming compensation from the Bank.

54.2.7 Case filed in the Labour Tribunal – Galle by an ex-employee of the Bank, claiming compensation and reinstatement from the Bank.

No material losses are anticipated as a result of the aforesaid actions.

54.3 Tax Assessments Against the Bank

The following assessments are outstanding, against which the Bank has duly appealed.

1. The income tax assessment received by the Bank for the Year of Assessment 2010/11, which was determined by the Commissioner General of Inland Revenue amounting to LKR 760 million has been appealed to the Tax Appeal Commission for their determination.

2. Tax assessments on income tax received by the DFCC Vardhana Bank for the Year of Assessment 2009-2010 and 2010-2011, which were determined by the Commissioner General of Inland Revenue, have been appealed to the Tax Appeal Commission.

The Bank is of the view that the above assessments will not have any significant impact on the financial statements.

55 Related Party Transactions

55.1 The Group's related parties include associates, subsidiaries, Trust established by the Bank for post-employment retirement plan, joint venture, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced for which significant voting power is held by Key Management Personnel or their close family members.

As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000
55.2 Transactions with Subsidiaries		
55.2.1 Statement of Financial Position – Bank		
Assets		
Loans to and receivable from other customers	–	1,960
	–	1,960
Liabilities		
Due to other customers	**290,777**	339,901
Other borrowing	**15,065**	1,334
	305,842	341,235

	Year ended 31.12.2016 LKR 000	9 Months ended 31.12.2015 LKR 000
55.2.2 Income Statement – Bank		
Interest income	**20**	41,266
Interest expenses	**29,930**	32,351
Fee and commission income	**44**	**37**
Other operating income (net)	**317**	16,409
Net gain from financial investments – dividend received	**44,596**	279,769
Other overhead expenses	**142,762**	79,236
Personnel expenses – reimbursed expenses	–	216,793

As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000
55.3 Transactions with Joint Venture		
55.3.1 Statement of Financial Position – Bank		
Assets		
Loans to and receivable from other customers	**146,271**	–
	146,271	–
Liabilities		
Due to other customers	**1,506**	303
Other borrowing	–	30,005
Debt Securities issued	**103**	–
	1,609	30,308

		Year ended 31.12.2016 LKR 000	9 Months ended 31.12.2015 LKR 000

55.3.2 Income Statement – Bank

Net (loss)/gain from trading		–	(3,951)
Interest expenses		**8**	2,565
Net gain from financial investments	– reverse repo income	–	73
	– dividend received	**30,200**	30,130

As at	31.12.2016 LKR 000	31.12.2015 LKR 000

55.4 Transactions with Associate

55.4.1 Statement of Financial Position – Bank

Liabilities		
Due to other customers	**135**	25
Other borrowing	–	5,541
	135	5,566

	Year ended 31.12.2016 LKR 000	9 Months ended 31.12.2015 LKR 000

55.4.2 Income Statement – Bank

Interest expenses	–	1,378
Net gain from financial investments – dividend received	**9,463**	8,128
Other overhead expenses	–	28

As at	31.12.2016 LKR 000	31.12.2015 LKR 000

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

55.5.1 Statement of Financial Position – Bank

Assets		
Financial investments – available-for-sale	–	102,701
	–	102,701
Liabilities		
Due to other customers	–	408,061
	–	408,061

	Year ended 31.12.2016 LKR 000	9 Months ended 31.12.2015 LKR 000
55.5.2 Income Statement – Bank		
Interest income	–	289
Fee and commission income	–	793
Net gain from financial investments – dividend received	–	1,283
Interest expenses	–	6,264

55.6 Transactions with Key Management Personnel

55.6.1 Key Management Personnel

Key Management Personnel are the Board of Directors of the Bank, Executive Vice President Investment/International Relations and Strategic Planning, Chief Risk Officer, Senior Vice President Treasury and Resource Mobilisation, Chief Financial Officer and Chief Operating Officer for the purpose of Sri Lanka Accounting Standard 24 on 'Related Party Disclosures'.

	BANK		GROUP	
	Year ended 31.12.2016 LKR 000	9 Months ended 31.12.2015 LKR 000	**Year ended 31.12.2016 LKR 000**	9 Months ended 31.12.2015 LKR 000
55.6.2 Compensation of Directors and Other Key Management Personnel				
Number of persons	**16**	21	**18**	23
Short-term employment benefits	**124,920**	106,589	**139,575**	180,809
Post employment benefits – pension	**2,494**	6,163	**2,494**	6,163
– others	**15,115**	12,313	**15,524**	22,241
	142,529	125,065	**157,593**	209,213

As at	31.12.2016		31.12.2015	
	Number of KMPs	**LKR 000**	Number of KMPs	LKR 000
55.6.3 Other Transactions with Key Management Personnel and their Close Family Members				
55.6.3.1 Statement of Financial Position – Bank				
Assets				
Loans to and receivables from other customers	**6**	**17,289**	7	32,387

As at	31.12.2016		31.12.2015	
	Number of KMPs	**LKR 000**	Number of KMPs	LKR 000
Liabilities				
Due to other customers	**21**	**285,106**	28	312,256
Other borrowing	**1**	**16,400**	4	116,204
Debt securities issued	**1**	**2,168,253**	4	31,906
		2,469,759		460,366

	Year ended 31.12.2016 LKR 000	9 Months ended 31.12.2015 LKR 000
55.6.3.2 Income Statement – Bank		
Interest income	**877**	2,378
Interest expenses	**20,405**	17,457
Fee and commission income	**5**	55

55.6.4 Accommodation Granted to Directors of the Bank

Disclosure under Section 47 (11A) of the Banking Act, No. 30 of 1988 as amended by amendment Act, No. 2 of 2005.

Name of Director	Limit LKR 000	Type of Facility	Balance as at 31.12.2016 LKR 000	Security	
				Type	Value LKR 000
C R Jansz	**500**	Credit Card	–		
L H A L Silva*	**500**	Credit Card	**29**		
L H A L Silva	**2000**	Overdraft	–	Cash Deposits	2,603
L N De S Wijayarathne	**500**	Credit Card	–		
T Dharmarajah	**500**	Credit Card	–		
A R Fernando	**500**	Credit Card	–		
A R Fernando*	**25,000**	Overdraft	**367**	Cash Deposits	33,773
Ms S R Thambiayah	**500**	Credit Card	–		
			396		

The above total is included under loans and advances to Key Management Personnel and their close family members in Note 55.6.3.1.

55.6.5 Transactions with DFCC Bank Pension Fund – Trust

DFCC Bank Pension Fund constituted as a Trust was established by the DFCC Bank to discharge defined benefit pension liability of eligible employees of the Bank.

	31.12.2016 LKR 000	31.12.2015 LKR 000
Contribution payable at beginning	**(58,808)**	(2,597)
Contribution due for the financial period recognised as expense in income statement	**(84,642)**	(62,830)
Recognition of actuarial gains/(losses) in the other comprehensive income	**144,813**	(99,381)
Contribution paid by the Bank	**164,000**	106,000
Contribution prepaid/(payable) (Note 48.1.3)	**165,363**	(58,808)

55.7 Transactions with Government of Sri Lanka (GOSL) and its Related Entities

Entities related to the Government of Sri Lanka (GOSL) by virtue of their aggregate shareholdings has the power to participate in the financial and operating policy decision of the Bank and by extension to participate in the financial and operating policy decisions of the Bank. However, in fact this power was not exercised.

Paragraph 25 of Sri Lanka Accounting Standard – LKAS 24 on 'Related Party Disclosure' has exempted DFCC Bank from the normally applicable disclosure requirements on transactions with GOSL – related entities. In making use of this exemption the Board has determined that the limited disclosure required under paragraph 26 of LKAS 24 is only required to be made for transaction that are individually significant because of their size although these transactions were undertaken on normal market terms in the ordinary course of business and there was no requirement to disclose the transactions to regulatory or supervisory authorities or require shareholder approval.

55.7.1 Individually Significant Transactions Included in the Statement of Financial Position

As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000
55.7.1.1 Statement of Financial Position – Bank		
Assets		
Cash and cash equivalents	–	424,068
Loans to and receivables from banks	**12,213,311**	4,372,191
Loans to and receivables from other customers	**5,859,992**	4,492,981
Balances with the Central Bank of Sri Lanka	**8,062,567**	5,553,809
Financial investments – Held-to-maturity	**17,239,338**	12,547,298
Financial investments – Available-for-sale	**29,365,255**	29,690,593
Government grant receivable	**861,914**	539,758
	73,602,377	57,620,698
Liabilities		
Due to banks	**7,672,071**	6,617,554
Due to other customers	**5,796,290**	4,753,843
Other borrowing	**8,388,916**	9,018,778
Other borrowing – credit lines	**23,761,357**	21,631,475
Debt securities issued	**2,393,335**	1,038,055
Government grant – deferred income	**701,664**	476,008
Subordinated term debt	**3,004,003**	1,020,197
	51,717,636	44,555,910
Commitments		
Undrawn credit facilities	**3,494,485**	4,727,930

	Year ended ended 31.12.2016 LKR 000	9 Months ended 31.12.2015 LKR 000
55.7.1.2 Income Statement – Bank		
Interest income	**3,454,367**	999,519
Net (loss)/gain from trading	**(9,880)**	5,180
Net gain from financial investments	–	7,787
Interest expenses	**3,050,930**	1,101,554

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

55.8 Disclosure Requirement under Section 9 of the Colombo Stock Exchange Listing Rules

55.8.1 The Bank does not have any non-recurrent related party transactions carried out during the financial year under review with a value exceeding 10% of the equity or 5% of the total assets whichever is lower, as per the audited financial statements of the Bank.

55.8.2 The Bank does not have any recurrent related party transactions carried out during the financial year under review with value exceeding 10% of the gross revenue/income as per the audited financial statements of the Bank.

55.9 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.

56 Business Segment Information

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.

For the year ended 31 December 2016	Banking LKR 000	Finance leasing LKR 000	Investing in equity LKR 000	Other LKR 000	Unallocated LKR 000	Eliminations LKR 000	Total LKR 000
Group							
Revenue							
Interest income	22,360,944	1,833,214	–	42,070	–	(30,116)	24,206,112
Net fees and commission income	1,309,049	–	–		–		1,309,049
Net gain from trading	340,456	–	–	–	–	–	340,456
Net loss from financial instruments at fair value through profit or loss	(179,727)	–	–	–	–	–	(179,727)
Net gain from financial investments	152,695	–	1,012,694	–	–	(84,260)	1,081,129
Other operating (loss)/income – net	(125,553)	–	–	469,396	50,123	(170,902)	223,064
Total income	23,857,864	1,833,214	1,012,694	511,466	50,123	(285,278)	26,980,083
Percentage*	88	7	4	2	–	(1)	100
Expenses							
Segment losses	882,415		54,852	–	–	(20,923)	916,344
Depreciation	–	–	–	38,254	–	–	38,254
Other operating and interest expense	18,399,506	1,300,127	–	310,902	–	(201,532)	19,809,003
	19,281,921	1,300,127	54,852	349,156	–	(222,455)	20,763,601
Result	4,575,943	533,087	957,842	162,310	50,123	(62,823)	6,216,482
Unallocated expenses							717,355
Value added tax and nation building tax on financial services							986,110
Operating profit after value added tax and nation building tax on financial services							4,513,017
Share of profits of associate and joint venture							161,151
Profit before income tax							4,674,168
Income tax expense							1,205,094
Profit for the period							3,469,074
Other comprehensive expenses net of tax							382,670
Total comprehensive expenses							3,851,744
Total comprehensive income – non-controlling interests							54,270
Profit attributable to equity holders of the Bank							3,797,474
Assets	236,081,685	15,909,152	20,018,918	790,936	17,467,961	(446,216)	289,822,436
Percentage*	81	5	7	1	6	–	100
Investments in associate and joint venture company							1,443,127
Liabilities	212,473,516	14,318,237	–	228,080	17,470,595	(334,584)	244,155,844
Capital expenditure – additions	–	–	–	39,942	218,550	–	258,492

* *Net of eliminations.*

For the period ended 31 December 2015	Banking LKR 000	Finance leasing LKR 000	Investing in equity LKR 000	Other LKR 000	Unallocated LKR 000	Eliminations LKR 000	Total LKR 000
Group							
Revenue							
Interest income	13,948,157	1,383,604	–	23,658	–	(46,851)	15,308,568
Net fees and commission income	1,099,543	–	–	247,363	–	(177,315)	1,169,591
Net gain from trading	215,575	–	–	–	–	–	215,575
Net gain from financial instruments at fair value through profit or loss	74,583	–	–	–	–	–	74,583
Net gain/(loss) from financial investments	184,890	–	412,362	–	–	(89,724)	507,528
Other operating (loss)/income – net	(20,846)	–	–	174,776	80,383	(17,204)	217,109
Total Income	15,501,902	1,383,604	412,362	445,797	80,383	(331,094)	17,492,954
Percentage*	89	8	2	3	–	(2)	100
Expenses							
Segment losses	797,597	(589)	–	–	–	(1,681)	795,327
Depreciation	–	–	–	26,555	–	–	26,555
Other operating and interest expenses	12,266,942	664,425	–	305,470	–	(241,370)	12,995,467
	13,064,539	663,836	–	332,025	–	(243,051)	13,817,349
Result	2,437,363	719,768	412,362	113,772	80,383	(88,043)	3,675,605
Unallocated expenses							611,498
Value added tax and nation building tax on financial services							589,330
Operating profit after value added tax and nation building tax on financial services							2,474,777
Share of profits of associate and joint venture							78,693
Profit before income tax							2,553,470
Income tax expense							911,842
Profit for the year							1,641,628
Other comprehensive income net of tax							(3,358,430)
Total comprehensive income							(1,716,802)
Total comprehensive income – non-controlling interests							48,666
Profit attributable to equity holders of the Bank							(1,765,468)
Assets	197,078,172	15,436,155	19,399,277	733,285	13,706,000	(492,086)	245,860,803
Percentage*	80	6	8	–	6	–	100
Investments in associate and joint venture company							1,247,799
							247,108,602
Liabilities	177,437,981	13,892,540	–	164,792	12,004,395	(359,231)	203,140,477
Capital expenditure – additions	–	–	–	13,528	295,536	–	309,064

* *Net of eliminations.*

56.1 Revenue and expenses attributable to the incorporated business segments of industrial estate management, information technology services and consultancy services are included in the column for other.

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

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

57 Comparative Figures

57.1 Change of Year End

DFCC Bank has changed its financial year end from 31 March to 31 December in the year 2015. Accordingly, the comparative figures presented in these financial statements contain the results of nine months from 1 April 2015 to 31 December 2015. However, the current year's financial statements contain the results of twelve months from 01 January 2016 to 31 December 2016 and entirely not comparable with previous period.

57.2 Reclassification of Comparative Figures

The following information has been reclassified with the current year's classification in order to provide a better presentation.

As at	**As Disclosed Previously**		Current Presentation	
	Bank LKR 000	**Group LKR 000**	**Bank LKR 000**	**Group LKR 000**
Net fee and commission	**370,382**	**1,141,115**	398,858	1,169,591
Other operating (loss)/income – net	**18,978**	**245,585**	(9,498)	217,109
Personnel expenses	**1,212,541**	**2,559,350**	1,248,261	2,629,739
Other expenses	**1,105,475**	**2,150,927**	1,069,755	2,080,538

58 Events after the Reporting Period

58.1 First and Final Dividend

The Directors have approved the payment of a first and final dividend of LKR 4.50 per share for the year ended 31 December 2016. 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 has obtained the certificate from the Auditors. The dividend exceeds the minimum distribution mandated by the Inland Revenue Act No. 10 of 2006 and therefore the 15% deemed dividend tax, will not be imposed on the Bank.

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

59 Fair Value Measurement

59.1 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 judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, government securities and simple over the counter derivatives like forward exchange contracts and interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Management judgments and estimations are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

59.2 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.

59.3 Fair Value by Level of the Fair Value Hierarchy – Bank

As at 31 December 2016	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			122,977		122,977
Other financial assets held-for-trading					
Government of Sri Lanka Treasury Bills and Bonds			–		–
Financial investments – Available-for-sale	31				
Government of Sri Lanka Treasury Bills and Bonds		29,365,256			29,365,256
Quoted ordinary shares		18,797,639			18,797,639
Units in Unit Trusts – Quoted		190,153			190,153
Units in Unit Trusts – Unquoted			806,211		806,211
Unquoted shares				112,984	112,984
Government grant receivable	41		861,914		861,914
		48,353,048	1,791,102	112,984	50,257,134
Financial Liabilities					
Derivative liabilities held-for-risk management	28				
Forward foreign exchange contracts		–	105,741	–	105,741
		–	105,741	–	105,741

As at 31 December 2015	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial Assets					
Derivative assets held-for-risk management	28				
Forward foreign exchange contracts			198,776		198,776
Other financial assets held-for-trading					
Government of Sri Lanka Treasury Bills and Bonds			–		–
Financial investments – Available-for-sale	31				
Government of Sri Lanka Treasury Bills and Bonds			29,690,593		29,690,593
Quoted ordinary shares		18,123,603			18,123,603
Units in Unit Trusts – Quoted		197,759			197,759
Units in Unit Trusts – Unquoted			797,186		797,186
Unquoted shares				147,874	147,874
Government grant receivable	41		539,758		539,758
		18,321,362	31,226,313	147,874	49,695,549
Financial Liabilities					
Derivative liabilities held-for-risk management	28				
Forward foreign exchange contracts			85,333		85,333
			85,333		85,333

As Treasury Bills/Bonds are valued using Central Bank published rates, investments in Treasury Bills/Bonds are classified under level 1.

59.4 Fair Value by Level of the Fair Value Hierarchy – Group

As at 31 December 2016	**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			**122,977**		**122,977**
Other financial assets held-for-trading					
Government of Sri Lanka Treasury Bills and Bonds			–		–
Financial investments – Available-for-sale	**31**				
Government of Sri Lanka Treasury Bills and Bonds		**29,365,256**			**29,365,256**
Quoted ordinary shares		**18,797,639**			**18,797,639**
Units in Unit Trusts – Quoted		**190,153**			**190,153**
Units in Unit Trusts – Unquoted			**806,211**		**806,211**
Unquoted shares				**112,984**	**112,984**
Government grant receivable	**41**		**861,914**		**861,914**
		48,353,048	**1,791,102**	**112,984**	**50,257,134**
Financial Liabilities					
Derivative liabilities held-for-risk management	**28**				
Forward foreign exchange contracts			**105,741**		**105,741**
			105,741		**105,741**

As at 31 December 2015	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial Assets					
Derivative assets held-for-risk management	28				
Forward foreign exchange contracts			198,776		198,776
Other financial assets held-for-trading					
Government of Sri Lanka Treasury Bills and Bonds			–		–
Financial investments – Available-for-sale	31				
Government of Sri Lanka Treasury Bills and Bonds			29,690,593		29,690,593
Quoted ordinary shares		18,123,603			18,123,603
Units in Unit Trusts – Quoted		197,759			197,759
Units in Unit Trusts – Unquoted			797,186		797,186
Unquoted shares				147,874	147,874
Government grant receivable	41		539,758		539,758
		18,321,362	31,226,313	147,874	49,695,549
Financial Liabilities					
Derivative liabilities held-for-risk management	28				
Forward foreign exchange contracts		–	85,333	–	85,333
		–	85,333	–	85,333

59.5 Fair Value of Financial Instruments Carried at Amortised Cost – Bank

The following table summarises the carrying amounts and the Bank's estimate of fair values of those financial assets and liabilities not presented on the Bank's Statement of Financial Position at fair value. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions which are not observable in the market.

As at 31 December 2016	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		4,330,934		4,330,934	4,330,934
Balances with Central Bank of Sri Lanka	26		8,062,567		8,062,567	8,062,567
Placements with banks	27		1,351,117		1,351,117	1,351,117
Loans to and receivables from banks	29		12,300,398		12,300,398	12,300,398
Loans to and receivables from other customers	30			183,514,729	183,514,729	185,784,979
Financial investments – Held-to-maturity	32	13,757,420	2,372,636		16,130,056	23,189,085
Total		13,757,420	28,417,652	183,514,729	225,689,801	235,019,080
Liabilities						
Due to banks	44		18,103,587		18,103,587	18,103,587
Due to other customers	45			139,995,435	139,995,435	140,514,373
Other borrowing	46			40,802,490	40,802,490	40,802,490
Debt securities issued	47		28,077,060		28,077,060	29,179,185
Subordinated term debt	49		8,796,976		8,796,976	9,205,637
			54,977,622	180,797,925	235,775,547	237,805,272

As at 31 December 2015	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Fair value LKR 000	Carrying amount LKR 000
Assets						
Cash and cash equivalents	25		4,305,247		4,305,247	4,305,247
Balances with Central Bank of Sri Lanka	26		5,553,809		5,553,809	5,553,809
Placements with banks	27		–		–	–
Loans to and receivables from banks	29		4,574,319		4,574,319	4,574,319
Loans to and receivables from other customers	30			158,622,894	158,622,894	160,345,530
Financial investments – Held-to-maturity	32	3,655,412	14,155,734		17,811,146	17,903,885
Total		3,655,412	28,589,109	158,622,894	190,867,415	192,682,790
Liabilities						
Due to banks	44		24,364,403		24,364,403	24,364,403
Due to other customers	45			110,639,616	110,639,616	110,890,685
Other borrowing	46			35,955,297	35,955,297	35,955,297
Debt securities issued	47		23,331,215		23,331,215	23,292,660
Subordinated term debt	49		3,421,616		3,421,616	3,767,081
			51,117,234	146,594,913	197,712,147	198,270,126

59.6 Fair Value of Financial Instruments Carried at Amortised Cost – Group

The following table summarises the carrying amounts and the Group's estimate of fair values of those financial assets and liabilities not presented on the Group's Statement of Financial Position at fair value. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions which are not observable in the market.

As at 31 December 2016	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		4,330,934		4,330,934	4,330,934
Balances with Central Bank of Sri Lanka	26		8,062,567		8,062,567	8,062,567
Placements with banks	27		1,351,117		1,351,117	1,351,117
Loans to and receivables from banks	29		12,300,398		12,300,398	12,300,398
Loans to and receivables from other customers	30			183,514,729	183,514,729	185,784,979
Financial investments – Held-to-maturity	32	13,757,420	2,372,636		16,130,056	23,189,085
Total		13,757,420	28,417,652	189,514,729	225,689,802	235,019,080
Liabilities						
Due to banks	44		18,103,587		18,103,587	18,103,587
Due to other customers	45			139,658,669	139,658,669	140,514,373
Other borrowing	46			40,787,444	40,787,444	40,787,444
Debt securities issued	47		28,077,060		28,077,060	29,179,185
Subordinated term debt	49		8,796,976		8,796,976	9,205,637
			54,977,622	180,446,113	235,423,735	237,790,226

As at 31 December 2015	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Fair value LKR 000	Carrying amount LKR 000
Assets						
Cash and cash equivalents	**25**		4,314,777		4,314,777	4,314,777
Balances with Central Bank of Sri Lanka	**26**		5,553,809		5,553,809	5,553,809
Placements with banks	**27**		1,718		1,718	1,718
Loans to and receivables from banks	**29**		4,602,263		4,602,263	4,602,263
Loans to and receivables from other customers	**30**			158,620,519	158,620,519	160,343,155
Financial investments – Held-to-maturity	**32**	3,655,412	14,155,734		17,811,146	17,903,885
Total		3,655,412	28,628,301	158,620,519	190,904,232	192,719,607
Liabilities						
Due to banks	**44**		24,365,653		24,365,653	24,365,653
Due to other customers	**45**			110,300,151	110,300,151	110,551,220
Other borrowing	**46**			35,955,297	35,955,297	35,955,297
Debt securities issued	**47**		23,331,215		23,331,215	23,292,660
Subordinated term debt	**49**		3,421,616		3,421,616	3,767,081
			51,118,484	146,255,448	197,373,932	197,931,911

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

59.7 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.

59.8 Loans to and Receivables from Banks and Other Customers

59.8.1 Lease Rentals Receivable – Bank

The estimated fair value of lease rentals receivable is the present value of future cash flows expected to be received from such finance lease facilities calculated based on current interest rates for similar type of facilities. The finance lease portfolio is at fixed interest rates and the fair value calculated on this basis as at 31 December 2016 was LKR 14,412 million as against a carrying value of LKR 15,909 million. (as at 31 December 2015 - fair value calculated on this basis was LKR 15,895 million as against a carrying value of LKR 14,436 million).

59.8.2 Other Loans

Composition:

	%
Floating rate loan portfolio	
Fixed rate loans	62
– With remaining maturity less than one year	5
– Others	33
Total	

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.

59.9 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.

59.10 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.

59.11 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.

59.12 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.

59.13 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.

60 Financial Risk Management

60.1 Introduction and Overview

Bank has exposure to the following key risks from financial instruments:

- Credit Risk
- Liquidity Risk
- Operational Risk
- Market Risk

This note presents information about the Bank's exposure to each of the above risks, the objectives, policies and processes for measuring and managing such risk.

Risk Management Framework

The Board of Directors has the overall responsibility for the establishment and oversight of the Bank's risk management framework. It has set up an Integrated Risk Management Committee (BIRMC) with four Non-Executive Directors including the Chairman, one Executive Director and Chief Risk Officer (CRO) as members. CRO represents at the BIRMC the supervision and the management of the broad risk categories including credit, liquidity market risk, and strategic risk. As per the Board approved Charter, BIRMC assists the Board to manage these risks prudently. Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and to monitor 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.

60.2 Credit Risk

60.2.1 Qualitative Disclosures

Credit risk is the risk of financial loss to the Bank 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 IRMD.
6. Reviewing compliance through regular audits by internal audit.

60.2.2 Quantitative Disclosures

	BANK		GROUP	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
60.2.2.1 Loans to and Receivables from Other Customers				
Individually Impaired				
Gross amount	**6,010,399**	5,771,086	**6,010,399**	5,771,086
Allowance for impairment	**(4,778,752)**	(4,240,756)	**(4,778,752)**	(4,240,756)
Carrying amount	**1,231,647**	1,530,330	**1,231,647**	1,530,330
Collectively Impaired				
Gross amount	**2,628,487**	2,782,651	**2,628,487**	2,782,651
Allowance for impairment	**(1,890,798)**	(1,924,882)	**(1,890,798)**	(1,924,882)
Carrying amount	**737,689**	857,769	**737,689**	857,769
Past Due But Not Impaired				
Gross amount	**60,879,323**	41,042,121	**60,879,323**	41,042,121
Allowance for impairment	**–**	–	**–**	–
Carrying amount	**60,879,323**	41,042,121	**60,879,323**	41,042,121
Neither Past Due Nor Impaired				
Gross amount	**122,936,320**	116,915,310	**122,936,320**	116,912,935
Allowance for impairment	**–**	–	**–**	–
Carrying amount*	**122,936,320**	116,915,310	**122,936,320**	116,912,935
Carrying amount – amortised cost	**185,784,979**	160,345,530	**185,784,979**	160,343,155

As at	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000

60.2.2.2 Loans to and Receivables from Banks

	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000
Neither Past Due Nor Impaired				
Gross amount	**12,300,398**	4,574,319	**12,300,398**	4,602,263
Allowance for impairment	**–**	–	**–**	–
Carrying amount	**12,300,398**	4,574,319	**12,300,398**	4,602,263

60.2.2.3 Analysis of Security Values of Loans to and Receivables from Other Customers

	BANK				GROUP			
	Gross loan balance 31.12.2016 LKR 000	**Security value 31.12.2016 LKR 000**	Gross loan balance 31.12.2015 LKR 000	Security value 31.12.2015 LKR 000	**Gross loan balance 31.12.2016 LKR 000**	**Security value 31.12.2016 LKR 000**	Gross loan balance 31.12.2015 LKR 000	Security value 31.12.2015 LKR 000
Against Individually Impaired								
Mortgages over property, plant and machinery	**1,612,896**	**1,449,450**	1,622,358	1,626,016	**1,612,896**	**1,449,450**	1,622,358	1,626,016
Others	**596,865**	**510,898**	770,027	9,687	**596,865**	**510,898**	770,027	9,687
Unsecured	**3,714,601**	**–**	3,278,338	–	**3,714,601**	**–**	3,278,338	–
Against Collectively Impaired								
Mortgages over property, plant and machinery	**1,060,924**	**2,319,203**	1,140,430	2,242,249	**1,060,924**	**2,319,203**	1,140,430	2,242,249
Others	**218,186**	**14,665**	321,167	78,682	**218,186**	**14,665**	321,167	78,682
Unsecured	**1,239,662**	**–**	1,107,808	–	**1,239,662**	**–**	1,107,808	–
Against Past Due But Not Impaired								
Mortgages over property, plant and machinery	**30,660,982**	**70,102,950**	18,215,022	40,442,389	**30,660,982**	**70,102,950**	18,215,022	40,442,389
Others	**17,520,717**	**5,618,646**	11,299,513	3,874,642	**17,520,717**	**5,618,646**	11,299,513	3,874,642
Unsecured	**6,965,357**	**–**	5,790,641	–	**6,965,357**	**–**	5,790,641	–
Against Neither Past Due Nor Impaired								
Mortgages over property, plant and machinery	**41,775,571**	**100,725,378**	43,204,836	95,750,255	**41,775,571**	**100,725,378**	43,204,836	95,750,255
Treasury guarantee	**5,874,580**	**7,180,759**	3,656,813	5,235,669	**5,874,580**	**7,180,759**	3,656,813	5,235,669
Debt securities	**517,500**	**517,500**	940,000	94,000	**517,500**	**517,500**	940,000	94,000
Equity	**1,767,950**	**1,937,591**	1,382,047	1,465,100	**1,767,950**	**1,937,591**	1,382,047	1,465,100
Others	**37,513,754**	**9,480,430**	31,009,977	9,237,347	**37,513,754**	**9,480,430**	31,009,977	9,237,347
Unsecured	**25,505,832**	**–**	27,336,036	–	**25,505,832**	**–**	27,336,036	–
Total	**176,545,377**	**199,857,470**	151,075,013	160,056,036	**176,545,377**	**199,857,470**	151,075,013	160,056,036

The above analysis does not include balances relating to lease rentals receivable.

60.3 Liquidity Risk

60.3.1 Qualitative Disclosures

Liquidity risk is the risk that the Bank will not have sufficient financial resources to meet Bank's obligations as they fall due. This risk arises from mismatches in the timing of cash flows.

Management of liquidity risk includes the following elements:

a. Taking steps to ensure, as far as possible, that it will always have sufficient financial resources to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the bank's reputation.

b. The Asset and Liability Committee (ALCO) is mandated to execute liquidity management policies, procedures and practices approved by the Board of Directors, effectively.

c. Monitoring of potential liquidity requirements and availability using the maturity analysis and cash flow forecast under normal and stressed conditions using a flow approach.

d. Monitoring the Group's liquidity through the Liquid Assets Ratio (statutory minimum is currently 20%) using a stock approach.

e. Effecting threshold limits relevant for liquidity management as part of the overall risk limits system of the Bank.

	Year ended 31 December 2016
60.3.2 Quantitative Disclosures	
60.3.2.1 Liquidity Risk Position	
Liquid Asset Ratio as at reporting date	**27.19**
Average for the year	**25.30**
Minimum for the year	**23.27**
Maximum for the year	**27.19**

As at	31.12.2016 %
Gross advances to deposit ratio	**137**
Gross advances to deposit ratio (including credit lines and international notes)	**116**

60.3.2.2 Liquidity Coverage Ratios

As at	31.12.2016 %
Liquidity coverage ratio – Rupee only	197.3
Liquidity coverage ratio – All currencies	168.8

The ratio has been maintained above the statutory limit of 70% throughout the period.

60.3.2.3 Maturity Profile of Financial Liabilities of the Bank

As at 31 December 2016	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	%
Liabilities with Contractual Maturity (Interest-Bearing Liabilities)												
Due to banks	18,094,655	18,101,872	10,954,907	61	664,798	4	6,482,167	36	–	–	–	–
Due to other customers	135,590,792	135,755,425	55,766,689	41	46,392,657	34	7,454,781	5	6,062,235	4	20,079,063	15
Other Borrowing	40,802,490	40,805,021	13,430,270	33	11,082,577	27	–	–	16,292,174	40	–	–
Subordinated term debt	9,205,637	9,213,275	–	–	231,203	3	–	–	2,944,268	32	6,037,804	66
Debt securities issued	29,179,185	29,209,360	5,745,437	20	5,503,970	19	14,962,529	51	2,997,424	10	–	–
	232,872,759	233,084,953	85,897,303	–	63,875,205	–	28,899,477	–	28,296,101	–	26,116,867	–
Other Liabilities (Non-Interest-Bearing Liabilities)												
Due to banks	8,932	8,932	8,932	100	–	–	–	–	–	–	–	–
Derivative financial instruments	105,741	105,741	105,741	100	–	–	–	–	–	–	–	–
Due to other customers	4,923,581	4,923,581	2,065,407	42	1,695,832	34	–	–	–	–	1,162,342	24
Current tax payable	607,333	485,698	–	–	–	–	–	–	–	–	–	–
Deferred tax liability	851,662	929,025			–	–	–	–	–	–	929,025	100
Government Grant – deferred Income	701,665	701,665	–	–	701,665	100	–	–	–	–	–	–
Other liabilities	4,190,675	3,751,818	2,063,803	55	901,971	24	43,297	1	43,297	1	699,450	19
Total equity	45,849,666	44,747,289	–	–	–	–	–	–	–	–	44,747,289	100
	57,239,255	55,653,749	4,729,581	–	3,299,468	–	43,297	–	43,297	–	47,538,106	–
Total equity and liabilities	290,112,014	288,738,702	90,626,884	–	67,174,673	–	28,942,774	–	28,339,398	–	73,654,973	–

60.3.2.4 Maturity Profile of Financial Liabilities of the Group

As at 31 December 2016	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	%
Liabilities with Contractual Maturity (Interest-Bearing Liabilities)												
Due to banks	18,094,655	18,101,872	10,954,907	61	664,798	4	6,482,167	36	–	–	–	–
Due to other customers	135,296,291	135,460,923	55,472,188	41	46,392,657	34	7,454,781	5	6,062,235	4	20,079,062	15
Other Borrowing	40,787,444	40,789,977	13,415,226	33	11,082,577	27	–	–	16,292,174	40	–	–
Subordinated term debt	9,205,637	9,213,275	–	–	231,203	3	–	–	2,944,268	32	6,037,804	66
Debt securities issued	29,179,185	29,209,360	5,745,437	20	5,503,970	19	14,962,529	51	2,997,424	10	–	–
	232,563,212	232,775,407	85,587,758	–	63,875,205	–	28,899,477	–	28,296,101	–	26,116,866	–
Other Liabilities (Non-Interest-Bearing Liabilities)												
Due to banks	8,932	8,932	8,932	100	–	–	–	–	–	–	–	–
Derivative financial instruments	105,741	105,741	105,741	100	–	–	–	–	–	–	–	–
Due to other customers	4,923,581	4,923,581	2,065,407	42	1,695,832	34	–	–	–	–	1,162,342	24
Current tax payable	626,470	504,835	504,835	100	–	–	–	–	–	–	–	–
Deferred tax liability	873,912	951,875	–	–	–	–	–	–	–	–	951,875	100
Government Grant – Deferred Income	701,665	701,665	–	–	701,665	100	–	–	–	–	–	–
Other liabilities	4,352,331	3,913,474	2,225,459	57	901,971	23	43,297	1	43,297	1	699,450	18
Total equity	47,109,719	43,543,309	–	–	–	–	–	–	–	–	43,543,309	100
	58,702,622	54,653,412	4,910,374	–	3,299,468	–	43,297	–	43,297	–	46,356,976	–
Total equity and liabilities	291,265,834	287,428,819	90,498,132	–	67,174,673	–	28,942,774	–	28,339,398	–	72,473,842	–

60.4 Market Risk

60.4.1 Qualitative Disclosures

Market risk is the possibility of losses arising from changes in the value of a financial instrument as a result of changes in market variables, such as interest rates, equity prices, foreign exchange rates and commodity prices which will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank' s market risk management is to manage and control market risk exposures within acceptable parameters, in order to ensure the Bank' s solvency and the income growth, while optimising the return on risk.

60.4.1.1 Management of Market Risks

The following policy frameworks stipulate the policies and practices for management, monitoring and reporting of market risk.

a. Market risk management framework

b. ALCO charter

c. Treasury trading guidelines and limits system

d. Treasury manual

e. Overall risk limits for market risk management

f. New product development policy

Overall authority for managing market risk is vested with the Board of Directors through the Board Integrated Risk Management Committee (BIRMC). The operational authority for managing market risk is vested with ALCO. Foreign exchange risk is managed within approved limits and 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 market-making activities, 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.

60.4.2 Quantitative Disclosures

In the case of interest and forex risk the following analysis is in respect of DFCC Bank PLC.

60.4.2.1 Interest Rate Risk – DFCC

60.4.2.1.1 Duration Analysis as at 31 December 2016

Portfolio	Face value LKR 000	Mark-to-market value LKR 000	Duration	Interpretation of duration
Government Securities trading portfolio	–	–		
Treasury Securities AFS portfolio	31,256,817	29,690,593	0.76	Portfolio value will decline approximately by 0.76% as a result of 1% increase in the interest rates.

Market risk exposure for interest rate risk in the trading portfolio is nil as of 31 December 2016. Market risk exposure for interest rate risk in the AFS portfolio as at 31 December 2016 is depicted by duration of 0.76%. This level of interest rate risk exposure in the AFS portfolio can be interpreted as a possible potential loss in the mark-to-market value amounting to LKR 224.4 million, as at 31 December 2016 in case, the market interest rates mark a parallel upward shift of 1%.

60.4.2.1.2 Potential Impact to NII Due to Change in Market Interest Rates

Overall up to the 12-month time bucket, DFCC 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 December 2016 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	131,950,229	12,162,436	25,874,901	14,374,802
Total interest-bearing liabilities	69,965,182	36,851,421	37,352,683	25,949,809
Net rate sensitive assets (liabilities)	61,985,047	(24,688,985)	(11,477,782)	(11,575,007)
Assumed change in interest rates (%)	0.50%	1.00%	1.50%	2.00%
Impact	309,925	(226,316)	(129,125)	(115,750)
Total net impact if interest rates increase				(161,266)
Total net impact if interest rates decline				161,266

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.

60.4.2.2 Forex Risk in Net Open Position (NOP)/Unhedged Position of DFCC

The following table indicates the DFCC's exchange rate risk exposure based on its size of the NOP/unhedged positions in the foreign currency assets/liabilities. By 31 December 2016, DFCC carried a USD equivalent net open/unhedged 'Oversold' position of LKR 0.46 billion. The impact of exchange rate risk is given below:

	Amount
Net exposure – USD equivalent	(3,075,000)
Value of position in LKR '000	(461,558)
Exchange rate (USD/LKR) as at 31 December 2016	150.10
Possible potential gain/(loss) to DFCC Bank – LKR '000	
If exchange rate (USD/LKR) depreciates by 1%	(4,616)
If exchange rate depreciates by 10%	(46,156)
If exchange rate depreciates by 15%	(69,234)

The estimated potential exchange loss is off set by the interest gain due to interest differential between Sri Lankan Rupee and the respective foreign currencies.

60.4.2.3 Equity Price 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. The Bank 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 December 2016 LKR 000**	Position as at 31 December 2015 LKR 000
Marked-to-market value of the total quoted equity portfolio	**18,797,639**	18,123,603
Value-at-risk (under 99% probability for a quarterly time horizon)	**10.03%**	16.60%
Maximum possible loss of value in the marked-to-market value of the portfolio as indicated by the VAR over a quarterly period	**1,885,403**	3,008,518
Unrealised gains in the AFS equity portfolio reported in the fair value reserve	**14,580,102**	14,159,681

Equity price risk is quantified using the Value at Risk (VAR) approach based on the Historical Loss Method. Historical two-year portfolio returns is adopted to compute VAR as a measure of the equity prices risk exposure by DFCC Bank. This VAR computation for the equity AFS portfolio considers a quarterly time horizon.

60.4.2.4 Market Risk Exposures of DFCC Group for Regulatory Capital Assessment as at 31 December 2016

Under the Standardised Approach of Basel II with effect from January 2008, market risk exposures are quantified for regulatory capital purposes. The computation results as at 31 December 2016 are as follows:

	Risk-weighted assets LKR 000	**Quantified possible exposure LKR 000**
Interest rate risk	**2,622,162**	**262,216**
Equity prices risk	**55,709**	**5,571**
Foreign exchange and gold risk	**491,392**	**49,139**
Total	**3,169,263**	**316,926**

60.5 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank relating to processes, personnel, technology and infrastructure, and from external factors such as those arising from legal and regulatory requirements.

DFCC Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness whilst avoiding control procedures that restrict initiative and creativity.

The following are included in the process of the operational risk management in DFCC Bank.

a. Monitoring of the Key Risk Indicators (KRIs) for the departments/functions under the defined threshold limits using a traffic light system. Develop risk and control Self-Assessments to identify the risk exposure of all processes.

b. 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.

c. Trend analysis on operational risk incidents and review at the Operational Risk Management Committee (ORMC) and the BIRMC.

d. Analyse downtime of the critical systems, attrition information, exit interview comments and complaints to identify risks and recommend mitigating controls. The key findings of the analysis are evaluated at the ORMC and the BIRMC in an operational risk perspective.

The primary responsibility for the development and implementation of controls to address operational risk lies with IRMD whilst implementation is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for management of operational risk in the following areas:

a. Requirements for appropriate segregation of duties, including independent authorisation of transactions,
b. Requirements for reconciliation and monitoring of transactions,
c. Compliance with regulatory and other legal requirements,
d. Documentation of controls and procedures,
e. Requirements for periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified,
f. Requirements for reporting of operational losses and proposed remedial action,
g. Development of contingency plans,
h. Training and professional development,
i. Ethical and business standards, and
j. Insurance covering risk due to threats arising from external and other events.

Compliance with the Bank's standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management.

60.6 Capital Management

60.6.1 Qualitative Disclosures

DFCC Bank PLC manages its capital at Bank and Group level considering both regulatory requirement and risk exposures. Its regulatory capital position is analysed by the BIRMC on a quarterly basis and recommendations and decisions are made accordingly. The Group capital management goals are as follows:

a. Ensure regulatory minimum capital adequacy requirements are not compromised.
b. Bank to maintain its international and local credit rating and to ensure that no downgrading occurs as a result of deterioration of risk capital of the Bank.
c. Ensure above industry average Capital Adequacy Ratio for the banking sector is maintained.
d. Ensure maintaining of quality capital.
e. Ensure capital impact of business decisions are properly assessed and taken into consideration during product planning and approval process.
f. Ensure capital consumption by business actions are adequately priced.
g. Ensure Bank's average long-term dividend pay-out ratio is maintained.

Central Bank of Sri Lanka sets and monitors regulatory capital requirement on both consolidated and solo basis. The Bank is required to comply with the provisions of the Basel II and Basel III in respect of regulatory capital. The Bank currently uses the standardised approach for credit risk and market risk and basic indicator approach for operational risk.

The Basel III capital regulations, which are planned to be implemented on a phased in basis by 2019 starting from mid 2017, will continue to be based on the three-mutually reinforcing Pillars introduced under Basel II, i.e., minimum capital requirement, supervisory review process and market discipline. Basel III focuses on increasing the quality and quantity of capital especially the Core Capital, through redefining the common equity capital and introducing new capital buffers such as the Capital Conversation Buffer and a Capital Surcharge on Domestic Systematically Important Banks. DFCC Bank started performing parallel computations under the Basel III requirements in 2016 in preparation for reporting under Basel III once implemented in 2017.

Regulatory capital comprises Tier I capital and Tier II capital. The Bank's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence to sustain future development of the business.

DFCC Bank and its Group have complied with the minimum capital requirements imposed by the Central Bank of Sri Lanka throughout the period.

As at	Notes	**31.12.2016 Basel II LKR 000**	31.12.2015 Basel II LKR 000
60.6.2 Group Quantitative Disclosures			
Tier I Capital			
Stated capital	50	**4,715,814**	4,715,814
Statutory reserve fund	51	**2,004,275**	1,834,275
Retained earnings	52	**14,231,009**	11,506,206
General and other reserves	53	**13,779,839**	13,779,839
Non-controlling interests		**259,900**	252,426
Less: deductions			
Goodwill	40	**156,226**	156,226
Net deferred tax asset	42	**628**	1,536
Intangible assets	39	**208,382**	247,945
50% investments in the capital of other banks and financial institutions		**3,297,761**	3,188,652
Total Tier I Capital		**31,327,840**	28,494,201
Tier II Capital			
Qualifying subordinated liabilities		**8,600,000**	2,318,000
General provision		**843,388**	735,424
Less: deductions			
50% investments in the capital of other banks and financial institutions		**3,297,761**	3,188,652
		37,473,467	28,358,973
Tier I capital adequacy ratio		**14.60%**	15.39%
Total capital adequacy ratio		**17.47%**	15.32%

Other Disclosure Requirements Under the Prescribed Format Issued by the Central Bank of Sri Lanka for Preparation of Annual Financial Statements of Licensed Commercial 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 Analysis of Financial Instruments by Measurement basis	164
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	148
ii. Reclassifications of financial instruments from one category to another.	Significant accounting policies: Note 5.2.3 – Reclassification of financial instruments	149
iii. Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Note 46.1 – Assets pledged as security	189
iv. Reconciliation of the allowance account for credit losses by class of financial assets.	Notes to the financial statements: Note 30.2 – Movement in specific and collective allowance for impairment	171
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 10 - 21 to the financial statements:	153-162
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	153
ii. Fee income and expense.	Note 12 to the financial statements: Net fee and commission income	154
iii. Amount of impairment losses by class of financial assets.	Note 17 to the financial statements: Impairment for loans and other losses.	157
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 – Financial instruments – initial recognition, classification and subsequent measurement.	148
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 59.3 to 59.4 – Fair value measurement	206-207
ii. Description of how fair value was determined.	Notes to the financial statements: Note 59.1	205
iii. The level of inputs used in determining fair value.	Notes to the financial statements: Note 59.7 to 59.13	210-211

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.	206
v. Information if fair value cannot be reliably measured.	Notes to the financial statements: Note 59.5 to 59.12.	208-211
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.	79
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.	79
2.1.3 Changes from the prior period.	Notes to the financial statements: Note 57.2 – Reclassification of comparative figures	205
2.2 Quantitative Disclosures		
2.2.1 Summary of quantitative data about exposure to each risk at the reporting date.	Please refer the section relating to Integrated risk managements objectives, policies and processes. Notes to the Financial Section Note 60	211
2.2.2 Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed.	Please refer the section relating to Integrated risk managements objectives, policies and processes. Notes to the Financial Statements Note 60	79 211
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 30.1.3 on industry analysis.	170
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 30.1.3 on industry analysis. Note 60.2.2.1 & 60.2.2.3 on loans and advances and impairment analysis.	170 212-213
c. Information about collateral or other credit enhancements obtained or called.	Note 60.2.2.3 Analysis of Security Values of Loans to and Receivables from other customers	213
d. For other disclosures, please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	The section on 'Integrated risk management'. Note 60.2 Credit Risk	212
ii. Liquidity Risk		
a. A maturity analysis of financial liabilities.	Notes to the financial statements: Note 60.3.2.2 and 60.3.2.3 Maturity analysis of financial liabilities.	215
b. Description of approach to risk management.	The section on 'Integrated risk management'.	
c. For other disclosures, please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Please refer the section on 'Integrated risk management'. Note 60.3 Liquidity Risk	79 214

Disclosure Requirements	Description	Page No.
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 60.4 – Market risk	216
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'. Note 60.4 Market Risk	216
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 60.5 – Operational risk	218
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 60.4.2.3 – Equity price risk	218
• Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.	Note 4.1, 4.2 & 4.3	147
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 31 – Financial investments – Available-for-sale Note 33 – Investments in subsidiaries Note 34 – Investments in associates Note 15 – Net gain/loss from financial investments	171 177 178 156
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'.	79
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 60.4.2.1.2	217
2.2.3 Information on concentrations of risk.	Please refer the section on 'Integrated risk management'.	79

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 60.6.2	220
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 60.6.2 - Financial risk management	220
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'.	92
ii. Quantitative Disclosures		
a. Capital requirements for credit risk, market risk and operational risk	Please refer the section on 'Integrated risk management'.	92
b. Total and Tier 1 capital ratio	Please refer the section on 'Integrated risk management'.	92

Value Added Statement

Value Added Statement – Bank

	For the year ended 31 December 2016			For the 9 months ended 31 December 2015		
	LKR million	LKR million	%	LKR million	LKR million	%
Value Added						
Gross income		**26,754**			10,036	
Cost of borrowing and support services		**(17,277)**			(6,473)	
Impairment for loans and other losses		**(937)**			(225)	
		8,540			3,338	
Value Allocated						
To employees						
Salaries, wages and other benefits		**2,809**	**33**		1,248	37
To providers of capital						
Dividends to shareholders		**663**	**8**		1,591	48
To Government						
Tax expense	**1,125**			521		
Value added tax and nation building tax on financial services	**986**	**2,111**	**25**	343	864	26
To expansion and growth						
Retained Income	**2,626**			(522)		
Depreciation	**331**	**2,957**	**34**	157	(365)	(11)
		8,540	**100**		3,338	100

Sources and Distribution of Income

Sources and Distribution of Income – Bank

LKR million	For the year ended 31 December	For the 9 months ended 31 December	For the year ended 31 March		
	2016	2015	2015	2014	2013
Sources of Income					
Interest income	**24,194**	8,918	8,010	9,530	9,279
Income from investments	**1,165**	641	2,150	1,211	1,090
Other	**1,395**	477	234	(260)	64
	26,754	10,036	10,394	10,481	10,433
Distribution of Income					
To employees as emoluments	**2,809**	1,248	943	906	891
To lenders as interest	**15,294**	5,560	4,675	4,894	5,023
To providers of supplies and services	**1,983**	913	587	576	498
To Government as taxation	**2,111**	864	1,116	1,056	803
To shareholders as dividends	**663**	1,591	1,458	1,325	1,060
Retained in the business					
Depreciation set aside	**331**	157	140	137	128
Provision for losses	**937**	225	(308)	324	169
Reserves	**2,626**	(522)	1,783	1,263	1,861
	26,754	10,036	10,394	10,481	10,433

Ten Year Summary

LKR million	Based on Previous GAAP					Based on Current SLFRS				
	For the year ended 31 March								For the 9 months ended 31 December	For the year ended 31 December
	2008	2009	2010	2011	2012	2013	2014	2015	2015	**2016**
Bank										
Operating Results										
Total income	9,636	9,888	8,843	14,191	7,652	10,433	10,481	10,394	10,036	**26,754**
Profit before income tax	1,983	2,006	2,402	7,876	2,883	3,492	3,211	3,771	1,589	**4,414**
Income tax expense	665	646	689	739	430	570	623	531	521	**1,125**
Profit after tax	1,318	1,360	1,713	7,137	2,453	2,921	2,587	3,240	1,068	**3,289**
Statement of Financial Position										
Assets										
Cash and short-term funds	8,124	8,415	10,472	11,991	3,646	7,103	4,245	2,296	9,859	**13,745**
Loans to and receivables from banks and other customers	45,524	40,247	36,681	39,344	54,982	60,668	62,575	73,933	164,920	**198,085**
Financial investments	1,680	1,918	1,999	4,032	16,277	19,298	25,609	29,909	66,861	**72,461**
Investment in associate, joint venture and subsidiary companies	5,829	6,064	5,845	3,132	4,451	4,446	6,659	6,648	823	**902**
Other assets	2,202	1,841	1,419	1,427	1,841	1,645	1,853	1,826	3,688	**4,919**
Total assets	63,359	58,485	56,416	59,926	81,197	93,160	100,941	114,612	246,151	**290,112**
Liabilities										
Due to other customers	5,112	5,308	5,124	3,688	12,445	15,548	16,630	22,485	110,891	**140,514**
Other borrowing	42,480	36,710	33,530	32,261	36,489	41,605	45,262	46,346	87,379	**97,291**
Other liabilities	2,006	1,976	2,039	3,758	1,010	1,223	1,639	1,686	5,062	**6,457**
Equity	13,761	14,491	15,723	20,219	31,253	34,784	37,410	44,095	42,819	**45,850**
Total equity and liabilities	63,359	58,485	56,416	59,926	81,197	93,160	100,941	114,612	246,151	**290,112**
Return on equity, %	11.3	9.6	11.3	39.7	11.7	12.9	10.6	12.8	5.0	**10.99**
Return on total assets, %	2.1	2.2	3.0	12.3	3.7	3.8	3.0	3.5	1.0	**1.30**
Earnings per share, LKR*	5.09	5.17	6.48	26.95	9.25	11.02	9.76	12.22	4.03	**12.41**
Market value per share, LKR*	62.45	33.78	90.23	171.8	112.6	131.1	143.9	202.8	168.1	**122.50**
Price earnings ratio, times*	12.3	6.5	13.9	6.4	12.2	11.9	14.7	16.6	41.7	**9.87**
Earnings yield, %*	8.1	15.4	7.2	15.6	8.2	8.4	6.8	6.0	2.4	**10.13**
Dividend per share, LKR	5.00	5.00	6.00	10.00	4.00	5.00	5.50	6.00	2.50	**4.50**
Dividend cover, times	2.0	2.1	2.2	2.7	3.1	2.8	2.0	2.2	0.7	**4.96**
Gross dividend, LKR million	653.7	653.7	794.3	2,649.0	795.0	1,060.0	1,325.0	1,458.0	1,591.0	**663.0**
Liquid assets to liabilities (as specified in the Banking Act No. 30 of 1998), %	31	145	214	295	52	53	77	48	22	**27**
No. of employees	419	419	427	451	466	461	477	495	1,445	**1,642**

**Adjusted for bonus issue*

Corporate Information

Name of Company

DFCC Bank PLC

Legal Form

A quoted public company with limited liability incorporated by DFCC Bank Act No. 35 of 1955 and with the enactment of the DFCC Bank (Repeal and Consequential Provisions) Act No. 39 of 2014, incorporated under the Companies Act No. 07 of 2007 with the name 'DFCC Bank PLC' with effect from 6 January 2015.

A licensed commercial bank under the Banking Act, No. 30 of 1988.

Company Registration Number:

PQ233

Credit Rating

AA- (lka) credit rating from Fitch Ratings Lanka Limited.

Annual General Meeting

The AGM will be held at the Cinnamon Lakeside Colombo, Sir Chittampalam A Gardiner Mawatha, Colombo 2, on 30 March 2017.

Details of the business of the meeting and other information are contained in the booklet enclosed with this Annual Report.

For any clarification on this Report please write to:

The Company Secretary
DFCC Bank PLC
No. 73/5, Galle Road,
Colombo 03, Sri Lanka or
E-mail to: info@dfccbank.com

Company Secretary

Ms A Withana

Auditors

KPMG
Chartered Accountants

VAT Registration No.

409000088-7000

Registered Office

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

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