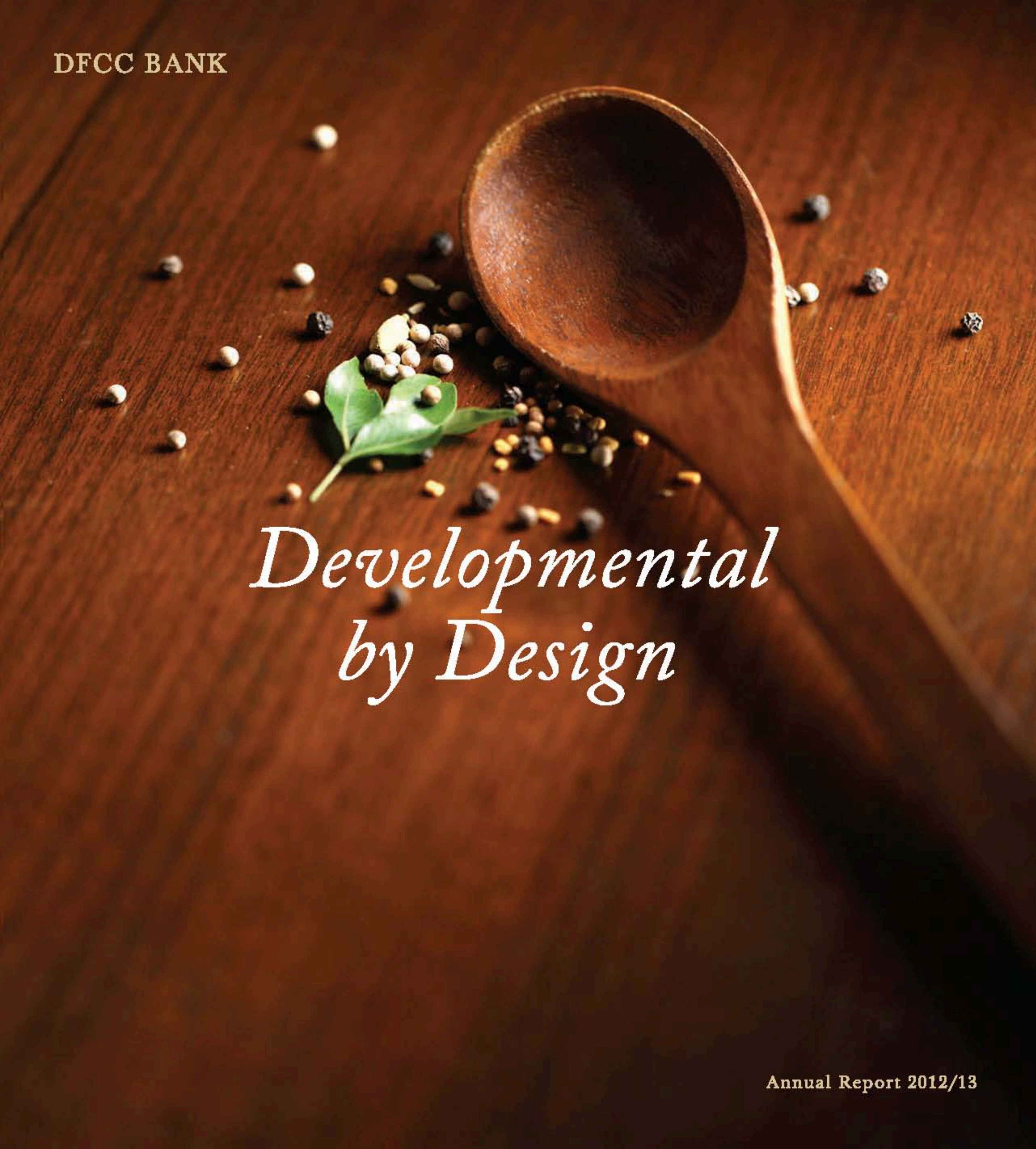


DFCC BANK

Developmental by Design

Annual Report 2012/13

DEVELOPMENTAL BY DESIGN

DFCC Bank/Annual Report 2012/13

This is an Integrated Annual Report capturing economic, social and environmental performance

DEVELOPMENTAL BY DESIGN

Imagine food without spice; just a pinch makes all the difference.
To bring out the zest, piquancy and relevance to something that would otherwise simply taste flat.
Likewise, imagine banking without a developmental flavour...

DFCC Bank, one of the oldest development finance institutions in the world, exemplifies this difference - developmental by design. A design that has evolved with the times to meet the modern-day needs and aspirations of an emerging economy, its institutions and its people.

We are a unique institution; private sector in form, but more like a public-private partnership in outlook. We were and are the pioneers in financing new economic sectors in the country. Project loans continue to be our forte. We provide advisory services, and have catalysed the transformation of state-owned enterprises to public listed companies. Our key role in nurturing the small and medium enterprise sector is another example of our indirect contribution to capital formation and employment creation in all parts of the country.

These activities have in no small measure contributed to the nation's transition to a middle income economy. In tandem, we too are growing, evolving and diversifying to partner a new era of national development through a unique business model that reflects the synergy of two banks in one.

It's that developmental focus which adds spice to our wide menu of universal banking products and services. Our customers expect nothing less; under one roof.

VISION & MISSION

To be Sri Lanka's premier financial services group.

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

OUR VALUES

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

1
We are Accountable for what we do

2
We place our Customer experience at the core

3
We believe Teamwork is key in turning our goals into accomplishments

4
We have a passion for Innovation and excellence

5
We Operate our business ethically

6
We focus on the Need to grow our business profitably

7
We are Socially and environmentally caring

PERFORMANCE HIGHLIGHTS

For the year ended 31 March	GROUP 2013	2012	% Change
Profit before taxation (PBT) - (LKR million)	4,419	3,694	19.6
Profit after taxation (PAT) - (LKR million)	3,538	3,038	16.5
Return on average shareholders funds - (LKR million)	9.63	10.81	–
Return on average assets (%)	2.56	2.81	–
Dividend per share (LKR)	5	4	25
Earnings per share (EPS) - (LKR)	13.04	11.19	16.5
Fair value of share at the year end (LKR)	131.1	112.6	16.4
Price earnings (times)	10.05	10.06	–
Net assets per share (LKR)	138.59	122.61	–

PAT LKR 3,538 million ↑ **16.5%**

EPS LKR 13.04 ↑ **16.5%**

ASSETS LKR 151,124 million ↑ **20.0%**

MARKET CAPITALISATION LKR 34,754 million ↑ **16.4%**

CHAIRMAN'S MESSAGE

Dear Shareholder,

It may not have been the best of times, it may not have been the worst of times, but it was one of the most eventful of times! This paraphrasing of the opening lines from Charles Dickens' novel, A Tale of Two Cities, succinctly describes the period gone by.

On the global political front, there were the many leadership changes including those in China, France, India and Russia. The exception of course was the presidential re-election in the USA. Then broader issues come to mind. The heightening of perennial tensions by the after effects of the Arab Spring in the Middle East, the Syrian civil war and the Iranian embargos. In the Far East, we had the upsurge in North Korean bellicosity and closer home, the rising antipathy in Tamil Nadu. On the economic front, the Euro-zone contagion spread, taking its toll on many Mediterranean economies and prompting the imposition of a string of austerity measures. Also, a series of rating downgrades left Germany with the Euro area's only stable AAA credit rating. Given that Sri Lanka's fortunes are increasingly tied to world events, the direct and indirect bearing that all these will have on our country is yet to be seen.

While Sri Lanka's overall economic growth of 6.4% in 2012 could be considered moderate when compared to the 8% recorded in the previous year, it is still commendable in the global context. The slowdown was experienced in the second half of the year and largely reflected weak external demand, unfavourable weather and tightened monetary conditions. While there was a strong showing in the industry sector which was driven by the construction sub-sector, the service sector, which is the mainstay of the economy, experienced a drop in growth due to slowdown in external trade and the ceiling on credit. On the other hand, despite the variable weather conditions, the agriculture sector recorded a strong recovery from the previous year. Inflation, as measured by the year-on-year increase in the Colombo Consumer Price Index, continued to remain in single digits during 2012, although experiencing a surge in the second half caused by increases in energy costs, the pass through of Sri Lanka's Rupee depreciation and weather related disruptions in food supply. Looking ahead, a growth of 7.5% has been targeted for 2013 largely on expectations of improved performance in the agriculture and service sectors, and the continuing spin-off from the ongoing infrastructure drive. In this context the Government's developmental initiatives are to be lauded.

CHAIRMAN'S MESSAGE

However, given the level of public debt, sustained growth will also require the reduction of the ballooning losses in the state sector particularly in the energy sub-sector. While Sri Lanka's power sector is well developed in terms of the extent of electrification and quality of supply, the mounting cost of electricity remains a perennial issue.

The financial sector turned in a healthy performance. While the credit cap imposed by the Central Bank of Sri Lanka in March 2012, had a greater impact on the growth of smaller banks, overall it was successful in improving the soundness of the system. Capital and liquidity were maintained at satisfactory levels while impaired loans were contained. The expansion of delivery channels continued with several unbanked regions coming into the network. As regards regulation, licensed banks were issued with several Directions that covered aspects such as business conduct, market practices and operations. It is thereby intended that the financial system be further strengthened safeguarding institutions as well as customers. In this regard we trust that the process of consolidation will soon be facilitated. While banks are encouraged to tap international markets for significant amounts of medium and long term funds, the capital raising that is possible remains constrained by the size of the balance sheets of most domestic banks. It is therefore hoped that the proposed amendments to the Banking Act will address this issue and enable the sector to be populated by players who have reached international stature through consolidation.

Looking at financial performance, I am happy to report good progress on all fronts. For DFCC Group, consolidated profit after tax increased 16% to LKR 3,538 million. The contribution from the combined banking business of DFCC Bank (DFCC) and DFCC Vardhana Bank (DVB) was LKR 3,410 million, which itself was up 19%. A key deliverable is return on investment. A shareholder of DFCC would have received a total of LKR 57.50 in dividends for each share held over the ten-year period from 2003 to 2012, which works out to an average dividend of LKR 5.75 per share per annum. In overall terms, taking into account the bonus issues and the rights issue during this period. Total Shareholder Return works out to approximately 20% per annum.

The Management Discussion provides an analysis of business and financial performance. But before I move on, I must also make mention of the commendable initiative by the Government of Sri Lanka to support financial institutions in raising long term funds from international markets. DFCC is one of the two institutions to be supported to raise USD 250 million in 10-year funds. It is actively exploring opportunities and options in this regard.

CHAIRMAN'S MESSAGE

Looking ahead, the regulatory landscape is evolving. Our unique business model enables DFCC and DVB to compete in the financial services space as legally separated but operationally integrated entities offering the full range of development and commercial banking products and services seamlessly through a unified distribution channel. However, we are cognisant of the fact that change and restructure of the sector is something that may be imminent. Accordingly, DFCC and DVB have placed themselves on an agile footing so as to be able to swiftly assess all options and act fast should the expected changes in legislation warrant and facilitate consolidation. Towards this end, a new organisational structure that rationalises all functions common to DFCC and DVB has been implemented. All activities that are common to both are now carried out as a group under designated Group Heads. This not only achieves significant synergies, but also provides holistic focus and unity of purpose as well.

Shareholders may be aware that Mr Nihal Fonseka, the present Chief Executive, has announced that he will step down from the position of CEO with effect from 1 October 2013. In preparation for this transition Mr Arjun Fernando was appointed Deputy Chief Executive in August 2012 with the intention of serving a transition period before taking over. Mr Fernando, I am pleased to say, is a very able banker with many years of local as well as international banking experience, having served in several foreign postings. I warmly welcome him and have every confidence that under his stewardship, DFCC will continue its progress to greater heights.

In conclusion;
I thank my fellow Directors for their unwavering support and cooperation. Their sound counsel will continue to be relied on, in determining the future direction of DFCC Bank. During the year, Mr T K Bandaranayake retired from the Board of Directors as well as from the position of Chairman of the Audit Committee. I thank him for his valued contribution and unstinted support towards the Bank.

Over the past 14 years, the Chief Executive - Mr Nihal Fonseka has given new direction to, and transformed DFCC Bank. Under his leadership, the DFCC Group raised the bar and has become one of the highest regarded institutions in the financial services industry. This regard is universal; be it from customers, local and international investors, regulators and multilateral financial agencies. My fellow Directors and I extend our heartfelt thanks to him for the invaluable service he has rendered, and wish him all the best in his future endeavours.

CHAIRMAN'S MESSAGE

The staff of DFCC Bank has turned in yet another creditable effort. I thank them all and have no doubt of their steadfast commitment in taking the organisation to new heights.

My thanks to our valued clients for their custom and regard for DFCC as their preferred financier. DFCC will continue to treat them as long term partners and work towards taking each relationship to new levels of service excellence.

Our success, both as a development bank and as the apex of a financial services group would not have been possible without the invaluable support of the officials of the Ministry of Finance and the Central Bank of Sri Lanka. In this context, I must specially mention the proposal in the 2013 budget to support long term offshore fund raising by DFCC Bank. I thank them all and their assistance and co-operation will continue to be relied on.

Last but not least - the shareholders of DFCC. Together with my fellow Directors on the DFCC Board, I proffer you my heartfelt thanks for the confidence placed in our ability to direct this organisation. I trust that we have fulfilled your expectations in discharging a responsibility of heavy import. I also wish to announce that the Board has decided to recommend a final dividend of LKR 5.00 per share, which is an increase of 25% over the previous year and is consistent with our dividend payout policy. It is also an indication of our optimism that DFCC Group will continue to advance while your investment value will continue to enhance.

JMS Brito

J M S Brito

Chairman

30 May 2013

TURMERIC

People in Asia have used this spice over thousands of years. Legend suggests usage dates back 10,000 years in India, when they say Lord Rama walked the earth. Around 200 years ago, the scientific community isolated the most healthy ingredient in turmeric, which is curcumin. With the increasing realisation of the many beneficial effects of curcumin to health, Turmeric is one of the most valuable spices to mankind.

CHIEF EXECUTIVE'S REPORT

The performance of the DFCC Group in the financial year ended 31 March 2013, though strong on many key fronts, should be considered in the context of the somewhat challenging operating environment referred to in the Chairman's Message.

The environment was shaped by multifaceted policy initiatives implemented by the monetary and fiscal authorities covering interest rates, exchange rates, duties and levies and the imposition of credit ceilings for banks. These measures, collectively aimed at curtailing the expansion of monetary aggregates and the trade deficit, although necessitated by the circumstances that prevailed in order to improve macroeconomic stability, impacted adversely on the growth of lending, trade finance and investment banking businesses of the DFCC Group, which are delivered through DFCC Bank (DFCC), the 99%-owned commercial banking subsidiary DFCC Vardhana Bank PLC (DVB) [collectively referred to as the DFCC Banking Business (DBB) in this report] and the 50%-owned investment banking joint venture, Acuity Partners Group.

The interest rate environment was not conducive to high credit demand, especially for project finance provided by DFCC. DVB was constrained by the credit ceiling set by the Central Bank of Sri Lanka, which limited LKR credit growth to 18% across the banking sector, regardless of size and phase of growth of individual banks. In this environment, some borrowers deferred project investments and drawing down of previously approved project loans. The combination of higher import levies and depreciation of the LKR resulted in a sharp reduction in vehicle imports, which led to finance leases recording only a marginal growth and import transaction volumes declining from the levels of the previous year. Capital market activity levels in equity and debt were also significantly lower than the previous year.

The financial year was also important in that it was the year of transition to the new Sri Lanka Accounting Standards (SLAS) that are International Financial Reporting Standards (IFRS) compliant. This transition required certain adjustments to opening positions relating to first time adoption. This Annual Report 2012/13 provides comprehensive information relating to these adjustments and all comparisons are based on financial information prepared according to the new standards unless stated otherwise.

Commencing with this Annual Report, we are also making a gradual transition to presenting integrated reports drawing on concepts from the International Integrated Reporting Framework that is being developed. Our aim is to report how our strategy, governance, performance and prospects lead to the creation of value to all our stakeholders - shareholders,

CHIEF EXECUTIVE'S REPORT

customers and business partners, employees, community and the Government. We made our maiden attempt at aligning our sustainability reporting with the Global Reporting Initiative (GRI) guidelines last year, a practice that we have further refined this year. In fact we have gone further this time and are demonstrating our commitment to environmental stewardship by voluntarily publishing the carbon footprint of the DFCC Banking Business, computed in accordance with the GHG Protocol Corporate Standard. The report as a whole is a self declared GRI G3.1 Application Level B. In the medium term we will examine ways and means of having the GRI aspects also assured.

Despite the challenges, the DFCC Group did deliver better results in many areas compared to the previous year and even more importantly was able to make progress on several key aspects of the strategic repositioning which commenced in the previous year. The Management Discussion in this report provides an analysis of the financial and operating performance of DBB and the Group.

The highlights of the year are briefly discussed below.

- **Profitability**

The consolidated Group profit after tax for the year grew by 16% to LKR 3,538 million from LKR 3,038 million. DFCC itself recorded a 17% profit after tax growth to LKR 2,885 million, while DBB grew by 19%. However, subsidiaries (other than DVB), joint venture and associate companies made a lower contribution of LKR 173 million to Group profit after tax, compared with the previous year's LKR 213 million. This was mainly due to the lower profit recorded by Acuity Partners Group.

- **Business**

DFCC recorded a 10% increase in gross loans and advances, while DBB grew by 14.7%. DVB increased its exposure to personal financial services assets, especially gold backed advances and housing loans. Construction, particularly finance for contractors and domestic trading sectors recorded relatively higher levels of credit growth compared to other business sectors. However, concentration risks were managed in terms of exposure limits to sectors as well as borrowers. The margin on customer advances of DBB narrowed, due to the higher cost of short term domestic funding, when currency hedging costs are factored in.

CHIEF EXECUTIVE'S REPORT

Customer deposits of DBB grew by 37.3% during the year. Current Accounts and Savings Accounts (CASA) as a proportion of total customer deposits of DBB remained at 18%. The ratio was 24% for DVB, slightly lower than the 25% in the previous year. CASA share growth proved difficult in an environment where time deposit rates were high.

The branch distribution footprint was further expanded with the addition of nine branches and service locations. DVB entered the high net worth personal financial services segment in several provincial capitals as well as through a dedicated customer service facility in Colombo.

- **Funding**

DVB obtained a long term credit line of USD 15 million from the Asian Development Bank. DFCC also diversified its offshore funding sources by raising a 12-month offshore commercial syndicated loan of USD 45 million. The risk arising from exchange rate fluctuations relating to foreign currency borrowings was managed within prudent limits. The quantum of multilateral and bilateral agency funding increased to LKR 33,345 million from LKR 27,232 million in the previous year. As a proportion of total funding it increased from 58% to 60%.

- **Asset Quality**

Overall credit quality was maintained. DBB's impaired loans, advances and receivables as a proportion of the total portfolio reduced from 7.3% to 7.2% during the year, although the non-performing loan ratio calculated in accordance with regulatory definition increased from 5% to 5.4%. Cumulative impairment charge covered 79.8% of impaired assets (previous year: 85.2%). The uncovered impaired assets amounted to 4% of total equity (previous year: 3%).

- **Efficiency**

Expenses were effectively managed. DFCC's ratio of operating expenses to total operating income (before impairment charge) improved further from 30% to 28.7% during the year. For DBB the ratio was 38.5% compared with 39.8% in the previous year.

- **Investors**

Consolidated group equity increased from LKR 32,927 million (including minority interest) to LKR 37,252 million. The net change in fair value of available-for-sale fixed income and equity securities was recognised under other comprehensive income and contributed to this increase. Earnings per share increased to LKR 13.04 from LKR 11.19.

CHIEF EXECUTIVE'S REPORT

Long term funding is an essential input for DFCC's core business of project lending. DFCC consciously increased the proportion of wholesale short term LKR time deposits in order to ride out the high interest rate regime before embarking on long term domestic fund raising. However, the domestic supply is scarce and thus the Government's budget proposals for 2013 to support DFCC through foreign exchange risk cover and tax incentives to raise offshore long term funds, is a very welcome development.

DFCC is the apex entity in the Group. It has never lost sight of its special role in the development agenda of the country, even after its conversion in the late 1990s from Development Finance Corporation of Ceylon, an unregulated provider of finance, to a specialised bank regulated under the Banking Act. It required a change in its business model, but as detailed in the Management Discussion, it has continued to be in the forefront of sustainable development financing.

Consistent with Government policy of accelerating growth in areas outside the Western Province, we have been a net transferor of financial resources to these provinces, thereby supporting livelihoods, employment generation and capital formation. The end of the near three decades of terrorist violence in the country opened up the previously inaccessible Northern and Eastern provinces and we have enthusiastically embraced the opportunity, not merely to provide banking services aimed at gathering deposits from the area, but also to finance capital assets and providing finance to contractors for executing the Government's infrastructure upgrading programme. At the recently held annual meeting, the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), which counts 131 member institutions in 45 countries and territories, identified a project financed by us in the Northern Province for the Best Development Finance Award in the Local Economic Development category.

The fast tracked upgrading of public infrastructure covering the whole country, will in my view be a game changer for Sri Lanka, leading to economic development and social upliftment by creating the necessary conditions for private sector investment in hitherto less conducive areas in the country and we will continue playing a significant role in the transformation of provincial economies. The Small and Medium Enterprise (SME) sector will be a key driver of this transformation and we remain committed, as always, to support the sector. While availability of long term funding in a stable macro-economic environment is important, the SME sector will also need to enhance its management capabilities,

CHIEF EXECUTIVE'S REPORT

financial discipline and efficiency to meet the challenges of the emerging USD 4,000 per capita GDP Sri Lanka where some of the legacy competitive advantages such as low cost labour will not be available. Increasing value addition by moving up the value chain will have a key bearing on the ability to effectively compete in integrated markets.

If I may reminisce about my banking career which commenced in 1976, I see a paradigm shift in the manner in which banks conduct their business. On processes, banks have evolved from handwritten ledgers through accounting machines, offline batch processing systems to integrated online real time systems. On service delivery, from cash and cheque based payments delivered from branch offices to ATMs, plastic cards, point of sale machines, telephone banking, internet banking and mobile based payments. The changes are vast, and they are happening fast. These changes will be driven not only by technology and customer preferences but also by competition from non-bank players.

There are clear signs that even in Sri Lanka, the monopoly hitherto enjoyed by banks over payments is eroding and banks will have to migrate to faster and cheaper mechanisms to compete. Banks in Sri Lanka have in the past considered that technology platforms by themselves provided competitive advantages. This may have been the case a decade ago but the speed of technological change today is such that any advantage will be very short lived unless banks invest significant resources to continuously upgrade the platforms. This poses challenges for managing business disruptions and containing costs. Cost effectiveness of technology is driven by scale benefits, which most banks in Sri Lanka are lacking. As such, apart from the need for consolidation that has been much talked about, banks should also actively consider pooling technology platforms to a greater extent than they have done in the past, thereby driving costs down and shifting their focus to competing on products, pricing and service offering. Strategies in this regard will probably need to be formulated not by bankers and internal IT departments of banks steeped in traditional operating models but by innovators and new talent that need to be laterally inducted into banks at all levels from other businesses and services.

This will be my final report as the Chief Executive as I will be relinquishing office at the end of September 2013. Arjun Fernando, who joined DFCC as the Deputy Chief Executive in 2012 will succeed me. Arjun comes with a wealth of local and international experience and a strong track record and I have no doubt that he will provide the leadership

CHIEF EXECUTIVE'S REPORT

required by the DFCC Group for its next phase of growth. My near 14-year association with the Group has been a very rewarding experience. However, the Group would not be what it is today if not for the strong teamwork and unstinted co-operation extended to me by Chairmen and Directors both past and present, the senior management team - some of whom are now in retirement, as well as the staff at all levels. The support extended to DFCC during my tenure by key long term shareholders, multilateral and bilateral lending agencies, Governors and officials of the Central Bank of Sri Lanka, Secretaries to the Treasury and officials of the Ministry of Finance and my colleagues in the financial services industry is worthy of special mention, and I thank them all.

Above all, the transformation from a narrowly focused specialised bank to a financial services Group, with growth of total assets from LKR 24,071 million to LKR 151,124 million and market capitalisation from LKR 3,350 million to LKR 34,754 million during my tenure could not have been achieved without the support of our valued customers from all over the country. I salute them for the faith they have demonstrated in the DFCC Group.

Nihal Fonseka
Chief Executive
30 May 2013

PEPPER

Referred to as the 'King' of spices, the use of black pepper dates back a good 4,000 years. At times, it has been so highly treasured that it was used as money. In addition to the many new health benefits of black pepper that are being discovered, it is also said to increase the bioavailability of just about all other foods, making it a healthy choice in practically any meal.

BOARD OF DIRECTORS

BOARD OF DIRECTORS


9

3

5

6

BOARD OF DIRECTORS

1. J M S BRITO

Chairman

Appointed to the Board of DFCC Bank in March 2005, and appointed Chairman in September 2005.

Mr Brito is Deputy Chairman and Managing Director of Aitken Spence PLC and Chairman of DFCC Vardhana Bank PLC. He was formerly Chairman of Sri Lankan Airlines, Chairman of the Employers' Federation of Ceylon, a Director of Sri Lanka Insurance Corporation, a member of the Strategic Enterprise Management Agency (SEMA), Post-Tsunami Presidential Task Force for Rebuilding the Nation (TAFREN) and the Public Enterprises Reform Commission (PERC). He has gained management expertise serving companies such as PriceWaterhouse - London, British EverReady PLC, Minmetco Group and the World Bank.

Mr Brito holds a Degree in Law and an MBA. He is a Fellow of the Institute of Chartered Accountants of England and Wales and a Fellow of The Institute Chartered Accountants of Sri Lanka.

2. A S ABEYEWARDENE

Director

Appointed to the Board of DFCC Bank in August 2009, and designated Senior Director in November 2011.

Mr Abeyewardene is a Director of Continental Insurance Lanka Limited (a wholly-owned subsidiary of Distilleries Company of Sri Lanka PLC), Ceylon Hospital PLC, J L Morrison Son & Jones PLC and Durdans Medical and Surgical Hospital (Pvt) Limited. Previously he was a partner at KPMG, Sri Lanka.

Mr Abeyewardene is a Fellow of The Institute of Chartered Accountants of Sri Lanka, Fellow of the Institute of Directors - UK and a Fellow of the Society of Certified Management Accountants of Sri Lanka.

BOARD OF DIRECTORS

3. DR L P CHANDRADASA

Director

Appointed to the Board of DFCC Bank in October 2011.

Dr Chandradasa is the National Co-ordinator of Nutrition at the President's Secretariat. He is also the Chairman of P J Pharma (Pvt) Limited, Employees Holdings (Pvt) Limited and MED 1 (Pvt) Limited.

He was formerly Commissioner of the Securities & Exchange Commission of Sri Lanka, Chairman of the Sri Lanka Ports Authority, National Aqua Culture Development Authority, Ceylon Fisheries Harbours Corporation and General Secretary of the Government Medical Officers Association.

Dr Chandradasa holds an MBBS Degree from the University of Colombo. He has completed the module on Refugee Medicine and Medicine in Emergencies of the Master's Programme in International Health at the University of Copenhagen.

4. G K DAYASRI

Director

Appointed to the Board of DFCC Bank in March 2010.

Mr Dayasri is a practising senior Attorney-at-Law. He is a former Director of Sri Lanka Insurance Corporation Limited and the Colombo Stock Exchange.

Mr Dayasri holds a Degree in Law from the University of Colombo.

BOARD OF DIRECTORS

5. A N FONSEKA

Chief Executive Officer/Director

Appointed to the Board of DFCC Bank, as an Ex Officio Director and Chief Executive Officer in January 2000.

Mr Fonseka is a career banker. He is a member of the National Payments Council and the Financial System Stability Consultative Committee of the Central Bank of Sri Lanka. He is the President of the National Advisory Council of the Chartered Institute for Securities and Investment, UK.

Mr Fonseka is the immediate past Chairman of the Colombo Stock Exchange (2006-11) and the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) (2010-12). He was a member of the Presidential Commission on Taxation (2009).

In the past, he has also served as a member of the Strategic Enterprise Management Agency (SEMA), The Post-Tsunami Presidential Task Force for Rebuilding the Nation (TAFREN) and the Ministerial Task Force on Small and Medium Enterprises.

He is a graduate of the University of Ceylon, Colombo and is a Fellow of the Institute of Financial Studies (Chartered Institute of Bankers), UK.

6. MRS SHAMALIE GUNAWARDANA

Government Director

Appointed to the Board of DFCC Bank in August 2010.

Mrs Gunawardana is presently the Director General of the Legal Affairs Department of the General Treasury, and spearheads the Government's fiscal reforms programme as the Project Director. She is also a Board Member of the Postgraduate Institute of English.

She has over two decades of experience holding senior public office, including service as the Senior Assistant Secretary - Legal of the General Treasury and Secretary to the Commission/Director Legal of the Public Enterprises Reforms Commission.

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

BOARD OF DIRECTORS

7. C R JANSZ
Director

Appointed to the Board of DFCC Bank in July 2010.

Mr Jansz counts for over 36 years experience in logistics in the import/export field and in documentation, insurance, banking and finance, relating to international trade. He presently serves on the Board of Distilleries Company of Sri Lanka PLC, Balangoda Plantations PLC, Lanka Milk Foods (CWE) PLC and several other companies of the Distilleries Group. He is a former Chairman of Sri Lanka Shippers Council and a former member of the National Trade Facilitation Committee of Sri Lanka.

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

8. J E A PERUMAL
Director

Appointed to the Board of DFCC Bank in February 2012.

Mr Perumal is the Regional Director of Mainetti Sri Lanka and Bangladesh (a Group with a presence in 42 Countries) and Managing Director of Mainettech Lanka (Pvt) Limited, Techstar Packaging (Pvt) Limited, BSH Ventures (Pvt) Limited and Techstar Packaging Bangladesh (Pvt) Limited. He previously served on the Boards of Sri Lanka Tourist Board, Consumer Affairs Authority and Hotels Corporation LLC.

9. R B THAMBIAYAH
Director

Appointed to the Board of DFCC Bank in July 2010.

Mr Thambiayah is Chairman of several companies in the Renuka Hotels Group and Chairman of Cargo Boat Development Company PLC. He serves on the Boards of Rocell Bathware Limited, Royal Porcelain (Pvt) Limited and Royal Ceramics Lanka PLC. He is a former President of Colombo City Tourist Hotels Association and Vice-President of the Tourist Hotels Association of Sri Lanka.

Mr Thambiayah holds a Degree in Economics from the University of Madras.

CORPORATE MANAGEMENT TEAM

Nihal Fonseka
BSc FCIB(UK)
General Manager/Director & Chief Executive

Arjun Fernando
BSc MSc ACIB(UK)
Deputy Chief Executive

H A Ariyaratne
BSc
Executive Vice-President - Lending

Trevine Fernandopulle
BSc MSc FCIB(UK)
Chief Risk Officer

S Nagarajah
FCMA(UK) FCA FCCA
Executive Vice-President - Finance

Lakshman Silva
BCom MBA
Chief Executive Officer -
DFCC Vardhana Bank PLC (on secondment)

Anomie Withana
FCMA(UK) FCA MBA
Executive Vice-President - Operations/Board Secretary

CORPORATE MANAGEMENT TEAM

Nandasiri Bandara
BSc (Bs. Admn) FCA
Senior Vice-President - Internal Audit

Tyrone De Silva
CEI MBA
Senior Vice-President -
Corporate & Investment Banking

Dinesh Fernandopulle
BSc MSc
Group Chief Information Officer

Palitha Gamage
BSc (Eng) MBA ACMA(UK) MIESL CEng
Senior Vice-President - Planning & Plan Implementation

Manohari Gunawardhena
BSc MA (Fin. Econ) MBA ACI (Dealing Cert)
Senior Vice-President -
Treasury & Resource Mobilisation

Ananda Kumaradasa
BSc ACMA(UK) MBA
Senior Vice-President - Rehabilitation & Recoveries

Dharmasiri Wickramatilaka
BSc (Eng) MBA ACMA(UK) MIESL CEng
Senior Vice-President - Branch Banking

MANAGEMENT TEAM

Vice-Presidents

Bhathiya Alahakoon
BSc (Eng)
Regional Manager

Chinthika Amarasekara
ACA
Accounting & Reporting

Renuka Amarasinghe
LLB Attorney-at-Law
Corporate Banking

Jayani Amarasiri
BA (Econ) MA
Human Resources

Gunaratne Bandara
BSc (Pb. Admn.)
Manager - Nawala Branch

Chandana Dharmawardana
BSc(Eng) MIESL CEng
Corporate Banking

Terrence Etugala
BSc (Acct)
Manager - Kandy Branch

Neville Fernando
BSc ACMA (UK) PMP
Business Systems

Samarakodi Godakanda
BSc (Agri)
Manager - Kurunegala Branch

Chaminda Gunawardana
BSc AIB MBA
Business Banking

Roshan Jayasekara
ACMA(UK)
Business Banking

Sonali Jayasinghe
BSc (Bs & Econ)
HR Operations & Talent Management

Chanaka Kalansuriya
MBA
Procurement & Services

Chanaka Kariyawasam
BSc (Pb. Admn.) MBA AIB
Regional Manager

Nanediri Karunasinghe
BSc (Eng) MPhil (Eng) ACMA(UK)
Leasing

Duleep Mahatantila
BA (Acct & Econ) PGD in Law, Barrister-at-Law
Credit Administration

Jayangani Perera
BCom
Credit Risk Appraisal

Prasanna Premaratne
MSc (Agri) PGD in Bank Mgmt
Business & Propositions Development

Wajira Punchihewa
BSc ACMA(UK) CGMA AIB MA (Fin.Econ)
Manager - Matara Branch

Sriyani Ranatunga
FCMA(UK) CGMA MBA MA(Econ)
Corporate Banking

Kapila Samarasinghe
BSc (Eng) MSc (Eng)
Manager - Gampaha Branch

Kusumsiri Sathkumara
BA (Econ) MBA
Regional Manager

Priyadarsana Sooriya Bandara
BSc (Bs. Admn) MBA ACMA(UK) CGMA
Regional Manager

Visaka Sriskantha
BA Attorney-at-Law
Litigation

Kapila Subasinghe
BSc (Eng) FCMA (UK)
Corporate Banking

Rosheeni Madanayake Wijesekera
BA PGD in Bs. Admn
Corporate Communications

MANAGEMENT TEAM

Assistant Vice-Presidents

Pradeep Ariyarathne
BSc (Ph.Sc) MBA AIB
Manager - Kotahena Branch
(on secondment to DFCC Vardhana Bank)

Shantha Atapattu
BSc (Agri)
Manager - Kaduruwela Branch

Amanthi Balasooriya Dahanayake
BA (Econ) MBA
Risk Processes & Controls

Subhashi Cooray
BSc (Bs. Admin) ACA AIB
Credit Administration

Channa Dayaratne
AIB ACI (Dealing Cert)
Group Treasury & Resource Mobilisation

Pradeep De Alwis
BSc (Stat) PGD in Bs. Admn MBA
Manager - Galle Branch

Champal de Costa
BSc (Eng) MBA MIESL CEng
Manager - Ratnapura Branch

Aruna Dissanayake
BSc (Agri) MSc (Agri. Econ) AIB
Manager - Badulla Branch

Ranjith Dissanayake
BCom MBA
Manager - Bandarawela Branch

Jayan Fernando
BSc MBA ACA ACMA(SL)
Integrated Risk Management

Sanjeewa Fernando
BBMgt (Acct) CFA
Integrated Risk Management

Bandula Gamarachchi
ACMA(UK) CGMA AIB FCMA MBA
Litigation

Bhatika Illangarathne
BSc ACMA ACIM
Manager - Anuradhapura Branch

Rasika Jayawardhana
ACMA CGMA MA(Econ) MBA AACS AFAIM
Transaction Processing

Nalin Karunatileka
BSc (Bs. Admn) MA (Fin. Econ)
Business Continuity Planning

Jayanath Liyanage
BSc (Agri) MBA
Manager - Malabe Branch

Kelum Perera
BSc (Eng) MA (Fin. Econ) MBA AMIE(SL)
Matara Branch

Thejaka Perera
BSc (Ph.Sc) Attorney-at-Law ACI (Dealing Cert)
Treasury Middle Office

Nimali Ranaraja
LLB Attorney-at-Law ACMA(UK) CGMA
Business Banking

Sepali Ranawana
LLB Attorney-at-Law
Legal

Saravanapavan Raveendra
BA MBA
Regional Manager

Mangala Senaratne
BSc (Eng)
Manager - Kalutara Branch

Nishan Weerasooriya
BSc(Comp. Sc) MBA
IT Operations

Chandrin Wimaladarma
BA Attorney-at-Law MBA
Special Loan Administration

GROUP STRUCTURE

SUBSIDIARY COMPANIES

Company	DFCC Consulting (Pvt) Limited	DFCC Vardhana Bank PLC	Lanka Industrial Estates Limited
Address	73/5, Galle Road, Colombo 03	73, W A D Ramanayake Mawatha, Colombo 02	LINDEL Industrial Estate, Pattiwila Road, Sapugaskanda, Makola
Phone Nos.	+94 11 2442318, +94 11 2442021	+94 11 2371371	+94 11 2400318, +94 11 2400319
Email	rohantha.seneviratne@dfccbank.com	info@dfccvardhanabank.com	lindel@itmin.net
Incorporated	9 September 2004	25 August 1995	12 March 1992
DFCC's Interest	100%	99.12%	51.15%
Principal Activity	Consultancy Services	Commercial banking	Owning and Managing industrial estate
Directors	A N Fonseka - *Chairman* S E de Silva T W de Silva K C S Dharmawardana	J M S Brito - *Chairman* L H A L Silva - *CEO* L N de S Wijeyeratne T Dharmarajah A R Fernando A N Fonseka Ms S R Thambiayah Ms M A Tharmarathnam S G Wijesinha	A N Fonseka - *Chairman* H A Samarakoon - *CEO* T W de Silva Dr R M K Ratnayake A D Tudawe Ms W H A Wimalajeewa

Financial Year End	31 March		31 December		31 March	
Financial Year	2012/13	2011/12	2012	2011	2012/13	2011/12
Profit after Tax (LKR million)	(1.0)	(1.0)	613	462	125	107
Dividend per Share (LKR)	–	–	–	0.40	–	6.00
ROE (%)	–	–	12.6	11.9	23.7	21.8

GROUP STRUCTURE

	JOINT VENTURE	ASSOCIATE COMPANY	
Synapsys Limited	Acuity Partners (Pvt) Limited	National Asset Management Limited	**Company**
540, Nawala Road, Rajagiriya	53, Dharmapala Mawatha, Colombo 03	64, Union Bank Building, Galle Road, Colombo 03	**Address**
+94 11 2880770	+94 11 2206206	+94 11 2445911	**Phone Nos.**
contactus@synapsys.sg	info@acuity.lk	info@namal.lk	**Email**
11 October 2006	7 February 2008	28 September 1990	**Incorporated**
100%	50%	30%	**DFCC's Interest**
Information technology and IT enabled services	The principal activities of the Company are investment banking and related activities such as Corporate Finance, Debt Structuring and IPO's	Fund Management SEC Licensed unit trust managing company	**Principal Activity**
A N Fonseka - *Chairman* D J P Fernandopulle - *CEO* T W de Silva S Nagarajah Ms R.A.P. Withana	A R Fernando - *Chairman* M R Abeywardena - *MD/CEO* A J Alles T W de Silva D A B Ellepola Ms C M M S Gunawardhena J R P M Paiva	A Lovell - *Chairman* A Wijeyesekera - *Deputy Chairman* A Amarasuriya Ms K S Bee T W de Silva A N Fonseka A Herat J Warnakulasuriya	**Directors**

31 December		31 December		31 December		**Financial Year End**
2012	2011	2012	2011	2012	2011	**Financial Year**
(1.0)	(13)	96	231	8.09	15	**Profit after Tax (LKR million)**
–	–	–	0.25	–	2	**Dividend per Share (LKR)**
–	–	4.2	11.4	4.5	8.4	**ROE (%)**

GREEN CARDAMOM

Green cardamom is one of the most expensive spices by weight, but only a small quantity is needed to impart its spicy-sweet flavour. A key ingredient in Ayurveda based toothpaste; it has also been used extensively in other applications within Ayurvedic health systems as well as in traditional medicine systems of China and many South and East Asian countries.

OPERATIONAL STRUCTURE

BUSINESS MODEL

DFCC Bank (DFCC), the pioneer development bank in the country, and DFCC Vardhana Bank (DVB), the almost wholly-owned commercial banking subsidiary of DFCC, though separate entities in legal form provide a full range of banking services through an operationally merged DFCC Banking Business (DBB). The entity serves all provinces of the country through a unified distribution channel. Shared functions include Treasury, Human Resources, Procurement & Services and Information Technology whilst merged services include Credit Administration, Risk Management, Project Lending and Internal Audit.

Operationally, DBB's revenue is driven by five lines of business comprising Corporate Banking, Small & Medium Enterprise Finance, Personal Banking, Investment Banking and International Banking. These are complemented by subsidiaries, a joint venture and an associate company for services in consultancy, information technology, industrial estate, investment banking and fund management.

BRANDING

The 'DFCC' icon provides the unifying link between DFCC and DVB. In the case of branches in which both banks operate, we position and display the logos of DFCC and DVB together. Likewise, both logos are used in corporate advertising. The official website is a joint offering of both banks, and hence displays joint branding.

In the case of stand-alone DVB branches, only the DVB branding is displayed, and similarly, when specific products are being advertised, the logo of the Bank that is offering the product is used. All stationery is specific to the two Banks.

REACH

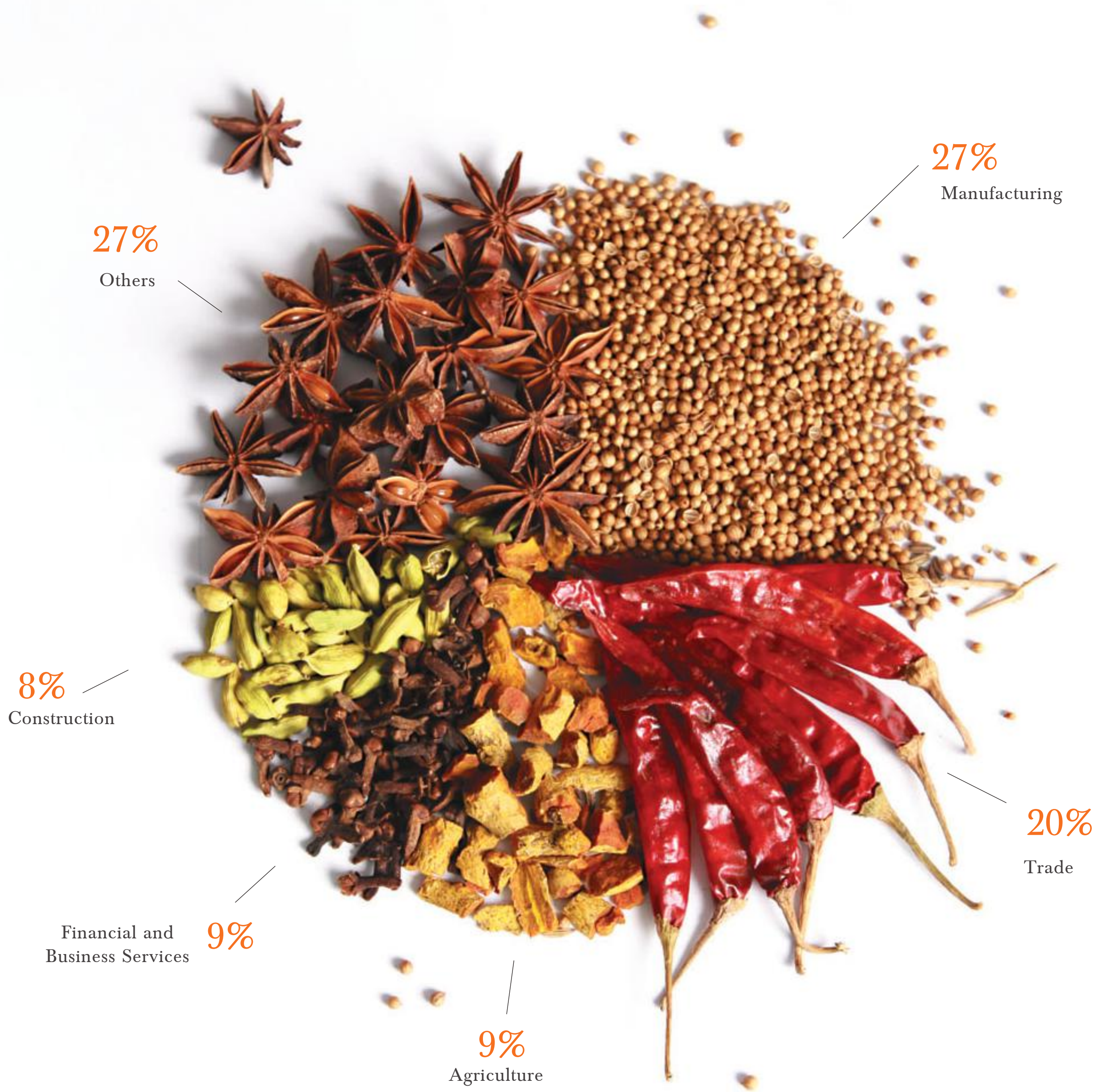
With a total staff strength of 1,262, DBB operates 18 DFCC and DVB combined branches, 41 DVB branches and 70 DVB post office units. Customers may also conduct transactions from 500 ATM's across the country including zero cost cash withdrawals from ATMs that are shared with five other banks. Reflecting global consumer trends, DBB offers internet banking services for individuals and corporates who may choose to transact from any location of their choice.

PRODUCTS & SERVICES AND MARKETS SERVED

Product/Service	Description	Target Segment	Geographic Breakdown
Project Loans	Saubagya	SMEs	Countrywide
	Abhivurdhi	Dairy and poultry sector	Countrywide
	Sarusara	Short term cultivation	Countrywide
	Awakening North	SMEs	Northern Province
	Awakening East	SMEs	Eastern Province
	Miridiya	Fresh water fish and prawn production, nurseries, processing plants, ornamental fish, aquatic plants, tissue culture and ornamental aqua plants.	Anuradhapura, Ampara, Badulla, Batticaloa, Hambantota, Kurunegala, Matale, Moneragala, Nuwara Eliya, Polonnaruwa, Puttlam, Ratnapura, Trincomalee, Vavuniya Districts
	SMEDeF	SMEs	Countrywide
	Tea Development Project Revolving Fund	Plantations requiring to re-plant tea	Tea cultivating areas
Working Capital Loans	Medium and long term loans to finance permanent working capital requirements.	Large corporates, SME sector and professionals	Countrywide
Leasing Facilities	Finance lease facilities for vehicles, machinery and plant & equipment.	Large corporates, SME sector and professionals	Countrywide
Guarantee Facilities	Includes facilities such as bid bonds, advance payment, performance bonds, purchase of goods on credit etc.	Large corporates, SME sector and entrepreneurs	Countrywide
Fixed Deposits	A wide range of tailor-made deposit products, at competitive interest rates.	Large corporates, SME sector and entrepreneurs	Countrywide
Loan Syndication	Provided by a group of lenders which is structured, arranged and administered by one or several banks.	Large corporates, SME sector and entrepreneurs	Countrywide

PRODUCTS & SERVICES AND MARKETS SERVED

Product/Service	Description	Target Segment	Geographic Breakdown
Consultancy and Advisory Services	Provide legal, tax, finance, market and other services to start up a business or revamp existing businesses.	Large corporates, SME sector and entrepreneurs	Countrywide
Savings Facilities	Supreme Vaasi. Offers a superior rate of interest.	Businesses and individuals aged 18 and above	Countrywide
	Mega Bonus. Interest rates grow in tandem with the savings deposits.	Businesses and individuals aged 18 and above	Countrywide
	Vardhana Junior. Children's saving account offering a range of gifts and support for higher education.	Children below 18 years of age	Countrywide
	Vardhana Junior Plus. Children's saving account with a higher interest rate.	Children below 18 years of age	Urban areas, countrywide
	Vardhana Garusaru. Offers a higher interest rate with a host of other benefits.	Senior citizens above 55 years of age	Countrywide
Pawning Services	Ranwarama Pawning. Gold pledged loans.	Mass market	Countrywide
Housing Loans	Sandella. Flexible and convenient housing loans at affordable rates.	Young professionals, entrepreneurs and employed sector	Countrywide
Education Loans	Vardhana Nenasa. Flexible and convenient loan facilities for higher education.	Individuals pursuing higher studies	Countrywide
Other Facilities	Includes a range of products and services including current accounts, overdraft facilities, foreign currency accounts, credit card facilities, gift certificates, international trade services, offshore banking, international payments and local payments.	Professionals, entrepreneurs, business community and employed sector	Countrywide



LOANS & RECEIVABLES BY SECTOR

Loans and receivables portfolio of DFCC is well diversified.

** Others include tourism, transport, infrastructure and other services*

RECOGNITION

Name of Award	Position	Organiser	Period
Best Corporate Website 2012	Bronze	Lk domain registry	October 2012
Business Today Top 25 Awards for recognising best corporates in Sri Lanka for their excellent performance	Rank 19	Business Today (Business Magazine)	October 2012
Annual Report Awards 2012	Gold (Financial Sector)	The Institute of Chartered Accountants of Sri Lanka	December 2012
ADFIAP Development Finance Awards 2012	Most Outstanding Local Economic Development Project	Association of Development Financing Institutions in Asia and the Pacific	March 2013
ADFIAP Awards 2012	Best Annual Report	Association of Development Financing Institutions in Asia and the Pacific	March 2013
ADFIAP Awards 2012	Best Website	Association of Development Financing Institutions in Asia and the Pacific	March 2013

OUR APPROACH TO REPORTING

This report uses the Global Reporting Initiative (GRI) G3.1 Guidelines and the Financial Sector Supplement as a basis for reporting. It is categorised as a self-declared Application Level B. By using the GRI reporting format, we are standardising our sustainability reporting and showcasing our commitment to sustainable business practices.

This is our second year of sustainability reporting based on the GRI guidelines, the most recent previous report appeared in our Annual Report 2011/12. This year we have improved the report by integrating sustainability aspects with the overall annual reporting. The reporting period is the financial year ended 31 March 2013. We adopt an annual reporting cycle.

MATERIALITY OF ISSUES

In determining the materiality of topics and indicators, DBB took into account a number of internal and external factors. These included our vision and mission statement, the Central Bank Customer Charter, the expectations and interests of stakeholders and DBB's sustainability impacts, risks and opportunities.

REPORT BOUNDARY

Unless otherwise specified, this report describes the economic, environmental and social performance of DFCC and its subsidiary DVB, collectively referred to as DFCC Banking Business (DBB) in an integrated manner. The period under review for DBB is the year ended 31 December 2012 for DVB and 31 March 2013 for DFCC.

As the structure, Board composition and specific regulatory requirements are divergent for the two banks, a separate corporate governance report for DVB has been presented in the DVB annual report. The corporate governance section within this report covers information related to DFCC.

OUR APPROACH TO REPORTING

The audited financial statements given under the section titled Financial Reports have been prepared for DFCC (stand-alone) and the DFCC Group (DFCC consolidated with DVB and other subsidiaries, a joint venture company and an associate company). The section on Supplementary Financial Information provides the consolidated financial statements of DBB, key performance indicators as well as reconciliation with Group financial statements.

COMPARABILITY

The basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities as well as 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 section titled Financial Reports.

CONTACT POINT FOR CLARIFICATIONS

Any queries regarding this annual report may be addressed to Vice-President - Group Corporate Communications and Executive Vice-President - Finance at DFCC Bank, No. 73/5 Galle Road, Colombo 3, Sri Lanka.

CINNAMON

Having the best Cinnamon in the world, Sri Lanka attracted traders as well as colonists to its shores, over the past 1,000 years. Today, Sri Lanka continues to supply most of the world's cinnamon. Although Cinnamon's blood sugar lowering and antiviral properties have increasingly come under the keen investigative eye of the scientific community fairly recently, its health benefits have been known to man for thousands of years.

MANAGEMENT DISCUSSION

'Development financing is providing access to financial and support services to the under-served, strategic and priority areas of a country in order to achieve sustainable growth of the economy and thereby assure a more equitable distribution of the benefits of progress and a better quality of life for its people.'

– *Association of Development Financing Institutions in the Asia and Pacific (ADFIAP)* –

OPERATING ENVIRONMENT

Economic growth in 2012 abated to 6.4% from the 8% recorded in the previous two years, with the slowdown taking place largely in the second half of the year. The agriculture and industry sectors posted growth rates of 5.8% and 10.3% respectively. The agriculture sector, which grew at a higher rate than in 2011 was mainly driven by a good paddy harvest, increased production of vegetables & highland crops and a substantial increase in fish production. The industry sector was helped by growth in construction, mining and quarrying. The service sector, which accounts for 58.5% of GDP, showed a decline in growth, down to 4.6% from the 8.6% in 2011. The slowdown in external trade activities was the main contributor to the deceleration. At the same time domestic trade, transport, communications, banking & insurance, real estate, hotels and restaurants sub-sectors grew at a positive but slower pace.

Inflation was maintained within single digits for the fourth consecutive year. However, the year was characterised by volatile liquidity conditions and high interest rates. Credit growth was also restrained following the imposition of a ceiling on lending which exerted pressure on the business environment. Nonetheless, the financial sector expanded demonstrating resilience to market pressures.

Looking ahead, growth in 2013 is expected to be driven by a revival in trade, continuing investments in public sector infrastructure, expansion in the leisure sector and a steady inflow of remittances from overseas workers. However, this will have to be viewed in the context of possible supply side shocks arising from world oil and commodity prices and the pace of economic recovery of Sri Lanka's export markets.

GOALS AND STRATEGIES

THE EVOLUTION

When times change - needs change, and so must business models. DFCC too has continued to evolve from a specialised development finance institution of the 1950s era into a full service bank through an operational merger with its commercial banking subsidiary, DVB. However, this operationally merged DFCC Banking Business (DBB) continues to strategically preserve and refine its traditional leadership in project financing, which is a powerful market differentiator in Sri Lanka's banking sector. DBB serves both business and personal customers throughout the country through a unified and seamless offering of DFCC and DVB products and services as discussed previously in the section titled Operational Structure.

PROCESS

The medium term DBB business plan and budget, updated annually, is a comprehensive document detailing the economic, regulatory and competitive environment, institutional and business unit level SWOT analysis, institutional and business unit level budgets and divisional strategies and action plans. These strategies and initiatives are identified under three broad categorisations, namely, 'business and marketing', 'process and risk management' and 'institutional' which are then detailed to enable planning and target setting.

STRATEGIES IN ACTION

Progress of implementation of the strategies and key initiatives are monitored closely. This is done centrally and a progress report is submitted to the Board of Directors quarterly. At the end of the period under review, 70% of the planned activities had been completed, 18% was in progress, 7% was deferred and the balance 5% was subsequently re-assessed.

GOALS AND STRATEGIES

STRATEGIC IMPERATIVES

A pioneer in providing financial and advisory services to large, small and medium enterprises, DBB is committed to nurturing entrepreneurship and sector development, while at the same time contributing to the socio-economic upliftment of communities in which we operate.

We will continue to focus on,

- strategic and priority sectors of the economy while generating superior long term returns for our shareholders and other key stakeholders.
- nurturing entrepreneurs, helping individuals realise goals and adding value to the products and services we offer.
- expanding our footprint rapidly across the country, not only through branches but also through a technology driven approach that will include proprietary and shared ATM networks, internet banking and mobile banking.
- aggressively pursuing the adoption of the latest technology with significant investment in IT, automating our services and enriching our customers' service experience.
- streamlining our operations across DFCC and DVB to deliver an integrated and seamless service. In doing so an Organisation Effectiveness Improvement Programme is being implemented which focuses on brand, cost, IT effectiveness, staff and income. The feasibility and necessity to legally merge the two entities will be reviewed on an ongoing basis.
- diversifying of our funding sources which will receive close attention in the near term. DFCC will look at opportunities to raise funds through international capital markets transactions, while prudently managing the foreign exchange risk associated with such funding.
- improving the Current Accounts:Savings Accounts (CASA) ratio and also building up a long term funding base to reduce the cost of funds and support the expansion of the housing loan portfolio.
- positively engaging with the communities that we operate in and be sensitive to environmental well-being in our day-to-day operations.

TOTAL DFCC GROUP ASSETS

(LKR million)

CREATING SUSTAINABLE VALUE

ECONOMIC AND FINANCIAL PERFORMANCE

MANAGEMENT APPROACH

DBB is a powerful economic driver, providing innovative financial solutions and financial resources for individuals and enterprises. Complementary businesses which include investment banking, consulting, IT services, asset management and industrial estate management are carried out through our subsidiaries, joint venture and associate company. Management aims to project DBB as a strong sustainable and reputed financial services group. This is manifested though, *inter alia*, the long term credit rating of AA(lka) for DFCC Bank, and AA-(lka) for DFCC Vardhana Bank PLC assigned by Fitch, that has remained unchanged over the years.

FINANCIAL REVIEW

The consolidated financial statements of DFCC Bank have been prepared for the first time using the new Sri Lanka Financial Reporting Standards (SLFRS) applicable from the financial year to 31 March 2013. The SLFRS are aligned fully with corresponding International Financial Reporting Standards issued up to 2009. The following statements for prior period have been restated, in relation to first-time adoption.

i. Income statement and other comprehensive income together measuring the total comprehensive income for the previous financial year ended 31 March 2012.

ii. Statement of Financial Position (previously referred to as balance sheet) on 1 April 2011 (commencement date of the previous financial year), and on 31 March 2012 (end date of the previous financial year).

CREATING SUSTAINABLE VALUE — ECONOMIC AND FINANCIAL PERFORMANCE

Overview of Financial Performance

Contribution to the financial performance of the DFCC Group, measured at profit before tax level, is from the banking group comprising DFCC Bank and its commercial bank subsidiary DFCC Vardhana Bank PLC (99.1% owned subsidiary) collectively referred to as DBB, Lanka Industrial Estates Limited (LINDEL), a 51.2% owned subsidiary, Acuity Partners (Pvt) Limited (APL), a joint venture company jointly controlled by DFCC Bank and Hatton National Bank PLC, two other subsidiaries and National Asset Management Limited (NAMAL), an associate company.

Results of DVB, APL and subsidiary Synapsys Limited whose financial year ends on 31 December 2012, have been consolidated with a three months gap.

In this review, current year means the year ended 31 March 2013 and previous year means the year ended 31 March 2012.

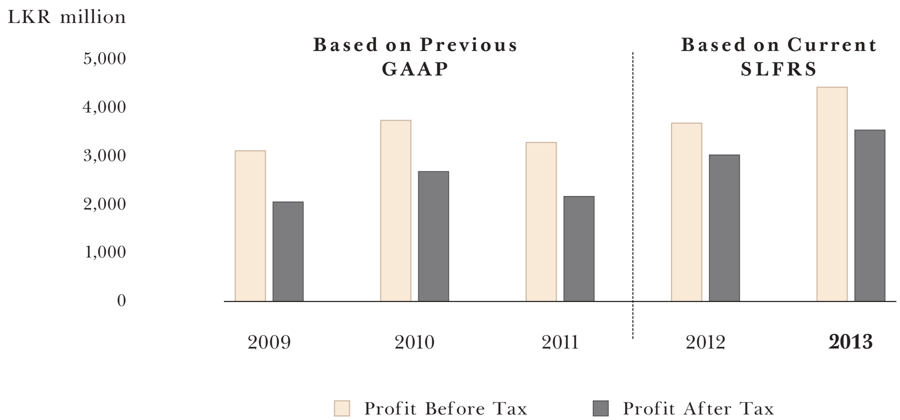
Composition of Group Profit Before Tax

	31.03.2013 LKR million	31.03.2012 LKR million	YoY change %
Profit before tax - DBB	4,258	3,475	22.7
Profit before tax - Lindel	142	118	20.3
Profit before tax - APL (50% share)	59	144	(59)
Other subsidiaries	(2)	(13)	
Sub total before consolidation adjustment	4,457	3,720	
Consolidation adjustment	(40)	(30)	
Profit before tax - Total	4,417	3,690	19.7
Income tax - Total	881	657	34.1
Profit after tax - Sub total	3,536	3,033	16.6
Share of profit after tax - associate company - NAMAL	2	5	(60)
Profit for the year as reported	3,538	3,038	16.5

CREATING SUSTAINABLE VALUE – ECONOMIC AND FINANCIAL PERFORMANCE

Overall, the Group profit increased by 16.5% to reach LKR 3,538 million with a net increase of LKR 500 million while total assets of the Group increased to LKR 151,124 million on 31 March 2013 from LKR 125,494 million on 31 March 2012. Return on Assets (ROA) was 2.56% in the current year, decreasing marginally from 2.67% in the previous year.

Group Profit Before Tax and Profit After Tax



2011 reported PBT and PAT adjusted by eliminating non-recurring gains of sale of Commercial Bank of Ceylon PLC ordinary voting shares.

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

Financial Performance of DBB

Supplementary information (non-audited) on the consolidated income and Statement of Financial Position of DBB (given on pages 182 to 185) is derived from the audited Group financial statements. The key drivers of performance of DBB are revenue growth, cost of funds, revenue mix, cost efficiency, quality of credit portfolio, deployment of assets, composition of interest - bearing liabilities and taxation. They are discussed in the pages to follow.

Revenue Growth

Total income of DBB comprising interest income and other income was LKR 17,862 million in the current year, an increase of 47.8% over the LKR 12,084 million of the previous year. Interest income of DBB was LKR 16,085 million in the current year an increase of 59.9% over LKR 10,057 million of the previous year.

CREATING SUSTAINABLE VALUE – ECONOMIC AND FINANCIAL PERFORMANCE

The interest income yield (interest income divided by average interest earning assets) was 14.5% per annum during the current year compared with 11.25% during the previous year.

Thus, the main reason for growth in revenue was the increase in the on-lending rates of DFCC Bank in tandem with the increase in benchmark interest complemented with incremental volume of business.

Acquisition of new customers, increase in volume of business with existing customers and expansion of products and services complemented with business generated through personal financial services provided the impetus for this growth.

Cost of Funds

Interest expense of LKR 9,190 million in the current year was a 93% increase over the LKR 4,756 million in the previous year. The interest margin on earning assets was 6.3% per annum during the current year compared with 6.2% during the previous year. This apparent improvement does not take into account the foreign currency market risk hedging cost set out in page 57 When this is taken into account, the margin narrowed from 6.1% in the previous year to 5.9% in the current year.

The latter part of the current year witnessed steep increases in interest rates for customer deposits with reduced market appetite for long tenors. In this environment as an interim strategy DBB, and in particular DFCC Bank, did not pursue medium and long term fund raising, but resorted to short term borrowing in the expectation of a moderation of interest rates with time.

Revenue Mix

Key Components of Income

	31.03.2013		31.03.2012	
	LKR million	%	LKR million	%
Net interest income	6,896	79.8	5,301	72.5
Net fee and commission income	649	7.5	584	8.0
Dividend income	882	10.2	797	10.8
Others	212	2.5	636	8.7
Total	8,639	100	7,318	100

CREATING SUSTAINABLE VALUE ⊸ ECONOMIC AND FINANCIAL PERFORMANCE

- Lending and investment in Government Securities were the major activity areas of DBB. The fee and commission income were derived largely from banking services provided to customers engaged in import, export activities and fees from guarantees issued on behalf of customers engaged in trade and construction activities.
- Dividend income is derived largely from the investment in Commercial Bank of Ceylon PLC supplemented by dividend from other equity securities classified as available for sale.
- Decline in other income is largely due to the impact of currency swaps. DBB took advantage of the interest arbitrage opportunity between LKR and USD that prevailed by selling foreign currency for LKR on a hedged basis incurring a forward premium expense and generating LKR earning assets.

The Table below which compares the presentation in the financial statements (that is required under SLFRS) with an alternative analytical presentation which provides clarity to these transactions.

As Presented in the Income Statement

	31.03.2013 LKR million	31.03.2012 LKR million
Currency Swap cost - Premium on forward exchange contract with fair value changes	(452)	(48)
Exchange rate movement on forward exchange contract	(120)	229
Sub total accounted as fair value changes to derivative asset held for risk management purposes	(572)	181
Translation gain/(loss) on monetary assets and liabilities denominated in foreign currency excluding forward exchange contracts	370	(110)

CREATING SUSTAINABLE VALUE – ECONOMIC AND FINANCIAL PERFORMANCE

Analytical Presentation

	31.03.2013 LKR million	31.03.2012 LKR million
Interest expense as reported	9,190	4,756
Currency Swap cost - Premium on forward exchange contract with fair value changes	452	48
Revised interest cost	9,642	4,805
Revised net interest income	6,443	5,253
Translation gain/(loss) on monetary assets and liabilities denominated in foreign currency excluding forward exchange contracts	370	(110)
Exchange rate movement on forward exchange contract	(120)	229
Revised foreign exchange income	250	119

Cost Efficiency

DBB's expenses including personnel expenses as a proportion of net interest and other income improved marginally to 38.4% compared to 39.8% in the previous financial year.

Composition of Operating Expenses

	31.03.2013 %	31.03.2012 %
Personnel Cost	51.2	48.9
Depreciation and Amortisation	8.9	9.3
Administration and Establishment Expenses	12.3	16.0
Others	27.6	25.8

- Operating expenses of DBB increased 13.7% during the year to LKR 3,315 million from the previous year's LKR 2,916 million. Cost drivers were increased headcount, costs associated with energy and expansion of distribution channels.
- Amortisation of software license fees and maintenance fees connected with information technology are mostly denominated in USD and the depreciation of the LKR during the year had a direct impact on the cost. However, this cost was offset to some extent by productivity gains associated with further automation of processes.

Credit Quality

Analysis of Loans Granted

	31.03.2013 LKR million	31.03.2012 LKR million
a. Based on SLFRS methodology		
Impaired loans to customers	7,489	6,701
Past due and not impaired loans to customers	17,659	9,899
Neither past due nor impaired	79,485	74,594
Total loans including interest receivable	104,634	91,195
Impairment allowance		
Assessed individually	3,230	2,811
Assessed collectively	2,340	2,448
Incurred but not yet identified impairment	370	373
Ratios		
Impairment allowance/impaired loans (%)	79.31	84.04
Impaired loans/total loans including interest receivable in both numerator and denominator (%)	7.15	7.34
b. Based on regulatory requirements		
Non-performing loans	5,410	4,496
Performing loans	94,632	84,615
Total loans, principal only	100,042	89,111
Specific provisions	2,560	2,588
General provision	487	486
Total provision	3,047	3,074
Ratios		
Specific provisions/non-performing loans (After reallocating specific provision on performing loans that were previously non-performing to other non-performing loans) (%)	47.3	57.6
Non-performing loans net of interest in suspense /total loans (excluding interest from both numerator and denominator) (%)	4.6	4.3

The regulatory computation is based on the concept that loans that are past due for 90 days or more are non-performing loans (NPL) and interest income on these is recognised only on cash receipt basis. NPL ratios exclude interest receivable since the objective is to reveal what proportion of the loan portfolio interest income is recognised on a receipt basis instead of an accrual basis. Furthermore, minimum specific provisions are based on the time period a loan is past due after netting off realisable value of collateral.

CREATING SUSTAINABLE VALUE ⊸ ECONOMIC AND FINANCIAL PERFORMANCE

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

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

The ratio of impaired loans to total loans on 31 March 2013 was 7.2%, lower than 7.3% on 31 March 2012 indicating that there was a marginal improvement.

The impairment allowance coverage for impaired loans as well as the regulatory provision coverage for non-performing loans is adequate when the fair value of the underlying collateral is taken into account.

Composition of Earning Assets

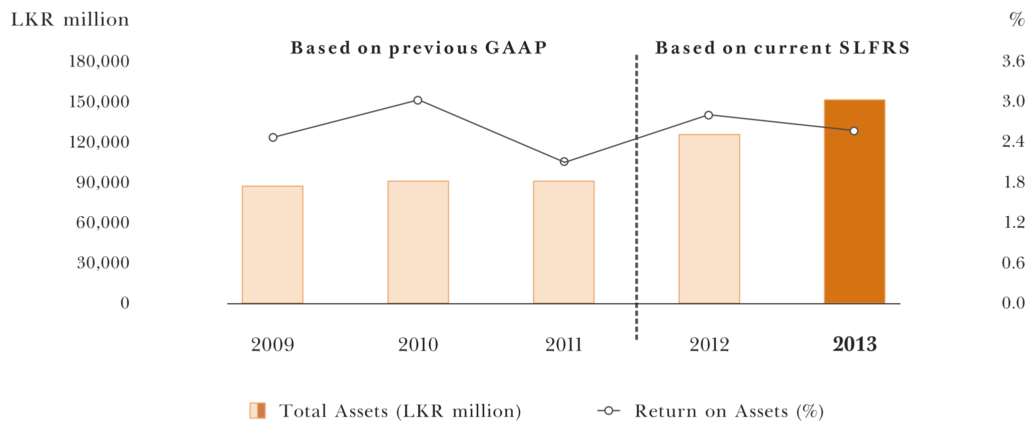
Composition of Total Assets

	31.03.2013 LKR million	31.03.2012 LKR million
Earning Assets		
Loans and advances to and receivable from customers	66.3	69.5
Loans and advances to and receivable from banks	2.5	1.9
Other interest-bearing financial assets	5.4	2.5
Available-for-sale investments	18.5	19.9
Non-earning Assets		
Property, plant and equipment	0.6	0.7
Goodwill and intangible assets	0.3	0.3
Others	6.4	5.2
Total Assets	100	100

87.78% of the assets were denominated in LKR and the balance comprised mainly of USD denominated assets.

CREATING SUSTAINABLE VALUE — ECONOMIC AND FINANCIAL PERFORMANCE

Group Total Assets and ROA



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

Composition of Interest-Bearing Liabilities

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

	31.03.2013		31.03.2012	
	LKR million	%	LKR million	%
Borrowing sourced from				
Multilateral lending agencies	19,434	17.8	17,604	19.9
Bilateral lenders	15,384	14.1	10,202	11.5
Domestic capital market	1,610	1.5	1,645	1.9
Debenture issue private placement	558	0.5	718	0.8
Borrowing from banks	7,994	7.3	8,694	9.8
Customer deposits	63,191	57.9	46,000	52.0
Repos	1,029	0.9	3,652	4.1
Total	109,200	100	88,505	100

CREATING SUSTAINABLE VALUE – ECONOMIC AND FINANCIAL PERFORMANCE

Taxation

In the previous year, the income tax liability was based on the accounting profit computed under the previous GAAP adjusted for disallowed expenses and exempt income as per the provisions of Inland Revenue Act No. 10 of 2006 (as amended).

With regard to the current year the Inland Revenue Act No. 10 of 2006 (as amended) does not have any specific legal provisions relating to SLFRS adjustments nor have the revenue authorities issued any guidelines. However, submissions made by the banking industry is receiving the attention of the authorities.

Under the circumstances DFCC Bank has prepared the tax expense and liability for the current year profit regulation on the same basis as the previous year.

In the event Revenue Authorities accept SLFRS based accounting profit including impairment allowances in full, the lower current tax expense for the current year would apply as the final liability and LKR 18.9 million will be an over provision recognised in the year in which the tax liability is finalised.

In common with banks, DBB is liable for both value added tax on financial services (effective rate 10.8%) and income tax (nominal rate 28%). The value addition from the supply of financial services is computed as the accounting profit plus salaries minus economic depreciation on assets replacing accounting depreciation. Value added tax on financial services is a non-deductible expense for computing the taxable profit for income tax purposes. The total of value added tax on financial services and income tax expense as a percentage of profit before these taxes was 26.7% in the current financial year to 31 March 2013 compared with 27.3% in the previous financial year to 31 March 2012.

Profit Contribution from Other Subsidiaries and Joint Venture Company

Amongst the subsidiaries, LINDEL continues to be profitable with a return on investment of 20.2% during the current financial year compared with 18.9% during the previous financial year.

The performance of APL, the joint venture company during the current financial year was disappointing largely due to the unfavorable operating environment that prevailed during most of the year.

CREATING SUSTAINABLE VALUE ⊸ ECONOMIC AND FINANCIAL PERFORMANCE

Synapsys Limited, an information technology provider to DBB incurred an impairment loss of LKR 9.1 million. The formation of Synapsys Limited was conceived to provide technology services not only to DBB but also to others leveraging on its technical skills. Although it has developed technology solutions focusing on the financial services industry that were well received in the market, it has yet to achieve the scale of operations to make it a profitable subsidiary. Synapsis has fully expensed the product development costs incurred.

CRITICAL ACCOUNTING POLICIES AND ESTIMATION OF UNCERTAINTIES

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

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

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

TRANSITION TO SLFRS

Although the effective date of transition was 1 April 2012 (beginning of current year), SLFRS is required to be retrospectively applied by recognising the cumulative financial impact on 1 April 2011 in the equity (the beginning of the previous year), followed by restatement of the income statement of the previous year so as to arrive at the cumulative financial impact on 1 April 2012.

Total equity on 1 April 2012 reported under previous GAAP was LKR 21,754 million which is increased by LKR 13,621 million as a consequence of transition to SLFRS. The largest component of this increase was the unrealised gains on financial assets classified as available-for-sale recognised at the fair value instead of cost. This unrealised gain was LKR 13,808 million.

CREATING SUSTAINABLE VALUE – ECONOMIC AND FINANCIAL PERFORMANCE

As at 31 March 2012 however the unrealised gain on financial assets classified as available-for-sale reduced by LKR 4,377 million while the profit after tax measured under SLFRS was higher than the PAT under previous GAAP by LKR 135 million.

These changes resulted in the cumulative increase of LKR 9,381 million to equity as at 31 March 2012 over the previously reported LKR 21,754 million for DFCC Bank.

Details are in Note 63.

IMPENDING CHANGES TO FINANCIAL REPORTING

These are disclosed in Notes to the financial statements.

FINANCIAL STATEMENTS

All the interim financial statements for quarter ended 30 June 2012, half year ended 31 September 2012, nine months ended 31 December 2012 and the year ended 31 March 2013 - which are non-audited - were prepared under the previous GAAP as permitted by The Institute of Chartered Accountants of Sri Lanka.

The audited financial statements for the year ended 31 March 2013 included in this Annual Report 2012/13 for the same period, however, are based entirely on SLFRS. Therefore, there is no direct correlation between the quarterly financial statements released to the Colombo Stock Exchange and the financial statements in this Annual Report.

MANAGEMENT OF EQUITY

Dividend Performance

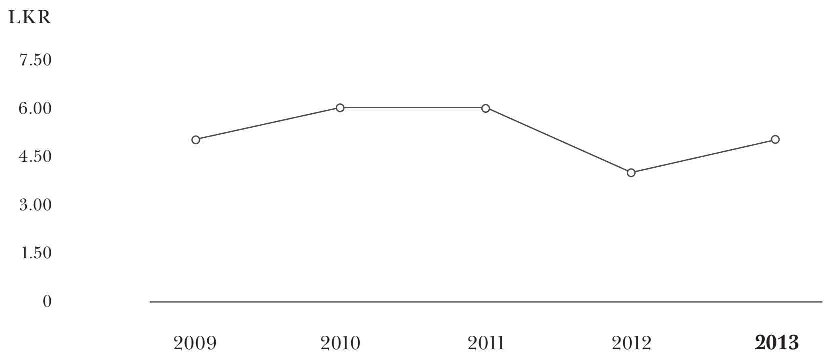
The payout ratio based on the dividend recommended by the Directors is 46% in the current year compared to 43.2% in the previous year.

However, certain reserves of DFCC Bank are non-distributable as per Central Bank of Sri Lanka directions/statutory provisions. If these reserves are excluded the payout ratio increases to 56% in the current year compared to 52% in the previous year.

CREATING SUSTAINABLE VALUE ⊸ ECONOMIC AND FINANCIAL PERFORMANCE

Dividend per share in the current year is LKR 5/- per share, an increase of 25% over LKR 4/- per share in the previous year.

Dividend Per Share



- *2011 reported dividend per share adjusted by eliminating special dividend distribution arising from gains from sale of shares in Commercial Bank PLC.*
- *One for one bonus issue in 2011.*

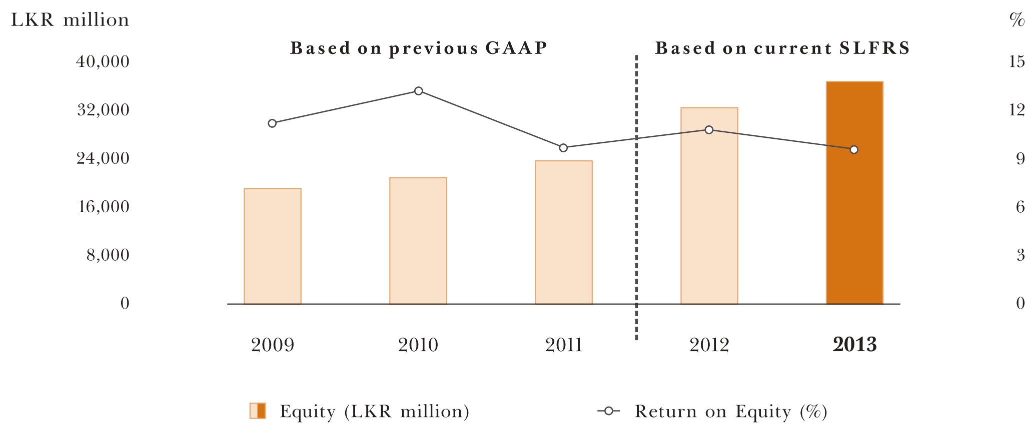
Total Shareholder Return

This measures the overall returns to shareholders on their investment in DFCC Bank's shares, comprising both the growth in share value and dividends paid. This computation assumes that the number of shares held by a shareholder 10 years/5 years preceding 31 March 2013 was increased by reinvestment of dividends paid during this period, in shares of DFCC Bank at the prevailing market price. The capital appreciation during the 10 year/5 year period is a wealth of a shareholder on 31 March 2013 - the wealth of the shareholder 10 years/5 years ago and this capital appreciation is compared with the initial investment to compute the return on initial investment. The return was 19 % per annum over the past 10 years and 20% per annum in the last 5 years.

Return on Equity

The equity of the Group was significantly augmented by the shift to adopting SLFRS. This primarily arose due to the recognition of unrealised gains on listed ordinary shares, as required under SLFRS. The applicable increases in equity on 1 April 2011, 31 March 2012 and 31 March 2013 were LKR 11,089 million, LKR 6,485 million and LKR 8,541 million respectively.

Group Shareholders' Funds and ROE



Under previous GAAP this unrecognised gain was not included in the equity.

Due to this significant change, the return on equity (ROE) under SLFRS was 10.1% in the current year and 8.9% in the previous year. Under the previous GAAP, the ROE for the current year would have been 13.2% and in the previous year 11.8%. Return on equity is expected to improve with expansion of earning assets financed with borrowing. DFCC Bank will balance higher risk associated with gearing with the need to hold capital cushion commensurate with risk and maintain a prudent dividend distribution policy.

Regulatory Minimum Capital Requirement

DFCC Bank's capital is well over the minimum requirement (refer page 310).

CREATING SUSTAINABLE VALUE — ECONOMIC AND FINANCIAL PERFORMANCE

VALUE ADDED AND DISTRIBUTED

Statement of Value Added - DFCC

For the year ended 31 March	2013			2012		
	LKR million	LKR million	%	LKR million	LKR million	%
Value Added						
Gross Income		10,433			7,652	
Cost of borrowing and support services		(5,521)			(3,411)	
Provision for bad debts and investments		(169)			(91)	
		(4,743)			(4,150)	
Value Allocated						
To employees						
Salaries, wages and other benefits		928	20		804	19
To providers of capital						
Dividends to shareholders		1,060	22		795	19
To Government						
Income tax on profits	570			430		
Value added tax on financial services	232	802	17	336	766	18
To expansion and growth						
Retained income	1,825			1,658		
Depreciation	128	1,953	41	127	1,785	44
		4,743	100		4,150	100

CREATING SUSTAINABLE VALUE — ECONOMIC AND FINANCIAL PERFORMANCE

Statement of Value Added - DVB

For the year ended 31 December	2012		2011	
	LKR million	%	LKR million	%
Value Added	6,115	75.9	4788	69.6
Gross Income	7,571		4,578	10.8
Cost of borrowing and support services	(5,126)		(2,698)	12.8
Provision for bad debts and investments	(503)		(375)	
	1,942		1,505	
Value Allocated				
To employees				
Salaries, wages and other benefits	732	37.7	596	39.6
To providers of capital				
Dividends to shareholders	110	5.7	88	5.8
To Government				
Income tax on profits	268	13.8	177	11.8
Value added tax on financial services	162	8.3	125	8.3
To expansion and growth				
Retained income	503	25.9	374	24.9
Depreciation and amortisation	167	8.6	145	9.6
	1,942	100.0	1,505	100.0

FINANCIAL ASSISTANCE RECEIVED FROM GOVERNMENT

The Government has acted as a conduit for direct funds raised from multi lateral and bilateral agencies for lending to eligible sectors. The amount outstanding on 31 March 2013 was LKR 22,314 million. The Government does not own direct equity but entities over which the Government exercises control have continued to own shares of DFCC. As of 31 March 2013 the aggregate shareholding is approximately 35%.

CREATING SUSTAINABLE VALUE ⊸ ECONOMIC AND FINANCIAL PERFORMANCE

LOCAL SUPPLIERS

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

INVESTMENTS IN INFRASTRUCTURE

Construction and Road Development

In 2012 the construction sector formed 8.1% of the national GDP compared to 7.1% in 2011. This robust growth has been a welcome development. Continuing the growth momentum recorded during 2011, the construction sub-sector posted an impressive 21.6% growth compared to 14.2% seen in 2011. This is the highest growth registered by the sub-sector in the past ten years.

Infrastructure development projects backed by the public sector in areas such as road development, power projects, port & airport projects and housing development projects provided substantial impetus to the growth in the sector, while there was significant growth in private construction activities, underpinning the stable outlook of the Sri Lankan economy over the last few years.

Contractors and construction service providers are often constrained by inadequate capital for equipment purchases and working capital requirements. The sector includes large players as well as sub-contractors who provide employment to thousands of individuals. As at year end, DBB had provided advances of LKR 7,850 million to the construction sector. This assistance has enabled many to compete successfully in the market while strengthening the backbone of Sri Lanka's economy.

DFCC's assistance to the sector also includes state agencies such as the Road Development Authority. One of the more noteable projects was the rehabilitation and improvement of the Matara - Hakmana Road (B275). The project will be undertaken by the private sector at an estimated cost of LKR 2,000 million. This road project is earmarked by the Government as high priority for the development of the Matara district and is included under the accelerated Southern Province Rural Economic Advancement Project. The project will benefit a population of 33,500 in the area by reducing their travel time to and from Matara while providing indirect economic and social benefits.

CREATING SUSTAINABLE VALUE → ECONOMIC AND FINANCIAL PERFORMANCE

Housing

Our housing loans help to enhance living standards and quality of life of the citizens, while also contributing to the growth of the construction sector. In September 2012 DVB was the recipient of an Asian Development Bank credit line of USD 15 million for housing. The funds will be disbursed for housing throughout the island, with special focus on the North, East and the South for rehabilitation and reconstruction activities. It is noteworthy that 78% of the DVB housing loan portfolio is distributed outside the Colombo District.

Renewable Energy Development

As discussed in our previous reports, DFCC Bank, upon identifying the potential of renewable energy and the impending power crisis in the mid 1990s took a bold step in financing the first private sector grid-connected mini hydro project with debt as well as equity. This 'risky' investment at that time pioneered the small scale renewable energy sector in Sri Lanka and opened doors for new investments. Commissioning this 'first of its kind' project took three years to accomplish in the face of cost over-runs, regulatory and grid connectivity issues.

However, it proved its commercial viability. Investors then came forward with confidence and the Government of Sri Lanka appointed DFCC Bank as the Administrative Unit of the World Bank-funded lines of credit for renewable energy development. To ensure sustainability, DFCC ensured that investors took on technical experts as partners and not as employees. This strategy paid off with Sri Lankan projects earning a reputation world over for their technical viability and successful implementation. Today, Sri Lanka and DFCC Bank are well known in the field of renewable energy, and Sri Lankan developers are in demand in Central and East Africa to set up similar hydropower projects. Mini hydro development has become one of the few technologies that Sri Lanka exports, and looking back we take pride in our contribution to this industry during the last two decades.

Total Lending for Renewable Resource Based Power Generation

Province	No. of hydro projects funded	No. of wind projects funded	Total MW	Finance Extended by DFCC LKR million
Central	30	0	65	2,575
Sabaragamuwa	21	0	78	2,699
Uva	2	0	5	568
North Central	1	0	8	340
Southern	1	0	1	35
North Western	0	2	20	675
	55	2	177	6,892

CREATING SUSTAINABLE VALUE – ECONOMIC AND FINANCIAL PERFORMANCE

DFCC has managed several lines of credit related to renewable energy that were channelled through the Government of Sri Lanka. Needs assessments were conducted by the Government and the respective counterpart agency as part of project design and objective setting. Some recent examples of such projects that have had a significant developmental impact are summarised below.

Project	Implementation
Energy Services Delivery Project (DFCC Bank Administered component)	**Target:** Capacity addition of 21 MW of grid-connected mini-hydro projects. **Achievement:** 31 MW commissioned through 15 sub-projects.
	Target: Installation of 15,000 Solar Home Systems (SHS). **Achievement:** 20,953 SHS installed.
	Target: 250 kW of capacity through 20 community based village hydro systems to serve 2,000 households. **Achievement:** 350 kW of capacity through 35 village hydro systems serving 1,732 beneficiary households.
Renewable Energy for Rural Economic Development (RERED) Project	**Target:** Capacity addition of 135 MW through small scale grid-connected renewable energy based power generation. **Achievement:** 176 MW commissioned.
	Target: 1,500 income generating activities in communities that gain access to electricity (households, small/medium enterprises and public institutions). **Achievement:** 742
	Target: 1.25 million tonne reduction in Green House Gas (GHG) emissions. **Achievement:** 2.15 million tonnes reduction in GHG.
	Target: 113,500 households, rural small/medium enterprises and public institutions given access to electricity through off-grid systems. **Achievement:** 116,795
	LKR 12,858 million in credit (100%) and LKR 831 million in grant (99.3%) disbursed and LKR 810 million of Government Subsidy and counterpart funds disbursed.

CREATING SUSTAINABLE VALUE — ECONOMIC AND FINANCIAL PERFORMANCE

CATALYSING SOCIO-ECONOMIC CHANGE

Development in the North and East

Peace was restored in the country in 2009. DBB commenced operations in the Northern and Eastern Provinces the following year. The pressing need of the moment in these regions is the need to initiate sustainable business ventures which enable enhanced economic activity.

At DBB, our operations in the North and the East, are focused on transferring capital to the region and not merely aggregating capital in the form of deposits. Our orientation has enabled us to support entrepreneurs who are creating employment and stimulating the economy through their products and services. In a short period we have been able to encourage entrepreneurship in the region as discussed in this section.

DFCC won the ADFIAP award for Outstanding Development Project related to Local Economic Development in 2012. The project was a sea food processing factory in Navanthurai, north of Jaffna. The Company had been in business for over 20 years, supplying sea food to the local fish market initially and later to some of the leading sea food exporters in the country. However, the operation struggled through the war years. This project was one of the first to capitalise on the peace dividend. With a total investment of over LKR 50 million, the company set up a state-of-the-art crab and cuttlefish processing plant targeting the export market, the first of its kind in the Jaffna District. DFCC Bank guided and financed the venture with a special project loan package. The project has provided direct employment for 300 people, and contributed to the livelihood of those working in 16 collection centres as well as the local fishermen who supply the factory.

Another landmark project was a 60-bed multi specialist hospital in the heart of Jaffna. The promoters started on the project with a vision of providing the people in Jaffna the best in healthcare services. DFCC supported the project from Colombo pending the opening of our branch in Jaffna. The hospital opened its doors to the public in March 2012.

Other ventures supported by DFCC in the North and East, include private educational institutes, guest houses, and a shopping complex adding to the infrastructure in the region. Construction and road contractors who are integral in development activities in the North and East have been provided finance to supplement working capital requirements and to acquire modern equipment. Support has also been provided to perennial crop cultivators such as grape farmers, who are experiencing a resurgence in the market.

CREATING SUSTAINABLE VALUE ⊸ ECONOMIC AND FINANCIAL PERFORMANCE

Rural Economic Development

DBB continues to play an active role in financing SMEs and developing rural entrepreneurs. With access to special concessionary lines of credit, DBB today has an SME portfolio of LKR 49,842 million, and our reach continues to widen, especially to areas lacking access to long term credit.

DBB's network presence in relation to the contributions of each province to national GDP indicates a higher concentration of branches in lower GDP ranked areas. This indicates our commitment to catalysing economic development in less developed areas of the country. It also frames the need for us to double our efforts to address regional imbalances.

Province	GDP* LKR million	Provincial % of total GDP	DBB Branches	Provincial % of DBB branches
Western	2,905,159	44.4	37	28.0
Southern	726,996	11.1	23	17.4
North Western	652,136	10.0	10	7.6
Central	644,159	9.8	13	9.8
Sabaragamuwa	406,566	6.2	15	11.4
Eastern	375,288	5.7	9	6.8
North Central	300,042	4.6	9	6.8
Uva	292,463	4.5	10	7.6
Nothern	241,200	3.7	6	4.5
	6,544,009	100.0	132	100.0

Source: Central Bank of Sri Lanka Department of Census and Statistics ** 2011 provisional*

The ratio of our total loans and leases to deposits mobilised, analysed by regions, shows that DBB is by far a net transferor of resources to areas that are the most under-developed. This bears out our long term commitment to the development of weaker regions through lending products that will stimulate capital formation and employment creation.

Micro Finance

DBB's capacity to directly penetrate the micro enterprise segment is limited. However we understand the importance of supporting the sector as these enterprises form the beginnings of SMEs. Alternatively, we provide wholesale financing to established Micro Finance Institutions (MFI) for on-lending to their customers in identified programmes. Some of the important beneficiaries of this effort during the year were women entrepreneurs and vulnerable groups. This has indirectly helped DBB to improve its financial inclusion and address the financing gap at the lower end of SMEs.

CREATING SUSTAINABLE VALUE ⊸ CUSTOMERS

CUSTOMERS

MANAGEMENT APPROACH

Our management approach involves creating long-lasting relationships and working in partnership with our customers. We take great pride in the trust placed in us and in turn we extend a tailor-made service of the highest standard. Our customer base is diverse, consisting of corporates, small and medium enterprises, Government and individuals, (with strategic focus on the development of SMEs). We adopt a customer-centric approach, placing much emphasis on developing our internal capabilities, enhancing service standards and consistently meeting expectations of our customers, which are changing rapidly in tandem with developments in technology.

OVERALL PERFORMANCE

The core businesses of DFCC Banking Business (DBB) are Development Banking and Commercial Banking and the total loans and advances portfolio amounted to LKR 101,576 million at year end. Development Banking is carried out through two main conduits - Corporate Banking and Small and Medium Enterprise (SME) Financing. Overall, growth was subdued due to the general macroeconomic conditions, with aggregate approvals declining from that achieved in the previous year. During the year, approvals of project finance facilities - comprising term loans, finance leasing, investment securities and guarantees amounted to LKR 23,490 million. Of this amount, project loan approvals accounted for LKR 16,778 million or 71.4%. The largest volumes were to agriculture, construction, diversified holding companies, food & beverages and trade sectors. A notable feature of the credit approved was the demand from those industries directly and indirectly involved in projects under the Government's ongoing infrastructure development.

The subdued demand for credit is reflected in the moderate growth of the total project financing portfolio, which increased by 8.4% from LKR 59,793 million to LKR 64,801 million during the year. Term loans made up the bulk of the portfolio (74%) followed by finance leases (14%) and preference shares and debt securities (12%). As always, sector, as well as enterprise exposures, are key considerations. Concentration risk is proactively managed in compliance with the internal limits set by the Board Integrated Risk Management Committee. These controls ensure that the portfolio continues to be well diversified. As at the year end, nearly 78% of the exposure was to eight broad industry sectors.

Reflecting the general conditions during the year, there was a slight increase in the non-performing loan ratio of the project finance portfolio; from 4.3% to 4.5%. As such, there is continued focus on close monitoring of projects and proactive efforts in loan recoveries.

CREATING SUSTAINABLE VALUE ⊸ CUSTOMERS

PROJECT FINANCING FOR CORPORATE CLIENTS

Total project loan portfolio stood at LKR 27,182 million as at year-end reflecting a growth of 12% year-on-year. Approximately 81% of the facilities booked were accounted for by six industry sectors led by manufacturing (22%), which itself includes 12 sub-sectors. The lending base was well diversified with facilities extended to the ongoing public infrastructure drive and capacity additions in the manufacturing, tourism and food & beverage sectors. However, overall growth in project lending was somewhat hampered as financing of projects exposed to external markets was restricted due to sluggish macroeconomic conditions. Total approvals amounted to LKR 10,031 million with the highest credit demand of 36% stemming from construction and infrastructure sector, followed by indirect project loans to holding companies and financial intermediaries at 18% and the manufacturing sector at 16%.

Sector exposure and project diversity took precedence over capacity to lend during the year. In this context, loan growth was circumspect and targeted at businesses and sectors that were relatively resilient or less vulnerable to adverse macro developments that were identified during the year.

Maintaining the portfolio quality remained priority, and was achieved successfully. The non-performing asset ratio for corporate project loans stood at 0.29% as at 31 March 2013 with non-performing facilities totalling to just over LKR 78 million. This bears out the quality of project appraisal as well as the effectiveness of follow up and monitoring procedures of DBB. Revision of exposure limits based on continuous monitoring of sectors was another effective measure adopted by us.

Going forward DFCC will pursue opportunities to raise long term funds through international capital markets transactions, and a long term credit line from a multi-lateral agency. These funds are expected to be deployed in several industry sectors. While construction & infrastructure will continue to be a growth sector, other prospects exist. At the sub-sector level these include renewable energy (wind power), education (tertiary stage) and hotels (themed properties) will be the other key sectors of focus. Further, with DFCC's capability in environmental assessment stemming from its experience in managing multilateral credit lines, funding green initiatives of large industrial groups will be another key area of focus. Considering these factors, the outlook for DFCC's project finance business remains positive in the upcoming year.

CREATING SUSTAINABLE VALUE ⊸ CUSTOMERS

COMMERCIAL BANKING FOR CORPORATE CLIENTS

The expansion of DBB's corporate customer base through direct sales and cross-selling has resulted in larger groups and companies engaging in commercial banking relationships with DVB. This bears out the effectiveness and synergies of the joint marketing effort of DFCC and DVB.

Following the 18% ceiling on credit growth stipulated by the Central Bank of Sri Lanka, 2012 was a period of restraint. This was a common challenge faced by all small and medium-sized banks which necessitated a shift in strategy to maintain profitability. Accordingly, our key areas of focus were enhancing asset yield and customer account profitability through increased share of customer wallet as against portfolio growth. Approvals during the year amounted to LKR 4,110 million. The limits of facilities under the corporate banking portfolio increased 19% from LKR 21,747 million to LKR 25,857 million while advances utilisation rose from LKR 6,314 million to LKR 7,741 million. Given the growth restrictions, there was a concerted effort throughout the year to increase the utilisation of non-funded limits. As at year end, LKR 11,107 million, or 43% of the aggregate limits, was utilised of which LKR 3,366 million was in the form of non-funded accommodation to customers.

As always, portfolio quality remained a priority. While there were some signs of stress particularly in certain trading activities where the working capital cycle was drawn out, through stringent credit appraisal and monitoring, DBB contained its risk exposure. These measures enabled the non-performing asset ratio of corporate banking to be contained at 0.02% as at 31 December 2012.

Going forward, interest rates are likely to moderate gradually. While initially this would place some downward pressure on margins, the potential impact is expected to be offset by the increase in volumes along with the relaxation of the ceiling on credit growth. For example, one key impetus will continue to be the Government infrastructure drive, where DVB will leverage on the DFCC project financing business to acquire the spun-off contractor financing business. While migration of commercial banking business from other sectors will be stepped up, the marketing thrust will continue to project a unified DFCC and DVB as DFCC Banking Business.

CREATING SUSTAINABLE VALUE ⊸ CUSTOMERS

PROJECT FINANCING FOR SMALL AND MEDIUM ENTREPRENEURS

Branch Network

The SME segment remained a key area of focus in the DBB business plan during the financial year under review. In order to widen the geographical coverage, the branch network was expanded to 129 branches and service points during the year. Emphasis was given to areas which lacked access to superior banking facilities. Our services were extended to Akuressa, Chunnakam, Elpitiya, Kattankudy, Killinochchi, Manipay, Nelliady and Tangalle, with the capabilities of providing a wide range of financial services.

Developing SMEs

In today's operating environment SMEs need much more than money. DFCC's long term commitment to help develop this sector extends well-beyond financing.

Today, entrepreneurs have to face issues that are much more complex and challenging. The days of managing SMEs through 'gut feel' are gone. Every business has at least three rivals aggressively competing for a share of the market. They need to keep innovating and improving productivity to stay ahead of others.

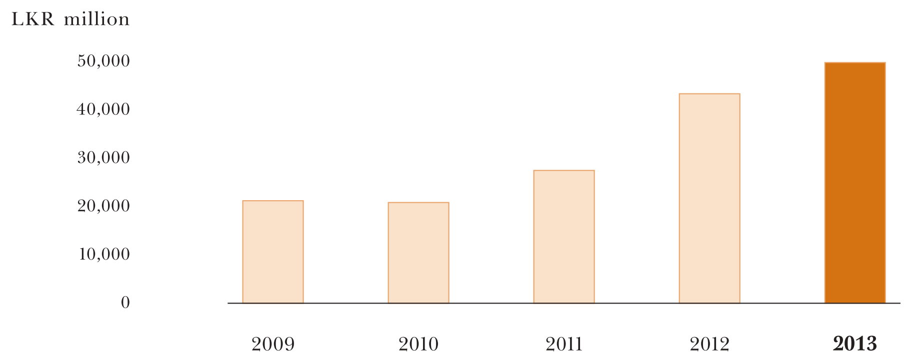
Often SMEs suffer from general lack of business direction and improper management in key areas of business operations such as strategy formulation, production, marketing, finance and personnel management. Financial management and the accounting records maintained, tend to be inappropriate for profit measurement and efficient control of other resources employed in the business.

To address these issues, DFCC Bank has been implementing a strategic plan to develop internal capabilities of SMEs across the country. The project which has been ongoing for several years has benefited more than 8,000 SMEs especially in the outstations. Managerial and other skills needed to improve business output are delivered to SMEs and their staff through comprehensive training programmes conducted free of charge in every region. During the year under review, eleven programmes were conducted mostly in the North and East, where we needed to ignite the spirit of entrepreneurship. Over 900 people benefited from these sessions.

Given our strong commitment and long relationship with SMEs, we are now duly recognised as an institution which has been the backbone to many of the leading businesses of today that started off as SMEs.

CREATING SUSTAINABLE VALUE — CUSTOMERS

SME Portfolio



SME Business Growth and Performance

DBB finances SMEs through long and short term loans refinanced through concessionary lines of credit as well as through its internal funds. The combined loans and advances portfolio grew by 15 % from LKR 43,346 million to LKR 49,842 million during the year. There was a marginal increase in non-performing assets (loans and leases) of SMEs, from LKR 2,112 million to LKR 2,532 million while the non-performing asset ratio increased from 4.9 % to 5.1% as at year end.

DBB participated in a number of credit schemes including the Small and Medium Enterprise Development Facility (SMEDeF) extended by World Bank, Saubagya Loan Scheme, Awakening North Revolving Fund, Awakening East Revolving Fund, Agro Livestock Development Scheme (ALDL), New Comprehensive Rural Credit Scheme (NCRCS), Miridiya Loan Scheme and Tea Development Project Revolving Fund (TDP-RF). A significant amount of the Investment Fund Account was utilised to finance the SME segment at concessionary rates.

SMEs in tourism and leisure received considerable assistance, in line with the Government's drive to develop this key sector. DBB funded several modernisation and expansion projects undertaken by small hotels, guest houses, holiday bungalows, restaurants and other related enterprises during the year under review. Most of these projects were provided with low cost funding through concessionary loan schemes.

CREATING SUSTAINABLE VALUE ⊸ CUSTOMERS

Financing for High-End SMEs

DBB continued to support those businesses that are growing out of the normal SME classification, through the dedicated Business Banking Unit established a few years ago. Products and services to these customers include overdrafts, revolving credit lines, short term loans, term loans, import-export finance, finance leases, credit guarantees, bid bonds, performance bonds and advance payment guarantees. The terms relating to such lending are tailored to meet customer needs based on their special circumstances. Customers who are served through this unit also have access to the full range of development banking products such as term loans, project finance, equipment finance and permanent working capital finance. The loans and advances portfolio of the Business Banking Unit decreased from LKR 11,208 million to LKR 10,977 million during the year. This was commensurate with the lower demand for import finance.

PERSONAL BANKING

In terms of portfolio growth and product diversification year 2012 was a successful year for Personal Financial Services (PFS). DVB proactively modified and enhanced the PFS product portfolio to suit customer needs and promoted market awareness. Although, currently DVB's PFS base is small, it is an important growth sector for the Bank with high potential for rapid growth and higher margins. DVB now offers a wide range of PFS products and has in place sound strategies and distribution channels to reach niche customer segments effectively. The key differentiating factors are personalised service and efficient delivery.

PFS product range comprise overdrafts, cash-backed advances, personal loans, gold-pledged loans, housing loans and other loans to cater to diverse financial needs of individual customers through their life cycle. The liability side products comprise demand, savings and time deposits of different currencies, maturities and interest payment options. These products are designed for minors, adults and senior citizens with further variants to cover the sub-segments within these broad categories.

The PFS portfolio grew 46% from LKR 4,300 million to LKR 6,300 million during the year. Gold-pledged lending, housing loans and finance leases mostly for vehicles recorded higher growth than other products.

CREATING SUSTAINABLE VALUE ⊸ CUSTOMERS

Gold-pledged lending

The pawning portfolio grew from LKR 2,557 million to LKR 3,625 million during the year. This was driven by strong public awareness created through localised marketing by individual branches, expansion of the branch network, competitive advance rates, customer friendly service and Saturday banking facilities. Due to the high volatility in gold prices which prevailed during the year, banks were compelled to adjust gold advance rates in tandem with changing market prices. DVB's pawning portfolio accounts for 57% of the PFS lending portfolio, making it a core product of the portfolio. The infection ratio remained at a very low level, consequent to effective risk management procedures.

Housing Loans

DVB's housing loan scheme, branded Vardhana Sandella, was launched in mid 2010, under the tagline 'Make Your Dream Home a Reality' signifying the intimacy of this service to the borrower. These loans are offered to a wide customer segment for a variety of purposes, with new features added from time to time based on market needs.

During 2012, the housing loan portfolio grew by 31% from LKR 1,122 million to LKR 1,465 million. To support further growth DVB signed a loan agreement with the Asian Development Bank (ADB) to obtain a credit line of USD 15 million for housing finance. This term-lending facility will enable DVB to expand the housing market, focusing on regional development.

Finance Leasing

Vardhana Leasing was introduced in September 2011 targeting the motor vehicles and transport equipment market. After four months of operations, the leasing portfolio stood at LKR 496 million as at December 2011. During 2012, the portfolio grew by LKR 746 million to LKR 1,242 million.

The rising interest rates and the increase of import duty on vehicles posed challenges to the leasing market. However, DVB continued to offer competitive rates and actively marketed leasing facilities in the provinces during the year. Joint promotions were also carried out with automotive dealers throughout the branch network. The leasing portfolio infection continues to be negligible, reflecting the high quality of lending. DVB plans to substantially expand the leasing portfolio during 2013.

CREATING SUSTAINABLE VALUE ⊸ CUSTOMERS

Personal Loans

DVB offers a range of personal loans to cater to diverse needs of customers. A popular product is the cash-backed lending scheme branded Vardhana Cash-for-Cash. Facilities include overdrafts, short term loans and term loans of varying durations. Interest rates are comparatively low due to the attributed low credit risk. The educational loan scheme, named the Vardhana Nenasa, helps students fund their higher education. The repayment period extends up to 10 years while the other terms are customised.

Priority Banking

A premier branch was established in 2012, as a dedicated centre for high net worth individuals from all branches. The Premier Centre is equipped to provide personalised banking services through designated Relationship Managers. The Premier Centre also offers extended banking hours and a host of value added benefits on products and services. Other than the premier branch, priority banking services are offered through a number of branches in Colombo and other cities in the provinces. DVB is one of the few banks to recognise the potential of priority banking as a value added service to customers residing in outstation areas.

Card Operations

DVB introduced the chip-based corporate credit cards while Visa International platinum credit cards were issued selectively to corporate customers of DBB. Despite its late entry into the card market and prevailing high vulnerability, the DVB credit card operation remains a viable business line and a segment identified for medium term growth. The card portfolio is free of material infections due to prudent screening methods adopted in issuing credit cards.

DVB has issued over 30,000 Visa debit cards by the end of 2012, having launched the international Visa debit card in the last quarter of 2010. DVB debit cards provide the same access available to any Visa debit card issued locally or overseas.

FUNDING

There were significant changes in the external market with a 11.6% depreciation of the exchange rates and a sharp increase in benchmark interest rates by over 2% in 2012. Volatility in liquidity, monetary tightening and imposing of a credit ceiling impacted the movement of key indicators and had a significant impact on the business environment during the year.

CREATING SUSTAINABLE VALUE ⊸ CUSTOMERS

In this context, funding was a challenge during the first half of the year. This was mitigated by the increase in the deposit base at DBB from LKR 46,000 million to LKR 63,191 million. DFCC increased its deposit base from LKR 12,444 million to LKR 15,548 million as at the end of the financial year. DFCC also benefited from regulatory approvals to enhance its scope of foreign currency activities and foreign currency deposits mobilised amounted to 9% of the DFCC's deposit base.

DFCC accessed offshore markets via a short term syndicate loan amounting to USD 45 million from a consortium of banks during the year. This transaction received an enthusiastic response from the syndicate loan market as DFCC marked its presence in the international arena. Initial negotiations on securing a long term credit line from a multilateral agency with Government support commenced during the year to finance the SME sector and green energy funding. Accordingly, foreign currency funding increased to approximately 30% of the total funding base of DFCC, as against 17% in 2012, enabling the Group Treasury to reduce the overall cost of funds significantly. The total funding base rose 16% year-on-year, while the market based funding stood at approximately 38% of the total base, in comparison with 43% in 2012.

Going forward, the strategy is to pursue opportunities to raise long term funds, including through international capital markets transactions. This would facilitate further diversification and growth of the DFCC funding base, which will result in increasing the base by approximately LKR 32,000 million. Further, a bilateral credit line is expected to add approximately EUR 30 to 40 million of long term funds in the period up to 2014 enabling competitive pricing on the asset book. The DBB fund base would be further enhanced with a planned second draw down of the Asian Development Bank's housing credit line amounting to USD 7.5 million on the commercial banking side.

DFCC Group's long association with international partners such as the World Bank, ADB, FMO, DEG and European Investment Bank continues to develop further and is a strong factor in the DBB's funding programme.

INVESTMENT BANKING

Trading activity in the Colombo Stock market was subdued during the second quarter of 2012 owing to concerns over exchange rate volatility, rising interest rates and credit restrictions. The ASPI fell below the psychological 5,000 level at the end of May and reached a two year low of 4,738 points on 6 June 2012. However, increased foreign activity and improved corporate earnings helped the ASPI recover in August. It reached the peak for the year of 5,972 on 28 September 2012 at which point there was an onset of profit taking that pushed the market to below 5,500 during December.

CREATING SUSTAINABLE VALUE ⊸ CUSTOMERS

Investor sentiment did turn positive towards the end of December and in January driven in part by declining interest rates and expectations of strong earnings, particularly from the finance sector. Also, there was renewed interest in diversified holding companies and other blue chips. Overall, across April 2012 - March 2013, the All Share Price Index increased 6% to 5,736 points. Average daily turnover levels however dropped to LKR 794 million compared to LKR 1,827 million in the previous year. Nonetheless, foreign activity was consistently on the buy side throughout the financial year with net foreign inflows of LKR 23,234 million compared to LKR 8,405 million the previous financial year.

As at 31 March 2013, the aggregate investment in DFCC's portfolio of quoted shares (excluding the residual holding in Commercial Bank of Ceylon PLC (CBC)), unquoted shares and unit holdings amounted to LKR 2,905 million. The cost of the quoted share portfolio (excluding CBC) and unit trust holdings was LKR 2,761 million while its carrying value was LKR 3,448 million, which represented an appreciation in value of LKR 687 million. The cost of the unquoted investment portfolio was LKR 144 million and it is carried on the balance sheet at that value. The investment in CBC is carried at its market value on 31 March 2013 which was LKR 13,109 million compared with the cost of LKR 2,643 million.

Selected divestments of mature quoted and unquoted shares were carried out during the year, realising LKR 199 million in sales proceeds and LKR 120 million in capital gains. To replenish the portfolio, a part of these proceeds, amounting to LKR 59 million, were ploughed back into selected quoted shares and unquoted shares in project companies.

During the year, DFCC increased its shareholding in DVB by 0.05% to 99.12% by buying shares from a few more of the minority shareholders.

INTERNATIONAL BANKING

Remittances

Total inward and outward remittances turnover of DVB increased by 31.2% to LKR 42,853 million during 2012. This is in line with the trend of increasing volumes of foreign remittances into and from the country.

DVB has improved the internal infrastructure for growth of foreign remittance business to provide an efficient service to customers. The internal distribution network consists of 129 banking outlets. With access to the SLIPS fund transfer system. DVB also has an extensive network of correspondent banks and is taking steps to widen its links with money transfer companies in the regions such as the Middle East, Europe, Far East and Australia from where Sri Lanka receives high volumes of remittances.

CREATING SUSTAINABLE VALUE ⊸ CUSTOMERS

Foreign Exchange

The DFCC Group Treasury also engages in foreign exchange (FX) exposure management arising out of foreign currency funding, foreign exchange transactions with customers and foreign exchange trading of DBB. Exchange exposure is capped with risk management limits stipulated by the Board Integrated Risk Management Committee. Amidst challenging conditions, DFCC successfully minimised the cost of FX risk cover and met the budgeted cost targets as a result of proactive strategies adopted during the year.

Though post depreciation volatility gave rise to market opportunities during February to June 2012, the tighter regulatory environment with reduced Net Open Position Limits of all commercial banks in March and import controls, curtailed market activity and volatility. Hence, the year was one of brief opportunities and many challenges with thin trading margins and reduced customer volumes.

The DBB managed an average funding and investment swap book of USD 55 million where FX cost significantly reduced the net foreign exchange profits of the DBB's commercial banking business. The swapped funds helped considerably in reducing cost of funds of DBB and enhancing interest margins from loans.

Treasury Interest Income

In terms of liquidity and interest rate management, the sharp rise in interest rates posed fresh challenges on asset and liability pricing. Interbank exposure was managed through aggressive mobilisation of deposits in a market with volatile liquidity. The overall reduction in net interest margins in the industry impacted Treasury assets which comprised of interbank loans, Treasury Bills and Bonds. Although, interbank rates remained lower than other benchmark rates for most of the year, due to volatile liquidity, the liquidity levels remained low. Treasury funded its investment portfolio through funding swaps and interbank borrowing, thereby maintaining a narrower but positive spread. As at year end, the Rupee and foreign currency denominated Treasury Bills and Bond portfolio of DBB stood at an approximate LKR 11,379 million.

CREATING SUSTAINABLE VALUE – CUSTOMERS

Trade

DFCC delivers its trade finance services through its commercial banking subsidiary DFCC Vardhana Bank. In 2012, the country's international trade volumes contracted when exports declined by 6.6% and imports reduced by 4.5% due to external and internal macroeconomic factors. The business environment was not conducive for expansion of trade services of DVB. Further, the risk profiles of the counterparties to trade services had to be reassessed due to changing costs and market demand factors.

However, DVB pursued its trade services business targets with existing and new customers, and its external trade volumes grew although at a lower rate than the growth levels planned for the year.

The trade services business volumes, consisting of Letters of Credit and Import Bills Received, increased to LKR 31,083 million from LKR 29,788 million recording a growth of 4.3% for the year. Export bills negotiated amounted to LKR 5,638 million from LKR 3,932 million with a 43.3% increase. DVB has established vital correspondent banking networks covering all major trading currencies and regions of the world. The cross-border capability allows DVB to facilitate international trade transactions on competitive terms. DVB seeks to further expand trade services with customers having significant international trade content by offering competitive trade service packages and are continuously improving service standards relating to this activity.

CREDIT LINE MANAGEMENT AND IMPACT

In addition to its role as a direct provider of project finance for mainly private sector capital investment projects, DFCC Bank has a well earned reputation as a highly competent and successful implementer of international development agency funded credit lines for the Government of Sri Lanka (GoSL). Credit lines re-finance the loans given by participating financial institutions to customers in certain targeted sectors or geographical areas. DFCC Bank performed implementing agency functions both as an Apex Body (where it took on the credit risk of participating financing institutions) and as an Administrative Unit (where the refinance loans are repaid directly to GoSL).

The credit lines implemented recently by DFCC Bank were The World Bank and Global Environment Facility (GEF) funded Renewable Energy for Rural Economic Development (RERED) Project (2002-11), the credit component of the Asian Development Bank (ADB), Japan Bank for International Cooperation (JBIC) and GoSL funded Plantation Development Project (2003-10), the European Investment Bank (EIB) funded Post Tsunami Rehabilitation Project (2006-10) and the KfW (Germany) funded DFCC V credit line for Small and Medium Enterprises in the North and East (2006-12).

CREATING SUSTAINABLE VALUE ⊸ CUSTOMERS

The RERED Project aimed at fostering rural economic development and improving the quality of life in rural areas by providing access to electricity, and to expand the commercial provision of electricity generated from renewable resources. The project, consisted of two consecutive credits lines of USD 75 million and USD 40 million (additional finance), a GEF grant component of USD 8 million and a Government subsidy programme, built on the success of the ground breaking Energy Services Delivery Project (ESD), which was implemented by DFCC Bank.

Total loans, grants and subsidy disbursed by DFCC Bank during the life of the RERED Project amounted to LKR 14,499 million. The Project assisted the electrification of 116,795 off-grid households through solar home systems and community owned mini-grid systems and added a total of 176 MW of generating capacity through 68 hydro and two wind projects to the national electricity grid. The ESD and RERED Projects implemented by DFCC Bank played a crucial role in the development of Non-Conventional Renewable Energy (NCRE) sources in Sri Lanka.

Due in no small part to the efforts of the ESD and RERED Projects and its stakeholders, private sector led small hydro and wind are now mainstream renewable energy technologies in Sri Lanka. While the first grid connected independent power producer for wind power was funded by the RERED Project, the various technical assistance initiatives such as funding for independent technical due diligence studies and capacity building programmes for staff gave Sri Lankan banks the confidence to lend to an entirely new and untried sector.

In terms of off-grid electrification, the ESD and RERED Projects assisted 131,528 rural households to acquire solar home systems and 7,952 households in 210 villages to obtain electricity from 208 micro-hydro projects and two biomass based projects. As a result around half a million Sri Lankans in remote areas improved their quality of life due to the availability of electricity.

The World Bank recognised the ESD and RERED as 'flagship' projects, and there have been many overseas visitors to DFCC to study the success of the projects over the years. In October 2011, the National University of Singapore published a case study on the ESD Project titled 'Harvesting the Elements: The achievements of Sri Lanka's Energy Services Delivery Project'. In January 2012, the UNDP published a case study on the RERED Project titled 'Renewable Energy Sector Development: A Decade of Promoting Renewable Technologies in Sri Lanka'.

CREATING SUSTAINABLE VALUE ⊸ CUSTOMERS

DFCC Bank functioned as the Apex Body of the credit component of the Plantation Development Project funded by ADB, JBIC and GoSL. The credit component assisted the replanting, modernisation and diversification efforts of plantation companies. The project disbursed LKR 2,478 million to assist 14 companies through seven participating financial institutions including DFCC Bank.

The European Investment Bank funded Post-Tsunami Reconstruction Project was to revive the economies of eleven Tsunami affected districts. The DFCC Bank administered component of the scheme (Contract A) for directly and indirectly affected enterprises was EUR 60 million. At project close in 2010, LKR 9,058 million was disbursed through eight participating financial institutions to 76 enterprises in sectors such as health, leisure, manufacturing and services. In addition, DFCC Bank also screened 142 projects for the Central Bank of Sri Lanka administered component for directly affected enterprises (Contract B - EUR 10 million). This project created 3,478 employment opportunities.

The EUR 5 million KfW-assisted DFCC V credit line for Small and Medium Enterprise Development Project (SMEDP) in the North and the East, was aimed at improving access to financial services through the banking sector for micro and small and medium scale entrepreneurs in the two provinces. The project closed successfully in 2012 with 100% disbursement of refinance amounting to LKR 771 million. The majority of the facilities (disbursed through five participating financial institutions) were for comparatively small loans; 453 (93%) of the total 488 loans/leases were less than LKR 3 million. The sectors funded were mainly agriculture, trading, transport, manufacturing and services in the North and East.

In addition to the above multi-bank credit lines, we have also implemented credit lines exclusive to DFCC Bank, such as the EUR 90 million EIB Global credit line for industries to purchase machinery from EU countries.

TECHNOLOGY

IT played a key role in the expansion of branches and business lines, such as the introduction of leasing to DVB during the course of the year. Additional customer service channels such as internet banking were also introduced.

Upgrading the underlying technology of the core banking platforms of both banks enabled us to remain with the existing application version without costly and disruptive full-scale upgrades. Changing DVB's trade finance solution to the same platform as the core banking system created gains in productivity and enabled easier compliance.

CREATING SUSTAINABLE VALUE – CUSTOMERS

At the infrastructure level enhancements in business continuity capability with improved recovery times and fail-over options were implemented. Consolidating data storage and virtualising servers created further cost efficiencies and productivity gains and further strides in this area are planned in the near term.

Looking ahead, a new workflow solution to streamline lending approval will come online at DFCC and will subsequently be introduced to DVB. Key projects in risk management (ALM, customer profitability), upgrading the finance and accounting systems and introducing DFCC's advanced budgeting and forecasting system to DVB are in the near term plans.

Further ahead, a scorecard and strategy management platform to monitor and initiate actions to achieve strategic goals will strengthen DFCC Group's position at the forefront of financial services.

CUSTOMER SERVICE INITIATIVES

Launch of a Tri-lingual Website

Our website was re-launched during the year, giving stakeholders access to information in their preferred language. Visitors to the site may select their preferred language displayed on the home page and access information or perform transactions with ease from any part of the world. This website, which integrates DBB's services for businesses as well as individuals, was recognised at the Best Web Competition organised by the LK Domain registry, winning Bronze in the Corporate Website Category. It also received the Best Website Award given by the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP).

Customer Engagement through Facebook

Customers are now able to interact with us through Facebook, giving them an additional contact point to obtain information. They are also able to make suggestions or complaints, gearing us to continually offer a superior customer service. Our Facebook page enables customers to keep abreast of the latest news on DBB and our latest products and services.

Premier Service Centre

The Vardhana Premier Banking Centre, discussed earlier under Personal Banking, was launched in November 2012, to provide highly personalised services to high net worth individuals.

CREATING SUSTAINABLE VALUE ⊸ CUSTOMERS

CUSTOMER SATISFACTION

Achieving customer service excellence is a continuous improvement process, which is made possible with the feedback and suggestions we receive from our valuable customers. A variety of channels are available to customers to engage with DBB: telephone, email, website, customer call centre, customer suggestion box (all branches) as well as the traditional mail sent by post.

Customers are notified of the methods of communication with either DBB in line with the Customer Charter. All access points actively educate and encourage customers to give in their feedback and suggestions on how we can improve our services. Maximum turnaround time to respond to a customer on a complaint is defined as 24 hours.

In order to effectively address the complaints sent in by our customers and monitor DBB's service levels, types of customer complaints are categorised as follows: product/design, pricing, staff service quality, process and reliability, problem handling, customer communication, channel functionality, channel accessibility, general sales and marketing and inappropriate sale. Complaint analysis and monitoring are performed every quarter to identify gaps in our product and service offering.

Further, customers may also send in complaints/suggestions to the following officials at DBB:

DFCC: Chief Executive Officer, Deputy Chief Executive Officer, Head of Internal Audit, Head of Operations

DVB: Chief Executive Officer, Chief Operating Officer, Head of Internal Audit

If complaints are not resolved by either DFCC or DVB within a reasonable period of time, or are not up to the customer's satisfaction, the customer may address complaints directly to the Financial Ombudsman at No. 143 A, Vajira Road, Colombo 05 (Tel: +94-11-2595624, Tele/fax: +94-11-2595625, Email: fosril@sltnet.lk).

During the year under review the number of representations made to the Ombudsman was none in the case of DFCC Bank and one in the case of DVB, which is an indication of the effectiveness of the internal resolution mechanism.

CREATING SUSTAINABLE VALUE ⊸ CUSTOMERS

CUSTOMER HEALTH AND SAFETY

Due to the nature of our business, our products and service designs are not dependant on health and safety-related aspects. However, since inception we have conducted our operations with integrity and maintain the highest ethical standards. We ensure that our product design and promotional activities do not infringe or plagiarise the intellectual property of another entity.

MARKETING COMMUNICATIONS

Our marketing, advertising and promotional activities are aimed at transparency, ethics and conformity to statutory requirements as outlined by the Central Bank of Sri Lanka, helping customers to make informed decisions on financial services. All marketing campaigns are screened prior to launch to check for conformity and all approvals are obtained by relevant authorities concerning displays, sounds, branding etc.

DFCC brochures displaying information on our products and services are available in Sinhala, Tamil and English. Further in order to create an online inclusive community, the DFCC website was also launched in all three languages to enable customers to access information in their preferred language. Our interest rates, exchange rates, credit ratings, contact details of the Financial Ombudsman and holiday notices are also prominently displayed on the website and in all branches.

COMPLIANCE

There were no incidents of non-compliance with regulations and voluntary codes pertaining to our products and services in terms of health and safety, marketing communications & promotions and information labelling during the year. There were also no substantiated complaints regarding breaches of customer privacy or loss of customer data. Further, no fines were imposed or paid for non-compliance with laws and regulations concerning the provisions and use of products and service in the year under review.

CREATING SUSTAINABLE VALUE

HUMAN CAPITAL

MANAGEMENT APPROACH

The dynamic and constantly evolving economic and social landscape both globally and domestically has accelerated the need for organisations to find innovative and sustainable ways of ensuring growth and profitability. In this scenario there is a powerful need to optimise the value generated by human capital against investment. In other words, we need to achieve more with less! At DBB we believe that an engaged and motivated workforce is a vital factor in improving organisational efficiency and productivity.

DBB has consistently endorsed and actively ensured developing a culture of diversity and inclusion in terms of gender, age, ethnicity, religion and disabilities. We encourage and are tolerant of multiplicity of thought, opinion and personal orientation. Our hiring and retention practices focus on acquiring and developing the 'best person for the job'. DBB is one of the few financial institutions that has an equal gender balance. The compensation and benefit structures are standardised and differentiation among employees is purely based on experience, skill levels and job based competencies.

Our work environment is professional and team oriented. 'Respect for the individual' is one of our core principles and employees are expected to adhere to this without exception in all work interactions, whether across reporting levels, among peers, with clients or other external parties. Formal grievance, harassment and whistle-blowing policies are in place and employees are periodically reminded of the objectives of these policies and the procedures to be adopted to seek redress should a requirement arise. New recruits are apprised of the contents of these policies during induction.

RESOURCING AND RETENTION

Sourcing new talent possessing the expected values, mindset and competencies for the envisaged job roles continued to be a challenging task. While we continued to focus on referrals as the primary tool for identifying potential recruits, during the year a conscious effort was made to enhance DBBs presence as a prospective employer by placing high impact advertisements in provincial and national media.

CREATING SUSTAINABLE VALUE ⊸ HUMAN CAPITAL

With DBBs island-wide presence expanding, more emphasis was placed on recruiting employees outside the Western Province. During the year 190 staff were recruited to DBB of which about 10% filled new positions that arose due primarily to opening of new branches and to a lesser extent due to expansion of operational and service areas. This level of recruitment reflected a growth of 2.6% over the previous year and accounted for a total head count of 1,262 within DBB upon conclusion of the year under review.

Total Workforce

Grade	Permanent			Contract/Casual			Total number of employees		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Management	48	16	64	10	3	13	58	19	77
Executive	175	136	311	18	12	30	193	148	341
Non-Executive	310	384	694	21	13	34	331	397	728
Post Office Units	0	0	0	63	53	116	63	53	116
Total	533	536	1,069	112	81	193	645	617	1,262

Recruitment During the Year

Grade	Age Group				Gender		
	Less than 30 years	Between 30-50 years	Above 50 years	Total	Male	Female	Total
Management	0	1	3	4	4	0	4
Executive	24	4	4	32	19	13	32
Non-Executive	99	13	3	115	70	45	115
Post Office Units	39	0	0	39	22	17	39
Total	162	18	10	190	115	75	190

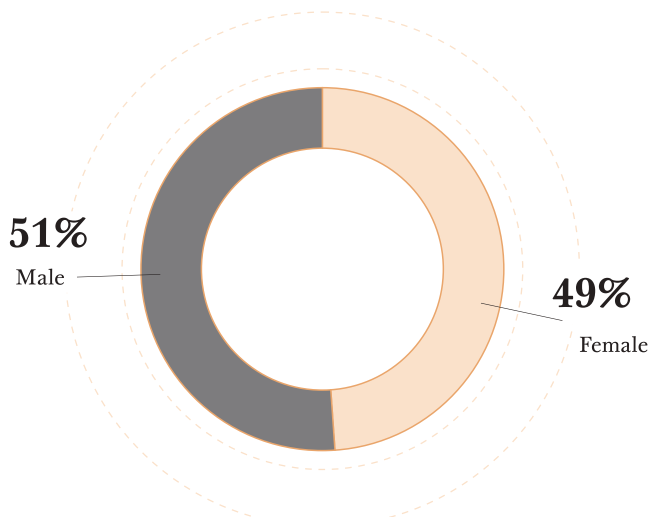
CREATING SUSTAINABLE VALUE – HUMAN CAPITAL

Province-wise Distribution of Workforce

	Female	Male	Total	%
Central	47	54	101	8
East	22	41	63	5
North	19	25	44	3
North-Central	16	37	53	4
North-Western	32	31	63	5
Sabaragamuwa	32	37	69	5
South	56	61	117	9
Uva	17	37	54	4
Western	376	322	698	55
Total	617	645	1,262	100

Our resourcing practices are standardised. They are transparent and performed in adherence to guidelines documented in the recruitment policy.

Staff Distribution by Gender



CREATING SUSTAINABLE VALUE ⊸ HUMAN CAPITAL

The staff attrition rate of about 13% at DVB was relatively higher than the industry standard. However, independent of employees on fixed term contracts, the attrition amongst the rest stood at about 9% during 2012/13. DFCC in contrast was relatively lower with an attrition rate averaging 7.6% during the period. Within DBB 1.1% of attrition was due to retirement and migration. Going forward, we will be focusing on devising and implementing additional retention strategies, especially targeted towards the more vulnerable staff groups.

Employee Turnover

Grade	Age Group				Gender		
	Less than 30 years	Between 30-50 years	Above 50 years	Total	Male	Female	Total
Management	0	0	3	3	3	0	3
Executive	15	12	7	34	19	15	34
Non-Executive	55	19	9	83	48	35	83
Post Office Units	37	0	0	37	21	16	37
Total	107	31	19	157	91	66	157

Benefits Provided to Full-time Employees which are not Provided to Contract, Temporary or Part-time Employees

Benefits	Contract	Temp	Part time
Life insurance	Yes	No	No
Health care	Yes	No	No
Disability/invalidity coverage	Yes	No	No
Parental leave	Yes	No	No
Retirement provision	No	No	No
Share ownership	*	No	No

** No share ownerships currently in place*

MINIMUM NOTICE PERIODS REGARDING OPERATIONAL CHANGES

Notice periods vary according to operational requirements. DBB always strives to give its employees adequate time and training to adjust to any changes.

CREATING SUSTAINABLE VALUE ⊸ HUMAN CAPITAL

OCCUPATIONAL HEALTH AND SAFETY

DBB takes a proactive approach to ensuring high standards of occupational health and safety as such measures while benefiting employees from an individual perspective, also adds value to the business by helping reduce absenteeism, improving morale and productivity. All buildings and equipment are regularly checked and maintained to ensure highest standards of safety. Procedures are in place for handling fires and emergency evacuations, and drills are conducted regularly to ensure all employees are aware of what they need to do in such circumstances. Fire evacuation and first aid respondents have been appointed and provided with requisite training.

There was only one work place accident that required treatment beyond internally administered first aid. There was no absenteeism as a result except within the stipulated time off from work.

To ensure employees have a holistic perspective of wellness, awareness programmes covering aspects such as health issues and preventive measures, nutrition, physical fitness and managing stress are organised. DBB also offers subsidised gym membership opportunities and encourages annual health assessments.

All permanent employees are eligible for medical leave, medical insurance and reimbursement of medical expenses within pre-advised limits.

INVESTING IN LEARNING

DBB has always believed in the importance of the business impact derived from investing in knowledge enhancement and skills development. Our employees are encouraged and given access to attractive loan and grant schemes for obtaining MBAs, professional qualifications and other courses of study relevant to their work. During the year approximately 60 employees availed themselves of subsidised education benefits.

Year-on-year the funding and resources allocated to training employees have progressively increased, and 2012 was no exception with the average training spend per DBB employee increasing by over 20%. The total number of training hours provided during the year under review at over 47,000 reflected a 11% growth in comparison to the previous year. As in previous years, the bulk of the training programmes were conducted in-house utilising the services of internal and external trainers. More opportunities were afforded to staff to obtain overseas training exposure and as such we are pleased to note that there was a 58% increase in the number of staff provided with overseas exposure. Out of the international training programmes, two customised foreign training programmes were conducted covering in depth credit appraisal and leadership competency enhancement upon identifying employee development in these areas to be critical and relevant to meeting short term and long term business objectives of DBB.

Employee Training

Grade	No. of employees trained*			No. of person hours of training			Average training hours per employee*		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Management	58	19	77	1,653	519	2,172	28.5	27.3	28.2
Executive	193	148	341	13,446	9,568	23,014	69.7	64.6	67.5
Non-Executives	331	397	728	10,580	11,380	21,960	32.0	28.7	30.2
Total	582	564	1,146	25,679	21,467	47,146	44.1	38.1	41.1

** Excluding staff on fixed term contract*

The development and popularisation of the e-learning facility continued with ten new modules being developed during the year, bringing the total number of modules available to 43. The bulk of the modules were focused towards enhancing product knowledge and on technical subjects of relevance to the day-to-day work of the DBB's staff. The content is reviewed and updated periodically. The hours of e-learning usage recorded an increase of 82% over the previous year underscoring the value placed by employees in having ready access to an effective and comprehensive distance learning tool.

EMPLOYEE ENGAGEMENT

DBB commissioned an employment satisfaction survey during mid 2012 to ascertain perceptions on issues impacting the people, business and processes. The findings of the survey were communicated to all staff through a series of road shows organised in the regions at which the senior management also participated and actively engaged with staff. We have also collated all relevant suggestions and constructive criticisms gathered from the survey as well as through the road shows towards devising a strategy to further improve employee engagement levels while also enhancing customer service delivery and internal systems and processes.

Stemming from feedback received from the survey, during the last quarter of 2012, the performance management framework was reviewed in totality and a new methodology formulated to be adopted from 2013. The entire process, encompassing design, communications and implementation was managed using internal resources. While we anticipate certain anomalies and difficulties in implementing the new framework during the coming year, we believe that we are on

CREATING SUSTAINABLE VALUE ⊸ HUMAN CAPITAL

the right track to ensuring a clear mechanism to objectively and equitably capture and reward individual accountability within a symbiotic team orientation framework. This will continue to be an evolving process and DBB remains committed to consistently reviewing and improving on our performance management systems to ensure it effectively captures and motivates enhanced performance levels.

During 2011, subsequent to a comprehensive benchmarking survey, salary scales and perquisites of employees were revised to reflect more market alignment and greater flexibility in utilisation. As a result of these efforts, during 2012, benefits utilisation among staff increased in comparison to the previous year.

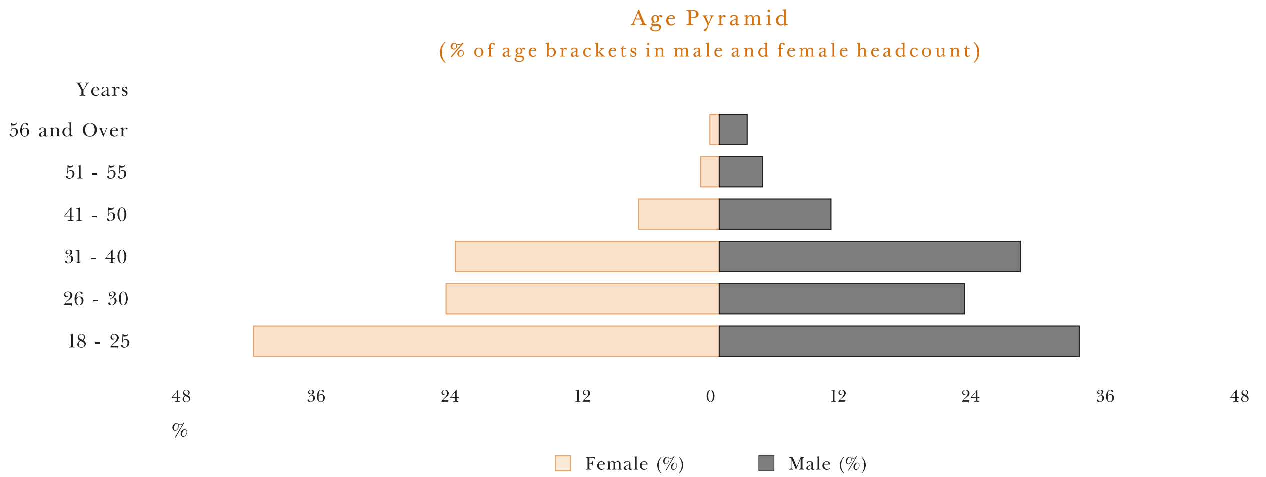
During the period under review we continued to work towards matching the remuneration structures at DFCC to DVB. In this context, the revised DFCC grade-based salary ranges were extended to comparable DVB staff levels and in addition several perquisites were enhanced to be on par with DFCC employees. Moreover, in an effort to improve the motivation and retention levels of DVB sales staff, better defined career paths and more encouraging compensation structures were introduced.

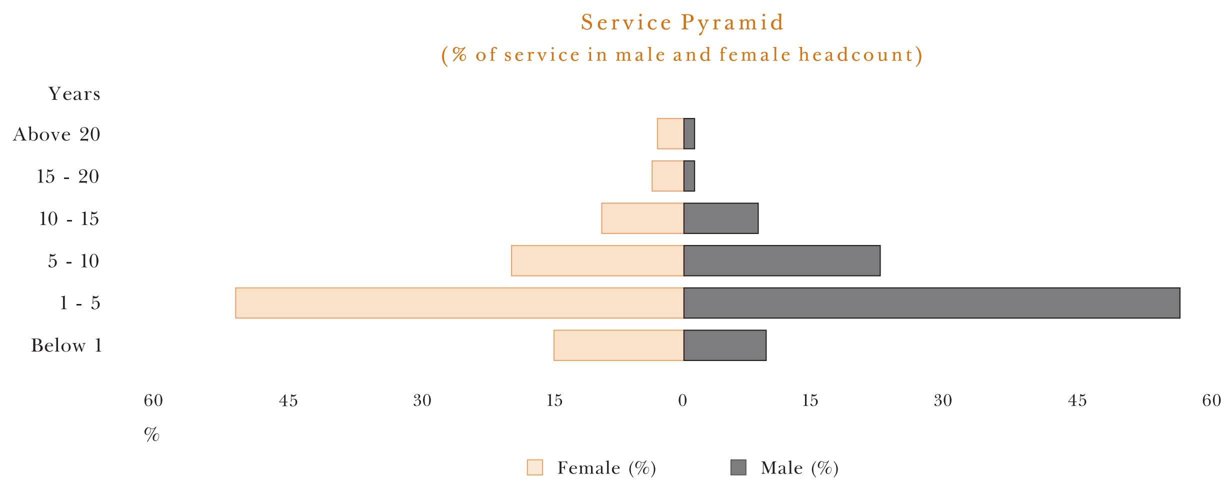
CHANGING TALENT PROFILES AND EXPECTATIONS

DBB has a multi-faceted talent pool with all executive level employees holding a degree or professional qualification. Many possess multi-disciplinary qualifications as well. At present 30% of DBB staff are at various stages of achieving a professional qualification in banking and finance.

As illustrated below, the largest segment of employees fall within the 18-25 age bracket while there is a relatively large segment in the 26-30 age bracket as well.

CREATING SUSTAINABLE VALUE ⊸ HUMAN CAPITAL





We are mindful that the needs and perspectives of these staff groups that have grown up in a technologically savvy and fast paced world, vary significantly in comparison to older age groups. They are a vital segment of the workforce as they will be our future and need to be retained and developed to take on leadership roles. One objective of setting up 'DFCC Reds' in 2011 was to address the needs of new recruits of Gen Y by giving them an opportunity to acquire the necessary muscle as a collective and thereby help them achieve their goals. During 2012, 'DFCC Reds' grew from strength and strength. The Group organised a series of social and educational events as well as undertook a CSR initiative to upgrade facilities at a remote school in Belihul Oya. They also actively engaged in brainstorming sessions targeted towards improving internal systems, processes and staff satisfaction levels. We are proud of the achievements of 'DFCC Reds' and the level of enthusiasm, energy and participation they have displayed towards achieving mandated goals.

Salary Ratio

Grade	Number of employees			Average Basic salary ratio, Male:Female
	Male	Female	Total	
Management	58	19	77	53:47
Executive	193	148	341	50:50
Non-Executive	331	397	728	51:49
Contract Staff	63	53	116	50:50
Total	645	617	1,262	52:48

Salary ranges, allowances and perquisites are standardised and applicable to all staff irrespective of gender. Differentiation is due to differences in grade and experience.

Return to Work After Parental Leave

	Male	Female	Overall
Number of employees entitled to parental leave during previous reporting period	n/a	608	608
Number of employees who took parental leave	n/a	35	35
Number of employees who returned to work after parental leave ended	n/a	34	34
Number of employees who returned to work after parental leave ended who were still employed 12 months after return to work	n/a	29	29
Retention rate (%)	n/a	82.9	82.9

HUMAN RIGHTS

Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained are given in the following table.

CREATING SUSTAINABLE VALUE ⊸ HUMAN CAPITAL

Training on Human Rights

Grade	No. of employees	Total person hours of all training
Management	0	0
Executives	16	384
Non-Executives	34	648
Total	50	1,032

Discrimination at Workplace

There were no incidents of discrimination reported during the financial year as DBB strictly adheres to human rights best practices as enshrined by the ILO. Likewise, employees enjoy the right to discuss issues and exercise their freedom of association.

LOOKING AHEAD

In the months ahead DBB will be focusing on improving engagement levels while also giving attention to enhancing productivity levels and work efficiencies of employees.

Enhancing employee satisfaction is a process that involves several stakeholders such as the senior management, direct supervisors, the employees themselves and HR. It is vital that all these stakeholders understand and appreciate the role they have to play and the time and commitment that has to be devoted.

During the latter half of 2012 face-to-face interviews with exiting employees were started, which elicited some useful feedback including suggestions to improve productivity levels and morale of employees. This process will be continued, feedback shared with relevant parties and actions taken when deemed warranted. The performance management framework which was recently overhauled will also be further reviewed and implementation issues ironed out. A more focused and concerted effort will be devoted to improve the quality and frequency of vertical and lateral communication channels.

Moreover, attention will be devoted to devising more robust talent identification, career advancement and succession planning frameworks. Employees identified as key talent in terms of their current performance on the job as well as potential to take up higher level responsibilities will be afforded opportunities to enhance and enrich their job roles while some would be considered for ‘fast tracking’. This will help individual employees to develop themselves whilst also enabling the organisation to identify potential successors for key positions within DBB.

CREATING SUSTAINABLE VALUE

SOCIETY AND SOCIAL RESPONSIBILITY

MANAGEMENT APPROACH

As a responsible organisation, DBB is committed to engage in initiatives that impact the lives of the communities we serve in a positive manner. We do this by actively supporting economic and social development, with a special focus on supporting entrepreneurship. We have always been on the side of aspiring entrepreneurs, equipping them to compete in the global race. We also focus on uplifting the standards of education in the country by exposing children at a young age to the principles of productivity which will lead to a more productive workforce in the future.

A cross section of our initiatives are summarised below:

TOWARDS AN EXEMPLARY SOCIETY DELIVERED THROUGH SCHOOLS

DFCC launched a project to teach the 6S concept among primary schools in the country way back in 2009. The concept is based on the Japanese 5S - sorting, setting, systematic clearing, standardising and sustaining with our own sixth S - safety added on. The project was implemented in collaboration with the Ministry of Education with the objective of empowering children with knowledge that would enable them to increase their efficiency and productivity. The project was concluded in December 2012, having benefited over 50,000 children from 100 schools in the Districts of Anuradhapura, Badulla, Batticaloa, Galle, Colombo, Jaffna, Kandy, Kalutara, Kurunegala, Matara, Matale, Nuwara Eliya, Panadura, Ratnapura, Trincomalee and Tangalle.

We also introduced the 3R concept - reduce, reuse, recycle - to these children, teaching them the values of environmental stewardship and instilling respect for the environment in line with our sustainability strategy.

In order to effect an attitude change amongst teachers and parents to make the project successful, we conducted seminars and workshops related to positive thinking, change management, leadership development, teamwork and creative thinking using experts in the respective fields.

We were successful in winning the support of teachers and parents as they also launched initiatives for fund raising to meet the needs of the schools with advice and guidance from DFCC. We encouraged this activity and provided part of the funds through a ‘Matching Grant’ Programme which contributed towards the development of classrooms, sanitation, drainage, drinking water supply and new equipment.

CREATING SUSTAINABLE VALUE ⊸ SOCIETY AND SOCIAL RESPONSIBILITY

A total of 240 staff members volunteered their time, effort and finances to implement and monitor the project. We observed an overall change in the schools in terms of a cleaner, greener and more organised environment. This change was even reflected in the little children in terms of improvement in attendance, cheerfulness, discipline and overall productivity.

Today, we are proud of being able to give a renewed sense of direction to 100 schools across the country. DFCC received recognition for this project with a Distinguished Honoree 'Stevie Award' in 2010 at the International Business Awards of USA. In the same year DBB collected the Best CSR Project award in the Education and Training category at the Best Corporate Citizen's Award 2010 conducted by the Ceylon Chamber of Commerce.

PROJECT AT CANCER UNIT OF GENERAL HOSPITAL, BADULLA

The Badulla Branch of the DBB extended their helping hand to the Uva Wellassa Society for Cancer Control (UWSCC), by sponsoring an educational exhibition on cancer targeting the Cancer Unit of the General Hospital in Badulla. The project aimed to identify cancer affected patients and direct them for necessary treatment and medications under the supervision of qualified doctors. The project was greatly appreciated by the local community as well as the doctors. Additionally, the patients of the Cancer Ward were given a nutritious meal sponsored by DBB and contributions from the staff members.

RENOVATING HOSPITAL WARDS IN THE SOUTH

During the year under review, the staff of DFCC Bank and DFCC Vardhana Bank branches in the Southern Province volunteered their services to renovate seven hospital wards located in the region. The hospitals which benefited from this programme are base hospitals in Embilipitiya, Kalawana, Deniyaya and Balapitiya and the General Hospitals in Mahamodara, Matara and Nagoda. DBB staff joined hands with the staff of the respective hospitals and carried out an extensive clean up; painting the walls, roofs, beds and other furniture and attending to small repairs.

CREATING SUSTAINABLE VALUE – SOCIETY AND SOCIAL RESPONSIBILITY

ANTI-CORRUPTION

The DFCC Banking Business has always been committed to carrying out business with integrity, avoiding corruption in any form including bribery and complying with the anti corruption regulations of the country. Our Code of Ethics is incorporated in the employees' handbook and also made available through our intranet. Further training is given on conducting business in an ethical manner, and internal controls are in place where periodic audits are conducted to identify potential risk areas and detect potential misconduct. Compliance with relevant laws and Company Policy is monitored regularly. During the period under review there were no reported incidents of corruption at DBB.

Business Units Analysed for Risks Related to Corruption

Indicator	Measure
Total number of business units analysed for risks related to corruption	27
Percentage of business units analysed for risks related to corruption (%)	67.5

Training on Anti-Corruption Policies and Procedures

Employee grade	Total as at FYE	Training provided in FY	
		No. Trained	% Trained
Management	77	2	2.6
Non-management	1,069	907	84.8
Overall	1,146	909	79.3

PUBLIC POLICY

DBB works closely with regulatory and non-regulatory bodies such as the Central Bank of Sri Lanka, the Ministry of Finance and Planning and the Colombo Stock Exchange.

We also hold memberships in the following associations that play an important role in development of different business sectors across the country and internationally:

- Association of Development Financing Institutions in Asia and the Pacific (ADFIAP)
- Ceylon Chamber of Commerce
- American Chamber of Commerce in Sri Lanka (AMCHAM)

CREATING SUSTAINABLE VALUE ⊸ SOCIETY AND SOCIAL RESPONSIBILITY

- International Chamber of Commerce
- European Chamber of Commerce
- Sri Lanka Council for Business with Britain
- National Chamber of Commerce
- The Ceylon National Chamber of Industries
- Leasing Association of Sri Lanka
- Lanka Business Coalition on HIV and AIDS
- Institute of Bankers Sri Lanka
- Sri Lanka Sustainable Energy Authority

No contributions have been made to political parties or related institutions in any form in the year under review.

ANTI-COMPETITIVE BEHAVIOUR

DFCC and DVB do not entertain or engage in any anti-competitive behaviour, and no legal action has been taken against the Banks with regard to this.

COMPLIANCE

We ensure compliance with all data protection policies, regulations, guidelines and procedures concerning product, environment and social responsibility. The rules and regulations are made available to all employees to ensure that they are educated on acceptable practices. We regularly monitor compliance with regulatory and legal requirements, and DBB has not been penalised for non-compliance with any type of rule and regulation in this regard.

CREATING SUSTAINABLE VALUE

ENVIRONMENT

MANAGEMENT APPROACH

DBB is a strong advocate of the environment, and devising strategies to minimise adverse impacts on the environment remains one of our key focus areas in our sustainability strategy. Being an organisation that has a limited impact on the environment considering the nature of operations carried out, we continually seek ways to minimise negative impacts to the environment, by encouraging our clients, employees and suppliers to adopt environmentally responsible practices.

Our commitment to the environment was showcased as early as the mid 1990's when we pioneered the development of sustainable energy in Sri Lanka by supporting the first private sector grid-connected small hydropower project. This was recognised as the premier resource centre for private sector participation in developing the country's renewable energy sector as discussed earlier.

Our commitment to environmental sustainability comprises three key aspects, namely, managing resource consumption, supporting environmental initiatives and encouraging responsible investment.

MANAGING RESOURCE CONSUMPTION

DBB periodically reviews its resource consumption and looks at innovative methods of conserving energy and providing business solutions in a proactive manner. The 3R concept - reduce, reuse, recycle - is strictly used when procuring and managing resources.

Though the material impact of our operations on the environment is nominal DBB is committed to managing its consumption of materials and resources efficiently. To this effect all internal correspondence is essentially restricted to email communications, while internal management meetings are conducted through technological solutions which utilize hand-held devices for review and transfer of information. Where practicable duplex printing is encouraged, while 90% of the total annual report requirement is produced in CR-ROM format.

In an attempt to conserve energy, air conditioners have been replaced with micro process chillers, contributing to a 7% saving on electricity while LED lighting is used at all DBB offices. Stand-by generators have been downgraded to lower capacity for better fuel efficiency while water usage in wash rooms have been rationalised by using solenoids which automatically sever the water supply during non-usage.

CREATING SUSTAINABLE VALUE ⊸ ENVIRONMENT

DIRECT AND INDIRECT GREENHOUSE GAS EMISSIONS

We have chosen to report our greenhouse gas (GHG) emissions on a voluntary basis commencing from the year under review. As measurement and reporting are essential pre-requisites for effective management, we see this initiative as an important step towards greater environmental accountability, which in turn could lead to benchmarking and target setting in subsequent years.

Consistent with our Management Discussion the boundary is DBB, including branches. Financial control is the basis for consolidating GHG emissions, and our reporting is based on the revised edition of WBCSD/WRI Greenhouse Gas Protocol Corporate Accounting and Reporting Standard and the most recent versions of applicable appendices and calculation tools.

Our reporting under Scopes 1 and 2 is complete except for fugitive emissions from air conditioning plants due to the paucity of data. We plan to address this omission, though it is unlikely to be significant, in subsequent years. Reporting on Scope 3, which is optional, is selective but captures three significant sources of indirect GHG emissions. They are combustion and purchased electricity consumed in assets/premises not financially controlled by DBB, and employee business air travel. Emissions arising from air travel were computed individually for each leg of journey taking into account distance, type of flight and class of seating.

Carbon Footprint of DBB

Scope	**Source**	**Consumption**	**GHG emissions** tCO_2e	**%**
Scope 1 (Direct)	Stationary combustion	6,393 litres diesel	17.2	0.7
	Mobile combustion	27,857 litres diesel	74.5	3.0
	Mobile combustion	68,997 litres petrol	156.8	6.3
		Total Scope 1	248.5	10.0
Scope 2 (Indirect)	Purchased electricity (CEB)	1,872,052 kWh	861.3	34.9
		Total Scopes 1 and 2	1,109.8	44.9
Scope 3 (Indirect)	Stationary combustion	22,780 litres diesel	61.3	2.5
	Mobile combustion	16,871 litres petrol	38.3	1.6
	Purchased electricity (CEB)	2,653,119 kWh	1,220.7	49.4
	Employee air travel	334,500 pax km	39.5	1.6
		Total Scope 3	1,359.8	55.1
		Total Scopes 1, 2 and 3	2,469.6	100.0

CREATING SUSTAINABLE VALUE ⊸ ENVIRONMENT

The total GHG emissions of DBB for the year under review amounted to 2,470 tonnes carbon dioxide equivalent (tCO_2e), with Scopes 1 and 2 accounting for 45% of the total. As to be expected, indirect emissions from purchased electricity was by far the single largest contributor, taking a 35% share under Scope 2 (consumption in premises financially controlled DBB) and another 49% share under Scope 3 (consumption in premises not financially controlled by DBB), bringing its total share to 84%. A clear implication is that the efficient use of electricity through sound energy management practices is an area that DBB would like to focus on, which will not only make us a more environmentally responsible corporate citizen but also contribute significantly to cost savings. The latter becomes even more relevant in the context of the electricity tariff hikes in 2013.

SUPPORTING ENVIRONMENTAL INITIATIVES

DBB plays an active role in supporting environmental initiatives and promoting environmental stewardship. Being an accredited member of the Sri Lanka Sustainable Energy Authority, we strictly adhere to their rules and regulations which enable us to support natural, human and economic wealth protecting initiatives by embracing the best environmental practices.

We were the first bank in Sri Lanka to pledge support for Earth Hour this year. Earth Hour is a global event organised by the World Wildlife Fund. The programme aims to create awareness on climate change by getting businesses and households to turn off non-essential lights and other electrical appliances for one hour. We supported this initiative by switching off all signboard lights across all our branches and serving as an example to the wider community to adopt a more responsible attitude towards the environment.

ENCOURAGING RESPONSIBLE INVESTMENTS

DBB ensures that projects financed conform to standards defined by the Environmental Protection Act and rules and regulations issued by the Central Environmental Authority of Sri Lanka.

We maintain two different category lists - one for restricted businesses, and the other for negative sectors. Negative sectors are not provided finance while restricted sectors are given consideration only after thorough review of the business and its objectives. Accordingly, the client is expected to maintain safeguards on a continuous basis adhering to the requirements imposed by DBB and the environmental requirements which are included in the terms and conditions of the loan facility. Further, during follow up visits, monitoring of environmental and social performance is an integral component of our Environmental Management System.

CREATING SUSTAINABLE VALUE — ENVIRONMENT

In evaluating projects, all projects above a threshold value or a defined sector which DBB considers for financing undergoes an environmental and social impact assessment. Amongst other criteria, the following key factors are assessed:

- Project designed to prevent or minimise pollution
- Availability of acceptable measures for waste disposal/recycling/water and energy conservation/climate protection and product stewardship
- Use of environment friendly technology.

If additional mitigating measures need to be taken, we assist clients further by providing special loans schemes at concessionary rates.

ADDRESSING ENVIRONMENTAL ISSUES

DBB provides both technical and financial assistance to enterprises to reduce their negative environmental impact. Prominent initiatives include participation in the E-Friends I & II concessionary loan schemes whereby financial assistance was granted to reduce emissions to the environment, improve efficiency of businesses, setup end-of-line treatment units such as waste water purification, etc. A total of LKR 1,320 million was disbursed under these schemes during the period under review.

We also pay special attention to social aspects as to whether the entity supports labour laws of the country, and other best practices such as provision of employee health and safety, prevention of child labour, non-discrimination at work place and even checking on the possibility of sexual harassment, thus minimising the impact to local communities.

COMPLIANCE

There were no incidents of non-compliance with environmental laws and regulations and there were no significant fines or non-monetary sanctions for non-compliance in this regard during the period under review.

CHILLIES

Chillies come in many shapes, sizes and colours. Indigenous to Central and South America and the West Indies, they have been cultivated there for thousands of years before the Spanish conquest, which eventually introduced them to the rest of the world. Known to contain Vitamins A and C, Chillies have been used over the ages in the treatment of various ailments. However, it would be wise to use them sparingly!

STEWARDSHIP

'It takes 20 years to build a reputation and 5 minutes to ruin it. If you think about that, you will do things differently.'

– Warren Buffett –

INTEGRATED RISK MANAGEMENT

RISK CULTURE AND VISION

Risk management plays an increasingly important role in the business operations and the strategic decision-making of the DFCC Banking Business (DBB), which consists of DFCC Bank and DFCC Vardhana Bank PLC (DVB). DBB has established a well-structured mechanism for assessing, quantifying and managing risk exposures which are material and relevant for its operations and these risk categories are recognised as quantifiable and non-quantifiable risk in line with Basel II recommendations. Credit risk is the key quantifiable risk faced by DBB which accounted for 87% of Risk Weighted Assets (RWA) as at 31 March 2013 computed under the Standardised Approach of Basel II. Following broad risk categories are focused on by DBB.

- Credit risk including settlement risk in Treasury operations and credit concentration risk
- Interest rate risk
- Liquidity risk
- Foreign currency risk
- Equity prices risk
- Operational risk
- Business risk and Strategic risk
- Legal risk
- Compliance risk

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

- The Board of Directors' assume responsibility for maintenance of an effective risk management function in the Bank.
- Communication of the risk policy to all relevant employees of the Bank.
- Structure of 'Three Lines of Defence' in the DBB for management of risk which consists of the involvement of risk-assuming function, independent risk management and compliance functions and internal and external audit functions.
- Ensuring regulatory specifications and other laws, specifications underpinning the risk management and business operations of DBB are fully adhered to.

INTEGRATED RISK MANAGEMENT

- Centralised Integrated Risk Management Function is independent from the risk assuming functions.
- Ensuring internal expertise, capabilities for risk management and ability to absorb unexpected losses when entering into new business, developing products or adopting new strategy.
- An assessment on risk exposures on an incremental and portfolio basis when designing or redesigning of assets and liability products and processes.
- Adoption of risk-based pricing.
- Ensuring that minimum regulatory capital requirements are not compromised.
- Maintaining a cushion over the minimum regulatory capital requirement to cover possible losses caused by unquantifiable risks such as strategic risk, liquidity and reputation risk.
- Aligning risk management strategy to DBB's business strategy.
- Ensuring comprehensive, transparent and objective risk disclosure to the Board, corporate management, regulators, shareholders and other relevant stakeholders.
- Continuous review of the risk management framework and practices to bring them in line with the Basel II recommendations and regulatory guidelines.
- Maintenance of internal prudential risk limits based on the risk appetite of DBB wherever relevant over and above the regulatory limits requirement.
- Ensuring a prudent risk management culture within DBB.

RISK GOVERNANCE

THE 'THREE LINES OF DEFENCE'

DBB advocates strong risk governance applied pragmatically and consistently with an emphasis on the concept of 'Three Lines of Defence'. The governance structure encompasses accountability, responsibility, independence, reporting, communications 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 management 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 Integrated Risk Management Department (IRMD), the Compliance function and periodic monitoring and oversight by

INTEGRATED RISK MANAGEMENT

the Board Integrated Risk Management Committee (BIRMC) and the Board of Directors constitute the Second Line of Defence. The Third Line of Defence is provided by the independent check and quality assurance by Internal audit and External audit functions.

DBB has an established risk management culture with effective risk management approaches, systems and controls, policy manuals, internal controls, segregation of duties, authority limits and internal audit function as key risk management tools. The Group Chief Risk Officer (GCRO), who is an Executive Vice-President functions on a group basis with direct access to the BIRMC. The BIRMC functions under the responsibilities set out in the Board-approved charter, which incorporates corporate governance requirements for licensed banks issued by the Central Bank of Sri Lanka (CBSL).

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 broad sense, the policies, guidelines and organisational structure for the management of overall risk exposures of DBB in an integrated approach. This framework defines risk integration and the aggregation approaches for different risk categories. In addition, separate policy frameworks detail out the practices for management of key specific risk categories such as credit risk, market risk, credit concentration risk, liquidity risk, operational risk etc. These policy frameworks are communicated across the Bank. Respective staff members are required to adhere to the specifications of these frameworks when conducting business transactions.

INTEGRATED RISK MANAGEMENT

GOVERNANCE STRUCTURE FOR RISK MANAGEMENT IN DBB

1 ST LINE OF DEFENCE

Involvement by the Board, CEO, Senior Management Committees, accountability and responsibility of senior and middle management supported by internal controls, governance structure, processes and risk management.

Strategy, Performance and Risk Management

Board of Directors

Board Committees

CEO

Senior Management Committees

Corporate/Business Banking
Branch Banking
Treasury
Accounting & Finance
General Operations
Information Technology
Human Resource
Loan Restructuring & Recoveries
Credit Administration
Payment & Settlement

2 ND LINE OF DEFENCE

Oversight by the BIRMC and independent risk monitoring and compliance by IRM and compliance & legal

Policy, Validation, Independent Oversight

Group Integrated Risk

The GCRO, who reports directly to the BIRMC for functional responsibilities provides strategic risk management leadership, independent risk monitoring and key support to various committees, interacts closely with the business units and is responsible for championing effective enterprise wide risk management and control

Compliance and Legal

3 RD LINE OF DEFENCE

Oversight by the Board's Audit Committee and independent check and quality assurance

Independent Assurance

Group Internal Audit

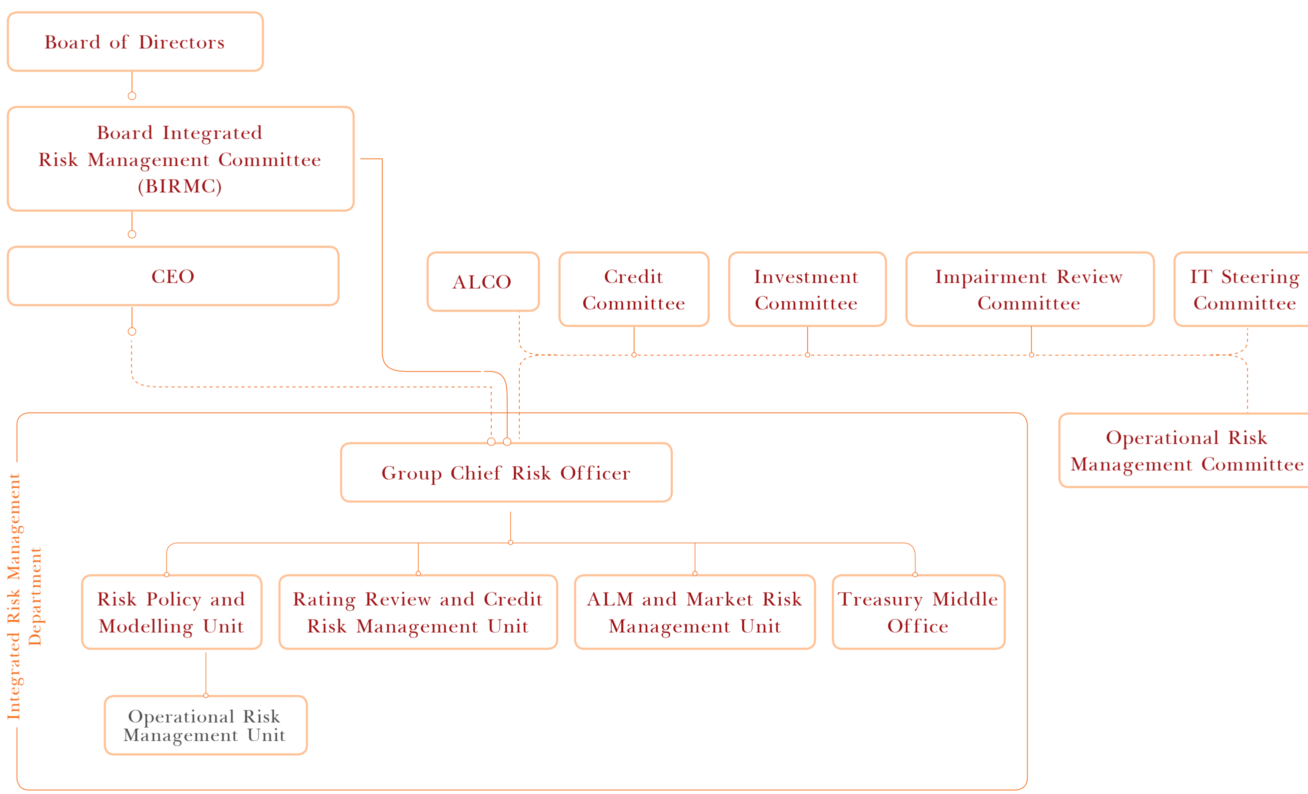
External Audit

INTEGRATED RISK MANAGEMENT

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE (BIRMC)

The BIRMC is a Board sub-committee, which oversees the risk management function and the Basel II implementation process in line with the Board approved policies and strategies. BIRMC will set the policy and operations for group-wide risk management including credit risk, market risk, operational risk and liquidity risk. The Committee interacts with the CEO, Management Committees and GCRO on risk management related tasks. In addition to the Board's representatives, the BIRMC consists of the CEO, Deputy CEO and representation from Credit, Finance, Treasury, Integrated Risk Management and Operations. A summary of the responsibilities and functions of BIRMC are outlined in the Report of the Board Integrated Risk Management Committee on pages 172 and 173 of this Annual Report.

DBB'S ORGANISATIONAL STRUCTURE FOR INTEGRATED RISK MANAGEMENT FUNCTION



INTEGRATED RISK MANAGEMENT

INVOLVEMENT OF MANAGEMENT COMMITTEES

Management committees such as Credit Committee, ALCO, Investment Committee, IT Steering Committee Impairment Review Committee and Operational Risk Management Committee (for Commercial banking business) encompass a part of the organisation structure for Integrated Risk Management Function in DBB. The responsibilities and tasks of these Committees are stipulated in the Board approved charters and the membership of each Committee brings an optimal balance between business and risk management perspectives. The GCRO is a member of each of these Committees.

INTEGRATED RISK MANAGEMENT DEPARTMENT (IRMD)

IRMD functions on a group basis and is responsible for measuring and monitoring risk at operational levels on an on-going basis to ensure compliance with the parameters set out by the Board/BIRMC and other management committees for carrying out the overall Risk Management Function in DBB. It consists of four units, namely Risk Policy & Modeling, Credit Risk Management, ALM & Market Risk Management and Operational Risk Management. IRMD is involved with product or business strategy development or entering into new business lines from the initial design stage through input to the task/process from a risk management perspective. Credit Risk Management Unit of the IRMD carries out an independent review of the credit ratings of large exposures. Treasury Middle Office which is functionally segregated from the Treasury Department and directly reporting to the GCRO, monitors the Treasury related market risk limits.

KEY DEVELOPMENTS IN RISK MANAGEMENT FUNCTION OF DBB DURING THE YEAR UNDER REVIEW

The guidelines for risk management in banks issued by the CBSL with its Direction No. 7 of 2011 provide a comprehensive framework for risk management. In addition to these regulatory specifications, changes in business strategy, industry factors and international best practices were also considered during this improvement process. The following are the key initiatives implemented during the year under review.

- An Overall Risk Limits System was established which consists of risk limits arising from regulatory requirements, borrowing covenants and internal prudential requirements. This Limits System forms an integral part of the key risk indicators and covers key risk areas such as credit risk, interest rate risk, liquidity risk, foreign exchange risk, concentration risk etc. Lending limits were defined for the industry sectors and selected geographical regions as part of the prudential internal limits. These limits are monitored monthly and quarterly on a 'Traffic Light' system. In setting these limits, the risk appetite of the Bank, historical impairment experience, risk management capabilities, business opportunities, business strategy of DBB and regulatory specifications were taken into account. Industry sector limits for lending considered the inherent diversification within the sub-sectors and the borrowers within broader sectors.

INTEGRATED RISK MANAGEMENT

- Concentration risk of the lending portfolio and the funding structure were monitored and managed proactively during the year using the early warning signals from the relevant parameters in the Overall Risk Limits System and funding structure analysis.
- Both quantitative dimensions and qualitative improvements were incorporated into credit appraisal and credit risk management processes, which will in time further strengthen the ability to manage the portfolio quality and planned business growth.
- Operational risk management was enhanced with the establishment of the Operational Risk Management Committee (ORMC), operational risk incident reporting and Operational Risk Co-ordination Officers (ORCO) in the commercial banking business which is more vulnerable to operational risk compared to long term project financing. ORMC focuses on monitoring and managing the operational risk. The incident data is analysed by the IRMD and reported to the ORMC, BIRMC and the Board on a quarterly basis. This data is used to improve the systems and processes in addition to building a database in order to be used for risk capital computation for operational risk under the Advanced Measurement Approach (AMA) of Basel II.
- A detailed gap analysis in DBB's risk management policies and practices indicated that specifications in the CBSL Guidelines for Integrated Risk Management in Banks issued in October 2011 have been already incorporated in the DBB's risk management function except for some initiatives which have been planned for implementation during 2013. A road map for Basel II implementation in DBB was developed with specific time targets to move into Advanced Measurement Approaches of Basel II subject to regulatory permission.
- Several new asset and liability products as well as changes to the products were introduced after evaluation of the possible risk exposures and relevant risk mitigation procedures. These products focused on increasing NII, portfolio growth, stability and cost efficiency of the funding structure and enhancing non-interest income. These new products and changes were routed through the structured process for approval specified in the New Product Development Policy, which includes independent evaluation by the IRMD.
- IRMD embarked on developing new credit scoring models for personal financial services products reviewed and refined user guidelines for borrower credit rating models for corporate, SME and Finance lease exposures, thereby improving precision.

INTEGRATED RISK MANAGEMENT

- DBB commenced forecasting the capital adequacy ratios at the year end as a tool for capital planning and maintaining a satisfactory capital cushion. The target capital cushion is estimated incorporating the current year's credit growth, increase in risk-weighted assets for operational risk, expected dividend pay-out, projected retained profits and provision for unquantifiable risk. Capital planning proactively facilitates the DBB's strategic decisions in the areas of funding through senior debt or subordinated debt and capital requirement for planned growth. Maintaining a capital cushion is a requirement under Basel III.
- Several stress tests were carried out in line with the Stress Testing Policy and the parameters and results were reviewed at the ALCO, BIRMC and the Board. The results indicate that DBB has a satisfactory capital position even under the worst case scenario assuming all risk factors arising from different risk categories crystallise simultaneously.
- As part of the adoption of new IFRS compliant Sri Lanka Accounting Standards, DBB computed 'Loss Ratios' for key lending products using historical recovery data for previous 5 years. The review of these Loss Ratios - a version of Loss Given Default (LGD) referred to in Basel II, provided the historical evidence of the economic recovery rates after taking the recovery time and recovery expenses into consideration. LGD developed under Basel II methodology was aligned with Loss Ratio so determined. These credit risk parameters facilitate both credit sanctioning and credit risk management.
- Cumulative impairment charge amounted to about 79.8% of the impaired assets indicating a strong cushion for credit losses in case they crystallise compared to the overall exposure weighted LGD of around 50% of Exposure At Default computed during the year under the Basel II methodology.
- DBB refined its risk-based pricing methodology with certain exceptions for selected portfolio/borrower segments, where strategic pricing was used for maintaining portfolio quality and securing business volumes in a highly competitive environment for good quality credit during the early part of the year. Continuous monitoring of liquidity position, overall cash flow limits and Treasury limits which were set and periodically reviewed based on the market dynamics enabled the maintenance of liquidity. Periodic review of local industries, global economic conditions and global geo-political issues assisted the Bank to identify risk implications while also identifying the new business opportunities.

INTEGRATED RISK MANAGEMENT

- IRMD continued to support the business functions through timely studies and research into key industries and event risk sources which are shared with staff across the Bank. Staff received local and foreign training as a continuation of the capacity building programme. Required knowledge and understanding of credit rating models, model development process and Basel II requirements to support the design, conceptualisation and evaluation process was acquired for the development of in-house rating models. Necessary statistical skills were acquired for applying a statistical approach to managing risk. Knowledge thus gained was shared with relevant staff members of the DBB through training programmes. DBB considers this awareness building as a key component of an effective risk management culture.
- Further improvements were introduced to the Treasury and market risk management areas through restructuring the functional reporting lines of Treasury Middle Office (TMO), policy amendments, capacity building and introduction of techniques for risk management such as Duration and Value-at-Risk (VaR) analysis.

CREDIT RISK MANAGEMENT

Credit risk is the risk of financial loss to the Bank in the event a customer or counterparty fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing portfolios as well as from off Balance Sheet products such as guarantees and letters of credit. The loss of market value of debt securities of the investment portfolio due to credit rating downgrades or the credit spread widening is also part of credit risk, but in the Sri Lankan context only a very small proportion of corporate debt is traded. Counterparty credit risk is the most significant type of risk assumed by the DBB, and accounted for 87% of RWA as at end of the financial year. The objectives of credit risk management, underpinning sustainable profitable business, are principally to maintain a strong culture of responsible lending, supported by a robust risk policy and control framework; to both partner and challenge the business line in defining and implementing risk appetite, with its continuous re-evaluation under actual and scenario conditions, and to ensure independent, expert scrutiny of credit risks, costs and mitigation.

The credit strategy converges with the credit risk management which includes identification of target markets and business sectors, level of diversification cost of capital and impairment. The credit policies and procedures of the Bank define target markets and lending criteria, credit approval authority, credit origination and maintenance procedures and structured guidelines for portfolio management. Credit approval process is structured and governed by the Delegation of Lending and Related Authority limits based on risk categories.

INTEGRATED RISK MANAGEMENT

The use of internal rating models and the periodic review of assigned ratings by DBB form the basis for risk profiling of borrowers for the purpose of managing credit risk through structuring, pricing, monitoring, restructuring and recovery action. No single person can originate and approve the granting of credit. Approval of large value credit exposures is undertaken by the Credit Committee or on its recommendation by the Board of Directors. Exposures which are approved at Credit Committee level or higher are subject to independent rating review by IRMD.

Concentration risk is currently managed and monitored in terms of single borrower limits, group limits, industry sector limits and limits for selected regions. Herfindahl-Hirschman Index (HHI) indicated a satisfactory granularity of the credit portfolios of project lending and commercial banking business of DBB. DBB has recognised in its Delegation of Lending and Related Authority limits some sectors for ‘Special Clearance and Negative List for Lending’. Such sectors or credit products have been categorised based on the country’s laws and regulations, DBB’s corporate policies and values and the levels of risk exposure. Lending to special clearance sectors or products would be considered only after a special assessment process and Negative List Sectors are not eligible for additional exposure.

TRACKING OF POTENTIAL PROBLEM LOANS

Credit risk arising through potential problem loans are tracked and closely monitored by the individual business units. All necessary reports giving information of overdue days are made available by the Credit Administration Department on a regular basis so that special attention could be paid to regularising the position.

Impairment Review Committees of DBB which includes members who are not involved in lending at quarterly meetings, evaluate vulnerable facilities to review the assumptions and level of impairment charge computed by management and to make experience based adjustments where necessary. Special Loans Administration Unit focuses on work-out or restructuring arrangements for problem loans.

INTEGRATED RISK MANAGEMENT

TREASURY'S ROLE IN RISK MANAGEMENT

The Treasury Back Office was brought under the purview of the Finance Department of DBB which improved the independence of the processing and operations of the day to day operations The Treasury as a part of the First Line of Defence manages market risk from interest rate risk, foreign exchange risk and liquidity risk of DBB whilst engaging in normal business activities. All these risks are monitored through a structured reporting procedure by the Treasury Middle Office which leads to escalation of market risk exposures for review by the Board Integrated Risk Management Committee and approval by the Board of Directors. The liquidity ratios of DFCC and DVB which were maintained separately exceeded the minimum regulatory requirement of 20% at all times.

MARKET RISK

Market risk arises mainly from differences in the timing and/or magnitude of interest rate revision between assets and liabilities (interest rate risk), or from changes in the prices of equity and debt securities (price risk) or from changes in the foreign exchange rates (foreign exchange risk). Market risk could impact a bank mainly in two ways; viz., loss of cash flows or loss of economic value. Market risk can arise from 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 non-traded market risk and makes decisions on loan and liability pricing, fixed versus floating interest rate structures, funding strategies, and the magnitude of interest and liquidity risks DBB should absorb. Relevant business managers are invited to participate in the decision-making process as required. The business unit managers are responsible for executing the business strategies decided at ALCO meetings and reporting of the resulting risk exposures. The Treasury takes responsibility in execution of financial/hedging strategies decided at ALCO and reporting of risk exposures, and relevant business strategies which will influence the risk structure of the Bank.

The market risks are controlled through various limits stipulated in the Group's Investment Policy, Overall Risk Limits System, Treasury Manual & Policy and Terms of Reference of the Treasury Middle Office (TMO). Tools such as simulation, scenario analysis stress-testing and marking to market are used to quantify and manage the market risk exposures. Risk limits including position limits, dealer limits, counterparty limits, securities portfolio limits and stop loss limits for the trading book are monitored on a daily basis by the TMO. Foreign exchange risk is monitored through the net overnight open exposure limit.

INTEGRATED RISK MANAGEMENT

TMO changed its reporting line to GCRO. The role of the TMO is to monitor and control risks assumed in the Front Office based on clearly defined limits and controls. Being independent of the dealers, TMO provides an independent view of trading activities and monitors the limits applicable. TMO escalates limit excesses as required by the delegation of authority to the relevant approving authority. The Treasury Information Management System was strengthened by introducing a dashboard that facilitated the timely reporting of treasury market positions independently to the management. This dashboard displays the foreign currency positions and the market rates throughout the day in a timely manner. Also the TMO monitors the end of the day Net Open Position (NOP) as calculated by the Treasury Back Office. NOP movement in relation to the spot movement is presented to the review of BIRMC. The daily interbank foreign currency transactions are monitored for the consistency with the preset limits and any excesses are escalated to the management and the BIRMC.

The TMO monitors market risk measurements such as VaR, Duration and Price Value of a Basis Point (PVBP) for the Government Securities portfolios. A Treasury telephone voice logging system was fully deployed and brought under the purview of the TMO, to mitigate operational risks associated with the voice based market activities.

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 the adverse changes in the market interest rates. The Assets and Liability Management Unit of IRMD 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 the ALCO for necessary realignment in the asset and liability structure and the pricing mechanism. Statistical methods such as scenario analysis, simulation and stress testing are used by the DBB in managing interest rate risk.

INTEGRATED RISK MANAGEMENT

Interest Rate Sensitivity Statement of DFCC

Asset or Liability	0 to 1 Month	0 to 3 Month	0 to 6 Months	0 to 12 Months
Interest Bearing Assets	51,782,426	66,621,617	72,300,425	90,695,602
Bank Balances & Placements	3,912,636	7,546,886	7,679,295	9,671,936
Treasury Bills & Bonds	446,950	2,998,013	4,042,930	12,842,548
Securities and Investments	–	–	–	–
Loans & Advances	47,422,840	56,076,717	60,578,200	68,181,118
Others	–	–	–	–
Interest Bearing Liabilities	27,007,147	57,174,015	73,280,027	86,484,598
Deposits	11,088,757	29,975,860	42,861,091	48,994,879
Borrowings	15,918,390	27,198,155	30,418,937	37,489,719
Others	–	–	–	–
Net Rate Sensitive Assets (Liabilities)	24,775,279	9,447,602	(979,602)	4,211,004
Interest Rate Sensitivity Ratio (%)	192	117	99	105

EQUITY PRICE RISK

Equity prices risk is the risk of losses in the marked to market equity portfolio due to the decline in the market prices. The direct exposure to the equity prices risk by DBB arises from the available-for-sale equity portfolio of DFCC while indirect exposure arises through the margin lending portfolio of DVB in the event of crystallisation of credit risk of margin borrowers. The Investment Committee is responsible for managing the equity portfolio in line with the policies and guidelines set out by the Board and the BIRMC. Limits for overall equity market allocation, sector allocation and security allocation form part of the tools for managing the equity portfolio. Rigorous appraisal, market timing and close monitoring of the portfolio performance in relation to market facilitate the management of the equity portfolio within the framework of the investment strategy and the policy. DBB's long term investment horizon for equity investments smoothens out the adverse implications of the short term market volatilities while enabling DBB to reap optimal return from the portfolio. The indirect exposure to equity prices risk arising from the margin trading of DVB customers is managed through the specific margin trading policy framework under the supervision of the Credit Committee, under a structured process set out therein. Fundamentals relating to the shares, market liquidity and the diversification of the portfolio are some considerations during the assessment. Margin lending is governed by proper documentation and daily monitoring and management reporting as specified in the Policy.

The DBB's direct exposure to equity market accounted for 11% of the DBB's assets. This equity portfolio recorded an unrealised capital gain of LKR 1,776 million based on its marked to market value for the year ended 31st March 2013.

INTEGRATED RISK MANAGEMENT

LIQUIDITY RISK

Liquidity risk is the risk of not having sufficient funds to meet financial obligations in time and in full, at a reasonable cost. Liquidity risk arises from mismatched maturities of assets and liabilities. DBB has a well set out framework for liquidity risk management and a contingency funding plan. The liquidity risk management process includes regular analysis and monitoring of the liquidity position by ALCO and maintenance of market accessibility. Regular cash flow forecasts, liquidity ratio and maturity gap analysis are used as analytical tools by the ALCO. Any negative mismatches up to three months revealed through the 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, DBB takes into consideration the liquidity of each eligible instrument relating to the market at a given point in time as well as undrawn commitments to borrowers when stress testing its liquidity position. The maintenance of a strong credit rating [AA(lka) for DFCC and AA-(lka) for DVB] assigned by Fitch Ratings Lanka and reputation in the market enable DBB to access domestic wholesale funds. For short term liquidity support, DBB also has access to the money market at competitive rates. The risk-based pricing mechanism ensures that residual liquidity risk is duly priced when pricing assets.

The CBSL Direction No. 7 of 2011 permits liquidity to be measured through stock or flow approaches. Under the stock approach, liquidity is measured in terms of key ratios which portray the liquidity stored in the balance sheet. Under the flow approach banks should prepare a statement of maturities of assets and liabilities placing all cash inflows and outflows in the time bands according to the residual time to maturity in major currencies. DFCC primarily uses the flow approach in measuring and managing liquidity risk while DVB uses both the flow and stock approaches as appropriate.

MATURITY PROFILE OF ASSETS AND LIABILITIES

DFCC

	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	%
Assets with contractual maturity (Interest-bearing assets)												
Cash & cash equivalents	168,746	168,746	168,746	100	–	–	–	–	–	–	–	–
Placements with banks	6,128,245	6,129,174	3,970,930	65	2,158,244	35	–	–	–	–	–	–
Other financial assets held for trading	377,800	377,800	93,853	25	283,947	75	–	–	–	–	–	–
Loans to and receivables from bank	1,822,838	1,822,838	342,332	19	181,297	10	733,878	40	495,093	27	70,238	4
Loans to and receivables from other customers	58,844,767	59,051,088	7,062,252	12	11,569,767	20	25,474,044	43	11,423,550	19	3,521,475	6
Financial investments - Available-for-sale	2,520,389	2,509,673	704,279	28	1,788,282	71	–	–	17,112	1	–	–
Financial Investments - Held-to-maturity	75,022	75,022	172	–	–	–	–	–	74,850	100	–	–
	69,937,807	70,134,341	12,342,564	18	15,981,537	23	26,207,922	37	12,010,605	17	3,591,713	5
Other assets (Non-interest-bearing assets)												
Cash and cash equivalents	428,710	428,710	428,710	100	–	–	–	–	–	–	–	–
Derivative assets held for risk management	45,145	45,145	21,688	48	23,457	52	–	–	–	–	–	–
Financial investments - Available-for-sale	16,702,453	5,603,652	–	–	–	–	–	–	–	–	5,603,652	100
Due from subsidiaries	39,204	39,204	39,204	100	–	–	–	–	–	–	–	–
Prepayments	36,920	36,920	1,983	5	5,549	15	13,939	38	8,828	24	6,621	18
Other assets	935,284	755,988	674,620	89	81,368	11	–	–	–	–	–	–
	18,187,716	6,909,619	1,166,205	17	110,374	2	13,939	–	8,828	–	5,610,273	81
Liabilities with contractual maturity (Interest-bearing liabilities)												
Due to banks	6,399,595	6,406,703	2,818,188	44	3,588,515	56	–	–	–	–	–	–
Due to other customers	15,548,067	15,567,135	9,059,548	58	5,715,081	37	482,455	3	306,508	2	3,543	–
Other borrowing	33,846,282	33,849,065	1,629,906	5	7,742,627	23	7,304,466	22	6,136,844	18	11,035,222	33
Debt securities issued	558,257	559,284	–	–	16,884	3	542,400	97	–	–	–	–
Subordinated term debts	609,373	610,367	–	–	20,367	3	–	–	590,000	97	–	–
	56,961,574	56,992,554	13,507,642	24	17,083,474	30	8,329,321	15	7,033,352	12	11,038,765	19
Other liabilities (Non-interest-bearing liabilities)												
Derivative liabilities held for risk management	190,922	190,922	66,362	35	124,560	65	0	0	0	0	0	0
Due to subsidiaries	525	525	525	100	0	0	0	0	0	0	0	0
Other liabilities	761,825	735,145	735,145	100	0	0	0	0	0	0	0	0
	953,272	926,592	802,032	87	124,560	13	0	0	0	0	0	0

INTEGRATED RISK MANAGEMENT

Group

	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	%
Assets with contractual maturity (Interest-bearing assets)												
Cash and cash equivalents	1,023,414	1,023,414	1,023,414	100	0	0	0	0	0	0	0	0
Placements with banks	7,541,088	7,542,018	5,252,620	70	2,289,398	30	0	0	0	0	0	0
Other financial assets held-for-trading	593,408	593,408	158,534	27	432,095	73	2,779	0	0	0	0	0
Loans to and receivables from bank	5,633,902	5,633,902	2,084,756	37	305,514	5	2,678,301	48	495,093	9	70,238	1
Loans to and receivables from other customers	98,399,443	98,605,761	20,985,450	21	19,978,247	20	30,884,356	31	17,571,424	18	9,186,284	9
Financial investments - Available-for-sale	10,855,012	10,855,012	6,558,960	60	4,278,940	40	0	0	17,112	0	0	0
Financial Investments - Held-to-maturity	157,963	157,963	172		0	0	0	0	74,850	47	82,941	53
	124,204,230	124,411,478	36,063,906	29	27,284,194	22	33,565,436	27	18,158,479	15	9,339,463	8
Other assets (Non-interest-bearing assets)												
Cash and cash equivalents	2,953,478	2,953,478	2,953,478	100	0	0	0	0	0	0	0	0
Balances with Central Bank	2,620,790	2,620,790	2,620,790	100	0	0	0	0	0	0	0	0
Derivative assets held for risk management	119,642	119,642	104,756	88	14,886	12	0	0	0	0	0	0
Financial investments - Available-for-sale	16,804,653	5,695,136	21,593	0	7,056	0	19,704	0	8,681	0	5,638,102	99
Prepayments	36,920	36,920	1,983	5	5,549	15	13,939	38	8,828	24	6,621	18
Other assets	2,252,229	2,072,931	1,718,950	83	179,345	9	40,787	2	24,366	1	109,483	5
	24,787,712	13,498,897	7,421,550	55	206,836	2	74,430	1	41,875	0	5,754,206	43
Liabilities with Contractual Maturity (Interest-Bearing Liabilities)												
Due to banks	8,026,448	8,033,555	4,442,709	55	3,584,298	45	756	0	5,792	0	0	0
Due to other customers	61,180,071	61,199,138	29,335,967	48	17,126,298	28	3,057,102	5	2,814,281	5	8,865,490	14
Other borrowing	37,530,202	37,532,983	4,264,862	11	7,831,104	21	7,425,245	20	6,377,253	17	11,634,519	31
Debt securities issued	558,257	559,284	0	0	16,884	3	542,400	97	0	0	0	0
Subordinated term debts	1,609,690	1,610,684	0	0	20,684	1	0	0	1,590,000	99	0	0
	108,904,668	108,935,644	38,043,538	35	28,579,268	26	11,025,503	10	10,787,326	10	20,500,009	19
Other liabilities (Non-interest-bearing liabilities)												
Derivative liabilities held for risk management	307,094	307,095	182,535	59	124,560	41	0	0	0	0	0	0
Due to banks	13,974	13,974	13,974	100	0	0	0	0	0	0	0	0
Due to other customers	1,570,195	1,570,195	674,108	43	536,417	34	0	0	0	0	359,670	23
Other liabilities	2,434,906	2,406,625	2,070,496	86	195,904	8	17,510	1	1,733	0	120,982	5
	4,326,169	4,297,889	2,941,113	68	856,881	20	17,510	1	1,733	0	480,652	11

INTEGRATED RISK MANAGEMENT

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 spectrum of issues in every aspect of DBB ranging from losses arising from fraudulent activities, unauthorized trades or account activity, human errors, omissions, inefficiencies in reporting, technology failures or from external events such as natural disasters, social and political conflicts.

DBB has enhanced operational risk management approaches with special emphasis on more sensitive areas of its operations. The ORMC, oversees and directs the management of operational risk in the commercial banking business at an operational level. Active representation of the relevant departments and units of DBB has been ensured in the process of operational risk management through the ORCOs. Operational incident data analysis, risk and control self-assessment and Key Risk Indicators are several key elements in the operational risk management process. Training and knowledge sharing on operational risk issues was conducted through several workshops for ORCOs and other relevant staff.

Segregation of duties with demarcated authority limits, internal and external audit, 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 form a part of First Line of Defence for operational risk management at DBB. DBB demands a high level of technical skills, professionalism and ethical conduct from all its staff and these serve as mitigants for many operational risk factors. DBB's business continuity plan includes processes to deal with natural or other catastrophes. The loss of physical assets is mitigated through insurance.

REPUTATION RISK

Reputation risk is the risk of losing public trust or tarnishing of the DBB's image in the public eye. It could arise from environmental, social, regulatory or operational risk factors. Events that could lead to reputation risk events are closely monitored, utilising an early warning system that includes inputs from frontline staff, media reports and internal and external market survey results. Policies and standards relating to the conduct of the Group's business have been promulgated through internal communication and training. A culture of compliance permeates all levels of DBB, and the Chief Compliance Officer submits quarterly compliance reports to the Board of Directors through the BIRMC. A Communication Policy addresses aspects of reputation risk through a structured approach for communication with clearly defined authority and responsibilities.

INTEGRATED RISK MANAGEMENT

BUSINESS RISK

Business risk is the risk of deterioration in earnings due to the loss of market share, changes in the cost structure and adverse changes in industry or macroeconomic conditions. The DBB's business plan forms a strategy road map for sustainable growth. Diversification into related financial services through subsidiaries, associates and joint ventures, continuous competitor and customer analysis, and monitoring of the macroeconomic environment enable the DBB to formulate its strategies for growth and business risk management. Processes such as Planning, ALM, IT and Product Development in co-ordination with business functions facilitate the management of business risk through recognition, measurement and implementation tasks. IRMD and Planning & Plan Implementation Department facilitated by Treasury and Credit Department proactively assess the implications on the business risk exposure of the DBB arising from the banking sector dynamics and macro level factors including regulatory developments. These assessment findings and recommendations are taken into account by management, BIRMC and the Board, and are incorporated in the strategic business decisions of the DBB while managing the business risk. Business risk relating to customers is assessed in the credit rating process and is priced accordingly.

LEGAL RISK

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

COMPLIANCE RISK

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

INTEGRATED RISK MANAGEMENT

ANTI-MONEY LAUNDERING [AML/COMBATING TERRORIST FINANCING (CTF)]

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

BUSINESS CONTINUITY MANAGEMENT

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

CAPITAL ADEQUACY MANAGEMENT

Capital adequacy measures the adequacy of Bank's aggregate capital in relation to the risks, which may arise from its assets and off balance sheet transactions, its dealing operations and its human activities, technology and natural incidents. CBSL has prescribed the minimum risk sensitive capital and, effective from January 2008, required the banks to compute the regulatory capital requirements in accordance with the 'International Convergence of Capital Measurement and Capital Standards - a Revised Framework' (BASEL - II). DFCC's capital adequacy position which includes the DVB risk exposures as well, has been computed under the following approaches of Basel II, which are currently effective to the local banking industry.

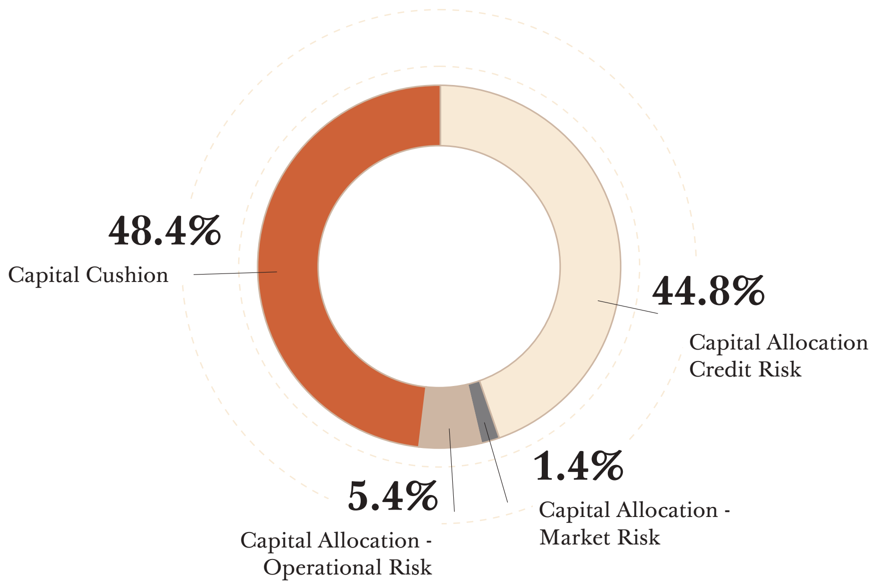
- Standardized Approach for credit risk
- Standardized Approach for market risk
- Basic Indicator Approach for operational risk

INTEGRATED RISK MANAGEMENT

RWA and the Regulatory Capital Adequacy Ratios at 31 March 2013

Item	DFCC	Group
RWA and off-balance sheet exposure for credit risk (LKR mn)	67,668	102,245
RWA equivalent for market risk (LKR mn)	3,238	3,259
RWA equivalent for operational risk (LKR mn)	8,034	12,332
Total RWA	78,940	117,836
Core capital ratio (Tier 1) (%)	24.59	20.84
Total capital ratio (%)	20.49	19.37

DFCC Group's Capital Allocation and Available Capital Buffer



During the year, the Group's total regulatory capital base reached LKR 22,822 million as at end March 2013 marking a growth of 8% compared to the total capital recorded as at end March 2012. Total RWA grew to LKR 117,836 million marking an increase of 11%. The increase in RWA was mainly contributed due to the growth arising from credit portfolio and foreign currency exposure. Group's regulatory capital adequacy ratios continued to be above industry average for licensed banks in Sri Lanka indicating a strong balance sheet condition due to high level of risk absorption capacity. Utilization of the Group's total regulatory capital base shows 48% of the capital remaining as a buffer as indicated in the graph above which will enable the DFCC to increase leverage and exploit the anticipated growth in credit in the medium term.

INTEGRATED RISK MANAGEMENT

Figure 3: Elements of the overall Risk Limits System of DBB covering the Key Risk areas.

Risk Category	Impact	Key risk indicators	Statutory/ advisory limit	Position as at 31 March 2013
Credit & concentration	When the credit portfolio is concentrated to few borrowers or few groups of borrowers with large exposures, there is a high risk of a substantial loss due to a 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)	30% Statutory	Complied
		Single borrower limit - Group	33% Statutory	Complied
		Aggregate limit of large accommodation (Sum total of the outstanding amount of accommodation granted to customers who's accommodation exceeds 15% of the capital base/outstanding amount of accommodation granted by the Bank to all customers excluding the Government of Sri Lanka)	55% Statutory	Complied
		Customer Lending Gross loans and gross leases as a percentage of total Lending Portfolio plus Securities Portfolio.	Internal advisory limit is applicable	Complied
		Leases Portfolio On-balance sheet exposure to the leasing product as a percentage of total Lending Portfolio plus Securities Portfolio.	Internal advisory limit is applicable	Complied
		Exposure to each industry sector On-balance sheet exposure to each industry as per (ISIC) as a percentage of total Lending Portfolio	Internal advisory limit is applicable	Complied
		Exposure to selected regions On-balance sheet exposure to the regions as a percentage of total Lending Portfolio	Internal advisory limit is applicable	Complied
		HHI for industry sector distribution of the lending portfolio	Internal advisory limit is applicable	Complied
		Aggregate limit for related party transactions Accommodation to related parties (as per CBSL Direction)/Regulatory Capital	Internal advisory limit is applicable	Complied
		Total exposure for large borrowers (borrowers where the DFCC has an exposure of more than 15% of its capital base) Total gross exposure (including off-balance sheet) to group borrowers/total Lending Portfolio (including off-balance sheet) plus preference shares	Internal advisory limit is applicable	Complied

INTEGRATED RISK MANAGEMENT

Risk Category	Impact	Key risk indicators	Statutory/ advisory limit	Position as at 31 March 2013
		Margin Trading - Commercial banking business Aggregate exposure of margin loans extended/total loans and advances	Internal advisory limit is applicable	Complied
		Maturity profile of loan book - Commercial banking business Loans and advances with a maturity of less than one year/ total loans and advances	Internal advisory limit is applicable	Complied
		Non-performing ratio of the Lending Portfolio	Internal advisory limit is applicable	Complied
Market risk including interest rate risk in the banking book	When the equity portfolio is concentrated to a single company or only to private sector or to public equity, there is a risk of substantial loss due to a failure of one such single company or one sector.	**Equity exposure - Individual** (Equity investment in a private OR public company as a percentage of capital fund of the Bank)	10% Statutory	6% Complied
		Aggregate Equity exposure in public companies (Aggregate amount of equity investments in public companies/capital fund of the Bank)	50% Statutory	37.6% Complied
		Aggregate Equity exposure in private companies (Aggregate amount of equity investments in private companies/capital fund of the Bank)	25% Statutory	3.3% Complied
		Aggregate Equity exposure in private and public companies (Total investments in private and public companies/capital fund of the Bank)	75% Statutory	40.9% Complied
	The Bank can be exposed to interest rate risk which could result in variations or deterioration of net interest margin	**Repricing gap report** Risk sensitive assets/risk sensitive liabilities in each maturity bucket up to 1 year	Gap limits are monitored effectively in line with the market conditions to preserve interest margins.	Regularly reviewed at ALCO for necessary realignment in the asset and liability structure
		• Maximum allocation to Treasury Trading Securities Portfolio • Maximum holding period for Treasury Trading Portfolio	Internal advisory limit is applicable	Complied

INTEGRATED RISK MANAGEMENT

Risk Category	Impact	Key risk indicators	Statutory/ advisory limit	Position as at 31 March 2013
	The Bank is exposed to exchange rate risk on currency and portfolio positions.	• Limit for counterparty off-balance sheet market risk- forward exchange contracts • Limit for settlement risk arising from inter-bank transactions • Limit for unhedged foreign currency exposure	Internal advisory limit is applicable	Complied
Liquidity	If adequate liquid assets are not maintained, the Bank will be unable to fund us the Bank's commitments and planned asset growth without incurring unacceptable costs or losses.	**Liquid asset ratio** Average monthly liquid assets/total monthly deposit liabilities	20% Statutory	52.8% Complied
		Liquidity gap report Matching 3 months cash outflows on static basis with cash availability	Internal advisory limit is applicable	Complied
		Loan to deposit ratio - Commercial banking business	Internal advisory limit is applicable	Complied
Integrated Risk	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)	**Core capital adequacy ratio (Group)** (Core capital as a percentage of total risk-weighted assets)	5% Statutory	20.84% Complied
		Total capital adequacy ratio (Group) (Total capital as a percentage of total risk-weighted assets)	10% Statutory	19.37% Complied
		Capital cushion for the year (Required capital cushion to be maintained over the regulatory minimum requirement of 10%)	Internal advisory limit is applicable	Complied
Operational Risk	Adequately placed policies, processes, and systems will ensure and mitigate against excessive risks arising. This will result in the stability of the Bank	**Overall operational risk loss reporting limit set by CBSL** Internal limit set by DBB in making a more stringent approach than that set by the regulator and any losses more than LKR 10,000 requires reporting	LKR 500,000 Statutory	Complied
		Internal fraud For losses due to acts which intended to defraud, misappropriate property or circumvent regulations, the law or bank policy, excluding diversity/discrimination events, which involves at least one internal party.	Zero tolerance	Complied

INTEGRATED RISK MANAGEMENT

Risk Category	Impact	Key risk indicators	Statutory/ advisory limit	Position as at 31 March 2013
		External fraud (Total loss value as a percentage of the last three years average gross income) For losses due to act which intended to defraud misappropriate property or circumvent laws, by a third party	Very low appetite	0.008% Complied
		Risk areas related to employee practices and workplace safety 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	Zero appetite	Complied
		Risk areas related to client products and business practices For losses arising from an unintentional or negligence in failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements) or from the nature or design of a product.	Zero appetite	Complied
		Damage to physical assets For losses arising from damage to physical assets from natural disaster or other events.	Very low appetite	Complied
		Business disruption and systems failures For business disruptions/system failures for more than 30 minutes during service hours.	Very low appetite	Complied
		Errors in execution, delivery and process management For losses from failed transaction processing or process management.	Very low appetite	Complied

Quantitative information regarding the key risk exposures of the Bank is presented in the Notes to the Financial Statements.

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 are in accordance with the Board-approved Corporate Governance Charter of the Bank.

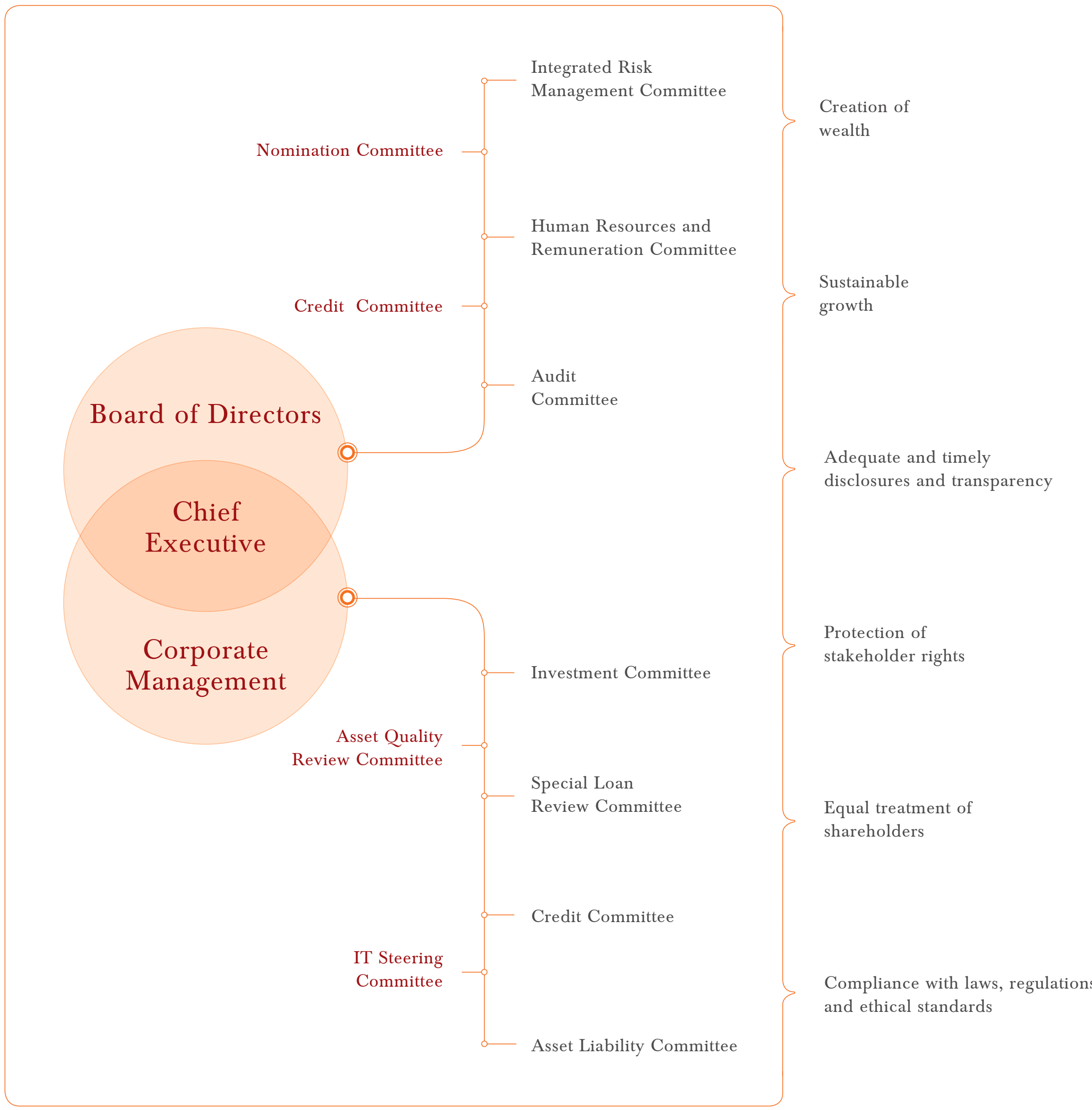
DFCC Bank practices high standards of corporate governance based on the OECD principles of good governance. OECD principles of good governance are based on the following six guidelines:

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

The key corporate governance practices of DFCC Bank are given in this Report with specific disclosures relating to the status of compliance with the mandatory requirements of Direction No. 12 of 2007 of the Central Bank of Sri Lanka (as amended). In view of the application of these mandatory regulatory provisions and disclosures that are required to be made the Colombo Stock Exchange has exempted licensed banks from the application of Section 7.10 of the Listing Rules of the Colombo Stock Exchange relating to corporate governance.

CORPORATE GOVERNANCE

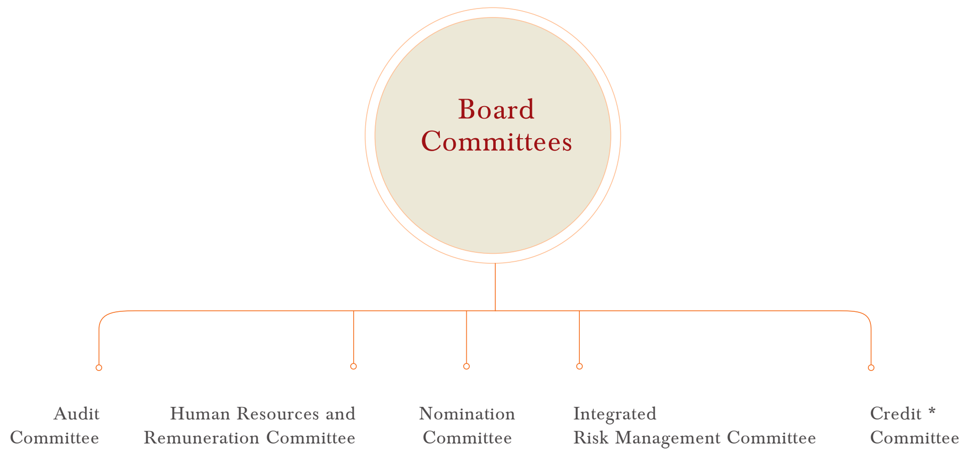
OUR GOALS OF GOOD CORPORATE GOVERNANCE



CORPORATE GOVERNANCE

COMPOSITION OF MAIN BOARD AND BOARD COMMITTEES AS AT 31 MARCH 2013

Board Committees



**The Credit Committee approves papers by circulation*

Composition

Name	Executive Directors	Non-Executive Directors		Gender		Age Group	
		Independent	Others	Male	Female	50-60 Yrs.	Over 60 Yrs.
Main Board	01	06	02	08	01	02	07
Board Committees							
Audit Committee	Nil	02	01	02	01	01	02
Credit Committee	Nil	01	02	02	01	01	02
Human Resources & Remuneration Committee	Nil	02	01	03	Nil	Nil	03
Integrated Risk Management Committee	01	02	01	04	Nil	01	03
Nomination Committee	Nil	02	01	03	Nil	01	02

CORPORATE GOVERNANCE

Attendance

Name of Director	Main Board	Audit Committee	Human Resources & Remuneration Committee	Nomination Committee**	Integrated Risk Management Committee
Total No. of Meetings	12	11	3	4	4
Mr J M S Brito	12/12		3/3	4/4	4/4
Mr A N Fonseka	12/12				4/4
Mr A S Abeyewardene	12/12	11/11			4/4
Mr T K Bandaranayake	8/9	8/8	2/2		
Mr G K Dayasri	11/12		3/3		
Mr R B Thambiayah/ Ms S R Thambiayah (Alternate Director)*	10/12			4/4	
Mr C R Jansz	12/12			4/4	4/4
Ms H M N S Gunawardana	11/12	2/3			
Dr L P Chandradasa	10/12				
Mr J E A Perumal	11/12	11/11	1/1		

** Present by self or alternate.*

***By person or by electronic communication.*

LINKING COMPENSATION TO PERFORMANCE

Remuneration of Non-Executive Directors is linked to attendance and involvement with Board Committees. It is determined annually after taking peer comparison into account.

The compensation for staff is linked to budgeted financials and Key Performance Indicators (KPIs) as well as performance against a peer group of banks. In determining the level of compensation in addition to the performance of DFCC, the Board takes a holistic view of the remuneration levels of employees including the variable pay award, level of perquisites and awards made by other banks. The Chief Executive officer is the only Executive Director and his remuneration is also linked to the performance of the DFCC Bank and is evaluated annually by the Board Human Resources & Remuneration Committee. A survey of remuneration levels in the banking industry is undertaken at least once in three years and DFCC's remuneration levels are appropriately revised as per the survey findings.

Non-Executive Directors do not receive any terminal payment on ceasing to hold office. Departed staff are compensated on the basis of contractual and statutory provisions.

CORPORATE GOVERNANCE

ELIMINATING CONFLICTS OF INTEREST

DFCC Bank's Corporate Governance Charter ensures that the Board conducts itself adhering to the highest standards of ethics and in accordance with the applicable laws for the best interest of the shareholders. Section 9(6) of DFCC Act requires the Directors who are directly or indirectly interested in contracts or a proposed contract to declare the nature of such interest and not to participate in the decision-making. All decisions pertaining to such matters require the unanimous approval of the other Directors. All such transactions entered into by DFCC are disclosed under the Section on Directors' Interests in Transactions in page 269 and on Note 57 to the financial statements on Related Party Transactions.

DFCC Bank has procedures in place to ensure that no Board member or management staff engages in any activity in connection with 'insider trading' of DFCC's shares.

The accommodation to close relations of employees and/or entities in which any employee or close relation of such employee hold substantial interest are subject to normal commercial terms applicable to such transactions and are not afforded any favourable treatment.

MANAGEMENT BY THE BOARD

The following mechanisms are in place for the Board to oversee the accomplishment of the above:

- Internal Audit
- Audit Committee
- Risk Management Committee
- Review of DFCC Bank's performance at the monthly Board meetings with a view to monitor the progress and take corrective action for any variances.
- The Board is informed of the decisions taken at the Management Committees and Board Committees by submitting the minutes of the relevant meetings for their review.
- Review of the status of compliance by way of a quarterly submission by the compliance officer to the Board.

CORPORATE GOVERNANCE

EVALUATION OF THE BOARD

The Board has a structured scheme of self-assessment which is carried out annually. The performance of the respective Board Committees is also evaluated by other members who are not members of the respective committees in order to ensure that they function effectively. Findings are discussed at the Board meetings and action is taken on areas identified for improvement.

PRINCIPLE OF PRECAUTION

The Business Continuity Plan (BCP) ensures timely recovery of critical operations that are required to meet stakeholder needs. The BCP has been prepared in line with the BCP Guidelines issued by the Central Bank of Sri Lanka. Adequate training is provided to ensure that relevant staff is fully aware of their role within the BCP. DFCC Bank annually reviews the succession plan to ensure that all key positions are addressed and provides necessary training if required to those identified to take on higher responsibility.

ENGAGING WITH EMPLOYEES AND SHAREHOLDERS

ENGAGEMENT WITH SHAREHOLDERS

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 DFCC Bank are freely transferable through the Colombo Stock Exchange but subject to limitations stated in the DFCC Bank Act and the Banking Act.

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

CORPORATE GOVERNANCE

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

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

The shareholders of DFCC Bank have multiple ways of engaging with the Board including the following:

- Annual Report providing comprehensive information
- Annual General Meeting and Extraordinary General Meetings on matters requiring the consent of shareholders and as a means to disseminate information relating to the operations of the Bank, future direction, CSR activities, annual performance etc. which is of relevance to the general membership
- Correspondence with shareholders by the Board Secretary on regulatory changes which are of relevance to them
- Access to the Board Secretary to submit views on matters of concern
- Bank's Web Site
- Quarterly financial statements and commentary released to the Colombo Stock Exchange
- Investor presentations
- One on one discussions with key shareholders
- Disclosure of matters of significance to the Colombo Stock Exchange
- Press releases

CORPORATE GOVERNANCE

EMPLOYEES

DFCC Bank has an internally developed Code of Conduct for its employees which is posted on the internal web and is accessible by all employees. This sets out in detail the business ethics in relation to avoidance of conflict of interests, insider dealings, unfair business practices, maintenance of confidentiality of business information, etc. All employees are guided by DFCC's core values of accountability, being ethical, passion for innovation and excellence, customer centricity, social responsibility, business profitability and team work. Board has formally adopted a whistle blowing-policy to encourage employees to communicate legitimate concerns if they observe any illegal or unethical practices.

The employees engage with DFCC Bank in the following ways:

- The Chief Executive Officer (CEO) who is an ex officio non-voting Director is the main link between the Non-Executive Board and the management. The CEO interacts closely with the corporate management and engages them in decisions concerning strategic matters that concern DFCC Bank and its employees
- Members of the corporate management provide the necessary information and actively participate in the discussions of Board Committees
- The minutes of the deliberations of the Management Committees are submitted to the Board on a regular basis for information and necessary direction
- Monthly meetings of the regional managers and branch managers provide a forum for discussion with the corporate management team and other relevant officers to raise any matter that concerns the employees or DFCC as a whole
- The planning division conducts several meetings with business heads and in consultation with them prepares the annual business plan adopting a bottom up approach which is submitted to the Board for approval at the beginning of the year. The performance of every employee is assessed based on the targets which are pre agreed and is based on the overall annual business plan approved by the Board so that the individual performance is directly linked to the Bank's performance. The Board is updated quarterly on the level of progress of achievement of the key initiatives identified in the business plan
- The Organisational Effectiveness Improvement Programme initiated during the year drew on all sectors of employees to contribute their innovative ideas with respect to areas of cost reduction, income generation, brand awareness, customer satisfaction, human resources, IT effectiveness etc.
- DFCC Bank's Code of ethics ensures that all employees are aligned to a high standard of integrity.
- Grievance handling procedure is well-defined and ensures that all issues are raised to an appropriate person and are addressed with strict confidentiality

CORPORATE GOVERNANCE

- DFCC's whistle-blowing policy encourages any member of staff to report concerns confidentially or anonymously if they become aware of any improper activity
- The Chief Executive Officer and Senior Management follow an open door policy and are accessible to any member of the staff

EXTERNAL CHARTERS

The Bank has already encompassed the following of external Codes and Standards into the operating framework of its values, principles and commitments as described below:

External code/standard	Year of adoption	Range of stakeholders involved in the development and governance of these initiatives	Compliance requirement	
			Mandatory	Voluntary
OECD Principles of good governance	Ongoing	Multi - stakeholders		√
Directions issued by the Central Bank of Sri Lanka	Ongoing	Multi - stakeholders	√	

MEMBERSHIPS

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

Employees of DFCC Bank hold positions in governance bodies, participates in projects and committees, provides funding beyond routine membership dues through sponsorship of events and views membership as strategic.

CORPORATE GOVERNANCE

STAKEHOLDER ENGAGEMENT

Being a responsible corporate entity, DFCC Bank considers engagement with our varied groups of stakeholders is key for creating a sustainable business. We always seek to understand our stakeholder expectations and use the feedback obtained to continuously improve our operations by maintaining an open dialogue with our stakeholders at all times.

The methodology used in stakeholder engagement, along with the frequency and key topics raised is shown below:

Type of stakeholder	Mode of engagement	Frequency	Key topics discussed
Shareholders and Investors	Annual General Meeting	Annually	• Board governance • Sustainable performance of the Bank • Plans to improve returns to shareholders • Local and international expansion plans
	Corporate website	Periodically	
	Annual Reports	Annually	
	Colombo Stock Exchange Announcements	Quarterly/As and when required	
	Press conferences and media releases	As and when required	
	Investor relations hotline	Continuous	
	Meetings and teleconferences	As and when required	
Customers	Corporate website	Continuous	• Products, services, Corporate news • How to improve service standards • Customer relationship management • Corporate activity • Awareness of products, services and promotions • Customer service • Topics to enhance business output
	Facebook	Continuous	
	Customer satisfaction surveys	Periodically	
	Branches	Continuous	
	Relationship Managers	Continuous	
	Media releases	As and when required	
	Advertising and promotional campaigns	As and when required	
	Call Centre	Continuous	
	Customer training workshops	Periodically	
Employees	Employee surveys	Periodically	• Employee feedback • Information on products, services, polices and guidelines • Feedback, new ideas, suggestions • Progress on scorecard • Progress and updates on action • Training and development • Events, news, updates • Employee fellowship
	Human resources intranet portal	Continuous	
	Employee suggestion box	Continuous	
	Performance review systems	Bi-Annually	
	Staff meetings	Continuous	
	Employee training workshops and seminars	Continuous	
	Email bulletins	Continuous	
	Special employee events	Periodically	
	Employee newsletter	Quarterly	

CORPORATE GOVERNANCE

Type of stakeholder	Mode of engagement	Frequency	Key topics discussed
International Financial Institutions	Meetings	As and when required	Health of the Bank and developments
	Corporate Website	Continuous	
	Teleconferences	As and when required	
	Annual Reports	Annually	
Regulators and legislators	Prudential reports	Monthly	• Compliance with best practices • Compliance with Government regulations • Developments in the financial sector • Access to finance • Business and financial information • Corporate developments
	Tabling of financial statements in Parliament	Annually	
	Meetings	As and when required	
	Forums and conferences	As and when required	
	Participation in task forces	As and when required	
	Corporate website	Continuous	
	Media releases	As and when required	
Community	CSR initiatives	Continuous	• Corporate Social Responsibility initiatives • Investing in the community through sponsorships • Responsible lending • CSR project awareness
	Corporate website	Continuous	
	Sponsorships	Continuous	
	Branch network	Continuous	
	Public events	Periodically	
	Call Centre	Continuous	
	Media releases	As and when required	
Suppliers	Supplier Management Policy	Continuous	• Engagement activities with suppliers
	Meetings	As and when required	• Responsible procurement
Media	Discussions with editors and journalists	As and when required	• Media briefings • CSR initiatives • Communication to general public • Entrepreneur and SME development • Fellowship with media
	Corporate website	Continuous	
	Annual media get-together	Annually	
	Press conference	As and when required	
	Press releases	As and when required	

ANNUAL GENERAL MEETING

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

Annual Corporate Governance Report for the Year Ended 31 March 2013 Published in terms of Section 3 (1) (xvi) of the Banking Act Direction No. 12 of 2007

Rule	Governance principle	Compliance	Remarks
3.1 Responsibilities of the Board			
3.1 (i)	The responsibility of the Board to strengthen the safety and soundness of the Bank	Compliant	The Board engages in the strategic planning and control of DFCC Bank (DFCC) by overseeing the formulation of business objectives and targets, assessing risks, evaluating the effectiveness of the internal controls by engaging qualified and experienced personnel and delegating them with the authority for conducting operational activities and monitoring the performance through a formal reporting process.
3.1 (ii)	Appointment and segregation of the roles of the Chairman and CEO	Compliant	The Board elects the Chairman and appoints the Chief Executive Officer while the Chairman provides leadership on the direction, oversight and control process exercised by the Board. The CEO is responsible for management of DFCC Bank as per DFCC Act.
3.1 (iii)	Board Meetings	Compliant	The Board held 12 Board meetings during the year. The Directors actively participated in the Board decision making process as evident from the Board minutes. Seeking approval of the Board by circulation of written circulars was done only in exceptional circumstances due to urgency.
3.1 (iv)	The Board to ensure that arrangements are in place for Directors to include items and proposals in the Agenda of Board meetings	Compliant	Whenever the Directors provide suggestions of topics for consideration at the Board meetings, they are included in the Agenda under 'open forum' which is an integral part of every Board meeting and other supporting data, reports, documents etc. relevant for the subject matter are circulated among the Directors for information.
3.1 (v)	Notice of Board Meetings - At least 7 days notice of regular meetings and reasonable notice of other meetings to be given	Compliant	Dates for the regular monthly Board meetings are agreed by the Directors at the commencement of each year and any changes to dates of scheduled meetings are decided well in advance. The Board circulars and other documents pertaining to meetings are made available well in advance to enable the Directors to participate in deliberations.

CORPORATE GOVERNANCE

Rule	Governance principle	Compliance	Remarks
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 137.
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 secretarial 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 Director's responsibilities and specific banking related directions/policies that are required to perform their function effectively.
3.1 (viii)	The Directors' access to the Company Secretary	Compliant	All Directors have access to the advice and services of the Company Secretary directly.
3.1 (ix)	The Company Secretary's duty to maintain minutes of Board meeting and ensure the Directors' access to them	Compliant	The Company Secretary compiles the minutes of the Board meetings which are subject to approval of the Board and signed by the Chairman. Copies of minutes are provided and Directors have access to the original minutes at all reasonable times.
3.1 (x)	The form and contents of the minutes of Board meetings	Compliant	The Board minutes are drawn with reference to Board Circulars with sufficient details to indicate the decisions made by the Board of Directors. The information used in making such decisions, the reasons and rationale of making them and each Director's contribution if considered material is included in the minutes.
3.1 (xi)	Independent professional advice on request to Directors to perform their duties	Compliant	The Board has put in place a procedure where the Directors can obtain independent professional advice, at the Bank's expense, to perform their duties.
3.1 (xii)	The Directors' avoidance of conflict of interest	Compliant	Section 9(6) of DFCC Act requires the Directors who are directly or indirectly interested in contracts or a proposed contract with DFCC Bank to declare the nature of such interest and not to participate in the decision-making. All decisions pertaining to such matters require to be unanimous according to the Act.
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.

CORPORATE GOVERNANCE

Rule	Governance principle	Compliance	Remarks
3.1 (xiv)	Reporting insolvency to the Director of Bank supervision	Compliant	Solvency is a matter constantly monitored by the Treasury Department, Integrated Risk Management Committee and the Board of Directors. During the year DFCC Bank remained solvent and no event has or is likely to occur that would make DFCC not able to meet its obligations.
3.1 (xv)	Adequacy of capital	Compliant	DFCC 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 DFCC Bank's Annual Report.
3.1 (xvii)	Self-assessment of the Board of Directors	Compliant	The Board has a structured scheme of self-assessment which is carried out annually The performance of the respective sub-committees are also evaluated by the other members who are not members of the respective sub-committees in order to ensure that they function effectively. The findings are discussed at the Board meetings and action is taken on areas identified for improvement.
			The CEO is a non-voting member as per the DFCC Act. The performance assessment criteria of CEO are given in 3.5 (xi).
3.2 Composition of the Board			
3.2 (i)	Number of Directors	Compliant	The Board of Directors comprised nine Directors at the end of the period under review.
3.2 (ii)	Period of service of a Director	Compliant	No Director has held the position of a Director of DFCC Bank for more than nine years.
3.2 (iii)	Number of Executive Directors	Compliant	The Chief Executive is the only Executive Director of the Board. He is an ex-officio non-voting Director
3.2 (iv)	Number of Independent Directors	Compliant	There were six Independent Directors at the end of the period under review.
3.2 (v)	Alternate Directors	Compliant	All persons appointed as Alternate Directors to an existing Director of the Board have been subject to the same criteria applicable to Directors.
3.2 (vi)	The skills, experience and track records of Non-Executive Directors	Compliant	All Non-Executive Directors who held office had professional backgrounds, strong track records and high level managerial experience in banking, business, industry, law, auditing or community service sectors.
3.2 (vii)	Number of Non-Executive Directors required to form a quorum of Board meetings	Compliant	DFCC Bank has been compliant with this rule at all times as monitored by the Company Secretary although according to the DFCC Regulations, the required quorum is only 4 Non-Executive Directors.

CORPORATE GOVERNANCE

Rule	Governance principle	Compliance	Remarks
3.2 (viii)	Disclosure of details of Directors	Compliant	The names and the composition of the Directors by category are disclosed in the Annual Report of the Board of Directors.
3.2 (ix)	Appointment of new Directors	Compliant	Appointment of all new Directors is formally evaluated by the Nominations Committee and recommended to the Board of Directors for approval in terms of the Regulations.
3.2 (x)	Appointment of a Director to fill a casual vacancy	Compliant	The Regulations of DFCC Bank provide that the Directors appointed by the Board of Directors hold office until the following AGM at which they have to be elected by the shareholders.
3.2 (xi)	Resignation or removal of a Director	Compliant	The retirement of Directors from office during the period under review are given in the Directors Report. No Director was removed or resigned during the period under review.
3.2 (xii)	Appointment of a Director or an employee to another bank	Compliant	No Director or employee of DFCC Bank is a Director of another bank except the Subsidiary Company, DFCC Vardhana Bank, which is a permitted exception.
3.3 Fitness and Propriety of Directors			
3.3 (i)	Maximum age of Directors	Compliant	All Directors who reached the age of seventy have relinquished office.
3.3 (ii)	Holding of Director's position in more than 20 companies in all or in more than 10 prescribed companies	Compliant	All Directors comply with this requirement.
3.4 Management Functions Delegated by the Board			
3.4 (i)	Delegation arrangements	Compliant	The Board of Directors has delegated authority to the management subject to specific criteria, limitations, safeguards and monitoring mechanisms.
3.4 (ii)	Extent of delegation	Compliant	The delegation of authority made by the Board is designed to facilitate efficient management of the affairs of DFCC 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.

CORPORATE GOVERNANCE

Rule	Governance principle	Compliance	Remarks
3.5 The Chairman and Chief Executive Officer			
3.5 (i)	Separation of the roles of the Chairman and CEO	Compliant	The Chairman and the Chief Executive Officer are two separate individuals.
3.5 (ii)	The Chairman to be a Non-Executive Director	Compliant	The Chairman is a Non-Executive Director. The Board has appointed an Independent Director as the Senior Director as disclosed in the Annual Report.
3.5 (iii)	Disclosure of relationship between the Chairman, CEO and other Directors	Compliant	No relationships exist between the Chairman, CEO and the other Directors according to the declarations made by them except being Directors of subsidiaries.
3.5 (iv)	Role of the Chairman	Compliant	The Chairman provides leadership to the Board and ensures that the Board discharges its responsibilities effectively and encourages members to actively participate and to raise their independent judgment on all key and appropriate issues in a timely manner.
3.5 (v)	Agenda of Board Meetings	Compliant	The Agenda of each Board Meeting is drawn by the Company Secretary under the direction of CEO and Chairman and any matters relevant to the policies and operations of DFCC 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 DFCC	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 DFCC 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 DFCC Bank directly.
3.5 (x)	Communication with shareholders	Compliant	The Chairman has assigned the CEO and/or Deputy CEO to maintain a dialogue with institutional investors and bringing any matters of concern to the notice of the Board.
			During the year the CEO and/or Deputy CEO met with 24 current and potential institutional investors and briefed the Board on the discussions held as appropriate.
3.5 (xi)	CEO to be in charge of the management of operations and business	Compliant	The Chief Executive is the Head of the management team and is in charge of the day-to-day management of DFCC Bank's operations and business.

CORPORATE GOVERNANCE

Rule	Governance principle	Compliance	Remarks
			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 DFCC Bank is carried out by the Board at the end of each year based on the initiatives laid down in the business plan.
3.6 Board Appointed Committees			
3.6 (i)	Four Board-appointed committees	Compliant	The Board has appointed the four committees required by the Direction. The reports on their duties, performance and roles are published in the Annual Report.
3.6 (ii)	Board Audit Committee - Composition and duties	Compliant	Please refer page 163.
3.6 (iii)	Board Human Resources and Remuneration Committee - Composition and duties	Compliant	Please refer page 168.
3.6 (iv)	Board Nomination Committee - Composition and duties	Compliant	Please refer page 170.
3.6 (v)	Board Integrated Risk Management Committee - Composition and duties	Compliant	Please refer page 172.
3.7 Related Party Transactions			
3.7 (i) to (iii)	Avoidance of conflicts of interest and favourable treatment in transactions with related parties	Compliant	DFCC Bank has adhered to the law as specified in the Banking Act and the Directions issued there under with regard to transactions with related parties. Board ensures that no related party benefits from any favourable treatment except as indicated in 3.7 (vi).
			DFCC Bank has put in place a mechanism to obtain on a quarterly basis a confirmation from all key management personnel on a structured format to assist in the process of collating related party transactions.
3.7 (iv)	Accommodation to Directors or their close relations	Compliant	DFCC 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.

Rule	Governance principle	Compliance	Remarks
3.7 (vi)	Avoidance of favourable treatment in accommodation to employees, close relations of employees and/or entities in which any employee or close relation of such employee hold substantial interest	Compliant	The accommodation to employees, close relations of employees and/or entities in which any employee or close relation of such employee hold substantial interest are subject to normal commercial terms applicable to such transactions except in case of accommodation under approved schemes uniformly applicable to all or specific categories of employees. The CEO has not participated in these schemes.
3.7 (vii)	Not to remit part of accommodation or interest without prior approval of Monetary Board	Compliant	No such situation has arisen.

Disclosure on Corporate Governance made in terms of Section 3 (8) of the Banking Act Direction No.12 of 2007 of the Central Bank of Sri Lanka

i.	The Board shall ensure that: The annual audited financial statements and quarterly financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards and such statements are published in the newspapers in an abridged form in Sinhala, Tamil and English.	Complied with.
ii.	The Board shall ensure that the following minimum disclosures are made in the Annual Report:	
	a. A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with. Please refer the Statement of Directors' Responsibility on page 188
	b. A report by the Board on DFCC Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied with. Please refer to the Directors' Statement of Internal Control on page 174
	c. The External Auditor's certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after 31 December 2008	Complied with. Please refer Assurance Report of the External Auditor on page 178
	d. Details of Directors, including names, fitness and propriety, transactions with the Bank and the total fees/remuneration paid by the Bank.	Complied with. Please refer to page 26 and Notes 19 and 57 to the financial statements

CORPORATE GOVERNANCE

e. Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties shall also be disclosed as a percentage of DFCC Bank's regulatory capital.

Complied with.

Category of related party and type of transaction	31.03.2013	
	LKR 000	%
Government of Sri Lanka - its related entities	315,593	1.95
Subsidiaries - Finance lease	7,380	0.05
- Reverse repos	168,000	1.03
Total net accommodation	490,973	3.03
Regulatory capital on solo basis	16,178,341	

The total net accommodation was 3.03% of the Bank's regulatory capital on solo basis. Maximum limit determined by Directors is 25% of Bank's regulatory capital on solo basis

f. The aggregate values of remuneration paid by DFCC to its Key Management Personnel and the aggregate values of the transactions of DFCC with its Key Management Personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in DFCC Bank.

Complied with. Please refer Note 57 to the financial statements.

g. All findings of the 'factual findings report' of the External Auditor to be incorporated in this report.

Complied with.

h. A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance.

Complied with. See Annual Report of the Board of Directors

i. A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by DFCC Bank to address such concerns.

The Monetary Board has not required any disclosure to be made.

INDEPENDENT ASSURANCE

The External Auditors have performed procedures set out in Sri Lanka Related Services Practice Statement 4750 issued by The Institute of Chartered Accountants of Sri Lanka (SLRSPS 4750), 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

The Directors of the DFCC Bank have pleasure in presenting to the members the Annual Report together with the audited financial statements for the year ended 31 March 2013.

The Directors' Report contains pertinent information and disclosures required under the Companies Act No. 07 of 2007 to the extent applicable to DFCC Bank, the Listing Rules of the Colombo Stock Exchange, the Banking Act (including Directions issued thereunder) and the requirements of the Sri Lanka Accounting Standards.

GENERAL

DFCC Bank is established under the Development Finance Corporation Act No. 35 of 1955. It is listed on the Colombo Stock Exchange and is licensed as a Specialised Bank under the Banking Act No. 30 of 1988 as amended.

PRINCIPAL ACTIVITIES

BANK

The principal activities of DFCC Bank include the business of development financing. There has been no significant change in the nature of DFCC Bank's principal activities during the year other than an enhancement in scope of foreign currency lending and deposit - taking activities subsequent to the approval granted by the Monetary Board in February 2012.

SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES

The subsidiaries of DFCC Bank are DFCC Consulting (Pvt) Limited, DFCC Vardhana Bank PLC (DVB), Lanka Industrial Estates Limited (LINDEL) and Synapsys Limited. Acuity Partners (Pvt) Limited is an equally-owned joint venture and National Asset Management Limited (NAMAL) is an associate company. The nature of business and DFCC's interest in these entities are set out in pages 36 and 37 of the Annual Report.

The operations of DFCC Bank and DVB are largely integrated and managed functionally to provide a full range of financial services to its customers.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

GOING CONCERN

The Directors are satisfied that DFCC Bank has adequate resources to continue its operations in the future and 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 DFCC Bank and the Group of Companies are given on pages 192 to 201 of the Annual Report.

Following the convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards (IFRS) new Sri Lanka Accounting Standards prefixed SLFRS and LKAS became applicable for the current financial year ended 31 March 2013. Accordingly, the financial statements of DFCC Bank and the Group have been prepared this year in conformity with the requirements of new accounting standards, the Banking Act and other applicable statutory and regulatory requirements.

Consequent to the transition to the new accounting standards the equity of DFCC Bank as at the beginning of the financial year was restated from LKR 21,754 million to LKR 31,135 million arising mainly due to the recognition of the quoted shares at market prices instead of historical cost under the previous accounting standards.

REVIEW OF BUSINESS OF THE YEAR

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

ANNUAL REPORT OF THE BOARD OF DIRECTORS

Profit and Appropriations

Year ended 31 March 2013	LKR '000
Profit for the year	2,884,915
Other comprehensive income for the year, net of tax	1,736,233
Total comprehensive income for the year	4,621,148
Appropriations	
Transfer to:	
Reserve Fund (statutory requirement)	150,000
Investment Fund (statutory requirement)	370,810
First and final dividend recommended for financial year ended 31 March 2013	1,325,488
Unappropriated profit for the year	2,774,850

ACCOUNTING POLICIES

Consequent to adoption of new accounting standards some of the accounting policies have been changed during the year under review. The accounting policies adopted in the preparation of the financial statements of DFCC Bank and the Group are stated on pages 202 to 220 of the Annual Report.

AUDITOR'S REPORT

The Auditor's Report on the financial statements, which is unqualified, is given on page 191.

REAPPOINTMENT OF AUDITORS

The present Auditors, Messrs KPMG have expressed their willingness to continue as Auditors of DFCC Bank for the next financial year ending 31 March 2014. The Audit Committee has reviewed the effectiveness and the relationship with DFCC including the fees paid to the Auditors and has concluded that they are suitable to continue in office. The Directors are satisfied that based on the written representation made by the Auditors, they have no relationship or interest with DFCC 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.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

THE BOARD OF DIRECTORS

The Board of Directors of DFCC Bank consist of nine Directors with wide knowledge and experience in the fields of banking and finance, trade, commerce, manufacturing, services, law or community service sectors. Profiles of the Directors are given in pages 26 to 31. The following are the present Directors of DFCC Bank categorised in accordance with criteria specified in Direction No. 12 of 2007 issued by the Central Bank of Sri Lanka.

NON-EXECUTIVE DIRECTORS

Mr J M S Brito - *Chairman*

Ms H M N S Gunawardana - *Government Director*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr A S Abeyewardene - *Senior Director*

Dr L P Chandradasa

Mr G K Dayasri

Mr C R Jansz

Mr J E A Perumal

Mr R B Thambiayah

Ms S R Thambiayah - Alternate to Mr R B Thambiayah

EXECUTIVE DIRECTOR

Mr A N Fonseka - *CEO and Ex-Officio Director*

Mr Brito does not meet the criteria set out in the Direction to be designated an Independent Director by virtue of his being a Director of the subsidiary, DFCC Vardhana Bank PLC. Ms Gunawardana represents a specific stakeholder.

RETIREMENT AND RE-ELECTION OF DIRECTOR

Mr T K Bandaranayake retired from the Board with effect from 3 January 2013 upon reaching the age of 70. The Directors' record their appreciation for the contribution made by him during his tenure as a Director.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

The Director retiring by rotation in Terms of Regulation No. 87 of the DFCC Regulations is Mr G K Dayasri who offers himself for re-election under the said Regulation with the unanimous support of the Directors based on the recommendation of the Nomination Committee.

DIRECTORS' REMUNERATION

The Director's remuneration for the financial year ended 31 March 2013 is given in Note 19 of the financial statements. Mr G K Dayasri has opted not to receive any remuneration as a Director. The Directors' record their appreciation for the honorary services provided by Mr Dayasri.

DIRECTORS' MEETINGS

The Bank held 12 Board meetings during the financial year. The attendance of Directors is shown in the Table on page 137 of the Annual Report.

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

	No. of Shares[1] as at 31.03.2013	No. of Shares[1] as at 31.03.2012
Abeyewardene, A S	10,380	10,380
Bandaranayake, T K[2]	–	1,478
Brito, J M S	38,760	38,760
Chandradasa, L P	500	500
Dayasri, G K	1,036	1,036
Fonseka, A N	142,006	142,006
Gunawardana, Ms H M N S	Nil	Nil
Jansz, C R	1,000	1,000
Perumal, J E A	42,475	5,000
Thambiayah, R B	211,200	211,200
Thambiayah, Ms S R	Nil	Nil

[1]*Directors' shareholding includes shares held by the spouse and children under 18 years of age* [2]*Not a Director as at 31 March 2013*

No Director directly or indirectly holds options or debentures of DFCC Bank.

DIRECTORS' INTERESTS IN TRANSACTIONS WITH THE BANK

All Directors have complied with Section 9 (6) of the DFCC Act and declared any interest in transactions or proposed transactions with DFCC and all such transactions have been approved unanimously by the other Directors of DFCC Bank.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

The Directors' interest in transactions with entities/persons (other than subsidiaries, joint ventures and associates) is listed under each Director for the year ended 31 March 2013 is as follows:

	LKR 000
Mr A S Abeyewardene	
Durdans Medical & Surgical Hospitals (Pvt) Limited	
Aggregate amount of credit facilities approved	35,000
Mr J M S Brito	
Aitken Spence Travels (Pvt) Limited	
Elevators (Pvt) Limited	
Aggregate amount of payments made for services	762
Mr A N Fonseka	
Mrs R D Fonseka	
Aggregate amount of payments made for rent	2,100
Mr C R Jansz	
Lanka Bell (Pvt) Limited	
Lanka Dairies (Pvt) Limited	
Aggregate amount of credit facilities approved	560,000
Aggregate amount of payments made for services	26

Messrs J M S Brito and A N Fonseka 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 34 - 36 in the Notes to the financial statements.

BOARD COMMITTEES

The following are the present members of the permanent committees of the Board. Changes to the composition during the year are set out in the respective Committee Reports in the Annual Report.

AUDIT COMMITTEE

Mr A S Abeyewardene - *Chairman*

Ms H M N S Gunawardana

Mr J E A Perumal

ANNUAL REPORT OF THE BOARD OF DIRECTORS

CREDIT COMMITTEE

Mr J M S Brito - *Chairman*

Ms H M N S Gunawardana

Mr J E A Perumal

HUMAN RESOURCES AND REMUNERATION COMMITTEE

Mr J M S Brito - *Chairman*

Mr G K Dayasri

Mr J E A Perumal

NOMINATION COMMITTEE

Mr R B Thambiayah - *Chairman*

Mr J M S Brito

Mr C R Jansz

INTEGRATED RISK MANAGEMENT COMMITTEE

Mr J M S Brito - *Chairman*

Mr A S Abeyewardene

Mr C R Jansz

Mr A N Fonseka - *Chief Executive*

The Heads of key risk assuming units, the Head of Risk Management, the Chief Financial Officer and the Head of Internal Audit are also members of this committee.

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

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

ANNUAL REPORT OF THE BOARD OF DIRECTORS

DIVIDEND

The Directors have recommended for approval by shareholders at the Annual General Meeting the payment of a first and final dividend of LKR 5/- per share, (final dividend paid in the previous year, LKR 4/- per share). The total dividend for the year will amount to approximately LKR 1,325 million (LKR 1,060 million in the previous year), which amounts to 56% of DFCC Bank's distributable profit.

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

PROPERTY, PLANT & EQUIPMENT AND LEASEHOLD PROPERTY

The total expenditure of acquisition on property, plant & equipment during the year amounted to LKR 185 million of which intangible assets amounted to LKR 72 million. Details of these are given in the Notes 39 and 40 to the financial statements.

RESERVES

Total reserves and retained profit amounted to LKR 29,991 million.

MARKET VALUE OF FREEHOLD PROPERTIES

The information on market value of freehold properties are given in Note 39 to the financial statements.

SHARE CAPITAL AND SUBORDINATED DEBENTURES

The total share capital as at 31 March 2013 was LKR 2,651 million consisting of 265,097,688 shares of LKR 10/- each. Further information is given on page 264.

The DFCC Bank Act No. 35 of 1955 mandates a par value of LKR 10/- per share. The Stated Capital, if computed in accordance with the requirements of the Companies Act No. 07 of 2007 amounts to LKR 4,716 million.

SHARE INFORMATION

Information relating to earnings, net asset and market value per share are given in page 319 of the Annual Report and also contains information pertaining to the share trading during that period.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

SHAREHOLDERS

As at 31 March 2013, there were 9,379 registered shareholders and the distribution is indicated on page 320. The 20 largest shareholders as at 31 March 2013 are listed on page 321.

EMPLOYMENT AND REMUNERATION POLICIES

The policy of DFCC Bank is to develop and maintain a dedicated and highly motivated group of employees who are committed to creating sustainable value through effective risk management and high quality service while supporting public and private sector in its development efforts within the ambit of the DFCC Bank Act. DFCC continuously invests in training and development of its staff to meet these objectives. DFCC Bank is an equal opportunity employer. Remuneration of employees consists of fixed and variable payments. Annual increments and pay awards are based on the performance of the Bank and the individual. It is DFCC'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 in time.

COMPLIANCE WITH LAWS, REGULATIONS AND PRUDENTIAL REQUIREMENTS

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

POST-BALANCE SHEET EVENTS

Subsequent to the date of the balance sheet no circumstances have arisen which would require adjustments to the accounts. Significant post-balance sheet events which in the opinion of Directors require disclosure are described in Note 59 to the financial statements.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

CORPORATE GOVERNANCE

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

The Directors' have obtained External Auditor's assurance on effectiveness of the internal control mechanism and compliance with the Direction 12 of 2007 of the Central Bank of Sri Lanka on Corporate Governance.

Details of governance practices and the required disclosure are given on pages 134 to 152.

Rule 3 (8) of the Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks in Sri Lanka prescribe disclosure in the Annual Report. These disclosures have been made in this Annual Report as shown in the following Table:

The Table below provides cross references to facilitate easy reference.

Reference to Rule	Requirement	Reference to Annual Report
3 (8) (i)	Financial statements on prescribed format	Financial statements on page 192
3 (8) (ii) (a)	Affirmative assurance of compliance with accounting standards and requirements	Directors' Responsibility Statement on page 188
3 (8) (ii) (b)	Affirmative assurance of the integrity of financial reporting system	Directors' Responsibility Statement on page 188
3 (8) (ii) (d)	Information on Directors	Page 189
3 (8) (ii) (d)	Remuneration of Directors	Notes on the financial statements on page 228
3 (8) (ii) (e)	Net accommodation granted to each category of related party	Corporate Governance Report. Table on page 152
3 (8) (ii) (f)	Compensation and other transactions with Key Management Personnel	Notes on the financial statements on page 272
3 (8) (ii) (h)	Compliance with prudential requirements and regulations	This report

For and on behalf of the Board of Directors

J M S Brito
Chairman
30 May 2013

A N Fonseka
Ex-Officio Director & Chief Executive

Ms A Withana
Secretary to the Board

REPORT OF THE AUDIT COMMITTEE

The purpose of the Audit Committee is to assist the Board in its general oversight of financial reporting, internal controls and audit functions. The composition requirements and the terms of reference of the Audit Committee are set out in Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks in Sri Lanka issued by the Central Bank of Sri Lanka. This is complementary to the Charter formulated by the Audit Committee.

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

COMPOSITION

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

The composition of the Committee as at the date of this report is as follows:

- Mr A S Abeywardene - *Chairman since January 2013*
- Mr T K Bandaranayake - *Chairman up to January 2013*
- Mr J E A Perumal
- Ms H M N S Gunawardana *(Appointed w.e.f. January 2013)*

Ms H M N S Gunawardana was appointed a member in place of Mr T K Bandaranayake who retired from the Board during the year on reaching the age of 70 years. Senior Vice-President - Group Internal Audit serves as the Secretary of the Committee. He has direct access to the members of the Audit Committee.

MEETINGS

During the financial year ended 31 March 2013, eleven Audit Committee meetings were held. Proceedings of the Audit Committee meetings are reported regularly to the Board.

REPORT OF THE AUDIT COMMITTEE

Attendance by the Committee members at the meetings is given in the table on page 137 of the Annual Report.

The Chief Executive and Executive Vice-President (Finance) attend the meetings by invitation. The Committee met with the External Auditor, KPMG on three occasions which included two meetings without management presence so as to provide the External Auditor an opportunity to have a frank dialogue with the Committee.

MANDATE AND ROLE

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

The Committee has discharged the responsibilities assigned by Rule No. 3 (6) (ii) of the Corporate Governance Direction No. 12 of 2007 issued by the Central Bank of Sri Lanka. Where appropriate more details are provided under separate headings in this report.

FINANCIAL REPORTING

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

The Committee reviewed all quarterly non-audited interim financial statements and financial statements for the year ended 31 March 2012 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,

REPORT OF THE AUDIT COMMITTEE

management letter issued by the External Auditor and the responsibility statements in relation to the financial statements issued by the Executive Vice-President (Finance) and Chief Executive in making an overall assessment on the integrity of the Financial Reporting System.

The Annual Report of the Directors for this financial year to 31 March 2013 includes a separate report on internal controls on page 174. This report is issued pursuant to Rule 3 (8) (ii) (b) of the Direction No. 12 of 2007 on Corporate Governance for Licensed Specialized Banks and includes *inter alia* an affirmative assurance on the integrity of Financial Reporting System to produce reliable financial statements that are true and fair.

The Committee confirms that to the best of its knowledge and belief the financial statements issued for external purposes by DFCC Bank complied with generally accepted principles of accounting as enunciated in Sri Lanka Accounting Standards and complies with the statutory provisions of DFCC Bank Act No. 35 of 1955, Banking Act No. 30 of 1988 and to the extent applicable, the Companies Act No. 07 of 2007. The provisions of the Companies Act do not apply where express provisions are included on the same subject in the DFCC Bank Act.

INTERNAL AUDIT

With the concurrence of the Board, the Audit Committee has continued to engage the services of three firms of Chartered Accountants to supplement DFCC Bank's Internal Audit function in carrying out periodic audits at some of the business units. Representatives from the audit firm are invited to the Audit Committee meetings convened to discuss their reports.

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

RISKS AND CONTROLS

The Committee has adopted a risk-grading matrix for identifying and assessing risks encountered during the internal audit work. The Committee seeks and obtains the required assurance from the head of the business unit on the remedial action taken in order to maintain the effectiveness of internal controls.

REPORT OF THE AUDIT COMMITTEE

EXTERNAL AUDIT

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

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

In the context of determining the independence of the Auditor, the Committee reviewed the statements issued by the External Auditor pursuant to Section 163(3) of the Companies Act No. 07 of 2007. As per this declaratory statement the Auditor has confirmed that they do not have any relationship that would impair their independence and disclose the total remuneration for the financial year ended 31 March 2013 for both audit and permitted non-audit services.

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

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

REPORT OF THE AUDIT COMMITTEE

REGULATORY COMPLIANCE

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

EVALUATION

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

REAPPOINTMENT OF AUDITOR

The Audit Committee having evaluated the quality of audit service provided by the current Auditor has recommended to the Board of Directors that KPMG be reappointed as Auditors for the year ending 31 March 2014, subject to the approval of shareholders at the Annual General meeting at a fee to be determined by the Board.

A S Abeywardene
Chairman - Audit Committee
30 May 2013

REPORT OF THE HUMAN RESOURCES AND REMUNERATION COMMITTEE

THE COMPOSITION

The Human Resources and Remuneration Committee appointed by the Board of Directors, consists of three Non-Executive Directors. Mr J M S Brito is the Chairman of the Committee and Messrs G K Dayasri and J E A Perumal are the other members. Mr J E A Perumal was appointed to the Committee during the year in place of Mr Bandaranayake who retired in January 2013. The Chief Executive - Mr Nihal Fonseka attended meetings by invitation and participated in its deliberations except when his own evaluation and remuneration was under discussion. He also serves as the Secretary. The Deputy Chief Executive and Group Vice-President, Human Resources assisted the Committee by providing relevant information. The Committee obtains input from external specialists as and when required.

THE MANDATE

The Committee has adopted as its mandate the tasks specified in Section 3 (6) (iii) of Direction No. 12 of 2007 of the Central Bank of Sri Lanka on Corporate Governance for licensed specialized banks. The Committee in determining the remuneration policy relating to Directors, Chief Executive and Key Management Personnel of DFCC Bank, in terms of Directions ensures appropriate compensation levels in order to attract, retain and motivate talented staff with the core capabilities matched to its strategy and also to ensure that the Bank consistently delivers value to all stakeholders and to make the organization more competitive. To achieve this, the Committee uses a mixture 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 DFCC against the historical performance, key performance indicators agreed at the beginning of the year as well as against a peer group when determining and recommending to the Board the annual salary increment pool and the performance based variable pay pool for DFCC Bank. The Committee also appraised the performance of the Chief Executive based on the pre-agreed targets and desired skills and reviewed his remuneration.

REPORT OF THE HUMAN RESOURCES AND REMUNERATION COMMITTEE

In addition, the Committee considers and recommends to the Board of Directors from time to time, the requirements of additional/new expertise/skills and also salary revisions. During the year the Committee reviewed and recommended a revision to the organisational structure with a view to rationalise positions/functions by enhancing the span of control and accountability. The Committee periodically assesses the succession plan for key management positions and took appropriate steps to induct external skills to strengthen the management of the banking business of DFCC Group where it was deemed necessary.

MEETINGS

The Committee held three meetings during the financial year to carry out its task. The attendance by members is given on page 137 of the Annual Report.

J M S Brito
Chairman - Human Resources and Remuneration Committee
30 May 2013

REPORT OF THE NOMINATIONS COMMITTEE

COMPOSITION

The Nominations Committee of the Board of Directors consists of three Non-Executive Directors. Mr R B Thambiayah, an independent Director is the Chairman with Messrs J M S Brito and C R Jansz serving as members. The General Manager, Mr A N Fonseka attends the meeting by invitation, while the Secretary to the Board functions as the Secretary of the Committee.

MANDATE

The Committee carries out the tasks set out in Section 3 (6) (iv) of Direction No. 12 of 2007 issued by the Central Bank of Sri Lanka on corporate governance in licensed specialised banks. In terms of this Direction the role of the Committee is to identify and evaluate persons with the required skills, knowledge, standing, fitness and propriety to join the Board of the Bank and to evaluate the suitability of Directors who are seeking re-election. The Committee is responsible for the task of putting in place a procedure for the appointment of the CEO and Key Management Personnel. The Committee makes recommendations to the Board of Directors for consideration.

PROCEDURE

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

REPORT OF THE NOMINATIONS COMMITTEE

MEETINGS

Nomination Committee meetings are conducted by physical presence of members or via electronic communications. Four meetings were held during the financial year to identify possible candidates to fill key management positions, review succession planning including the CEO succession planned for later in the year and to assess 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 137 of the Annual Report. The Committee has recommended the re-election of the Director offering himself for re-election at the Annual General Meeting.

R B Thambiayah
Chairman - Nominations Committee
30 May 2013

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

COMPOSITION OF BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

The Board Integrated Risk Management Committee (BIRMC) of DFCC consisted of 3 Non-Executive Directors, one Executive Director and 6 Non-Voting members, as at 31 March 2013. The Group Chief Risk Officer functions as the Secretary to the Committee. Non-Voting members represent key functional areas such as lending, finance, treasury, operations and risk management. The membership of the Committee as at 31 March 2013, was as follows:

- Mr J M S Brito - *Chairman*
- Mr C R Jansz - *Non-Executive Director*
- Mr A S Abeyewardene - *Non-Executive Director*
- Mr A N Fonseka - *Chief Executive/Director*
- Mr A R Fernando - *Deputy Chief Executive*
- Mr T S A Fernandopulle - *Group Chief Risk Officer/Secretary to the Committee*
- Mr S Nagarajah - *EVP/Finance*
- Mr H A Ariyaratne - *EVP/Lending*
- Ms A Withana - *EVP/Operations*
- Ms M Gunawardena - *SVP/Group Treasury and Resource Development*
- Mr N Bandara - *SVP/Internal Audit*

CHARTER AND THE RESPONSIBILITIES OF THE BIRMC

The Board 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:

- Integrity and adequacy of the risk management function of the Bank
- Adequacy of the Bank's capital and its allocation
- 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
- The compliance of the Bank's operations with relevant laws, regulations and standards including the adherence to the Direction on Corporate Governance issued by the Central Bank

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

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

BIRMC MEETINGS

BIRMC meets on a quarterly basis. During the year, DFCC convened four BIRMC meetings. The attendance of members is listed on page 137 of the Annual Report. The Committee continued to review policy frameworks, Risk Management strategies and key risk indicators at these meetings and was satisfied that the risk exposures of the Bank were being appropriately managed. During the period under review, the following key initiatives were undertaken by the Committee:

- Establishment of Overall Risk Limits System for DFCC which consists of risk limits arising from regulatory requirements, borrowing covenants and internal prudential requirements. This Limits System forms a key part of the key risk indicators and includes lending limits for the industry sectors and selected geographical regions.
- Review and approval of the Roadmap for Basel II implementation in DFCC.
- Review and approval of the stress testing policy and the Integrated Risk Management Framework which are two key components specified in the CBSL Direction No. 7 of 2011 on Integrated Risk Management Frameworks of Banks.
- Review of a comprehensive analysis on the strategic/business risk associated with existing business model of DFCC.
- Review of the gap analysis in DFCC's risk management practices in line with the CBSL Guidelines for Integrated Risk Management issued with Direction No. 7 of 2011, and approval for way forward for DFCC.
- Establishment of a capital cushion for DFCC to maintain while taking in to consideration the annual credit growth, dividend payment, operational risk and unquantifiable risk. Maintaining a capital cushion is a requirement under Basel III.

Several new risk management policies and guidelines were introduced during the year while relevant existing risk policies and practices were reviewed by the Committee for conformity with the Bank specific requirements, industry dynamics and regulatory requirements. The Committee reviewed the periodical stress testing results of DFCC conducted on a bank-wide basis under the assumed stress scenarios and noted a satisfactory risk-absorption capacity in case of crystallisation of estimated risk sources.

REPORTING

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

JMS Brito

J M S Brito
Chairman
30 May 2013

DIRECTORS' STATEMENT OF INTERNAL CONTROL

INTRODUCTION

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

a. The control environment;

b. The entity's risk assessment process;

c. The information system, including the related business processes, relevant to financial reporting and communication;

d. Control activities; and

e. Monitoring of controls.

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

RESPONSIBILITY

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

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

DIRECTORS' STATEMENT OF INTERNAL CONTROL

FRAMEWORK FOR MANAGING MATERIAL RISKS OF THE BANK

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

KEY INTERNAL CONTROL PROCESSES

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

- The Board has established Committees to assist the Board in exercising an oversight on the effectiveness of the Bank's daily operations and ensuring that they are in accordance with the corporate objectives, strategies and the budgetary targets as well as the policies and business directions that have been approved.
- The Internal Audit Department of the Bank verifies compliance of operations with policies and procedures and the effectiveness of the internal control systems and highlights significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which are determined by the level of risk assessed, to provide an independent and objective report on operational and management activities of these units and branches. The annual audit plan is reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review at their periodic meetings.
- The Audit Committee of the Bank reviews internal control issues identified by the internal audit, the External Auditors, regulatory authorities and management and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit function focusing on the scope of audits and the quality of reporting. The minutes of the Audit Committee meetings are tabled for the information of the Board on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report on page 166.
- The Board Integrated Risk Management Committee (BIRMC) is established by the Board to assist the Board to oversee the overall management of principal areas of risk of the Bank. The BIRMC includes representation from all key business and operations areas of the Bank and assists the Board in the implementation of policies, procedures and controls identified by the BIRMC.

DIRECTORS' STATEMENT OF INTERNAL CONTROL

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

ASSESSMENT OF THE ADEQUACY AND EFFECTIVENESS OF INTERNAL CONTROL

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

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

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

TRANSITION TO NEW SRI LANKA ACCOUNTING STANDARDS

Consequent to full convergence of Sri Lanka Accounting Standards with International Financial Reporting Standards and International Accounting Standards that became effective from the current financial year to 31 March 2013, the bank implemented a process to make required adjustments to the financial statements prepared under the previous accounting standards. The process for making necessary adjustments was based on excel software application.

However, documentation of the process followed by the Bank for quantification of adjustments and the required disclosures and testing of such process by the internal audit was not completed as at the date of this report and this will be addressed on an ongoing basis from the ensuing financial year.

DIRECTORS' STATEMENT OF INTERNAL CONTROL

MANAGEMENT INFORMATION

The comments made by the External Auditors in connection with internal control system in the financial year to 31 March 2012 were reviewed during the year and appropriate steps have been taken to rectify them. The recommendations made by the External Auditor, KPMG in the financial year to 31 March 2013 in connection with the internal control system will be addressed in future.

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

This assessment of internal control process is confined only to the Bank and did not include its subsidiaries. However, the Board of Directors of the 99.1%-owned commercial banking subsidiary, DFCC Vardhana Bank PLC (DVB) issued an affirmative assurance in their Statement on Internal Control, on the adequacy and the effectiveness of the internal control system which was included in the DVB's Annual Report for the year ended 31 December 2012. The said Statement by the Directors was independently reviewed by KPMG, who are also the Auditors of the Bank.

CONFIRMATION

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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have reviewed the above Directors' Statement on Internal Control for the year ended 31 March 2013 and their Independent Assurance Report is on page 178 of the Annual Report.

By Order of the Board,

A S Abeyewardene
Chairman - Audit Committee

J M S Brito
Chairman - Board of Directors

A N Fonseka
Chief Executive/Director

30 May 2013

INDEPENDENT ASSURANCE REPORT

KPMG
(Chartered Accountants)
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INDEPENDENT ASSURANCE REPORT

TO THE BOARD OF DIRECTORS OF DFCC BANK

We were engaged by the Board of Directors of DFCC Bank ("Bank") to provide assurance on the Directors' Statement on Internal Control ("Statement") for the year ended 31st March 2013, as set out on pages 176 to 177 of the Annual Report.

MANAGEMENT'S RESPONSIBILITY FOR THE STATEMENT ON INTERNAL CONTROL

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

SCOPE OF THE ENGAGEMENT IN COMPLIANCE WITH SLSAE 3050

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

SUMMARY OF WORK PERFORMED

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

INDEPENDENT ASSURANCE REPORT

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 Directors' 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 Directors' 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 176 to 177 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.

KPMG

Chartered Accountants

30th May 2013

Colombo

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

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

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

CURRY LEAVES

An essential ingredient in Sri Lankan cooking, curry leaves in addition to their many known medicinal properties are also supposed to stimulate digestive enzymes and help break down food more easily.

CONSOLIDATED INCOME STATEMENT OF DFCC & DVB (DBB)

This information relates to the consolidation of DFCC Bank (DFCC) and DFCC Vardhana Bank PLC (DVB) for purpose of internal review and analysis of the banking business and is derived from total Group financial statements audited by KPMG. Reconciliation with Group financial statements is in page 185.

Income statement of DVB for the year ended 31 December is consolidated with income statements of DFCC for the year ended 31 March.

For the year ended 31 March	2013 LKR 000	2012 LKR 000
Income	17,862,179	12,083,926
Interest income	16,085,307	10,056,996
Interest expenses	9,190,110	4,755,782
Net Interest Income	6,895,197	5,301,214
Fee and commission income	657,264	594,056
Fee and commission expenses	8,284	10,473
Net Fee and Commission Income	648,980	583,583
Net gain from trading	96,707	50,132
Net gain/(loss) from financial instruments at fair value through profit or loss	(571,555)	180,563
Net gain from financial investments	1,064,602	1,129,833
Other operating income	504,706	72,346
Total Operating Income	8,638,637	7,317,671
Impairment for loans and other losses	671,740	465,894
Net Operating Income	7,966,897	6,851,777
Operating Expenses		
Personnel expenses	1,696,593	1,431,247
Other operating expenses	1,618,182	1,484,472
Operating Profit Before Value Added Tax	4,652,122	3,936,058
Value added tax (VAT) on financial services	394,461	461,476
Profit Before Tax	4,257,661	3,474,582
Tax expenses	847,324	612,730
Profit for the Year	3,410,337	2,861,852

CONSOLIDATED STATEMENT OF FINANCIAL POSITION DFCC & DVB (DBB)

This information relates to the consolidation of DFCC Bank (DFCC) and DFCC Vardhana Bank PLC(DVB) for purpose of internal review and analysis of the banking business and is derived from the total Group financial statements.

Reconciliation with Group financial statements audited by KPMG in page 185.

Statement of Financial Position of DVB as at 31 December is consolidated with Statement of Financial Position of DFCC as at 31 March.

As at	31.03.2013 LKR 000	31.03.2012 LKR 000
Assets		
Cash and cash equivalents	3,679,665	1,883,860
Balances with Central Bank	2,620,510	1,595,595
Placements with banks	7,493,817	2,984,400
Derivative assets held for risk management	119,642	341,662
Other financial assets held-for-trading	403,716	70,367
Loans to and receivables from banks	3,767,261	2,300,114
Loans to and receivables from other customers	98,637,547	85,489,088
Financial investments - Available-for-sale	27,573,595	24,498,192
Financial investments - Held-to-maturity	75,022	–
Investments in subsidiaries	128,536	137,669
Investments in associates	35,270	35,270
Investments in joint ventures	655,000	655,000
Our from subsidiaries	5,066	1,137
Investment properties	7,080	29,887
Property, plant and equipment	917,343	823,722
Intangible assets	259,202	201,050
Goodwill on consolidation	146,602	146,602
Income tax refund due	–	139,574
Prepayments	36,920	43,810
Other assets	2,154,589	1,609,270
Total Assets	148,716,383	122,986,269

CONSOLIDATED STATEMENT OF FINANCIAL POSITION DFCC & DVB (DBB)

As at	31.03.2013 LKR 000	31.03.2012 LKR 000
Liabilities		
Due to banks	8,033,620	11,075,292
Derivative liabilities held for risk management	307,094	104,754
Due to other customers	63,191,087	46,000,193
Other borrowing	35,807,582	29,066,522
Debt securities issued	558,257	718,513
Current tax liability	175,722	8,046
Deferred tax liability	460,909	376,283
Other liabilities	2,176,986	1,713,914
Due to subsidiaries	29,197	23,958
Subordinated term debt	1,609,690	1,644,503
Total Liabilities	112,350,144	90,731,978
Equity		
Share capital	2,650,977	2,650,977
Share premium	2,064,837	2,064,837
Stated capital	4,715,814	4,715,814
Statutory reserves	2,006,025	1,485,215
Retained earnings	7,111,512	5,299,531
Other reserves	22,487,878	20,710,993
Total Equity Attributable to Equity Holders of the Bank	36,321,229	32,211,553
Non-Controlling Interests	45,010	42,738
Total Equity	36,366,239	32,254,291
Total Equity and Liabilities	148,716,383	122,986,269

KEY PERFORMANCE INDICATORS OF CONSOLIDATED BANKING BUSINESS (DBB)

The key ratios of performance are derived from the consolidated income and balance sheet of DFCC Bank and DFCC Vardhana Bank PLC.

	2013	2012
Net interest income/interest income, %	42.9	52.7
Non-interest expenses/operating income, %	38.4	39.8
Impairment Allowance/Impaired Loans, %	79.8	85.2
Impaired Loans/Total Loans, %	7.2	7.3
Interest margin - Net interest income/Average Interest Earning assets, %	6.3	6.2
Common branches as at 31 March (DFCC), 31 December (DVB)	18	18
Additional branches, DVB only as at 31 December	41	32
Employees - 31 March	1,262	1,228

RECONCILIATION WITH GROUP FINANCIAL STATEMENTS

1. CONSOLIDATED INCOME STATEMENT OF DBB

For the year ended 31 March	2013 LKR 000	2012 LKR 000
Profit for the period - DBB	3,410,337	2,861,852
Consolidation adjustments		
Dividend from subsidiaries accounted in DBB	(49,574)	(50,824)
WHT on dividend received	(4,901)	(3,368)
Reversal of provision for fall in value of investments in subsidiary	9,135	17,367
	3,364,997	2,825,027
Add: Profit from other subsidiaries and Joint venture attributable to equity holders of DFCC Bank		
Subsidiaries	123,252	93,050
Joint venture	47,831	115,620
Share of profits of associate	1,887	4,125
Profit for the Period	3,537,967	3,037,822

	SLFRS	SLFRS
Composition of the Joint Venture Results		
Joint venture and its subsidiaries	25,568	114,460
Associates of joint venture and its subsidiaries	22,263	1,161
	47,831	115,621

2. CONSOLIDATED EQUITY OF DBB

As at 31 March	2013 LKR 000	2012 LKR 000
Consolidated equity of DBB	36,321,229	32,211,553
Equity of other subsidiaries	181,525	168,469
Proportionate equity of joint ventures	377,311	271,909
Elimination of 50% of the profits on sale of subsidiary to joint ventures	(184,688)	(184,688)
Consolidation adjustment for loss in value of a subsidiary	26,502	17,367
Share of post acquisition reserves - associate	18,197	18,436
	36,740,076	32,503,046

FINANCIAL REPORTS

FINANCIAL CALENDAR - 2012/13

LKR 4.00 per share Final Dividend for 2012 paid on	11 July 2012
Audited financial statements signed on	30 May 2013
57th Annual General Meeting to be held on	28 June 2013
LKR 5.00 per share Final Dividend for 2013 payable on*	9 July 2013
1st Quarter Interim Results released on	09 August 2012
2nd Quarter Interim Results released on	05 November 2012
3rd Quarter Interim Results released on	08 February 2013

PROPOSED FINANCIAL CALENDAR - 2013/14

1st Quarter Interim Results to be released in	August 2013
2nd Quarter Interim Results to be released in	November 2013
3rd Quarter Interim Results to be released in	February 2014
58th Annual General Meeting to be held in	June 2014

** Subject to confirmation by Shareholders*

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

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

The Directors are required by relevant statutory provisions to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank and the Group for that period. The statutory provisions are in DFCC Bank Act No. 35 of 1955, read in conjunction with Banking Act No. 30 of 1988 and amendments thereto and Companies Act No. 07 of 2007 to the extent it is applicable to the DFCC Bank. The application of principal qualitative characteristics and appropriate accounting standards and regulatory requirements inclusive of specific disclosures would result in financial statements that convey a true and fair view of financial information and financial position.

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

The financial statements for the year to 31 March 2013 and the comparative periods have been prepared in accordance with Sri Lanka Financial Reporting Standards (SLFRS) that became effective from year to 31 March 2013 for the first time. These SLFRS are a new set of Accounting Standards replacing the previous Sri Lanka Accounting Standards referred to as Generally Accepted Accounting Principles (GAAP). The new set of Accounting Standards are identical to International Financial Reporting Standards issued up to 2009.

Consequent to the adoption of new Accounting Standards referred to as SLFRS, new Accounting Policies have been formulated as explained in the notes to the financial statements. The new Accounting Policies formulated in accordance with the new Accounting Standards are not regarded as a change of Accounting Policies; instead they are the outcome of new regime of Accounting Standards replaced.

The Directors are responsible for keeping proper accounting records and to take reasonable steps as far as practicable, to ensure the accuracy and reliability of accounting records, to enable the preparation of financial statements. The Directors have a general responsibility to take reasonable

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

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 DFCC Bank Act No. 35 of 1955, Banking Act No. 30 of 1988 and to the extent applicable, the Companies Act No. 07 of 2007. The report of this Committee is on pages 166 to 167.

The Directors are in agreement with the assessment of the Audit Committee on the reliability of financial reporting system of the Bank and confirm that the financial statements prepared for external use is in accordance with relevant accounting principles and regulatory requirements. As part of institutional checks and balances and accountability, in addition to this Directors' Responsibility Statement, the Directors have included the Chief Executive's and the Chief Financial Officer's Responsibility Statement on page 190.

By Order of the Board,

Ms A Withana
Secretary to the Board

Colombo
30 May 2013

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

The financial statements are prepared in compliance with the Sri Lanka Financial Reporting Standards (SLFRS) issued by the Institute of Chartered Accountants of Sri Lanka, DFCC Bank Act No. 35 of 1955 as amended, Section 153 of the Companies Act No. 7 of 2007 and Banking Act No. 30 of 1988 as amended and Directions issued there under relating to financial statements formats and disclosure of information. The financial year to 31 March 2013 is the first year of application of SLFRS and therefore a new set of appropriate accounting policies were used in the preparation of the financial statements.

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

The financial statements of the Group and joint venture company were audited by KPMG. National Asset Management Limited an associate company is also audited by KPMG.

The Audit Committee of the Bank meets periodically with the internal auditors and the independent auditors to review the manner in which KPMG 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.

S Nagarajah
Executive Vice-President (Finance)

A N Fonseka
Ex Officio Director & Chief Executive

Colombo
30 May 2013

INDEPENDENT AUDITORS' REPORT

KPMG
(Chartered Accountants)
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TO THE SHAREHOLDERS OF DFCC BANK

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of DFCC Bank ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group"), which comprise the statements of financial position as at 31st March 2013, the statements of 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 202 to 310 of the annual report.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

SCOPE OF AUDIT AND BASIS OF OPINION

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

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

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

OPINION

In our opinion, so far as appears from our examination, the Bank maintained proper accounting records for the year ended 31st March 2013 and the financial statements give a true and fair view of the financial position of the Bank as at 31st March 2013, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Bank and its subsidiaries dealt with thereby as at 31st March 2013, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

KPMG

Chartered Accountants
30th May 2013
Colombo

INCOME STATEMENT

For the year ended 31 March	Notes	Page No.	BANK 2013 LKR 000	BANK 2012 LKR 000	GROUP 2013 LKR 000	GROUP 2012 LKR 000
Income	10	221	10,433,029	7,652,345	18,197,260	12,606,149
Interest income			9,278,511	6,133,114	16,142,549	10,177,296
Interest expense			5,022,539	2,897,999	9,141,661	4,733,779
Net interest income	11	221	4,255,972	3,235,115	7,000,888	5,443,517
Fee and commission income			82,132	139,565	719,924	754,806
Fee and commission expenses			–	–	8,284	10,473
Net fee and commission income	12	222	82,132	139,565	711,640	744,333
Net gain/(loss) from trading	13	222	2,937	(13,270)	102,000	39,775
Net gain/(loss) from financial instruments at fair value through profit or loss	14	222	(388,778)	254,295	(571,555)	180,563
Net gain from financial investments	15	223	1,090,454	1,147,841	1,097,694	1,087,370
Other operating (loss)/income (net)	16	223	367,773	(9,200)	706,648	366,339
Total operating income			5,410,490	4,754,346	9,047,315	7,861,897
Impairment for loans and other losses	17	223	168,674	90,681	662,605	448,527
Net operating income			5,241,816	4,663,665	8,384,710	7,413,370
Operating expenses						
Personnel expenses	18	224	927,670	804,265	1,848,049	1,632,020
Other expenses	19	228	626,373	639,834	1,747,200	1,630,732
Operating profit before value added tax			3,687,773	3,219,566	4,789,461	4,150,618
Value added tax (VAT) on financial services	20	228	232,299	336,338	394,461	461,476
Operating profit after value added tax			3,455,474	2,883,228	4,395,000	3,689,142
Share of profits of associates			–	–	24,150	5,287
Profit before tax			3,455,474	2,883,228	4,419,150	3,694,429
Tax expense	21	228	570,559	430,429	881,183	656,607
Profit for the year			2,884,915	2,452,799	3,537,967	3,037,822
Profit attributable to:						
- Equity holders of the Bank			2,884,915	2,452,799	3,457,520	2,966,068
- Non-controlling interests			–	–	80,447	71,754
Profit for the year			2,884,915	2,452,799	3,537,967	3,037,822
Basic earnings per ordinary share (LKR)	22	231	10.89	9.25	13.04	11.19
Dividend per share (LKR)			5	4	5	4

The notes to the financial statements from pages 192 to 310 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

	BANK		GROUP	
For the year ended 31 March	**2013 LKR 000**	2012 LKR 000	**2013 LKR 000**	2012 LKR 000
Profit for the year	2,884,915	2,452,799	3,537,967	3,037,822
Gains and losses on re-measuring available-for-sale financial assets				
Net change in fair value of available-for-sale financial assets	1,805,833	(3,967,395)	1,823,406	(4,058,946)
Net amount transferred to income statement on disposal of available-for-sale financial assets	(69,600)	(409,231)	(70,967)	(409,231)
Share of profits of associates	–	–	4,322	280
Deemed disposal gain - joint venture	–	–	141,914	–
Transferred to income on disposal - associate	–	–	(986)	–
Net change in fair value of available-for-sale financial assets before tax	1,736,233	(4,376,626)	1,897,689	(4,467,897)
Tax expense relating to components of other comprehensive income	–	–	–	–
Other comprehensive income for the year, net of tax	1,736,233	(4,376,626)	1,897,689	(4,467,897)
Total comprehensive income for the year	4,621,148	(1,923,827)	5,435,656	(1,430,075)
Total comprehensive income attributable to:				
- Equity holders of the Bank	4,621,148	(1,923,827)	5,288,650	(1,497,400)
- Non-controlling interests	–	–	147,006	67,325
Total comprehensive income for the year	4,621,148	(1,923,827)	5,435,656	(1,430,075)

The notes to the financial statements from pages 192 to 310 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

			BANK			GROUP		
As at	Notes	Page No.	31.03.2013 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2013 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000
Assets								
Cash and cash equivalents	24	234	597,456	83,210	16,553	3,976,892	1,458,363	1,537,324
Balances with Central Bank	25	235	–	–	–	2,620,790	1,596,066	894,531
Placements with banks	26	235	6,128,245	3,505,346	1,490,942	7,541,088	3,545,159	38,836
Derivative assets held for risk management	27	235	45,145	243,001	2,636	119,642	341,662	28,323
Other financial assets held-for-trading	28	236	377,800	58,510	397,057	593,408	548,419	1,282,367
Non-current assets held-for-sale	29	236	–	–	–	2,875	2,875	2,875
Loans to and receivables from banks	30	237	1,822,838	1,955,604	2,101,449	5,633,902	4,132,131	4,932,731
Loans to and receivables from other customers	31	237	58,844,767	53,026,219	38,066,298	98,399,443	85,427,447	56,243,231
Financial investments - available-for-sale	32	240	19,222,842	16,276,691	27,191,472	27,659,665	24,597,428	33,541,084
Financial investments - held-to-maturity	33	247	75,022	–	–	157,963	82,028	85,793
Investments in subsidiaries	34	248	3,755,953	3,760,540	2,441,320	–	–	16,000
Investments in associates	35	249	35,270	35,270	35,270	415,251	373,227	179,800
Investments in joint ventures	36	250	655,000	655,000	655,000	–	–	–
Due from subsidiaries	37	250	39,204	41,597	15,950	–	–	–
Investment properties	38	251	–	–	–	169,485	147,981	233,579
Property, plant and equipment	39	252	438,259	431,606	493,465	1,027,655	936,250	939,415
Intangible assets	40	254	80,078	29,978	45,491	261,668	203,861	173,042
Goodwill on consolidation	41	254	–	–	–	226,411	226,411	226,411
Deferred tax asset	42	255	–	–	–	834	5,583	1,781
Income tax refund due			–	139,574	–	28,148	161,208	16,820
Prepayments			36,920	43,810	17,331	36,920	43,810	17,331
Other assets	43	256	935,284	798,416	583,543	2,252,230	1,664,463	1,305,063
Total assets			93,090,083	81,084,372	73,553,777	151,124,270	125,494,372	101,696,337
Liabilities								
Due to banks	44	256	6,399,595	7,356,266	4,622,886	8,040,422	11,139,181	4,932,566
Derivative liabilities held for risk management	27	235	190,922	–	18,605	307,094	104,754	47,779
Due to other customers	45	257	15,548,067	12,444,554	4,154,033	62,750,266	45,678,683	26,238,082
Other borrowing	46	258	33,846,282	27,805,261	24,675,752	37,530,202	30,924,126	27,501,145
Debt securities issued	47	259	558,257	718,513	1,226,911	558,257	718,513	1,226,911
Current tax liability			85,937	–	230,858	179,826	56,665	401,254
Deferred tax liability	42	255	382,796	328,039	275,121	461,154	376,284	315,313
Other liabilities	48	259	761,825	687,117	2,440,535	2,434,906	1,923,982	3,548,008
Due to subsidiaries	49	262	525	222	–	–	–	–
Subordinated term debt	50	263	609,373	609,373	2,067,444	1,609,690	1,644,503	2,067,444
Total liabilities			58,383,579	49,949,345	39,712,145	113,871,817	92,566,691	66,278,502

STATEMENT OF FINANCIAL POSITION

As at	Notes	Page No.	BANK 31.03.2013 LKR 000	BANK 31.03.2012 LKR 000	BANK 01.04.2011 LKR 000	GROUP 31.03.2013 LKR 000	GROUP 31.03.2012 LKR 000	GROUP 01.04.2011 LKR 000
Equity								
Share capital			2,650,977	2,650,977	2,648,838	2,650,977	2,650,977	2,648,838
Share premium			2,064,837	2,064,837	2,054,546	2,064,837	2,064,837	2,054,546
Stated capital	51	264	4,715,814	4,715,814	4,703,384	4,715,814	4,715,814	4,703,384
Statutory reserves	52	265	2,006,025	1,485,215	1,068,600	2,006,025	1,485,215	1,068,600
Retained earnings	53	216	3,037,541	1,723,107	2,882,131	7,519,913	5,560,454	6,339,115
Other reserves	54	267	24,947,124	23,210,891	25,187,517	22,498,324	20,741,563	22,805,031
Total equity attributable to equity holders of the Bank			34,706,504	31,135,027	33,841,632	36,740,076	32,503,046	34,916,130
Non-controlling interests						512,377	424,635	501,705
Total equity			34,706,504	31,135,027	33,841,632	37,252,453	32,927,681	35,417,835
Total equity and liabilities			93,090,083	81,084,372	73,553,777	151,124,270	125,494,372	101,696,337
Contingent liabilities and commitments	55	268	16,069,720	18,695,153	15,979,729	39,280,376	40,922,680	26,512,785
Net asset value per share, LKR			130.92	117.45	127.76	138.59	122.61	131.82

The notes to the financial statements from pages 192 to 310 form part of these financial statements.

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

S. Nagarajah

S Nagarajah
Executive Vice President (Finance)

For and on behalf of the Board of Directors

J M S Brito
Chairman

A N Fonseka
Ex Officio Director and Chief Executive

Colombo
30 May 2013

STATEMENT OF CHANGES IN EQUITY

For the years ended 31 March	Share capital LKR 000	Share premium LKR 000	Statutory reserves Reserve fund LKR 000	Statutory reserves Investment fund account LKR 000	Other reserves Fair value reserve LKR 000	Other reserves General reserves LKR 000	Retained earnings LKR 000	Total equity LKR 000
Bank								
Balance as at 31.03.2011 as previously stated	2,648,838	2,054,546	1,015,000	53,600	–	11,379,839	3,067,038	20,218,861
Impact of adopting SLFRS as at 01.04.2011	–	–	–	–	13,807,678	–	(184,907)	13,622,771
Restated balance as at 01.04.2011	2,648,838	2,054,546	1,015,000	53,600	13,807,678	11,379,839	2,882,131	33,841,632
Total comprehensive income for the year								
Profit for the year	–	–	–	–	–	–	2,452,799	2,452,799
Other comprehensive income net of tax	–	–	–	–	(4,376,626)	–	–	(4,376,626)
Total comprehensive income for the year	–	–	–	–	(4,376,626)	–	2,452,799	(1,923,827)
Transfers	–	–	120,000	296,615	–	2,400,000	(2,816,615)	–
Transactions with equity holders, recognised directly in equity								
Share options exercised	2,139	10,424	–	–	–	–	–	12,563
Share issue expenses written off	–	(133)	–	–	–	–	–	(133)
Final dividend approved on 30.06.2011	–	–	–	–	–	–	(795,208)	(795,208)
Total contributions from and distribution to equity holders	2,139	10,291	–	–	–	–	(795,208)	(782,778)
Balance as at 31.03.2012	2,650,977	2,064,837	1,135,000	350,215	9,431,052	13,779,839	1,723,107	31,135,027
Total comprehensive income for the year								
Profit for the year	–	–	–	–	–	–	2,884,915	2,884,915
Other comprehensive income	–	–	–	–	1,736,233	–	–	1,736,233
Total comprehensive income for the year	–	–	–	–	1,736,233	–	2,884,915	4,621,148
Transfers	–	–	150,000	370,810	–	–	(520,810)	–
Transactions with equity holders, recognised directly in equity								
Forfeiture of unclaimed dividends	–	–	–	–	–	–	10,720	10,720
Final dividend approved on 29.06.2012	–	–	–	–	–	–	(1,060,391)	(1,060,391)
Total contributions from and distribution to equity holders	–	–	–	–	–	–	(1,049,671)	(1,049,671)
Balance as at 31.03.2013	2,650,977	2,064,837	1,285,000	721,025	11,167,285	13,779,839	3,037,541	34,706,504

STATEMENT OF CHANGES IN EQUITY

	Attributable to the equity holders of the Bank									
			Statutory reserves		Other reserves					
	Share capital	Share premium	Reserve fund	Investment fund account	Fair value reserve	General reserve	Retained earnings	Total	Non-controlling interests	Total
	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000
Group										
Balance as at 31.03.2011 as previously stated	2,648,838	2,054,546	1,015,000	53,600	–	11,379,839	6,530,865	23,682,688	486,666	24,169,354
Impact of adopting SLFRS as at 01.04.2011	–	–	–	–	11,425,192	–	(191,750)	11,233,442	15,039	11,248,481
Restated balance as at 01.04.2011	2,648,838	2,054,546	1,015,000	53,600	11,425,192	11,379,839	6,339,115	34,916,130	501,705	35,417,835
Total comprehensive income for the year										
Profit for the year	–	–	–	–	–	–	2,966,068	2,966,068	71,754	3,037,822
Other comprehensive income net of tax	–	–	–	–	(4,463,468)	–	–	(4,463,468)	(4,429)	(4,467,897)
Total comprehensive income for the year	–	–	–	–	(4,463,468)	–	2,966,068	(1,497,400)	67,325	(1,430,075)
Transfers	–	–	120,000	296,615		2,400,000	(2,816,615)	–	–	–
Transactions with equity holders, recognised directly in equity										
Share options exercised	2,139	10,424	–	–	–	–	–	12,563	–	12,563
Share issue expenses written off	–	(133)	–	–	–	–	–	(133)	–	(133)
Final dividend approved on 30.06.2011	–	–	–	–	–	–	(795,208)	(795,208)	–	(795,208)
Increase in ownership interest by the Bank that does not result in change of control	–	–	–	–	–	–	(132,906)	(132,906)	(110,230)	(243,136)
Issue of shares by a subsidiary	–	–	–	–	–	–	–	–	11,682	11,682
Dividend distributed to non-controlling interest by subsidiaries	–	–	–	–	–	–	–	–	(45,847)	(45,847)
Total contributions from and distribution to equity holders	2,139	10,291	–	–	–	–	(928,114)	(915,684)	(144,395)	(1,060,079)
Balance as at 31.03.2012	2,650,977	2,064,837	1,135,000	350,215	6,961,724	13,779,839	5,560,454	32,503,046	424,635	32,927,681

STATEMENT OF CHANGES IN EQUITY

	Attributable to the equity holders of the Bank									
			Statutory reserves		Other reserves					
	Share capital LKR 000	Share premium LKR 000	Reserve fund LKR 000	Investment fund account LKR 000	Fair value reserve LKR 000	General reserve LKR 000	Retained earnings LKR 000	Total LKR 000	Non-controlling interests LKR 000	Total LKR 000
Group (Contd.)										
Balance as at 31.03.2012	2,650,977	2,064,837	1,135,000	350,215	6,961,724	13,779,839	5,560,454	32,503,046	424,635	32,927,681
Total comprehensive income for the year										
Profit for the year	–	–	–	–	–	–	3,457,520	3,457,520	80,447	3,537,967
Other comprehensive income net of tax	–	–	–	–	1,756,761	–	74,369	1,831,130	66,559	1,897,689
Total comprehensive income for the year	–	–	–	–	1,756,761	–	3,531,889	5,288,650	147,006	5,435,656
Transactions with equity holders, recognised directly in equity										
Transfers	–	–	150,000	370,810	–	–	(520,810)	–	–	–
Forfeiture of unclaimed dividends	–	–	–	–	–	–	10,720	10,720	–	10,720
Final dividend approved on 29.06.2012	–	–	–	–	–	–	(1,060,391)	(1,060,391)	–	(1,060,391)
Increase in ownership interest by the Bank that does not result in change of control	–	–	–	–	–	–	(1,949)	(1,949)	(2,597)	(4,546)
Dividend distributed to non-controlling interest by subsidiaries	–	–	–	–	–	–	–	–	(56,667)	(56,667)
Total contributions from and distribution to equity holders	–	–	–	–	–	–	(1,051,620)	(1,051,620)	(59,264)	(1,110,884)
Balance as at 31.03.2013	2,650,977	2,064,837	1,285,000	721,025	8,718,485	13,779,839	7,519,913	36,740,076	512,377	37,252,453

The notes to the financial statements from pages 192 to 310 form part of these financial statements.

CASH FLOW STATEMENT

	BANK		GROUP	
For the year ended	**31.03.2013 LKR 000**	31.03.2012 LKR 000	**31.03.2013 LKR 000**	31.03.2012 LKR 000
Cash flow from operating activities				
Interest receipts	7,866,593	5,413,741	13,875,532	8,641,544
Interest payments	(4,803,007)	(2,577,612)	(8,592,679)	(4,329,432)
Recoveries on loans previously written off	71,087	119,074	73,223	119,074
Receipts from other operating activities	313,458	958,768	905,411	1,908,138
Cash payments to employees and suppliers	(1,536,083)	(1,428,550)	(3,280,489)	(2,981,734)
Value added tax	(232,299)	(359,454)	(395,414)	(463,147)
Operating cash flow before changes in operating assets and liabilities	1,679,749	2,125,967	2,585,584	2,894,443
(Increase)/decrease in operating assets:				
Deposits held for regulatory or monetary control purposes	–	–	(1,024,915)	(701,360)
Funds advanced to customers	(4,390,245)	(13,728,756)	(10,713,304)	(27,853,251)
Others	(116,657)	(14,931)	(454,148)	(92,452)
Increase/(decrease) in operating liabilities:				
Deposits from customers	3,189,540	8,022,829	16,686,820	18,905,796
Negotiable certificates of deposit	–	(1,436)	194,683	93,939
Others	187,894	92,909	395,639	146,323
Net cash flow from operating activities before income tax	550,281	(3,503,418)	7,670,359	(6,606,562)
Income tax paid	(247,718)	(721,066)	(364,053)	(1,018,881)
Net cash flow from/(used in) operating activities	302,563	(4,224,484)	7,306,306	(7,625,443)
Cash flow from investing activities				
Dividend received	1,048,955	719,660	944,714	667,799
Interest received	691,337	345,488	1,086,632	840,672
Government Securities	(1,813,085)	9,591,161	(6,918,756)	7,632,439
Proceeds from sale and redemption of securities	691,925	717,479	691,925	809,240
Purchase of securities	(1,046,930)	(3,308,198)	(1,012,490)	(3,316,498)
Investment in associates by joint venture	–	–	(20,000)	(192,000)
Investment in additional shares of subsidiaries - DFCC Vardhana Bank PLC	(4,546)	(1,336,587)	(4,546)	(243,136)
Purchase of property, equipment, intangibles and investment property	(185,044)	(49,568)	(506,752)	(333,882)
Proceeds from sale of equipment and investment property	3,086	4,796	32,043	104,305
Net cash flow from investing activities	(614,302)	6,684,231	(5,707,230)	5,968,939

CASH FLOW STATEMENT

	BANK		GROUP	
For the year ended	**31.03.2013 LKR 000**	31.03.2012 LKR 000	**31.03.2013 LKR 000**	31.03.2012 LKR 000
Cash flow from financing activities				
Redemption of debentures	(157,600)	(1,910,000)	(157,600)	(910,000)
Issue of new shares under option	–	12,563	–	12,563
Issue of new shares by subsidiary Rights issue	–	–	–	11,681
Issue of new shares by joint venture	–	–	291,913	–
Share issue expenses	–	(133)	–	(133)
Borrowing, medium and long-term	13,524,738	13,748,692	14,749,693	13,748,692
Other borrowing	3,521,750	(2,625,500)	909,201	627,458
Repayment of borrowing, medium and long-term	(12,179,341)	(6,217,274)	(12,180,124)	(6,004,059)
Dividends paid	(1,056,071)	(2,638,552)	(1,112,739)	(2,684,393)
Net Cash flow from financing activities	3,653,476	369,796	4,099,420	3,145,305
Net increase in cash and cash equivalents	3,341,737	2,829,543	4,264,135	3,188,177
Cash and cash equivalents/(overdraft - net) at the beginning of period as previously stated	4,217,219	1,387,676	8,248,126	4,822,955
Consolidation adjustment - Investment in Synapsys Limited	–	–	–	16,000
Cash and cash equivalents/(overdraft - net) at the beginning of the period	4,217,219	1,387,676	8,248,126	4,838,955
Cash and cash equivalents at the end of period	7,558,956	4,217,219	12,347,546	7,984,260
Reconciliation of cash and cash equivalents				
Cash and short-term funds	6,725,701	3,588,556	9,722,376	5,003,522
Placements with and loans to banks & financial institutions	–	–	1,795,604	–
Government securities	833,255	628,663	833,256	3,059,179
Borrowing, short-term - Bank overdrafts	–	–	(3,690)	(78,441)
	7,558,956	4,217,219	12,347,546	7,984,260

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 the Bank and respective companies as required by Sri Lanka Accounting Standards.

CASH FLOW STATEMENT

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

	BANK		GROUP	
For the year ended 31 March	**2013 LKR 000**	2012 LKR 000	**2013 LKR 000**	2012 LKR 000
Profit for the year	2,884,915	2,452,799	3,457,520	2,966,068
Add/(deduct) items not using (providing) cash:	643,171	(68,417)	1,328,064	505,521
Depreciation - Property, equipment and investment property	106,492	108,962	241,298	240,163
Amortisation - Intangible assets	21,799	17,790	82,461	66,386
Net gain/(loss) from financial instruments at fair value	388,778	(258,970)	418,092	(244,398)
Impairment for loans and other losses	168,674	90,681	662,605	448,527
Notional tax credit on treasury bills and bonds	(42,572)	(26,880)	(132,689)	(71,624)
Share of profits of associates	–	–	(24,150)	(5,287)
Non-controlling interests	–	–	80,447	71,754
Deduct items reported gross under investing activities:	(1,273,510)	(1,231,366)	(1,171,863)	(1,190,523)
Dividend income	(1,150,309)	(930,272)	(1,046,069)	(874,271)
Gains on sale of financial investment	(120,008)	(295,417)	(120,008)	(295,417)
Gains on sale of equipment and investment property	(3,193)	(5,677)	(5,786)	(20,835)
Add/(deduct) changes in operating assets and liabilities:	(1,952,013)	(5,377,500)	3,692,585	(9,906,509)
Increase in accounts receivables	(1,291,716)	356,443	(2,450,841)	(430,847)
Decrease in accounts payables	146,331	186,080	541,521	387,619
Increase/(decrease) in income tax payable	268,083	(203,980)	427,510	(258,421)
Increase in income tax refund	–	(139,574)		(161,020)
Increase in deferred tax	54,757	52,917	89,620	57,167
Increase in operating assets	(4,506,901)	(13,743,687)	(12,192,367)	(28,647,063)
Increase in operating liabilities	3,377,433	8,114,301	17,277,142	19,146,056
Net cash flow from/(used in) operating activities	302,563	(4,224,484)	7,306,306	(7,625,443)

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

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

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

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

The Bank does not have a Parent company.

The Bank's Group comprises of subsidiary companies viz, DFCC Consulting (Pvt) Limited, DFCC Vardhana Bank PLC, Lanka Industrial Estates Limited and Synapsys Limited.

Acuity Partners (Pvt) Limited a joint venture company equally owned by the Bank and Hatton National Bank PLC.

The Bank has one associate company viz, National Asset Management Limited.

Total employee population of the Bank and the Group on 31 March 2013 was 461 and 1,460 respectively. (31 March 2012 - 466 and 1,396 respectively)

1.1 PRINCIPAL ACTIVITIES

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

DFCC Bank

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

DFCC Consulting (Pvt) Limited

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

DFCC Vardhana Bank PLC

Commercial banking.

Lanka Industrial Estates Limited

Leasing of land and buildings to industrial enterprises.

Synapsys Limited

Information technology services and information technology enabled services.

National Asset Management Limited

Fund management.

Acuity Partners (Pvt) Limited

Investment banking related financial services.

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

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

The consolidated financial statements of the Bank (Group) and the separate financial statements of the Bank (Bank) have been prepared in accordance with relevant Sri Lanka Financial Reporting Standards (SLFRS) adopted by The Institute of Chartered Accountants of Sri Lanka (ICASL) and comply with the requirements of Banking Act No. 30 of 1988 and amendments thereto.

SLFRS are based on the corresponding International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) formulated by the International Accounting Standards Board (IASB) and its predecessor International Accounting Standards Committee (IASC), 2009. Thus, identical reference numbers of the corresponding IFRS and IAS are used with the prefix SLFRS and LKAS respectively.

Consequent to full convergence of SLFRS with IFRS, the financial statements of the Bank and Group for the year to 31 March 2013 is the first financial year in which SLFRS have been adopted. SLFRS includes SLFRS 1 - 'First-Time Adoption' with effect from 31 March 2012

For all reporting periods up to and including the year ended 31 March 2012 Bank prepared its consolidated financial statements and the separate financial statements in accordance with Sri Lanka Accounting Standards effective up to 31 March 2012 referred to as the previous Generally Accepted Accounting Principles (GAAP).

2.2 APPROVAL OF FINANCIAL STATEMENTS BY DIRECTORS

The financial statements are authorised for issue by the Board of Directors on 30 May 2013.

2.3 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

DFCC Bank as the parent of subsidiaries under its control is required to present only the consolidated financial statements as per Sri Lanka Accounting Standard LKAS 27 on 'Consolidated and Separate Financial Statements'. However, in addition to the consolidated financial statements, separate financial statements are also presented as per Banking Act No. 30 of 1988.

2.4 BASIS OF MEASUREMENT

The consolidated and separate financial statements of the Bank are presented in LKR (Sri Lanka Rupees) being the, functional and presentation currency, rounded to the nearest thousand and, unless otherwise stated, have been prepared on the historical cost basis except for the following material items in the statement of financial position:

i. Assets held for trading are measured at fair value.

ii. Derivative assets and derivative liabilities held for risk management are measured at fair value.

iii. The liability 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 plus unrecognised actuarial gains or less unrecognised actuarial losses as the case may be.

iv. The liability for defined benefit statutory end of service gratuity obligations is recognised as the present value of the defined benefit gratuity obligation plus unrecognised actuarial gains or less unrecognised actuarial losses as the case may be.

v. Financial assets available-for-sale are measured at fair value.

NOTES TO THE FINANCIAL STATEMENTS

The Bank has not designated any financial instrument at fair value which is an option under LKAS 39 - Sri Lanka Accounting Standard - Financial Instruments: Recognition and Measurement, since it does not have any embedded derivative and the Bank considers that currently there are no significant accounting mismatches due to recognition or measurement inconsistency between financial assets and financial liabilities.

2.5 MATERIALITY AND AGGREGATION

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

2.6 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

2.6.1 General

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

Management discusses with the Board Audit Committee the development, selection and disclosure of critical accounting policies and their application, and assumptions made relating to major estimation uncertainties.

The use of available information and application of judgment are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared.

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

Management believes that Bank's critical accounting policies where judgment is necessarily applied are those which relate to impairment of loans and advances, financial leases and goodwill, the valuation of financial instruments, deferred tax assets and provisions for liabilities.

Further information about key assumptions concerning the future and other key sources of estimated uncertainty are set out in the notes to the financial statements.

2.6.2 Accounting Estimates

2.6.2.1 Loan Losses

The assessment of loan loss as set out in Note 31.3 involves considerable judgment and estimation. Judgment is required firstly to determine whether there are indications that a loss may already have been incurred in individually significant loans and secondly to determine the recoverable amount.

2.6.2.2 Pension Liability

The estimation of this liability determined by an independent, qualified actuary, necessarily involves long-term assumptions on future changes to salaries, future income derived from pension assets, life expectancy of covered employees, etc. Key assumptions are disclosed in Note 18.6.

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

2.6.2.3 End of Service Gratuity Liability

The estimation of this liability, which is not funded, determined by an independent qualified actuary necessarily involves long-term assumptions on future changes to salaries, resignations prior to the normal retirement age and mortality of covered employees. Key assumptions are disclosed in Note 18.6.

2.6.2.4 Current Tax

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

NOTES TO THE FINANCIAL STATEMENTS

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

2.6.2.5 Impairment of Tangible and Intangible Assets

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

3. BASIS OF CONSOLIDATION

3.1 GENERAL

The consolidated financial statements are 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 companies and joint venture company on the basis of reported results and net assets of the investee instead of the direct equity interest. The consolidation of the joint venture company results is on proportionate consolidation method by combining Bank's share of assets, liabilities, income and expenses of the joint venture company with the similar items line-by-line in the financial statements of the Bank.

Thus, the consolidated financial statements present financial information about the Group as a single economic entity distinguishing the equity attributable to the parent (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 consideration. Financial statements of DFCC Consulting (Pvt) Limited and Lanka Industrial Estates Limited included in the consolidation have financial years ending 31 March in common with the Bank. The financial statements of Acuity Partners (Pvt) Limited, DFCC Vardhana Bank PLC, Synapsys Limited and National Asset Management Limited included in the consolidation have financial years ending on 31 December.

3.4 SIGNIFICANT EVENTS AND TRANSACTIONS DURING THE PERIOD BETWEEN DATE OF FINANCIAL STATEMENTS OF THE SUBSIDIARIES, ASSOCIATE COMPANY AND JOINT VENTURE COMPANY AND THE DATE OF FINANCIAL STATEMENTS OF THE BANK

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

3.5 FINANCIAL STATEMENTS USED FOR COMPUTATION OF GOODWILL OR NEGATIVE GOODWILL ON DATE OF ACQUISITION

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

3.6 TAXES ON THE UNDISTRIBUTED EARNINGS OF SUBSIDIARIES, ASSOCIATE COMPANY AND JOINT VENTURE COMPANY

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

NOTES TO THE FINANCIAL STATEMENTS

4. SCOPE OF CONSOLIDATION

All subsidiaries have been consolidated.

4.1 SUBSIDIARY COMPANIES

Subsidiaries are those entities controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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 expense in the profit or loss in the period in which they are incurred. The acquired identifiable assets, liabilities and contingent liability 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 amounts of the identifiable assets acquired and the liabilities assumed.

The amount of non-controlling interest is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

In a business combination achieved in stages, the previously held equity interest is remeasured at the acquisition date fair value with a resulting gain or loss recognised in the profit or loss.

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Note 34 contains the financial information relating to subsidiaries.

4.2 ASSOCIATE COMPANY

Associate companies are those enterprises over which the Bank has significant influence that is neither a subsidiary nor an interest in a joint venture. The Bank has only one associate company, National Asset Management Limited. The consolidated financial statements include the Bank's share of the total comprehensive income of the associate company, on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

Note 35 contains financial information relating to associate companies.

4.3 JOINT VENTURE COMPANY

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

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. Consequent to first time adoption of Sri Lanka Financial Reporting Standards (SLFRS) effective from 1 April 2012, new accounting policies have been formulated and have been retrospectively applied for the comparative year to 31 March 2012. Retprospective application of the new accounting policies necessitated restatement of Statement of Financial Positions as at 1 April 2011 and 31 March 2012.

The financial impact of transition to SLFRS with effect from 1 April 2012 and restatement of prior years is explained in Note 63.

NOTES TO THE FINANCIAL STATEMENTS

5.1 REVENUE AND EXPENSE RECOGNITION

5.1.1 Interest Income and Expense

Interest income and expense for all interest-bearing financial instruments are recognised in 'Interest Income' and 'Interest Expense' in the income statement using the effective interest rate of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments earned or paid on a financial asset or financial liability through its expected life (or, where appropriate, a shorter period) to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, bank estimates future cash flows considering all contractual terms of the financial instruments but not future credit losses.

The calculation of the effective interest includes all transaction cost, premiums or discounts and fees paid or received by the Bank that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income on individually significant impaired financial assets (viz, loans and advances, and held-to-maturity debt instruments listed in the Colombo Stock Exchange) whose impairment is assessed individually, is calculated by applying the original effective interest rate of the financial asset to the carrying amount as reduced by any allowance for impairment. Thus changes in impairment allowances assessed individually and attributable to time value are reflected as a component of interest income.

Interest income includes income from finance leases and notional tax credit on interest income from Treasury Bills and Bonds.

Finance lease income is recognised on a pattern reflecting a constant periodic rate of return on the Bank's net investment in the finance lease.

5.1.2 Fees and Commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

5.1.3 Net Gain/(Loss) from Trading

This comprises all gains less losses from changes in fair value of financial assets held for trading (both realised and unrealised) together with related dividend and foreign exchange differences.

5.1.4 Net Gain/(Loss) from Financial Instruments at Fair Value through Profit or Loss

Bank has not chosen the option to designate financial instruments at fair value through profit or loss as a compensatory mechanism for accounting mismatches that would otherwise arise from measuring assets or liabilities or recognising gains or losses on them on different bases.

The bank however, has non-trading derivatives held for risk management purposes (e.g. forward foreign exchange purchase or sale contracts) that do not form part of qualifying hedge relationship, that are mandatorily fair valued through profit or loss. In respect of such financial instruments all realised and unrealised fair value changes and foreign exchange differences are included.

NOTES TO THE FINANCIAL STATEMENTS

5.1.5 Net Gain/(Loss) from Financial Investments

This includes realised gain or loss on sale of available-for-sale securities (e.g. Treasury Bills and Bonds, ordinary shares - both listed in the Colombo Stock Exchange and unlisted) and dividend income from ordinary shares classified as available-for-sale.

Where the dividend clearly represents a recovery of part of the cost of the investment it is presented in other comprehensive income.

Dividend income is recognised when the right to receive payment is established. Dividend income are presented in net Gains/(Loss) from Trading and Net Gains/(Loss) from financial investment, Other operating income based on underlying classification of the equity investment.

5.1.6 Foreign Exchange Gain/Loss

Items included in the financial statements of the Bank are measured in Sri Lanka 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 spot 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 spot exchange rate ruling at the reporting date (viz date of the Statement of Financial Position). The average spot exchange rate used is the middle rate of the commercial bank's spot rates quoted for purchase or sale of the relevant foreign currency.

The Bank does not have any non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency.

Foreign exchange income recognised in the income statement is presented as follows based on the underlying classification:

i. Foreign exchange gain/loss which is part of a trading activity comprising profit or loss from the sale and purchase of foreign currencies for spot exchange is included as net gain/(loss) from trading.

ii. Foreign exchange income or loss on derivatives held-for-risk management purposes and mandatorily measured at fair value through profit or loss is recognised as Net Gain/(Loss) from financial instruments at fair value through profit or loss (Note 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 Premises Rental Income

Rent expenses are accounted on a straight-line basis over the entire period of the tenancy incorporating predetermined rent escalation during the period of the tenancy.

5.1.8 Value Added Tax on Financial Services

The value base for value added tax for the Bank is the adjusted accounting profit before tax and emoluments of employees. The adjustment to the accounting profit before tax is for economic depreciation computed on prescribed rates instead of the rates adopted in the financial statements. The value added tax rate was reduced from 20% to 12% with effect from 1 January 2011. The effective tax rate however is 10.71% since the nominal rate of 12% is applied on the value added taxable base after charging the Financial Services Value Added Tax as an expense.

5.1.9 Withholding Tax on Dividend Distributed by Subsidiaries and Associate Company

Dividend distributed out of the taxable profit of the subsidiaries and associate company suffer a 10% deduction at source and is not available for set off against the tax liability of the Bank. Thus, the withholding tax deducted at source is added to the tax expense of the subsidiary company and the associate company in the group financial statements as a consolidation adjustment.

5.1.10 Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the profit or loss except to the extent that they relate to items recognised directly in equity and other comprehensive income.

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Current tax is the amount of income tax payable on the taxable profit for the financial year calculated using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

5.2 FINANCIAL ASSETS

5.2.1 Recognition and Measurement

The financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction cost that are directly attributable to its acquisition.

Loans and advances are initially recognised on the date at which they are originated at fair value which is usually the loan amount granted and subsequent measurement is at amortised cost.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

All other financial assets are initially recognised on the trade date at which the bank becomes a party to the contractual provisions of the instrument.

5.2.2 Classification

At the inception, a financial asset is classified as measured at amortised cost or fair value:

- Loans and receivables - at amortised cost.
- Held to maturity at amortised cost - 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 and measured at amortised cost.
- Held-for-trade - financial assets held-for-trade measured at fair value which changes in fair value recognised in the income statement.
- Designated at fair value - this is an option to deal with accounting mismatches and currently the bank has not exercised this option.
- Available-for-sale - this is measured at fair value and is the residual classification with fair value changes recognised in other comprehensive income.
- Derivative assets - are mandatorily measured at fair value with fair value changes recognised in the income statement.

5.2.3 Reclassification

Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be reclassified out of the fair value through profit or loss category in the following circumstances;

- Financial assets that would have met the definition of loans and receivables at initial recognition (if the financial asset had not been required to be classified as held-for-trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity; and

- Financial assets (except financial assets that would have met the definition of loans and receivables at initial recognition) may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

NOTES TO THE FINANCIAL STATEMENTS

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 amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available) as reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price - i.e., the fair value of the consideration given or received. However, in some cases, the fair value of a financial instrument on initial recognition may be different to its transaction price (e.g. loans to employees at interest rates below market rates and/or deposits from employees at interest rates higher than market rates). If such fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in profit or loss on initial recognition of the instrument. In other cases the difference is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

5.2.6 Identification and Measurement of Impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) that can be estimated reliably.

5.2.6.1 Loans and Advances and Held-to-Maturity Investment Securities

Objective evidence that loans and advances and held-to-maturity investment securities (e.g. debt instruments quoted in the Colombo Stock Exchange, Treasury Bills and Bonds) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would

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not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group or economic conditions that correlate with defaults in the Group.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific and collective level.

5.2.6.1.1 Individually Assessed Loans and Advances and Held-to-Maturity Debt Instruments.

These are exposures that are individually significant meriting individual assessment for objective evidence of impairment and computation of impairment allowance. The factors considered in determining that the exposures are individually significant include:

- the size of the loan; and
- the number of loans in the portfolio.

Loans considered as individually significant are typically to corporate and commercial customers and are for larger amounts.

For all loans and held-to-maturity debt instruments that are considered individually significant Bank assesses on a case by case basis whether there is any objective evidence of impairment. The criteria used by the Bank to determine that there is such objective evident include:

- contractual payments for either principal or interest being past due for a prolonged period;
- the probability that the borrower will enter bankruptcy or other financial realisation;
- a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees, where the concession is not insignificant; and
- there has been deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.

For those loans and held to maturity investment securities where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- Bank's aggregate exposure to the customer;
- the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of or *pari passu* with, the Bank and the likelihood of other creditors continuity to support the Company;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession or enforcement of security;
- the likely deduction of any costs involved in recovery of amounts outstanding.

5.2.6.1.2 Incurred Buy Not Yet Identified Impairment

Individually assessed loans for which no evidence of impairment has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective impairment. This reflects impairment losses that Bank has incurred as a result of events occurring before the reporting date which the Bank is not able to identify on an individual basis and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans and held to maturity investment securities within the group, these are removed from the group and assessed on an individual basis for impairment. The collective impairment allowance is based on historical loss experience adjusted by management's experience judgment.

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5.2.6.1.3 Collective Assessment

This includes:

For the Bank -

- All loans to small and medium-scale enterprise customers granted by the branches.
- All finance leases

For DFCC Vardhana Bank PLC,

- Import loans
- Export loans
- Corporate term loans
- Overdraft
- Personal loans

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.

When portfolio size is small (LKR less than or equal to 3 million), the Bank adopts basic formulaic approach based on historical loss rate experience.

Default rates, loss rates and the expected timing of future recoveries will be regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment allowance on loans and advances and held-to-maturity investment securities measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

5.2.6.1.4 Write-off of Loans and Advances

Loans (and the related impairment allowance) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

5.2.6.1.5 Reversals of Impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance accordingly. The write-back is recognised in the income statement.

5.2.6.1.6 Renegotiated Loans

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as up-to-date loans for measurement purposes once a minimum number of payments required have been received.

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired. The carrying amounts of loans that have been classified as renegotiated retain this classification until maturity or derecognition.

5.2.6.1.7 Asset-Backed-Securities

These are included in loans and advances. When assessing for objective evidence of impairment, Bank considers the performance of underlying collateral.

5.2.6.2 Available-for-Sale Financial Assets

At each date of Statement of Financial Position an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

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5.2.6.3 Available-for-Sale Debt Securities

When assessing available-for-sale debt securities for objective evidence of impairment at the reporting date, Bank considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial recognition, or the disappearance of an active market for the debt security.

These types of specific events and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

5.2.6.4 Available-for-Sale Equity Securities

Objective evidence of impairment for available-for-sale equity securities may include specific information about the issuer and information about significant changes in technology, markets, economics or the law that provide evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, a decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement. If there is no longer objective evidence that the debt security is impaired, the impairment loss is also reversed through the income statement.
- For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses recognised on the equity security are not reversed through the income statement. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

5.2.7 Offsetting Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

5.2.8 Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with three months or less than three months' maturity from the date of acquisition.

Cash and cash equivalents include cash and short-term Treasury Bills with maximum three months' maturity from date of acquisition.

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5.2.9 Derivative Financial Instruments Held for Risk Management Purposes

Derivative assets held for risk management purposes include all derivative assets that are not classified as trading assets and are measured at fair value in the statement of financial position.

Bank has not designated any derivative held for risk management purposes as a qualifying hedge relationship and therefore the Bank has not adopted hedge accounting.

Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

5.2.10 Loans and Advances to Banks and Customers

Loans and advances to banks and customers include loans and advances and finance lease receivables originated by the Bank. The carrying amount includes interest receivable from the customers and banks on these loans. This also includes investment by the Bank in any debentures, bonds, commercial paper or any other debt instrument which is not listed in the Colombo Stock Exchange or in any recognised market. The amount includes the principal amount and interest due and/or accrued on the date of the Statement of Financial Position.

Principal amount of loans and advances (for example, over drawn balances in current account) are recognised when cash is advanced to a borrower. They are derecognised when either the borrower repays its obligations, or the loans are written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less any reduction for impairment or uncollectibility.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risk and rewards incidental to the ownership of the asset to the lessee the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances

5.2.11 Financial Investments - Available-for-Sale

Available-for-sale investments are non-derivative investments that were designated as available-for-sale or not classified as another category of financial assets. These include Treasury bills, bonds, debt securities and unquoted and quoted equity securities. They are carried at fair value except for unquoted equity securities whose fair value cannot reliably be measured and therefore carried at cost.

Interest income is recognised in profit or loss using the effective interest method. Dividend income was recognised in profit or loss when the Bank become entitled to the dividend.

Fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

5.2.12 Financial Investments - Held-to-Maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Bank positively intends, and is able, to hold to maturity. Held-to-maturity investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses.

A sale or reclassification or a more than insignificant amount of held-to-maturity investments would result in the reclassification of all investment securities as available-for-sale for the current and the subsequent two financial years.

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However, sales and reclassifications in any of the following circumstances would not trigger a reclassification;

- Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- Sales or reclassifications after the Bank has collected substantially all of the asset's original principal; and
- Sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

5.2.13 Subsidiaries, Associates and Joint Ventures

Bank's investments in subsidiaries are stated at cost less impairment losses. Reversals of impairment losses are recognised in the income statement if there has been a change in the estimates used to determine the recoverable amount of the investment.

Investments in associates is recognised using the equity method and interests in joint ventures is recognised using proportionate consolidation method, initially stated at cost, including attributable goodwill, and are adjusted thereafter for the post-acquisition change in Bank's share of net assets.

Unrealised gains on transactions between Bank and its associates and joint ventures are eliminated to the extent of Bank's interest in the respective associates or joint ventures. Unrealised losses are also eliminated to the extent of Bank's interest in the associates or joint ventures.

5.2.14 Property, Plant and Equipment

5.2.14.1 Recognition and Measurement

Items of property 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 and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the income statement.

5.2.14.2 Subsequent Costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow the Bank. Ongoing repairs and maintenance costs are expensed as incurred.

5.2.14.3 Depreciation

Items of property and equipment are depreciated from the month they are available-for-use. Depreciation is calculated to write-off the cost of items of property 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 and equipment are as follows:

	Years
Buildings	20
Office equipment and motor vehicles	5
Fixtures and fittings	10

5.2.15 Investment Properties

Investment property of the Group (held by subsidiary Lanka Industrial Estate Limited and DFCC Vardhana Bank PLC) 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.

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Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the income statement.

5.2.16 Goodwill or Negative Goodwill on Consolidation

Goodwill arises on the acquisition of subsidiaries, when the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest and the fair value of any previously held equity interest in the acquiree exceed the amount of the identifiable assets and liabilities acquired. If the amount of the identifiable assets and liabilities acquired is greater, the difference is recognised immediately in the income statement. Goodwill arises on the acquisition of interests in joint ventures and associates when the cost of investment exceeds Bank's share of the net fair value of the associate's or joint venture's identifiable assets and liabilities.

5.2.17 Intangible Assets - Computer Application Software

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

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

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

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

5.2.18 Impairment of Intangible Assets - Computer Application Software and Goodwill on Consolidation

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

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

5.2.19 Deferred Tax Asset

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

5.3 FINANCIAL LIABILITIES

5.3.1 Recognition and Initial Measurement

Deposits, borrowing from foreign multilateral, bilateral sources and domestic sources, debt securities issued and subordinated liabilities are initially recognised on the date at which they are originated.

A financial liability is measured initially at fair value plus, transaction costs that are directly attributable to its acquisition or issue.

Subsequent measurement of financial liability is at amortised cost.

The amortised cost of a financial liability is the amount at which the financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount.

5.3.2 Derecognition of Financial Liabilities

Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

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5.3.3 Due to Banks, Customers, Debt Securities Issued and Other Borrowing

Financial liabilities are recognised when Group enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurement of financial liabilities is at amortised cost, using the effective interest method to amortise the difference between proceeds received, net of directly attributable transaction costs incurred, and the redemption amount over the expected life of the instrument.

5.3.4. Deferred Tax Liabilities/Assets

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

5.3.5 Pension Liability Arising from Defined Benefit Obligations.

5.3.5.1 Description of the Plan and Employee Groups Covered

The Bank established a trust fund in May 1989, for payment of pension which operates the pension scheme approved by the Commissioner General of Inland Revenue. The fund of the scheme is managed by trustees appointed by the Bank and is separate from the Bank. The scheme provides for payment of pension to retirees, spouse and minor children of deceased retirees based on pre-retirement salary. All members of the permanent staff who joined prior to 1 May 2004 except one are covered by this funded pension scheme subject to fulfillment of eligibility conditions prescribed by the Bank.

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

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

5.3.5.2 Funding Arrangement

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

5.3.5.3 Recognition of Actuarial Gains and Losses

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

The Bank has chosen to recognise only the portion of the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period that exceeds the limits of the corridor as permitted by Sri Lanka Accounting Standard - LKAS 19 on 'Employee Benefits'. The limits of the corridor are set at the greater of:

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

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

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5.3.5.4 Recognition of Past Service Cost

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

5.3.6 Provision for End of Service Gratuity Liability under a Defined Benefit Plan

5.3.6.1 Description of the Plan and Employee Groups Covered

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

5.3.6.2 Funding Arrangement

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

5.3.6.3 Recognition of Actuarial Gains and Losses

The Bank has chosen to recognise only the portion of the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period that exceeds the limits of the corridor. The recognition in the income statement will be over the remaining working life of the participants in the end of service gratuity scheme.

5.3.6.4 Recognition of Past Service Cost

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

5.3.7 Defined Contribution Plans

This provides for a lump sum payment on termination of employment by resignation, retirement at the age of 55 years or death while in service.

Lump sum payment is by an outside agency to which contributions are made.

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

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

5.3.8 Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation.

Contingent liabilities, which include guarantees are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement

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will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

5.3.9 Financial Guarantees

Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee received or receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

5.3.10 Sale and Repurchase Agreements

When securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the Statement of Financial Position and a liability is recorded in respect of the consideration received.

Securities purchased under commitments to sell ('reverse repos') are not recognised on the Statement of Financial Position and the consideration paid is recorded in 'Loans and advances to banks', 'Loans and advances to customers' as appropriate. The difference between the sale and repurchase price is treated as interest and recognised over the life of the agreement for loans and advances to banks and customers.

5.3.11 Share Capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets.

6. CASH FLOW

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

7. BUSINESS SEGMENT REPORTING

Business segment results include items directly attributable to a business segment as well as those that can be allocated on a reasonable basis. Unallocated items include corporate assets, head office expenses, and tax assets and liabilities.

8. DIRECTORS' RESPONSIBILITY

The Directors acknowledge the responsibility for true and fair presentation of the financial statements in accordance with the books of account and Sri Lanka Financial Reporting Standards.

9. NEW SLFRS ISSUED AND NOT YET EFFECTIV

9.1 SLFRS APPLICABLE FOR FINANCIAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2013

Subsequently the effective date was deferred.

9.1.1 SLFRS 10 - Consolidated Financial Statements

Under SLFRS 10 there will be one approach for determining consolidation for all entities, based on the concept of power, variability of returns and their linkage. This will replace the current approach which emphasises legal control or exposure to risk or rewards depending on the nature of the entity. This will be applicable retrospectively subject to transitional provisions that provides few exemptions. This SLFRS replaces LKAS 27 - Consolidated Financial Statements and SIC - 12 Consolidation - Special Purpose Entities.

9.1.2 SLFRS 11 - Joint Arrangements

This places more focus on the investor's rights and obligations than on structure of the arrangement and introduces the concept of a joint operation. This SLFRS replaces LKAS 31 - Interest in Joint Ventures and SIC - 13 Jointly Controlled Entities - Non-Monitory Contribution by Ventures. This also requires a joint venturer to recognise its interest in a joint venture as an investment and account for that investment using equity method instead of proportionate consolidation. Currently, the Bank, accounts for its investment in Acuity Partners a joint venture between DFCC Bank and Hatton National Bank PLC using proportionate consolidation method.

NOTES TO THE FINANCIAL STATEMENTS

9.1.3 SLFRS 12 - Disclosure of Interest in Other Entities

This includes the disclosure requirements for subsidiaries, joint arrangements and associates and introduces new requirements for unconsolidated structured entities.

9.1.4 SLFRS 13 - Fair Value Measurement

This standard establishes a single source of guidance for all fair value measurements required or permitted by SLFRS. It clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under current market conditions. This standard collectively enhances disclosures about fair value measurement.

9.1.5 Possible Impact on the Application of the new SLFRS on the Group's Financial Statements.

The Bank has not yet assessed the impact on the application of the above standards.

9.2 SLFRS APPLICABLE FOR FINANCIAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2015

9.2.1 SLFRS 9 - Financial Instruments

This combines the features of IFRS 9 issued in 2009 and 2010 together known as 2009.

IFRS 9 - Financial Instruments (2010) and IFRS 9 - Financial Instruments (2009) (together IFRS 9). IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment.

Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March	BANK 2013 LKR 000	BANK 2012 LKR 000	GROUP 2013 LKR 000	GROUP 2012 LKR 000
10. INCOME				
Interest Income	9,278,511	6,133,114	16,142,549	10,177,296
Fee and commission income	82,132	139,565	719,924	754,806
Net gain/loss from trading	2,937	(13,270)	102,000	39,775
Net gain/(loss) from financial instruments at fair value through profit or loss	(388,778)	254,295	(571,555)	180,563
Net gain/loss from financial investments	1,090,454	1,147,841	1,097,694	1,087,370
Other operating income/(expense)	367,773	(9,200)	706,648	366,339
	10,433,029	7,652,345	18,197,260	12,606,149

11. NET INTEREST INCOME

	BANK 2013 LKR 000	BANK 2012 LKR 000	GROUP 2013 LKR 000	GROUP 2012 LKR 000
Interest income				
Cash and cash equivalents	3,714	226	3,719	109,150
Placements with banks	305,592	108,924	331,549	46,231
Loans to and receivables from banks	150,996	171,844	196,045	223,596
Loans to and receivables from other customers	8,419,659	5,587,603	14,332,011	9,020,357
Other financial assets held-for-trading	67,822	19,862	103,002	113,060
Financial investments - held-to-maturity	172	–	21,253	11,088
Financial investments - available-for-sale	329,480	244,617	1,142,063	646,852
Other	1,076	38	12,907	6,962
Total interest income	9,278,511	6,133,114	16,142,549	10,177,296
Interest expenses				
Due to banks	1,004,269	572,602	1,182,782	772,439
Due to other customers	2,037,165	654,159	5,833,349	2,249,401
Other borrowing	1,817,291	1,380,698	1,842,988	1,386,269
Debt securities issued	163,814	290,540	282,542	290,540
Others	–	–	–	35,130
Total interest expenses	5,022,539	2,897,999	9,141,661	4,733,779
Net interest income	4,255,972	3,235,115	7,000,888	5,443,517
Interest income on Sri Lanka Government Securities	397,302	264,479	1,245,065	759,912

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March	BANK 2013 LKR 000	BANK 2012 LKR 000	GROUP 2013 LKR 000	GROUP 2012 LKR 000
12. NET FEE AND COMMISSION INCOME				
Fee and commission income	82,132	139,565	719,924	754,806
Fee and commission expenses	–	–	8,284	10,473
Net fee and commission income	82,132	139,565	711,640	744,333
Comprising				
Loans and advances	50,240	73,148	199,992	175,647
Credit Cards	–	–	7,262	4,456
Trade and remittances	–	–	276,373	244,510
Investment banking	–	–	45,074	177,134
Corporate finance	–	–	73,313	49,880
Guarantees	20,434	24,078	91,274	24,078
Management and consulting fees	11,458	42,339	18,352	68,628
Net fee and commission income	82,132	139,565	711,640	744,333
13. NET GAIN/(LOSS) FROM TRADING				
Foreign exchange from banks	–	–	93,718	66,117
Fixed income	2,937	(13,270)	8,282	(26,342)
Total	2,937	(13,270)	102,000	39,775
14. NET GAIN/(LOSS) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS				
Forward exchange fair value changes	(388,778)	254,295	(571,555)	180,563

NOTES TO THE FINANCIAL STATEMENTS

	BANK		GROUP	
For the year ended 31 March	2013 LKR 000	2012 LKR 000	2013 LKR 000	2012 LKR 000
15. NET GAIN FROM FINANCIAL INVESTMENTS				
Assets available-for-sale				
Gain on sale of equity securities	120,008	295,234	127,567	295,234
Dividend income	834,412	746,593	853,140	788,967
Dividend income from subsidiaries, joint venture and associate	128,428	98,375	–	–
Net gain from repurchase transactions	7,606	7,639	116,987	3,169
Total	1,090,454	1,147,841	1,097,694	1,087,370
16. OTHER OPERATING INCOME/(LOSS) (NET)				
Premises rental income	53,999	48,499	175,376	174,645
Gain on investment properties	–	–	1,918	10,039
Gain on sale of property, plant and equipment	3,194	5,677	5,786	10,796
Foreign exchange gain/(loss)	215,519	(202,951)	370,039	(109,765)
Recovery of loans written-off	71,087	119,074	73,223	119,074
Others	23,974	20,501	80,306	161,550
Other operating income/(loss) - net	367,773	(9,200)	706,648	366,339
17. IMPAIRMENT FOR LOANS AND OTHER LOSSES				
Loans to and receivables from other customers				
Specific allowance for impairment (Note 31.3.1)	104,388	28,502	417,218	286,450
Collective allowance for impairment (Note 31.3.2)	52,988	25,771	243,222	143,036
Charge/(recoveries) of other impairment losses	(2,744)	4,073	(2,744)	4,073
Impairment charge - Investment in subsidiaries (Note 34.1)	9,133	17,367	–	–
Write-offs - Loans to and receivables from other customers	409	3,203	409	3,203
Write-offs - Financial investments	4,500	11,765	4,500	11,765
	168,674	90,681	662,605	448,527

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March	BANK		GROUP	
	2013 LKR 000	2012 LKR 000	2013 LKR 000	2012 LKR 000
18. PERSONNEL EXPENSES				
Salaries and other benefits	720,123	628,123	1,554,238	1,380,453
Provision for staff retirement benefits (Note 18.1)	207,547	176,142	293,811	251,567
	927,670	804,265	1,848,049	1,632,020
18.1 PROVISION FOR STAFF RETIREMENT BENEFITS				
18.1.1 Amount Recognised as Expense				
18.1.1.1 Funded Liability				
Current service cost	61,329	55,958	61,329	55,958
Interest on obligation	140,059	128,152	140,059	128,152
Expected return on pension assets	(110,919)	(103,262)	(110,919)	(103,262)
	90,469	80,848	90,469	80,848
18.1.1.2 Unfunded Pension Liability				
Current service cost	6,031	5,320	6,031	5,320
Interest on obligation	6,406	4,788	6,406	4,788
Amortisation of unrecognised actuarial loss	3,061	–	3,061	–
	15,498	10,108	15,498	10,108
18.1.1.3 Unfunded end of Service Gratuity Liability				
Current service cost	5,248	3,582	18,374	8,742
Interest on obligation	3,378	2,276	3,378	4,769
Amortisation of unrecognised actuarial loss	962	523	962	523
Provision made for gratuities computed on formula method	–	–	–	8,842
	9,588	6,381	22,714	22,876
Total defined benefit plans	115,555	97,337	128,681	113,832
18.1.1.4 Defined Contribution Plan				
Employer's contribution to employees' provident fund	76,647	65,671	137,105	114,712
Employer's contribution to employees' trust fund	15,345	13,134	28,025	23,023
Total defined contribution plans	91,992	78,805	165,130	137,735
Total expense recognised in the income statement	207,547	176,142	293,811	251,567

NOTES TO THE FINANCIAL STATEMENTS

	BANK	
For the year ended 31 March	**2013 LKR 000**	2012 LKR 000

18.2 MOVEMENT IN UNRECOGNISED ACTUARIAL (GAIN)/LOSS

18.2.1 Funded Liability

Balance at beginning	(160,755)	(140,826)
Impact of adopting SLFRS	223	–
Due to experience of pension assets	(112,143)	(56,374)
Due to actuarial experience	148,030	36,445
Unrecognised actuarial gain on 31 March	(124,645)	(160,755)

18.2.2 Unfunded Pension Liability

Balance at beginning	9,576	2,425
Amortised in the financial year	(3,061)	–
Actuarial loss during the financial year	2,309	7,151
Unrecognised actuarial loss on 31 March	8,824	9,576

18.2.3 Unfunded end of Service Gratuity Liability

Balance at beginning	12,471	7,146
Amortised in the financial year	(962)	(523)
Actuarial loss during the financial year	3,870	5,848
Unrecognised actuarial loss on 31 March	15,379	12,471

18.2.4 Amortisation of Unrecognised Actuarial (Gain)/Loss

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March	BANK 2013 LKR 000
Funded Pension Liability	
Unrecognised actuarial gain on 01 April 2012	(160,755)
Impact of adopting SLFRS	223
Restated balance on 01 April 2012	160,532
Limits of corridor on 01 April 2012	
i. 10% of present value of pension obligation on 01 April 2012 (before deducting pension assets)	149,489
ii. 10% of pension assets on 01 April 2012	163,122
iii. Greater of (i and ii)	163,122
No amortisation since unrecognised actuarial gain is within the limits of corridor.	
Unfunded Pension Liability	
Unrecognised actuarial loss on 01 April 2012	9,576
Limits of corridor on 01 April 2012	
i. 10% of present value of pension obligation on 01 April 2012	6,515
Excess over the limit	3,061
Unrecognised actuarial loss amortised and recognised in the income statement	
Unfunded End of Service Gratuity Liability	
Unrecognised actuarial loss on 01 April 2012	12,471
Limits of corridor on 01 April 2012	
i. 10% of present value of pension obligation on 01 April 2012	2,853
Excess unrecognised actuarial loss to be amortised, over the remaining working life of employees eligible for gratuity	9,618
Expected average remaining working lives of employees eligible for gratuity	10 years
Unrecognised actuarial loss amortised and recognised in the income statement	962

18.3 UNFUNDED PENSION LIABILITY

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

18.4 ACTUARIAL VALUATION

Actuarial valuation was carried out by Mr Piyal S Goonetilleke, Fellow of the Society of Actuaries USA of Piyal S Goonetilleke & Associates, on 31 March 2013.

18.5 ACTUARIAL VALUATION METHOD

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

18.6 PRINCIPAL ACTUARIAL ASSUMPTIONS

	Pension benefit (%)	End of service gratuity (%)
Discount rate as at 31 March 2013, per annum		
Pre-retirement	9.0	10.0
Post-retirement	9.0	not applicable
Future salary increases per annum	10.5	10.0
Expected rate of return on pension assets - post tax	7.0	–
Actual rate of return on pension assets	13.0	–
Mortality	UP 1984 mortality table	
Retirement age	55 years	55 years
Normal form of payment:	lump sum commuted pension payment followed by reduced pension for 10 years (25% reduction) (for new entrants recovery period is 15 years)	lump sum
Turnover rate -		
Age		
20	10.0	10.0
25	10.0	10.0
30	10.0	10.0
35	7.5	7.5
40	5.0	5.0
45	2.5	2.5
50/55	1.0	1.0

The principle actuarial assumptions in the previous year has not changed. The discount rate is the yield rate on 31 March 2013 with a term equalling the estimated period for which all benefit payments will continue. This period is approximately 23 years for pension and 10 years for end of service gratuity. The differences in the discount rates for pension and end of service gratuity reflect the differences in the estimated period for benefit payments.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March	BANK 2013 LKR 000	BANK 2012 LKR 000	GROUP 2013 LKR 000	GROUP 2012 LKR 000
19. OTHER EXPENSES				
Directors' remuneration	47,838	42,912	94,325	82,157
Auditors' remuneration				
- Audit fees and expenses	3,547	2,775	6,075	5,018
- Audit related fees and expenses	1,687	1,929	3,300	2,998
- Fees for non-audit services	1,235	103	1,552	1,247
- Fees for other auditors	–	–	3,587	271
Depreciation - Investment property	–	–	8,834	8,283
- Property, plant and equipment	106,492	108,962	241,298	231,880
Amortisation - Intangible assets	21,799	17,790	82,461	66,386
Expenses on litigation	–	–	1,643	94
Premises equipment and establishment expenses	208,049	194,216	567,526	510,306
Other overhead expenses	235,726	271,147	736,599	722,092
	626,373	639,834	1,747,200	1,630,732
20. VALUE ADDED TAX ON FINANCIAL SERVICES				
Current tax	416,741	336,338	578,903	461,476
Prior year refund	(184,442)	–	(184,442)	–
	232,299	336,338	394,461	461,476
21. TAX EXPENSES				
21.1 COMPOSITION				
Current tax	520,713	405,384	792,334	631,620
Adjustments for prior years	(4,911)	(27,873)	(771)	(32,181)
Deferred tax - origination and reversal of temporary differences	54,757	52,918	89,620	57,168
Total	570,559	430,429	881,183	656,607

NOTES TO THE FINANCIAL STATEMENTS

21.2. CURRENT TAX

Current tax is the amount of income taxes payable in respect of the taxable profit for the financial year. Taxable profit is determined in accordance with the provisions of Inland Revenue Act no 10 of 2006 as amended.

21.2.1. Year ended 31 March 2012

Applicable statutory provisions are the Inland Revenue Act No. 10 of 2006 together with amendments certified up to 31 March 2011. SLFRS became effective only from 1 April 2012 for DFCC Bank and therefore the computation of tax expense for this year was based on previous accounting standards collectively referred to as Generally Accepted Accounting Principles (GAAP).

21.2.2. Year ended 31 March 2013

Applicable statutory provisions are the Inland Revenue Act No. 10 of 2006 together with amendments certified up to 31 March 2012. There is no explicit provision in these acts and even in the amendment up to 31 March 2013 providing guidelines on the effect of transition to SLFRS in the computation of taxable profit.

However, Banks in Sri Lanka have collectively made representations through Sri Lanka Banks' Association to Inland Revenue Authorities suggesting a method of computing taxable profit derived from SLFRS based accounting profit. Inland Revenue Authorities as at date of issue of these financial statements have not issued any guidelines.

Under the circumstances DFCC Bank has computed the tax expense based on Inland Revenue provisions currently enacted and using accounting profit computed under previous GAAP.

In the event, Inland Revenue Authorities subsequent to the date of issue of these financial statements, issue guidelines for computation of taxable profits derived from accounting profit based on SLFRS, any consequential change in the estimate of tax expense will be recognised prospectively. This will be a reduction of LKR 18.9 million.

NOTES TO THE FINANCIAL STATEMENTS

21.2.3. Reconciliation of Effective Tax Rate with Income Tax Rate

Adjustments to convert SLFRS based profit before tax (PBT) to PBT based on previous GAAP

For the year ended 31 March	BANK 2013 LKR 000	BANK 2012 LKR 000	GROUP 2013 LKR 000	GROUP 2012 LKR 000
Profit before tax as in income statement as per SLFRS	3,455,474	2,883,228	4,419,150	3,694,429
Reversal of decrease/(increase) of SLFRS based PBT	31,845	(135,330)	50,346	(70,747)
Profit before tax under previous GAAP	3,487,319	2,747,898	4,469,496	3,623,682

Reconciliation of Tax Expense

For the year ended 31 March	BANK 2013 %	BANK 2013 LKR 000	BANK 2012 %	BANK 2012 LKR 000	GROUP 2013 %	GROUP 2013 LKR 000	GROUP 2012 %	GROUP 2012 LKR 000
Tax using 28% income tax rate on PBT under previous GAAP	28	976,449	28	769,411	28	1,251,459	28	1,014,631
Non-deductible expenses	2.12	73,947	2.52	69,369	3.92	174,983	3.82	138,292
Tax exempt income	(12.32)	(429,885)	(14.74)	(405,032)	(9.99)	(445,530)	(10.90)	(395,117)
Tax incentives	(0.95)	(33,101)	(0.89)	(24,551)	(1.20)	(54,030)	(0.99)	(35,813)
Taxable timing difference from capital allowances on assets	0.73	25,340	0.66	18,071	0.95	42,536	(0.24)	(9,236)
Excess specific provision claim from prior years	(2.63)	(92,037)	(0.80)	(21,884)	(2.73)	(122,221)	(2.06)	(74,551)
Tax losses from prior years	–	–	–	–	(0.17)	(7,826)	–	(263)
Taxed at different rate	–	–	–	–	(1.05)	(47,037)	(0.68)	(24,795)
Current tax	14.93	520,713	14.75	405,384	17.73	792,334	17.43	631,620

NOTES TO THE FINANCIAL STATEMENTS

21.3. OFFSET

Current tax assets and liabilities are offset when the Group intends to settle on a net basis and the legal right to offset exists.

21.4. DEFERRED TAX

21.4.1. Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets.

22. BASIC EARNINGS PER SHARE

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

Basic group earnings per share has been calculated by dividing the profit after income tax attributable to the equity hoders of the bank by the weighted average number of shares in issue during the financial year.

	BANK		GROUP	
For the year ended 31 March	**2013**	2012	**2013**	2012
Profit attributable to equity holders of the Bank - LKR 000	2,884,915	2,452,799	3,457,520	2,966,068
Weighted average number of ordinary shares	265,097,688	265,073,131	265,097,688	265,073,131
Basic earnings per ordinary share - LKR	10.89	9.25	13.04	11.19

23. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

23.1 BANK - 31 MARCH 2013

	Fair value through profit or loss - mandatory LKR 000	Fair value-held-for-trading LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Held-to-maturity LKR 000	Total LKR 000
Financial Assets						
Cash and cash equivalents	–	–	–	597,456	–	597,456
Placements with banks	–	–	–	6,128,245	–	6,128,245
Derivative assets held for risk management	45,145	–	–	–	–	45,145
Other financial assets held-for-trading	–	377,800	–	–	–	377,800
Loans to and receivables from banks	–	–	–	1,822,838	–	1,822,838
Loans to and receivables from other customers	–	–	–	58,844,767	–	58,844,767
Financial investments	–	–	19,222,842	–	75,022	19,297,864
Total	45,145	377,800	19,222,842	67,393,306	75,022	87,114,115
Financial Liabilities						
Due to banks	–	–	–	6,399,595	–	6,399,595
Derivative liabilities held for risk management	190,922	–	–	–	–	190,922
Due to other customers	–	–	–	15,548,067	–	15,548,067
Other borrowing	–	–	–	33,846,282	–	33,846,282
Debt securities issued	–	–	–	558,257	–	558,257
Subordinated term debt	–	–	–	609,373	–	609,373
Total	190,922	–	–	56,961,574	–	57,152,496

NOTES TO THE FINANCIAL STATEMENTS

23.2 BANK - 31 MARCH 2012

	Fair value through profit or loss - mandatory LKR 000	Fair value-held-for-trading LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Held-to-maturity LKR 000	Total LKR 000
Financial Assets						
Cash and cash equivalents	–	–	–	83,210	–	83,210
Placement with banks	–	–	–	3,505,346	–	3,505,346
Derivative assets held for risk management	243,001	–	–	–	–	243,001
Other financial assets held-for-trading		58,510	–	–	–	58,510
Loans to and receivables from banks	–	–	–	1,955,604	–	1,955,604
Loans to and receivables from other customers	–	–	–	53,026,219	–	53,026,219
Financial investments	–	–	16,276,691	–	–	16,276,691
Total	243,001	58,510	16,276,691	58,570,379		75,148,581
Financial Liabilities						
Due to banks	–	–	–	7,356,266	–	7,356,266
Due to other customers	–	–	–	12,444,554	–	12,444,554
Other borrowing	–	–	–	27,805,261	–	27,805,261
Debt securities issued	–	–	–	718,513	–	718,513
Subordinated term debt	–	–	–	609,373	–	609,373
Total	–	–	–	48,933,967	–	48,933,967

23.3 GROUP - 31 MARCH 2013

	Fair value through profit or loss - mandatory LKR 000	Fair value-held-for-trading LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Held-to-maturity LKR 000	Total LKR 000
Financial Assets						
Cash and cash equivalents	–	–	–	3,976,892	–	3,976,892
Balances with Central Banks	–	–	–	2,620,790	–	2,620,790
Placements with banks	–	–	–	7,541,088	–	7,541,088
Derivative assets held for risk management	119,642	–	–	–	–	119,642
Other financial assets held-for-trading	–	593,408	–	–	–	593,408
Loans to and receivables from banks	–	–	–	5,633,902	–	5,633,902
Loans to and receivables from other customers	–	–	–	98,399,443	–	98,399,443
Financial investments	–	–	27,659,665	–	157,963	27,817,628
Total	119,642	593,408	27,659,665	118,172,115	157,963	146,702,793
Financial Liabilities						
Due to banks	–	–	–	8,040,422	–	8,040,422
Derivative liabilities held for risk management	307,094	–	–	–	–	307,094
Due to other customers	–	–	–	62,750,266	–	62,750,266
Other borrowing	–	–	–	37,530,202	–	37,530,202
Debt securities issued	–	–	–	558,257	–	558,257
Subordinated term debt	–	–	–	1,609,690	–	1,609,690
Total	307,094	–	–	110,488,837	–	110,795,931

23.4 GROUP - 31 MARCH 2012

	Fair value through profit or loss - mandatory LKR 000	Fair value-held-for-trading LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Held-to-maturity LKR 000	Total LKR 000
Financial Assets						
Cash and cash equivalents	–	–	–	1,458,363	–	1,458,363
Balances with Central Banks	–	–	–	1,596,066	–	1,596,066
Placements with banks	–	–	–	3,545,159	–	3,545,159
Derivative assets held for risk management	341,662	–	–	–	–	341,662
Other financial assets held-for-trading	–	548,419	–	–	–	548,419
Loans to and receivables from banks	–	–	–	4,132,131	–	4,132,131
Loans to and receivables from other customers	–	–	–	85,427,447	–	85,427,447
Financial investments	–	–	24,597,428	–	82,028	24,679,456
Total	341,662	548,419	24,597,428	96,159,166	82,028	121,728,703
Financial Liabilities						
Due to banks	–	–	–	11,139,181	–	11,139,181
Derivative liabilities held for risk management	–	104,754	–	–	–	104,754
Due to other customers	–	–	–	45,678,683	–	45,678,683
Other borrowings	–	–	–	30,924,126	–	30,924,126
Debt securities issued	–	–	–	718,513	–	718,513
Subordinated term debts	–	–	–	1,644,503	–	1,644,503
Total	–	104,754	–	90,105,006	–	90,209,760

24. CASH AND CASH EQUIVALENTS

	BANK			GROUP		
As at	31.03.2013 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2013 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000
Cash in hand	300	280	409	2,114,790	1,430,388	988,367
Balances with banks	428,411	82,930	16,144	1,588,507	5,739	332,563
Money at call and short notice	168,745	–	–	273,595	22,236	216,394
Total	597,456	83,210	16,553	3,976,892	1,458,363	1,537,324

NOTES TO THE FINANCIAL STATEMENTS

	GROUP		
As at	**31.03.2013 LKR 000**	31.03.2012 LKR 000	01.04.2011 LKR 000
25. BALANCES WITH CENTRAL BANK			
Statutory balances with Central Bank of Sri Lanka	2,620,790	1,596,066	894,531

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

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

Applicable minimum rate was 8% in 2012 (from 27 February 2009 to 29 April 2011 - 7% and 8% thereafter).

There are no cash reserve requirements for foreign currency deposit liabilities in the Domestic Banking Unit.

	BANK			GROUP		
As at	**31.03.2013 LKR 000**	31.03.2012 LKR 000	01.04.2011 LKR 000	**31.03.2013 LKR 000**	31.03.2012 LKR 000	01.04.2011 LKR 000
26. PLACEMENTS WITH BANKS						
Fixed deposits	6,028,141	3,505,346	1,490,942	6,075,412	3,545,159	38,836
Placements	100,104	–	–	1,465,676	–	–
Total	6,128,245	3,505,346	1,490,942	7,541,088	3,545,159	38,836
27. DERIVATIVES HELD FOR RISK MANAGEMENT						
27.1 ASSETS						
Currency swaps - forward foreign exchange contracts	45,145	43,068	–	74,093	102,978	5,342
Other forward foreign exchange contracts	–	199,933	2,636	45,549	238,684	22,981
Total	45,145	243,001	2,636	119,642	341,662	28,323
27.2 LIABILITIES						
Currency swaps - forward foreign exchange contracts	183,394	–	18,605	211,314	49,185	21,843
Other forward foreign exchange contracts	7,528	–	–	95,780	55,569	25,936
Total	190,922	–	18,605	307,094	104,754	47,779

NOTES TO THE FINANCIAL STATEMENTS

As at	Fair Value 31.03.2013 LKR 000	Fair Value 31.03.2012 LKR 000	Fair Value 01.04.2011 LKR 000
28. OTHER FINANCIAL ASSETS HELD FOR TRADING			
Government of Sri Lanka treasury bills - Bank	377,800	58,510	–
Government of Sri Lanka treasury bonds - Bank	–	–	397,057
Total - Bank	377,800	58,510	397,057
Government of Sri Lanka treasury bills - subsidiaries & joint venture	211,930	137,411	567,812
Government of Sri Lanka treasury bonds - joint venture	3,678	352,498	317,498
Total other financial assets held for trading by subsidiaries & joint venture	215,608	489,909	885,310
Total - Group	593,408	548,419	1,282,367

	GROUP		
	31.03.2013 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000
29. NON-CURRENT ASSETS HELD FOR SALE			
Land acquired by Acuity Partners (Pvt) Limited	2,875	2,875	2,875

	Extent Perches	Fair Value LKR 000
29.1 DETAILS OF THE LAND		
Freehold Land		
Lot - x, Survey Plan - 6448, Off Edirisinghe Road, Mirihana	10	2,875

Value of the land amounted to LKR 5.75 million as at 31 January 2011. As this land is held by Acuity Partners (Pvt) Limited, the joint venture, only 50% of the value is taken into the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

	BANK			GROUP		
As at	**31.03.2013 LKR 000**	31.03.2012 LKR 000	01.04.2011 LKR 000	**31.03.2013 LKR 000**	31.03.2012 LKR 000	01.04.2011 LKR 000

30. LOANS TO AND RECEIVABLES FROM BANKS

Gross loans and receivables	1,822,838	1,955,604	2,101,449	5,633,902	4,132,131	4,932,731
Specific allowance for impairment	–	–	–	–	–	–
Net loans and receivables	1,822,838	1,955,604	2,101,449	5,633,902	4,132,131	4,932,731

30.1 ANALYSIS

30.1.1 By Product

Securities purchased under resale agreements	133,124	–	166,041	1,999,765	2,176,525	2,168,049
Refinanced Loans-Plantation development project	1,279,047	1,424,914	1,664,003	1,279,047	1,424,915	1,664,003
KFW* DFCC (V) SME in the North and East	410,667	530,690	101,405	410,667	530,691	101,405
Other loans	–	–	170,000	–	–	170,000
Sri Lanka development bonds	–	–	–	1,944,423	–	829,274
Gross total	1,822,838	1,955,604	2,101,449	5,633,902	4,132,131	4,932,731

** KFW - Kreditanstalt Fur Wiederaufbau*

30.1.2 By Currency

Sri Lankan Rupee	1,822,838	1,955,604	2,101,449	3,689,479	3,792,525	4,103,457
United States Dollar	–	–	–	1,944,423	339,606	829,274
Gross total	1,822,838	1,955,604	2,101,449	5,633,902	4,132,131	4,932,731

31. LOANS TO AND RECEIVABLES FROM OTHER CUSTOMERS

Gross loans and receivables	62,191,645	56,503,215	41,628,351	104,396,499	91,136,172	61,702,981
Specific allowance impairment (Note 31.3.1)	(1,477,986)	(1,383,599)	(1,363,046)	(3,229,925)	(2,812,113)	(2,531,157)
Collective allowance impairment (Note 31.3.2)	(1,868,892)	(2,093,397)	(2,199,007)	(2,767,131)	(2,896,612)	(2,928,593)
Net loans and receivables	58,844,767	53,026,219	38,066,298	98,399,443	85,427,447	56,243,231

NOTES TO THE FINANCIAL STATEMENTS

	BANK			GROUP		
As at	**31.03.2013 LKR 000**	31.03.2012 LKR 000	01.04.2011 LKR 000	**31.03.2013 LKR 000**	31.03.2012 LKR 000	01.04.2011 LKR 000
31.1 ANALYSIS						
31.1.1 By Product						
Overdrafts	–	–	–	15,677,995	13,201,552	7,928,814
Trade finance	–	–	–	10,299,298	8,976,050	6,091,899
Lease rentals receivable (Note 31.2)	9,487,857	9,179,667	6,409,346	10,722,720	9,675,600	6,409,346
Credit cards	–	–	–	62,118	31,607	12,836
Pawning	–	–	–	3,625,272	2,556,620	641,238
Staff loans	424,505	317,287	198,013	710,586	508,225	324,167
Term loans	47,775,100	42,827,548	32,355,111	57,835,048	51,890,549	37,613,559
Commercial papers and asset back notes	1,079,531	1,603,134	742,176	1,079,531	1,618,134	757,419
Debenture loans	1,096,741	999,471	1,137,008	1,096,741	999,472	1,137,008
Preference shares unquoted	1,792,405	1,576,108	786,697	1,642,405	1,576,108	786,695
Securities purchased under resale agreements	535,506	–	–	1,644,785	102,255	–
Gross total	62,191,645	56,503,215	41,628,351	104,396,499	91,136,172	61,702,981
31.1.2 By Currency						
Sri Lankan Rupee	58,956,494	54,178,432	40,001,111	96,217,211	84,265,203	56,807,655
United States Dollar	3,235,151	2,324,783	1,627,240	7,857,067	6,612,917	4,680,087
Great Britain Pound	–	–	–	201,688	126,932	48,857
Australian Dollar	–	–	–	32,715	13,094	37,328
Euro	–	–	–	87,818	118,026	129,054
Gross total	62,191,645	56,503,215	41,628,351	104,396,499	91,136,172	61,702,981
31.1.3 By Industry						
Agriculture and fishing	3,102,545	3,043,361	3,165,964	8,954,768	8,168,966	6,257,594
Manufacturing	19,433,879	16,446,776	14,505,991	28,744,509	24,701,516	19,179,697
Tourism	4,197,261	3,465,053	1,214,901	4,829,044	3,932,676	1,929,788
Transport	3,377,612	4,362,199	2,157,234	4,280,827	4,940,336	2,412,245
Construction	6,442,708	5,307,238	3,723,094	9,013,997	7,023,078	4,580,024
Traders	10,470,977	9,186,457	6,384,710	21,660,919	18,137,543	11,535,570
Financial and business services	6,348,209	6,888,752	4,077,968	6,801,409	8,070,583	4,710,149
Infrastructure	4,282,366	3,619,007	2,577,134	6,155,533	5,039,213	3,467,182
Other services	4,189,711	3,868,406	3,566,642	5,603,459	4,942,451	3,939,402
Consumer durables	–	–	–	6,209,668	5,113,696	2,782,885
New economy	116,864	127,532	131,179	803,573	775,426	784,913
Others	229,513	188,434	123,534	1,338,793	290,688	123,532
Gross total	62,191,645	56,503,215	41,628,351	104,396,499	91,136,172	61,702,981

NOTES TO THE FINANCIAL STATEMENTS

As at	BANK 31.03.2013 LKR 000	BANK 31.03.2012 LKR 000	BANK 01.04.2011 LKR 000	GROUP 31.03.2013 LKR 000	GROUP 31.03.2012 LKR 000	GROUP 01.04.2011 LKR 000
31.2 LEASE RENTALS RECEIVABLE						
Gross investment in leases:						
Lease rentals receivable						
- within one year	4,677,898	3,920,776	2,991,608	5,176,069	11,440,472	2,991,608
- one to five years	6,963,422	7,361,698	4,928,633	8,046,570	483,961	4,928,633
	11,641,320	11,282,474	7,920,241	13,222,639	11,924,433	7,920,241
Less: Deposit of rentals	20,496	25,374	35,934	25,411	27,092	35,934
Unearned income on rentals receivable						
- within one year	1,095,508	994,524	699,796	1,251,059	2,133,137	699,796
- one to five years	1,037,459	1,082,909	775,165	1,223,449	88,604	775,165
Total	9,487,857	9,179,667	6,409,346	10,722,720	9,675,600	6,409,346

As at	BANK 31.03.2013 LKR 000	BANK 31.03.2012 LKR 000	GROUP 31.03.2013 LKR 000	GROUP 31.03.2012 LKR 000
31.3 MOVEMENTS IN SPECIFIC AND COLLECTIVE ALLOWANCE FOR IMPAIRMENT				
31.3.1 Specific Allowance for Impairment				
Balance at beginning	1,383,599	1,363,046	2,812,113	2,531,157
Charge to income statement	104,388	28,502	417,218	286,450
Effect of foreign currency movements	–	–	10,595	2,455
Effect of discounting	(10,001)	(7,949)	(10,001)	(7,949)
Balance on 31 March	1,477,986	1,383,599	3,229,925	2,812,113
31.3.2 Collective Allowance for Impairment				
Balance at beginning	2,093,397	2,199,007	2,896,612	2,928,593
Charge to income statement	52,988	25,771	243,222	143,036
Write-off of loans & receivables	(238,791)	(65,657)	(338,240)	(109,785)
Effect of foreign currency movements	–	–	2,295	493
Past due capitalisation of interest suspended	–	–	1,944	–
Transfers to dues on terminated leases	(38,702)	(65,724)	(38,702)	(65,725)
Balance on 31 March	1,868,892	2,093,397	2,767,131	2,896,612
Total of individual and collective impairment	3,346,878	3,476,996	5,997,056	5,708,725

31.4 LOANS GRANTED FROM INVESTMENT FUND ACCOUNT

The details of loans granted from Investment Fund Account which were outstanding as at 31 March 2013 are as follows:

Sector	No. of Loans	Balance on 31.03.2013 LKR 000	Interest Rate %	Tenure Years
Agriculture	17	113,883	11.4 - 18.0	5 - 5
Factory/Mills modernisation	22	105,439	11.4 - 17.9	5 - 8
Small and medium enterprises	56	256,206	11.4 - 18.0	5 - 8
Infrastructure development	4	20,788	11.6 - 14.4	5 - 7.5
Education	2	6,005	16.1 - 16.5	5 - 6
Construction of hotels and for related purposes	14	68,690	11.4 - 17.7	5
		571,011		

31.5 EXPOSURE TO STOCK MARKET

Bank does not have any exposure to stock market - as at 31 March 2013.

32. FINANCIAL INVESTMENTS-AVAILABLE-FOR-SALE

	Fair Value		
As at	31.03.2013 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000
Sri Lanka Government Securities - Bank			
Government of Sri Lanka Treasury bills	2,501,246	1,277,559	9,904,327
Government of Sri Lanka Treasury bonds	19,143	206,047	212,463
Equity securities - Bank	–	–	–
Quoted (Note 32.1.2)	16,038,566	14,160,213	16,393,239
Unquoted (Note 32.1.3)	144,459	135,704	73,001
Preference shares (Note 32.1.4)	500	500	500
Unit Trust (Notes 32.1.5, 32.1.6)	518,928	496,668	607,942
Total - Bank	19,222,842	16,276,691	27,191,472
Sri Lanka Government Securities - Subsidiaries			
Government of Sri Lanka Treasury bills	8,345,338	6,490,131	4,053,423
Government of Sri Lanka Treasury bonds	–	1,023,471	1,446,504
Government of Sri Lanka - Sovereign bonds	–	705,869	732,674
Equity securities - Subsidiaries and joint venture			
Quoted (Note 32.1.2.1)	3,644	3,875	3,974
Unquoted (Note 32.1.3.1)	18,772	21,843	21,843
Preference shares (Note 32.1.4.1)	44,975	49,181	64,144
Unit Trust (Note 32.1.6.1)	24,094	26,367	27,050
Total Subsidiaries & joint venture	8,436,823	8,320,737	6,349,612
Total - Group	27,659,665	24,597,428	33,541,084

All the financial investments are carried at fair value except for unquoted equity securities and irredeemable preference shares whose fair value cannot reliably be measured is carried at cost.

NOTES TO THE FINANCIAL STATEMENTS

	Ordinary Shares		Preference Shares	Unit Trusts		Total	
	Quoted LKR 000	Unquoted LKR 000	Unquoted LKR 000	Quoted LKR 000	Unquoted LKR 000	31.03.2013 LKR 000	31.03.2012 LKR 000
32.1 EQUITY SECURITIES							
32.1.1 Composition							
32.1.1.1 Bank							
Performing investments	16,001,177	25,847	500	194,680	297,733	16,519,937	14,661,049
Non-performing investments	37,389	118,612	–	–	26,515	182,516	132,036
Total	16,038,566	144,459	500	194,680	324,248	16,702,453	14,793,085
32.1.1.2 Group							
Performing investments	16,004,821	31,262	45,475	194,680	321,827	16,598,065	14,749,815
Non-performing investments	37,389	131,969	–	–	26,515	195,873	144,536
Total	16,042,210	163,231	45,475	194,680	348,342	16,793,938	14,894,351

	31.03.2013			31.03.2012			01.04.2011		
	Number of ordinary shares	Cost LKR 000	Fair value LKR 000	Number of ordinary shares	Cost LKR 000	Fair value LKR 000	Number of ordinary shares	Cost LKR 000	Fair value LKR 000
32.1.2 Quoted Ordinary Shares									
Banks, Finance & Insurance									
A I A Insurance Lanka PLC	12,000	2,013	4,200	12,000	2,013	2,568	12,000	2,013	3,600
Ceylinco Insurance PLC - voting	24,100	10,808	24,100	24,100	10,807	20,365	24,100	10,807	17,593
Ceylinco Insurance PLC - non-voting	43,971	11,118	13,987	43,971	11,118	13,367	43,971	11,118	12,576
Commercial Bank of Ceylon PLC - voting	116,009,375	2,642,795	13,109,059	113,985,956	2,440,453	11,398,596	52,853,674	1,659,617	14,006,224
Commercial Bank of Ceylon PLC - non-voting	215,650	16,620	20,918	211,178	16,262	16,915	97,519	15,174	16,139
Hatton National Bank PLC - non-voting	715,947	35,431	93,790	696,040	33,550	65,776	797,600	23,575	168,294
HNB Assurance PLC	39,332	1,320	1,876	39,332	1,320	1,770	29,500	1,013	2,360
Janashakthi Insurance PLC	250,000	3,000	3,075	250,000	3,000	2,925	250,000	3,000	4,125
Nations Trust Bank PLC	22,865,356	1,329,713	1,394,787	22,865,356	1,329,713	1,303,325	0	0	0
National Development Bank PLC	2,000,000	352,369	331,400	2,000,000	352,369	246,000	1,000,000	352,369	344,000
Sampath Bank PLC	292,435	22,493	66,061	285,798	21,297	51,472	425,982	28,879	122,257
Union Assurance PLC	–	–	–	–	–	–	100	7	19
		4,427,680	15,063,253		4,221,902	13,123,079		2,107,572	14,697,187

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

NOTES TO THE FINANCIAL STATEMENTS

32.1.2 Quoted Ordinary Shares (Contd.)

	31.03.2013			31.03.2012			01.04.2011		
	Number of ordinary shares	Cost LKR 000	Fair value LKR 000	Number of ordinary shares	Cost LKR 000	Fair value LKR 000	Number of ordinary shares	Cost LKR 000	Fair value LKR 000
Beverages, Food & Tobacco									
Ceylon Tobacco Company PLC	150,967	8,520	118,358	150,967	8,520	78,503	150,967	8,520	54,046
Distilleries Company of Sri Lanka PLC	1,087,200	181,846	181,562	1,087,200	181,846	157,644	1,087,200	181,846	195,696
		190,366	299,920		190,366	236,147		190,366	249,742
Chemicals & Pharmaceuticals									
Chemical Industries (Colombo) PLC - voting	247,900	17,674	15,370	247,900	17,674	23,575	247,900	17,674	38,424
Chemical Industries (Colombo) PLC - non-voting	389,400	23,135	18,146	389,400	23,135	25,350	389,400	23,135	42,055
Haycarb PLC	38,330	4,139	6,746	38,330	4,139	6,133	38,330	4,139	5,960
		44,948	40,262		44,948	55,058		44,948	86,439
Construction & Engineering									
Access Engineering PLC	400,000	8,010	7,960	–	–	–	–	–	–
Colombo Dockyard PLC	200,000	28,306	42,800	245,831	34,793	56,541	234,125	34,793	60,170
		36,316	50,760		34,793	56,541		34,793	60,170
Diversified Holdings									
Aitken Spence & Company PLC	–	–	–	–	–	–	948,000	21,522	153,576
Carson Cumberbatch PLC	46,967	13,635	20,665	97,512	28,309	45,343	97,512	28,308	62,310
Hayleys PLC	7,333	2,225	2,163	–	–	–	348,060	56,907	132,959
Hemas Holdings PLC	620,700	20,371	16,759	620,700	20,371	16,324	620,700	30,705	28,552
John Keells Holdings PLC	197,780	12,895	48,852	197,780	12,895	40,743	148,335	12,895	42,365
Richard Pieris & Co. PLC	1,000,000	8,234	6,600	–	–	–	–	–	–
Vallibel One PLC	52,500	1,009	856	–	–	–	–	–	–
		58,369	95,895		61,575	102,410		150,337	419,762
Healthcare									
Ceylon Hospitals PLC - voting	100,000	2,305	10,000	130,908	3,018	9,491	130,908	3,018	13,091
Ceylon Hospitals PLC - non-voting	300,000	5,208	22,530	392,726	6,818	21,757	392,726	6,818	31,457
		7,513	32,530		9,836	31,248		9,836	44,548

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

NOTES TO THE FINANCIAL STATEMENTS

32.1.2 Quoted Ordinary Shares (Contd.)

	31.03.2013			31.03.2012			01.04.2011		
	Number of ordinary shares	Cost LKR 000	Fair value LKR 000	Number of ordinary shares	Cost LKR 000	Fair value LKR 000	Number of ordinary shares	Cost LKR 000	Fair value LKR 000
Hotels & Travels									
Aitken Spence Hotel Holdings PLC	–	–	–	91,875	3,233	6,431	91,875	3,233	9,004
Asian Hotels & Properties PLC	–	–	–	183,600	3,956	14,321	91,800	3,956	17,249
Dolphin Hotels PLC	818,800	7,896	27,020	818,800	7,896	24,564	818,800	7,896	42,250
		7,896	27,020		15,085	45,316		15,085	68,503
Investment Trusts									
Ceylon Guardian Investment Trust PLC	275,000	10,001	44,000	246,931	5,190	57,288	246,931	5,190	91,118
Ceylon Investment PLC	735,000	22,148	58,800	676,953	17,359	52,938	676,953	17,359	101,746
		32,149	102,800		22,549	110,226		22,549	192,864
Footwear & Textiles									
Odel PLC	7,400	111	156	7,400	111	144	7,400	111	283
Telecommunications									
Dialog Axiata PLC	2,050,000	27,296	18,655	2,050,000	27,296	14,555	2,104,890	28,000	22,306
Sri Lanka Telecom PLC	–	–	–	–	–	–	900	15	51
		27,296	18,655		27,296	14,555		28,015	22,357
Manufacturing									
ACL Cables PLC	51,000	3,070	3,341	51,000	3,070	3,193	51,000	3,070	4,794
Ceylon Grain Elevators PLC	48,997	1,297	2,450	48,997	1,297	3,033	48,997	1,297	8,276
Chevron Lubricants Lanka PLC	609,400	20,301	132,240	609,400	20,301	110,911	609,400	20,301	96,895
Piramal Glass Ceylon PLC	11,290,852	31,668	68,874	21,790,852	61,118	130,745	22,076,852	61,921	247,261
Royal Ceramics Lanka PLC	139,800	16,996	13,980	139,800	16,996	16,077	139,800	16,996	21,809
Tokyo Cement Company (Lanka) PLC - non-voting	2,247,000	46,142	40,221	2,247,000	46,142	60,669	2,247,000	46,142	98,868
		119,474	261,106		148,924	324,628		149,727	477,903
Power & Energy									
Lanka IOC PLC	508,300	10,166	10,369	508,300	10,166	9,861	510,300	10,206	8,981
Vallibel Power Erathna PLC	6,400,000	17,067	35,840	7,500,000	20,000	51,000	7,500,000	20,000	64,500
		27,233	46,209		30,166	60,861		30,206	73,481

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

NOTES TO THE FINANCIAL STATEMENTS

32.1.2 Quoted Ordinary Shares (Contd.)

	31.03.2013			31.03.2012			01.04.2011		
	Number of ordinary shares	Cost LKR 000	Fair value LKR 000	Number of ordinary shares	Cost LKR 000	Fair value LKR 000	Number of ordinary shares	Cost LKR 000	Fair value LKR 000
Total Quoted Shares - Bank		4,979,351	16,038,566		4,807,551	14,160,213		2,783,545	16,393,239
Investment in quoted ordinary shares by joint venture		580	3,644		580	3,875		580	3,974
Total Quoted Shares - Group		4,979,931	16,042,210		4,808,131	14,164,088		2,784,125	16,397,213

32.1.2.1 Investment in Quoted Ordinary Shares by joint venture

Banks, Finance & Insurance									
Central Finance Company PLC	3	–	3	3	–	3	3	0*	2
Diversified Holdings									
Hayleys PLC	7,491	558	2,269	7,491	558	2,810	7,491	558	2,577
John Keells Holdings PLC	6,240	22	1,372	4,680	22	1,062	4,680	22	1,395
		580	3,641		580	3,872		580	3,972
		580	3,644		580	3,875		580	3,974

** Less than LKR 500*

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

NOTES TO THE FINANCIAL STATEMENTS

	31.03.2013		31.03.2012		01.04.2011	
	Number of ordinary shares	Cost* LKR 000	Number of ordinary Shares	Cost* LKR 000	Number of ordinary shares	Cost* LKR 000
32.1.3 Unquoted Ordinary Shares						
Beico Link Carbons (Pvt) Limited	–	–	328,500	2,190	328,500	2,190
Credit Information Bureau of Sri Lanka	8,884	888	8,884	888	8,884	888
Durdans Medical & Surgical Hospital (Pvt) Limited	1,273,469	16,029	1,273,469	16,029	1,200,000	15,000
Fitch Ratings Lanka Limited	62,500	625	62,500	625	62,500	625
Hydrotech Lanka (Dickoya) (Pvt) Limited	1,834,500	–	1,834,500	4,500	1,834,500	4,500
Link Development (Pvt) Limited	150,000	–	150,000	–	150,000	750
Millenium Housing Developers Limited	1,500,000	2,500	250,000	2,500	250,000	2,500
Plastipak Lanka Limited	240,000	2,400	240,000	2,400	240,000	2,400
Ranweli Holiday Village Limited	–	–	1,885,558	13,980	1,616,193	10,748
Sampath Centre Limited	1,000,000	10,000	1,000,000	10,000	1,000,000	10,000
Samson Reclaim Rubbers (Pvt) Limited	116,700	2,334	116,700	2,334	116,700	2,334
Sinwa Holdings Limited	460,000	9,200	460,000	9,200	460,000	9,200
Sun Tan Beach Resorts (Pvt) Limited	9,059,013	90,433	6,119,579	61,008	197,309	1,816
The Video Team (Pvt) Limited	30,000	300	30,000	300	30,000	300
Wayamba Plantations (Pvt) Limited	2,750,000	9,750	2,750,000	9,750	2,750,000	9,750
Total unquoted ordinary shares - Bank		144,459		135,704		73,001
Investments in unquoted ordinary shares by subsidiaries and joint ventures		18,772		21,843		21,843
Total unquoted ordinary share - Group		163,231		157,547		94,844
32.1.3.1 Investments in Unquoted Ordinary Shares by Subsidiaries and Joint Ventures						
Investments in Unquoted Ordinary Shares by Subsidiaries						
Credit Information Bureau of Sri Lanka	300	30	300	30	300	30
Lankaclear (Pvt) Limited	100,000	1,000	100,000	1,000	100,000	1,000
Lanka Financial Services Bureau Limited	100,000	1,000	100,000	1,000	100,000	1,000
Society for Worldwide Interbank Financial Telecommunication	6	3,385				
		5,415		2,030		2,030
Investments in Unquoted Ordinary Shares by Joint Ventures						
Durdans Heart Surgical Centre (Pvt) Limited	–	–	750,000	7,313	750,000	7,313
Durdans Medical and Surgical Hospitals (Pvt) Limited	1,061,225	13,357	1,000,000	12,500	1,000,000	12,500
		13,357		19,813		19,813
		18,772		21,843		21,843

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

NOTES TO THE FINANCIAL STATEMENTS

	31.03.2013			31.03.2012			01.04.2011		
	Number of preference shares	Cost LKR 000	Fair value LKR 000	Number of preference shares	Cost LKR 000	Fair value LKR 000	Number of preference shares	Cost LKR 000	Fair value LKR 000
32.1.4 Unquoted Irredeemable Preference Shares									
Arpico Finance Company PLC	50,000	500	500	50,000	500	500	500	500	500
Total investments in unquoted irredeemable preference shares - Bank		500	500		500	500		500	500
Investment in unquoted irredeemable preference shares by subsidiaries		16,490	44,975		16,490	49,181		26,490	64,144
Total investments in unquoted irredeemable preference shares - Group		16,990	45,475		16,990	49,681		26,990	64,644
32.1.4.1 Investments in Unquoted Irredeemable Preference Shares by Joint Venture									
Nividhu (Pvt) Limited	1,640,000	16,490	44,975	1,640,000	16,490	49,181	1,640,000	16,490	54,144
Tudawe Brothers Limited	–	–	–	–	–	–	100,000	10,000	10,000
		16,490	44,975		16,490	49,181		26,490	64,144

	31.03.2013			31.03.2012			01.04.2011		
	Number of Units	Cost LKR 000	Fair Value LKR 000	Number of Units	Cost LKR 000	Fair Value LKR 000	Number of Units	Cost LKR 000	Fair Value LKR 000
32.1.5 Quoted Units in Unit Trust									
NAMAL Acuity Value Fund	3,018,300	151,528	194,680	3,018,300	151,528	190,153	3,018,300	151,528	257,159
Total quoted units - Bank		151,528	194,680		151,528	190,153		151,528	257,159
Investments in unit trusts by subsidiaries		–	–		–	–		–	–
Total investments in quoted Unit Trusts - Group		151,528	194,680		151,528	190,153		151,528	257,159

NOTES TO THE FINANCIAL STATEMENTS

	31.03.2013			31.03.2012			01.04.2011		
	Number of Units	Cost LKR 000	Fair Value LKR 000	Number of Units	Cost LKR 000	Fair Value LKR 000	Number of Units	Cost LKR 000	Fair Value LKR 000
32.1.6 Unquoted Units in Unit Trust									
NAMAL Growth Fund	295,000	2,929	26,515	295,000	2,929	23,798	533,050	5,293	55,469
NAMAL Income Fund	16,712,129	170,625	187,343	16,712,129	170,625	182,496	16,712,129	170,625	181,661
NAMAL Money Market Fund	9,316,128	93,866	97,260	8,573,206	86,258	88,476	8,037,604	80,822	82,145
National Equity Fund	500,000	5,313	13,130	500,000	5,313	11,745	1,040,540	11,057	31,508
Total investments in unquoted Unit Trusts - Bank		272,733	324,248		265,125	306,515		267,797	350,783
Investment in Unit Trusts by joint venture		22,500	24,094		25,000	26,367		25,000	27,050
Total investments in unquoted Unit Trusts - Group		295,233	348,342		290,125	332,882		292,797	377,833
32.1.6.1 Investments in Unit Trusts by Joint Venture									
NAMAL Income Fund	–	–	–	2,436,870	25,000	26,367	2,436,870	25,000	27,050
Guardian Acuity Fixed Income Fund	2,250,000	22,500	24,094	–	–	–	–	–	–
		22,500	24,094		25,000	26,367		25,000	27,050

	BANK			GROUP		
As at	31.03.2013 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2013 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000
33. FINANCIAL INVESTMENTS - HELD-TO-MATURITY						
Quoted debentures (Note 33.1)	75,022	–	–	79,314	4,176	4,214
Unquoted debenture (Note 33.2)	–	–	–	78,649	77,852	81,579
Total	75,022	–	–	157,963	82,028	85,793

NOTES TO THE FINANCIAL STATEMENTS

	31.03.2013		31.03.2012		01.04.2011	
	Number of Debentures	Cost of investment LKR 000	Number of Debentures	Cost of investment LKR 000	Number of Debentures	Cost of investment LKR 000
33.1 QUOTED DEBENTURES						
People's Leasing & Finance PLC	748,500	75,022	–	–	–	–
Total investments in quoted debentures - Bank		75,022		–		–
Investments in quoted debentures by joint venture						
Bank of Ceylon	40,000	4,292	40,000	4,176	40,000	4,214
Total investments in quoted debentures - Group		79,314		4,176		4,214
33.2 UNQUOTED DEBENTURES						
Total investments in unquoted debentures - Bank		–		–		–
Investments in unquoted debentures by joint venture						
Ceylon Hospitals PLC	5,000,000	50,000	5,000,000	50,000	5,000,000	50,011
Hotton National Bank PLC	67,500	7,056	67,500	7,022	67,500	7,086
Neluwa Cascade Hydro Power (Pvt) Limited	2,000,000	21,593	2,000,000	20,830	2,000,000	24,482
Total investments in unquoted debentures - Group		78,649		77,852		81,579

	DFCC Consulting (Pvt) Limited ownership 100% LKR 000	DFCC Vardhana Bank PLC ownership 99.1% LKR 000	Lanka Industrial Estates Limited ownership 51.2% LKR 000	Synapsys Limited ownership 100% LKR 000	BANK 31.03.2013 LKR 000	BANK 31.03.2012 LKR 000	BANK 31.03.2011 LKR 000
34. INVESTMENTS IN SUBSIDIARIES							
Balance at beginning	5,000	3,622,871	97,036	35,633	3,760,540	2,441,320	2,408,320
Purchase from non-controlling interest	–	4,546	–	–	4,546	1,336,587	33,000
Impairment charge for the year (Note 34.1)	–	–	–	9,133	9,133	17,367	–
Balance on 31 March	5,000	3,627,417	97,036	26,500	3,755,953	3,760,540	2,441,320
34.1 MOVEMENTS IN IMPAIRMENT ALLOWANCE							
Balance at beginning	–	–	–	17,367	17,367	–	–
Charge to income statement	–	–	–	9,133	9,133	17,367	–
Balance on 31 March	–	–	–	26,500	26,500	17,367	–

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

NOTES TO THE FINANCIAL STATEMENTS

As at	BANK 31.03.2013 LKR 000	BANK 31.03.2012 LKR 000	BANK 01.04.2011 LKR 000	GROUP 31.03.2013 LKR 000	GROUP 31.03.2012 LKR 000	GROUP 01.04.2011 LKR 000
35. INVESTMENTS IN ASSOCIATES						
35.1 UNQUOTED						
National Asset Management Limited (Ownership 30%)						
Balance at beginning	35,270	35,270	35,270	53,706	53,440	47,977
Share of profit after tax	–	–	–	1,885	4,126	6,413
Share of other comprehensive income	–	–	–	4,322	280	2,509
Dividend received - elimination on consolidation	–	–	–	(5,460)	(4,140)	(3,459)
Other movements in changes in equity - Transferred to income on disposal	–	–	–	(986)	–	–
Balance on 31 March	35,270	35,270	35,270	53,467	53,706	53,440
Investment in Associate Companies by Acuity Partners (Pvt) Limited via Lanka Ventures PLC						
Balance at beginning	–	–	–	319,521	126,360	–
Net assets on acquisition	–	–	–	–	–	108,370
Investment at cost	–	–	–	42,263	192,000	–
Share of profit after tax	–	–	–	–	1,161	17,990
Balance on 31 March	–	–	–	361,784	319,521	126,360
Total	35,270	35,270	35,270	415,251	373,227	179,800

NOTES TO THE FINANCIAL STATEMENTS

	BANK		
As at	**31.03.2013 LKR 000**	31.03.2012 LKR 000	01.04.2011 LKR 000
36. INVESTMENTS IN JOINT VENTURE			
Unquoted			
Acuity Partners (Pvt) Limited (ownership 50%)			
Balance on 31 March	655,000	655,000	655,000

Bank's Interest in Acuity Partners (Pvt) Limited include -

	GROUP		
As at	31.03.2013 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000
Assets	6,701,593	6,547,254	5,976,547
Liabilities	4,231,376	4,430,013	4,021,896
Income	448,482	766,366	466,130
Expenses	374,830	480,381	258,874
Income tax	22,515	57,066	74,501

	BANK		
As at	**31.03.2013 LKR 000**	31.03.2012 LKR 000	01.04.2011 LKR 000
37. DUE FROM SUBSIDIARIES			
DFCC Consulting (Pvt) Limited	–	–	36
DFCC Vardhana Bank PLC	34,137	40,461	12,674
Synapsys Limited	5,067	1,136	3,240
	39,204	41,597	15,950

NOTES TO THE FINANCIAL STATEMENTS

As at	BANK 31.03.2013 LKR 000	BANK 31.03.2012 LKR 000	BANK 01.04.2011 LKR 000	GROUP 31.03.2013 LKR 000	GROUP 31.03.2012 LKR 000	GROUP 01.04.2011 LKR 000
38. INVESTMENT PROPERTIES						
Cost						
Balance at beginning	–	–	6,500	230,638	307,953	198,985
Acquisition	–	–	–	56,664	5,693	118,073
Disposals	–	–	(6,500)	(22,807)	(83,008)	(9,105)
Transfers	–	–	–	(7,437)	–	–
Balance on 31 March	–	–	–	257,058	230,638	307,953
Less: Accumulated Depreciation						
Balance at beginning	–	–	–	82,657	74,374	66,344
Charge for the year	–	–	–	8,834	8,283	8,030
Transfers	–	–	–	(3,918)	–	–
Balance on 31 March	–	–	–	87,573	82,657	74,374
Net book value	–	–	–	169,485	147,981	233,579

	Buildings Sq. Ft.	Extent of land Perches	Cost LKR 000	Accumulated depreciation/ impairment LKR 000	Net Book value LKR 000	Fair value LKR 000
38.1 List of Investment Properties						
Pattiwila Road, Sapugaskanda, Makola	280,000	20,000	249,978	87,573	162,405	755,750
44/7, School Lane, Nawala	0	29.4	7,080	–	7,080	33,810
			257,058	87,573	169,485	789,560

The fair value of investment property as at 31 March 2013 situated at Pattiwela Road, Sapugaskanda, Makola was based on market valuations carried out in April 2012 by Mr P B Kalugalagedara, fellow members of institute of valuers (Sri Lanka), Chartered Valuer.

The fair value of investment property as at 31 March 2013 situated at School Lane, Nawala is based on sales transactions carried out in December 2011.

Rental income from investment property of Group for 2013, LKR 141 million (2012 - LKR 128 million).

NOTES TO THE FINANCIAL STATEMENTS

39. PROPERTY, PLANT AND EQUIPMENT

39.1 COMPOSITION: BANK

	Land & building LKR 000	Office equipment LKR 000	Furniture & fittings LKR 000	Motor vehicles LKR 000	Total LKR 000
Cost as at 01.04.2011	265,550	580,549	221,328	213,936	1,281,363
Acquisitions	–	24,926	22,469	–	47,395
Less: Disposals	–	424	1,397	5,982	7,803
Cost adjustment	104	–	–	–	104
Cost as at 31.03.2012	265,446	605,051	242,400	207,954	1,320,851
Acquisitions	23,952	46,021	8,460	34,850	113,283
Reclassification	9,977	(13,853)	3,550	–	(326)
Less: Disposals	5,725	7,021	–	1,235	13,981
Cost as at 31.03.2013	293,650	630,198	254,410	241,569	1,419,827
Accumulated depreciation as at 01.04.2011	136,376	472,179	97,190	82,153	787,898
Depreciation for the year	7,734	44,411	19,684	37,133	108,962
Less: Disposal	–	424	1,397	5,794	7,615
Accumulated depreciation as at 31.03.2012	144,110	516,166	115,477	113,492	889,245
Depreciation for the year	12,402	40,016	22,110	31,964	106,492
Reclassification	7,342	(11,080)	3,550	–	(188)
Less: Disposal	5,725	7,021	–	1,235	13,981
Accumulated Depreciation as at 31.03.2013	158,129	538,081	141,137	144,221	981,568
Net book value as at 31.03.2013	135,521	92,117	113,273	97,348	438,259
Net book value as at 31.03.2012	121,336	88,885	126,923	94,462	431,606
Net book value as at 01.04.2011	129,174	108,370	124,138	131,783	493,465

39.1.2 List of Freehold Land and Building

	Building sq. ft.	Extent of land Perches*	Cost LKR 000	Accumulated depreciation LKR 000	Net Book value LKR 000
73/5, Galle Road, Colombo 3	57,200	104.45	83,050	57,150	25,900
5, Deva Veediya, Kandy	4,600	12.54	16,196	6,577	9,619
259/30, Kandy Road, Bambarakelle, Nuwara-Eliya	0	28.72	7,279	–	7,279
73, W A D Ramanayake Mawatha, Colombo 2	21,400	45.00	184,525	94,402	90,123
4A, 4th Cross Lane, Borupana, Ratmalana	0	20.00	2,600	–	2,600
			293,650	158,129	135,521

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

NOTES TO THE FINANCIAL STATEMENTS

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

39.2 COMPOSITION: GROUP

	Land & building LKR 000	Plant & machinery LKR 000	Office equipment LKR 000	Furniture & fittings LKR 000	Motor vehicles LKR 000	Total LKR 000
Cost as at 01.04.2011	333,859	64,850	1,000,479	567,305	272,624	2,239,117
Acquisitions	22,565	–	105,747	73,012	29,220	230,544
Less: Disposals	–	–	3,307	1,632	15,732	20,671
Write-offs	–	–	397	118	–	515
Cost as at 31.03.2012	356,424	64,850	1,102,522	638,567	286,112	2,448,475
Acquisitions	86,388	–	134,524	51,184	57,483	329,579
Reclassification	17,414	–	(13,853)	3,550	–	7,111
Less: Disposals	5,725	–	29,324	15,854	6,435	57,338
Write-offs	–	–	903	–	–	903
Cost as at 31.03.2013	454,501	64,850	1,192,966	677,447	337,160	2,726,924
Accumulated depreciation as at 01.04.2011	164,919	62,112	736,954	223,280	112,437	1,299,702
Depreciation for the year	13,008	–	112,729	57,321	48,822	231,880
Less: Disposal	–	–	3,104	1,445	14,293	18,842
Write-offs	–	–	397	118	–	515
Accumulated depreciation as at 31.03.2012	177,927	62,112	846,182	279,038	146,966	1,512,225
Depreciation for the year	18,576	–	112,197	63,771	46,754	241,298
Reclassification	11,260	–	(11,080)	3,550	–	3,730
Less: Disposal	5,725	–	29,258	15,665	6,433	57,081
Write-offs	–	–	903	–	–	903
Accumulated depreciation as at 31.03.2013	202,038	62,112	917,138	330,694	187,287	1,699,269
Net book value as at 31.03.2013	252,463	2,738	275,828	346,753	149,873	1,027,655
Net book value as at 31.03.2012	178,497	2,738	256,340	359,529	139,146	936,250
Net book value as at 01.04.2011	168,940	2,738	263,525	344,025	160,187	939,415

NOTES TO THE FINANCIAL STATEMENTS

	BANK LKR 000	GROUP LKR 000
40. INTANGIBLE ASSETS		
Cost as at 01.04.2011	318,125	822,813
Acquisitions	2,277	97,645
Less: Disposals	–	733
Cost as at 31.03.2012	320,402	919,725
Acquisitions	71,761	140,517
Transferred from property, plant and equipment	326	326
Less: Write-offs	–	919
Cost as at 31.03.2013	392,489	1,059,649
Accumulated amortisation as at 01.04.2011	272,634	649,771
Amortisation for the year	17,790	66,386
Less: Disposal	–	293
Accumulated amortisation as at 31.03.2012	290,424	715,864
Amortisation for the year	21,799	82,461
Transferred from property, plant and equipment	188	188
Less: Write-offs	–	532
Accumulated amortisation as at 31.03.2013	312,411	797,981
Net book value as at 31.03.2013	80,078	261,668
Net book value as at 31.03.2012	29,978	203,861
Net book value as at 31.03.2011	45,491	173,042

	GROUP		
As at	**31.03.2013 LKR 000**	31.03.2012 LKR 000	01.04.2011 LKR 000
41. GOODWILL ON CONSOLIDATION			
DFCC Vardhana Bank PLC	146,602	146,602	146,602
Acquisition of Lanka Ventures PLC by joint venture	70,186	70,186	70,186
Lanka Industrial Estates Limited	9,623	9,623	9,623
	226,411	226,411	226,411

	BANK			GROUP		
As at	**31.03.2013 LKR 000**	31.03.2012 LKR 000	01.04.2011 LKR 000	**31.03.2013 LKR 000**	31.03.2012 LKR 000	01.04.2011 LKR 000

42. DEFERRED TAX ASSET/LIABILITY

Deferred tax liability (Note 42.1)	382,796	328,039	275,121	461,154	376,284	315,313
Deferred tax assets (Note 42.2)	–	–	–	834	5,583	1,781
Net total	382,796	328,039	275,121	460,320	370,701	313,532

42.1 DEFERRED TAX LIABILITY

Balance at beginning	332,604	278,490	274,107	387,616	323,807	327,863
Increase	56,339	54,114	59,204	110,798	63,810	60,910
Adjustment to opening balance due to income tax rate reduction (rate reduction from 35% to 28%)	–	–	(54,821)	–	–	(65,516)
	388,943	332,604	278,490	498,414	387,617	323,257
Transferred from Deferred tax asset	(6,147)	(4,565)	(3,369)	(37,260)	(11,333)	(7,944)
	382,796	328,039	275,121	461,154	376,284	315,313

42.2 DEFERRED TAX ASSET

Balance at beginning	4,565	3,369	2,963	16,916	10,274	9,257
Increase	1,582	1,196	998	21,178	6,642	2,107
Adjustment to opening balance due to income tax rate reduction (rate reduction from 35% to 28%)	–	–	(592)	–	–	(1,639)
	6,147	4,565	3,369	38,094	16,916	9,725
Offset against deferred tax liability	(6,147)	(4,565)	(3,369)	(37,260)	(11,333)	(7,944)
	–	–	–	834	5,583	1,781

NOTES TO THE FINANCIAL STATEMENTS

42.3 UNRECOGNISED DEFERRED TAX ASSETS

	31.03.2013 LKR 000	Tax effect 28% LKR 000
Bank		
Disallowed specific provision for bad and doubtful loans	35,851	10,038
Group		
Taxable Losses		
DFCC Consulting (Pvt) Limited - Subsidiary	2,991	837
Acuity Partners (Pvt) Limited - Joint Venture*	21,051	5,894
Unrecognised loss/deferred tax asset	24,042	6,371
Group	59,893	16,409

** 50% of loss, proportionate consolidation.*

	BANK			GROUP		
As at	31.03.2013 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2013 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000
43. OTHER ASSETS						
Refundable deposits & advances	206,301	78,049	53,403	403,776	184,615	321,411
Dividends due	499,593	409,040	195,004	499,593	388,521	186,427
Debtors	229,390	311,327	335,136	1,348,861	1,091,327	797,225
Total	935,284	798,416	583,543	2,252,230	1,664,463	1,305,063
44. DUE TO BANKS						
Balances with foreign banks	–	–	–	1,423	87,855	1,235,858
Borrowing - local banks	–	2,190,790	3,302,835	1,598,892	3,539,587	3,321,075
Borrowing - other local sources	6,399,595	5,165,476	–	6,399,595	5,165,476	–
Securities sold under repurchase (Repo) agreements	–	–	1,200,232	40,512	2,346,263	241,998
Bank Overdrafts	–	–	119,819	–	–	133,635
Total	6,399,595	7,356,266	4,622,886	8,040,422	11,139,181	4,932,566

	BANK			GROUP		
As at	**31.03.2013 LKR 000**	31.03.2012 LKR 000	01.04.2011 LKR 000	**31.03.2013 LKR 000**	31.03.2012 LKR 000	01.04.2011 LKR 000
45. DUE TO OTHER CUSTOMERS						
Total amount due to other customers	15,548,067	12,444,554	4,154,033	62,750,266	45,678,683	26,238,082
45.1 ANALYSIS						
45.1.1 By Product						
Demand deposits (current accounts)	–	–	–	1,438,658	1,256,908	1,428,724
Savings deposits	–	–	–	10,005,848	7,173,978	5,384,405
Fixed deposits	15,548,067	12,444,554	4,152,597	50,803,415	36,771,592	19,086,947
Certificate of deposits	–	–	1,436	370,833	202,198	107,648
Other deposits	–	–	–	131,512	274,007	230,358
Total	15,548,067	12,444,554	4,154,033	62,750,266	45,678,683	26,238,082
45.1.2 By Currency						
Sri Lanka Rupee	14,151,819	12,444,554	4,154,033	52,829,299	38,667,303	21,903,209
United States Dollar (USD)	760,187	–	–	5,816,060	4,119,661	2,697,169
Great Britain Pound (GBP)	456,589	–	–	2,465,352	1,577,267	654,059
Others	179,472	–	–	1,639,555	1,314,452	983,645
Total	15,548,067	12,444,554	4,154,033	62,750,266	45,678,683	26,238,082

NOTES TO THE FINANCIAL STATEMENTS

As at	BANK 31.03.2013 LKR 000	BANK 31.03.2012 LKR 000	BANK 01.04.2011 LKR 000	GROUP 31.03.2013 LKR 000	GROUP 31.03.2012 LKR 000	GROUP 01.04.2011 LKR 000
46. OTHER BORROWING						
Repayable in foreign currency						
Borrowing sourced from						
Multilateral Institutions	3,960,347	2,577,809	2,409,293	3,960,348	2,577,809	2,409,293
Bilateral Institutions	11,032,296	5,765,258	1,839,490	11,032,295	5,765,258	1,839,490
	14,992,643	8,343,067	4,248,783	14,992,643	8,343,067	4,248,783
Repayable in Rupees						
Borrowing sourced from						
Multilateral Institutions	15,473,232	15,025,873	14,979,298	15,473,232	15,025,873	14,979,298
Bilateral Institutions	2,880,402	3,864,269	4,385,588	3,849,912	3,864,269	4,385,588
Central Bank of Sri Lanka - refinance loans (secured)	500,005	572,052	750,023	502,075	572,052	750,023
Securities sold under repurchase (Repo) agreements	–	–	312,060	2,712,340	3,118,865	3,137,453
Total	33,846,282	27,805,261	24,675,752	37,530,202	30,924,126	27,501,145

46.1 SUPPLEMENTARY INFORMATION

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

As at 31 March 2013, there were no loans outstanding which were approved and guaranteed by Government of Sri Lanka in terms of Section 14 of DFCC Bank Act No. 35 of 1955 as amended.

46.2 ASSETS PLEDGED AS SECURITY

Nature	Amount LKR 000
Assignment in terms of Section 88 A of the Monetary Law of Loans refinanced by Central Bank	494,592

NOTES TO THE FINANCIAL STATEMENTS

47. DEBT SECURITIES ISSUED

Year of issuance	Face value LKR 000	Interest rate	Repayment terms	Issue date	Maturity date	BANK 31.03.2013 LKR 000	BANK 31.03.2012 LKR 000	BANK 01.04.2011 LKR 000	GROUP 31.03.2013 LKR 000	GROUP 31.03.2012 LKR 000	GROUP 01.04.2011 LKR 000
Issued by bank											
i. 2005	500,000	6 Months gross TB+1%	5 Years	1 July 2005	1-Jul-2011	–	–	511,213	–	–	511,213
ii. 2007	200,000	6 Months gross TB+1%	5 Years	16 Oct. 2007	16-Oct-2012	–	205,373	204,521	–	205,373	204,521
	500,000	6 Months gross TB+1%	5 Years	31 Dec. 2007	31-Dec-2012	–	513,140	511,177	–	513,140	511,177
iii. 2013	36,400	16.00%	2 Years	22 Jan. 2013	22-Jan-2015	37,436	–	–	37,436	–	–
	506,000	16.50%	3 Years	22 Jan. 2013	22-Jan-2016	520,821	–	–	520,821	–	–
Total						558,257	718,513	1,226,911	558,257	718,513	1,226,911
Due within one year						–	718,513	511,213	–	718,513	511,213
Due after one year						558,257	–	715,698	558,257	–	715,698

Carrying values are the discounted amounts of principal and interest.

48. OTHER LIABILITIES

	BANK			GROUP		
As at	31.03.2013 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2013 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000
Accruals	64,263	58,277	73,281	67,427	97,611	103,952
Prior year's dividends	27,382	33,784	22,448	27,382	33,784	24,010
Interim dividend	–	–	1,854,682	–	–	1,854,682
Security deposit for leases	4,065	4,065	5,105	41,806	25,284	24,078
Prepaid loan and lease rentals	95,292	89,427	82,793	95,292	89,427	82,793
Account payables	256,170	237,039	221,930	1,768,449	1,273,001	1,193,909
Provision for staff retirement benefits (Note 49.1)	120,092	95,828	44,296	178,080	144,171	78,066
Other provisions (Note 49.3)	194,561	168,697	136,000	256,470	260,704	186,518
Total	761,825	687,117	2,440,535	2,434,906	1,923,982	3,548,008

NOTES TO THE FINANCIAL STATEMENTS

	BANK		GROUP	
	31.03.2013 LKR 000	31.03.2012 LKR 000	31.03.2013 LKR 000	31.03.2012 LKR 000

48.1 PROVISION FOR STAFF RETIREMENT BENEFITS

Defined benefit funded pension	27,311	24,197	27,311	24,197
Defined benefit unfunded pension	71,069	55,571	71,069	55,571
Defined benefit unfunded end of service gratuity	21,712	16,060	79,700	64,403
	120,092	95,828	178,080	144,171

48.2 MOVEMENT IN PROVISION FOR STAFF RETIREMENT BENEFITS

48.2.1 Defined Benefit Funded Pension

Net accrued liability on 31 March	24,197	(13,197)	24,197	(13,197)
Retirement benefit expense for the financial year	90,469	80,848	90,469	80,848
Employer contributions for the financial year	(87,355)	(43,454)	(87,355)	(43,454)
Net accrued liability on 31 March	27,311	24,197	27,311	24,197

48.2.2 Defined Benefit Unfunded Pension

Net accrued liability on 31 March	55,571	45,463	55,571	45,463
Retirement benefit expense for the financial year	15,498	10,108	15,498	10,108
Net accrued liability on 31 March	71,069	55,571	71,069	55,571

48.2.3 Defined Benefit Unfunded End of Service Gratuity

Net accrued liability on 31 March	16,060	12,030	64,403	45,800
Retirement benefit expense for the financial year	9,588	6,381	22,714	22,876
Gratuity payments for the financial year	(3,936)	(2,351)	(7,417)	(4,273)
Net accrued liability on 31 March	21,712	16,060	79,700	64,403

48.3 OTHER PROVISIONS

Balance as at 31 March	168,697	136,000	260,704	186,518
Provisions for the financial year	194,561	168,697	262,157	263,142
Provisions used during the year	(169,046)	(122,755)	(251,101)	(169,477)
Provisions reversed during the year	349	(13,245)	(15,290)	(19,479)
Balance as at 31 March	194,561	168,697	256,470	260,704

NOTES TO THE FINANCIAL STATEMENTS

	BANK
	31.03.2013 LKR 000
48.4 RECONCILIATION OF ACTUARIAL LIABILITY WITH ACCOUNTING LIABILITY RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION	
48.4.1 Funded Pension Liability	
Present value of defined benefit pension obligations	1,750,987
Fair value of pension assets	(1,848,321)
	(97,334)
Unrecognised gain on 31 March 2013 (Note 18.2.1)	124,645
Liability on 31 March (Note 48.2.1)	27,311
48.4.2 Unfunded Pension Liability	
Present value of defined benefit pension obligations	79,893
Unrecognised loss on 31 March 2013 (Note 18.2.2)	(8,824)
Liability on 31 March (Note 48.2.2)	71,069
48.4.3 Unfunded End of Service Gratuity	
Present value of defined benefit obligations	37,091
Unrecognised loss on 31 March 2013 (Note 18.2.3)	(15,379)
Liability on 31 March (Note 48.2.3)	21,712
48.5 MOVEMENT IN ACTUARIAL LIABILITY	
48.5.1 Funded Pension Liability	
Present value of defined benefit pension obligations on 01 April 2012	1,494,887
Current service cost	61,329
Interest on obligation	140,059
Benefit payments during the year	(93,318)
Actuarial experience loss	148,030
Present value of defined benefit pension obligations on 31 March	1,750,987
48.5.2 Unfunded Pension Liability	
Present value of defined benefit pension obligations on 01 April 2012	65,147
Current service cost	6,031
Interest on obligation	6,406
Benefit payments during the year	–
Actuarial experience loss	2,309
Present value of defined benefit pension obligations 31 March	79,893

NOTES TO THE FINANCIAL STATEMENTS

	BANK
	31.03.2013 LKR 000
48.5.3 Unfunded End of Service Gratuity	
Present value of defined benefit pension obligations on 01 April 2012	28,531
Current Service cost	5,248
Interest on obligation	3,378
Benefit payments during the year	(3,936)
Actuarial experience loss	3,870
Present value of defined benefit pension obligations 31 March	37,091
48.6 MOVEMENT IN PENSION ASSETS	
Pension assets on 01 April 2012	1,631,445
IFRS Adjustment	(223)
Expected return on pension assets	110,919
Employers's contribution	87,355
Benefits paid	(93,318)
Actuarial experience gain	112,143
	1,848,321

	BANK		
As at	31.03.2013 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000
49. DUE TO SUBSIDIARIES			
DFCC Consulting (Pvt) Limited	525	222	–
Total	525	222	–

50. SUBORDINATED TERM DEBT

Year of issuance	Face value LKR 000	Interest rate	Repayment terms	Issue date	Maturity date	BANK 31.03.2013 LKR 000	BANK 31.03.2012 LKR 000	BANK 01.04.2011 LKR 000	GROUP 31.03.2013 LKR 000	GROUP 31.03.2012 LKR 000	GROUP 01.04.2011 LKR 000
Issued by bank											
i. 2006	590,000	14.00%	10 Years	26 Sep. 2006	26 Sep. 2016	609,373	609,373	608,936	609,373	609,373	608,936
	200,000	13.75%	5 Years	26 Sep. 2006	26 Sep. 2011	–	–	206,310	–	–	206,310
	40,000	6 Months net TB+2%	5 Years	26 Sep. 2006	26 Sep. 2011	–	–	40,891	–	–	40,891
	170,000	6 Months gross TB+1%	5 Years	26 Sep. 2006	26 Sep. 2011	–	–	173,715	–	–	173,715
	500,000	15.54%	5 Years	5 Dec. 2006	5 Dec. 2011	–	–	518,796	–	–	518,796
	500,000	15.54%	5 Years	6 Dec. 2006	6 Dec. 2011	–	–	518,796	–	–	518,796
Issued by other subsidiaries											
i. 2012	833,333	11.50%	5 Years	26 Sep. 2011	7 Sep. 2016	–	–		833,589	863,479	
i. 2012	166,667	6 Months gross TB+1.5%	5 Years	26 Sep. 2011	7 Sep. 2016	–	–		166,728	171,651	
Total						609,373	609,373	2,067,444	1,609,690	1,644,503	2,067,444
Due within one year						–	–	1,458,508	317	35,130	1,458,508
Due after one year						609,373	609,373	608,936	1,609,373	1,609,373	608,936

50.1 BANK'S LISTED SUBORDINATED DEBENTURES

Subordinated debentures listed in the Colombo Stock Exchange are redeemable over a period 2006 to 2016. Fixed interest at 14% p.a. is payable annually. On 31 March 2013 comparative Government Securities interest rate is 13.33% p.a. (gross).

Ratios	31.03.2013	31.03.2012
Debt equity ratio	1.72	1.56
Interest cover (times)	1.38	1.72
Quick asset ratio (%)	53	52

NOTES TO THE FINANCIAL STATEMENTS

As at	BANK 31.03.2013 LKR 000	BANK 31.03.2012 LKR 000	BANK 01.04.2011 LKR 000	GROUP 31.03.2013 LKR 000	GROUP 31.03.2012 LKR 000	GROUP 01.04.2011 LKR 000
51. STATED CAPITAL						
Share capital (Note 51.1)	2,650,977	2,650,977	2,648,838	2,650,977	2,650,977	2,648,838
Share premium	2,064,837	2,064,837	2,054,546	2,064,837	2,064,837	2,054,546
Total	4,715,814	4,715,814	4,703,384	4,715,814	4,715,814	4,703,384
51.1 SHARE CAPITAL						
Authorised Share Capital						
500,000,000 ordinary shares of LKR 10/- each	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Issued share capital						
265,097,688 ordinary shares of LKR 10/- each	2,650,977	2,650,977	2,648,838	2,650,977	2,650,977	2,648,838
Allotted and fully-paid:						
Balance at beginning	2,650,977	2,648,838	1,323,753	2,650,977	2,648,838	1,323,753
Bonus share issue on 1 November 2010 (1 for every 1 held)	–	–	1,324,320	–	–	1,324,320
Issue under share option plan	–	2,139	765	–	2,139	765
Balance on 31 March	2,650,977	2,650,977	2,648,838	2,650,977	2,650,977	2,648,838

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

As at	BANK 31.03.2013 No. of ordinary shares	BANK 31.03.2012 No. of ordinary shares	BANK 01.04.2011 No. of ordinary shares	GROUP 31.03.2013 No. of ordinary shares	GROUP 31.03.2012 No. of ordinary shares	GROUP 01.04.2011 No. of ordinary shares
51.2 MOVEMENT IN NUMBER OF ORDINARY SHARES						
Balance at beginning	265,097,688	264,883,768	132,375,305	265,097,688	264,883,768	132,375,305
Issue of ordinary shares under employee share option plan	–	213,920	76,495	–	213,920	76,495
Bonus(1 for every 1 held on 01 November 2010 ordinary shares)	–	–	132,431,968	–	–	132,431,968
Balance on 31 March	265,097,688	265,097,688	264,883,768	265,097,688	265,097,688	264,883,768

NOTES TO THE FINANCIAL STATEMENTS

51.3 EMPLOYEE SHARE OPTION PLAN

The employee share option plan was closed with the exercise of the final tranch of options on 02 July 2011.

52. STATUTORY RESERVES

	BANK			GROUP		
As at	31.03.2013 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2013 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000
Reserve Fund						
Balance at beginning	1,135,000	1,015,000	655,000	1,135,000	1,015,000	655,000
Transfer during the year	150,000	120,000	360,000	150,000	120,000	360,000
Balance on 31 March	1,285,000	1,135,000	1,015,000	1,285,000	1,135,000	1,015,000
Investment Fund Account						
Balance at beginning	350,215	53,600	–	350,215	53,600	–
Transfer during the year	370,810	296,615	53,600	370,810	296,615	53,600
Balance on 31 March	721,025	350,215	53,600	721,025	350,215	53,600
Total	2,006,025	1,485,215	1,068,600	2,006,025	1,485,215	1,068,600

52.1 RESERVE FUND

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

52.2 INVESTMENT FUND ACCOUNT

This represents cumulative savings of financial services VAT and income tax. The amount is appropriated from profits. The amount of the reserve will be utilised only for the purpose prescribed by the Central Bank of Sri Lanka.

53. RETAINED EARNINGS

	BANK		GROUP	
As at	31.03.2013 LKR 000	31.03.2012 LKR 000	31.03.2013 LKR 000	31.03.2012 LKR 000
Balance at beginning	1,723,107	3,067,038	5,560,454	6,530,865
Impact of adopting SLFRS	–	(184,907)	–	(191,750)
Restated Balance	1,723,107	2,882,131	5,560,454	6,339,115
Profit for the year	2,884,915	2,452,799	3,457,520	2,966,068
Transfers to other reserves	(520,810)	(2,816,615)	(520,810)	(2,816,615)
Final dividend approved	(1,060,391)	(795,208)	(1,060,391)	(795,208)
Increase in ownership interest by the Bank that does not result in change of control	–	–	(1,949)	(132,906)
Transferred to income on disposal - associate	–	–	(986)	–
Deemed disposal gain - joint venture	–	–	74,806	–
Forfeiture of unclaimed dividends	10,720	–	10,720	–
Balance on 31 March	3,037,541	1,723,107	7,519,364	5,560,454

This represents cumulative net earnings, inclusive of proposed dividend amounting to LKR 1,325 million payable on approval by the shareholders at the Annual General Meeting on 28 June 2013. The balance is retained and reinvested in the business of the Bank.

NOTES TO THE FINANCIAL STATEMENTS

	Balance at beginning LKR 000	Movement/ transfers LKR 000	Balance on 31 March LKR 000
54. OTHER RESERVES			
54.1 BANK - 2013			
General reserve	13,779,839	–	13,779,839
Fair value reserve	9,431,052	1,736,233	11,167,285
Total	23,210,891	1,736,233	24,947,124
54.2 BANK - 2012			
General reserve	11,379,839	2,400,000	13,779,839
Fair value reserve	13,807,678	(4,376,626)	9,431,052
Total	25,187,517	(1,976,626)	23,210,891
54.3 GROUP - 2013			
General reserve	13,779,839	–	13,779,839
Fair value reserve	6,961,724	1,757,310	8,719,034
Total	20,741,563	1,757,310	22,498,873
54.4 GROUP - 2012			
General reserve	11,379,839	2,400,000	13,779,839
Fair value reserve	11,425,192	(4,463,468)	6,961,724
Total	22,805,031	(2,063,468)	20,741,563

NOTES TO THE FINANCIAL STATEMENTS

	BANK			GROUP		
As at	**31.03.2013 LKR 000**	31.03.2012 LKR 000	01.04.2011 LKR 000	**31.03.2013 LKR 000**	31.03.2012 LKR 000	01.04.2011 LKR 000
55. CONTINGENT LIABILITIES AND COMMITMENTS						
Guarantees issued to -						
Banks in respect of indebtedness of customers of the bank	–	22,300	61,300	30,200	74,786	16,300
Companies in respect of indebtedness of customers of the bank	928,639	758,426	828,818	4,045,422	3,132,222	2,166,089
Principal collector of customs (duty guarantees)	2,000	–	–	131,310	91,980	65,841
Shipping guarantees	–	–	–	657,537	1,406,575	599,532
Documentary credit	–	–	–	6,916,405	8,864,444	4,923,769
Bills for collection	–	–	–	1,708,714	1,323,370	675,443
Performance bonds	51,901	46,515	26,822	1,470,368	46,515	26,822
Forward exchange contracts (net)	6,516,214	2,951,561	1,111,494	6,516,214	3,439,398	2,167,620
Commitments in Ordinary Course of Business						
Commitments for unutilised credit facilities	8,498,348	14,894,841	13,935,957	16,969,282	22,395,418	15,629,762
Capital expenditure approved by the Board of Directors						
Contracted	29,166	21,510	4,058	52,365	70,754	46,493
Not Contracted	43,452	–	11,280	782,559	77,218	195,114
Total	16,069,720	18,695,153	15,979,729	39,280,376	40,922,680	26,512,785

56. LITIGATION

56.1 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 through procedure in Recovery of Loans by Banks (Special Provisions) Act No. 4 of 1990 seeking the sale of the property to be set aside, and claiming LKR 6 million as damages from the Bank. The Bank has transferred the property in terms of a settlement entered in the Magistrate's Court in another case. The District Court has issued an Interim Injunction. One of the defendants has appealed to the Provincial High Court of Civil Appeal against the interim injunction order. The Civil Appellate Court has set aside the order of the District Court granting the interim injunction. Accordingly, this case will be transferred back to the District Court of Kurunegala to fix the main case for trial. The Bank will be defending the case before the District Court.

56.2 A client of the Bank has instituted legal action in the District Court of Matara against the Bank claiming a sum of LKR 10 million for non-disbursement of the full loan approved to him. The Bank has suspended the disbursement of the facility approved to him as he has made a false statement in his application to the Bank. The Bank is defending this action.

57. RELATED PARTY TRANSACTIONS

57.1 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.

	31.03.2013 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000
57.2 TRANSACTIONS WITH SUBSIDIARIES			
57.2.1 Statement of Financial Position			
Assets			
Cash and cash equivalents	857,758	974,352	1,354,263
Loans to and receivables from other customers			
- Securities purchased under repurchase agreements	133,000	–	166,000
- Interest receivable	600	12,780	16,897
- Lease rental receivable	7,380	–	–
Total	998,738	987,132	1,537,160
Liabilities			
Due to other customers			
Deposits	61,019	79,407	64,028
Interest payable	4,788	3,570	2,445
Total	65,807	82,977	66,473

For the year ended	2013 LKR 000	2012 LKR 000	2011 LKR 000
57.2.2 Income Statement			
Interest income	63,652	71,367	131,095
Interest expense	26,733	16,388	14,985
Operating income	25,448	23,640	22,881
Net gain from financial investments - Dividend received	122,968	77,859	76,975
Personnel expenses - Reimbursed expenses	186,577	124,639	96,750
- Seconded staff costs	4,626	2,863	2,249
Other overhead expenses	161,693	55,780	51,455

NOTES TO THE FINANCIAL STATEMENTS

	31.03.2013 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000

57.3. TRANSACTIONS WITH JOINT VENTURE

57.3.1 Statement of Financial Position

	31.03.2013 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000
Assets			
Loans to and receivables from other customers			
- Securities purchased under repurchase agreements	35,000	–	–
- Interest receivable	33	–	–
Total	35,033	–	–

For the year ended	2013 LKR 000	2012 LKR 000	2011 LKR 000

57.3.2 Income Statement

	2013 LKR 000	2012 LKR 000	2011 LKR 000
Interest Income	1,238	–	12,082
Interest expense	6,564	5,588	–
Personnel expenses - Reimbursed expenses	–	–	269
Other overhead expenses	267	8,165	3,036
Net gain from financial investments - Dividend received	–	16,375	–

57.4 TRANSACTIONS WITH ASSOCIATES

57.4.1 Income Statement

	2013 LKR 000	2012 LKR 000	2011 LKR 000
Net gain from financial investments - Dividend received	5,460	4,140	249,808
Other overhead expenses	1,095	2,331	2,108

NOTES TO THE FINANCIAL STATEMENTS

57.5 TRANSACTIONS WITH ENTITIES IN WHICH DIRECTORS OF THE BANK HAVE SIGNIFICANT INFLUENCE WITHOUT SUBSTANTIAL SHAREHOLDING

	31.03.2013 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000
57.5.1 Statement of Financial Position			
Assets			
Loans to and receivables from other customers			
- Loan and advances	1,532,680	1,852,060	871,370
- Interest receivable	2,967	8,493	2,460
Financial investments - available-for-sale	198,842	185,079	223,597
Total	1,734,489	2,045,632	1,097,427
Liabilities			
Due to other customers			
Deposits	1,361,069	1,700,000	32,632
Interest payable	42,921	56,617	971
Debt securities issued			
Debentures	25,000	–	–
Total	1,428,990	1,756,617	33,603
57.5.2 Off-Balance Sheet Items			
Commitments and contingencies			
undrawn facilities	–	260,760	1,709,010
Total	–	260,760	1,709,010

For the year ended	2013 LKR 000	2012 LKR 000	2011 LKR 000
57.5.3 Income Statement			
Interest income	210,674	126,829	129,037
Interest expense	243,992	66,287	3,058
Operating income	3,390	68	2,922
Other overhead expense	789	795	819

NOTES TO THE FINANCIAL STATEMENTS

57.6 TRANSACTION WITH KEY MANAGEMENT PERSONNEL

57.6.1 KEY MANAGEMENT PERSONNEL

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

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

	BANK		GROUP	
For the year ended	31.03.2013 LKR 000	31.03.2012 LKR 000	31.03.2013 LKR 000	31.03.2012 LKR 000
57.6.2 Compensation of Directors and Other Key Management Personnel				
Number of persons	16	16	61	59
Short-term employment benefits	128,998	90,854	217,495	152,717
Post-employment benefits - pension	18,639	16,947	18,639	16,947
- others	15,056	9,684	20,514	13,373
	162,693	117,485	256,648	183,037

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

As as 31 March 2013	2013 LKR 000	2012 LKR 000
57.6.3 Other Transactions with Key Management Personnel and their close family members		
57.6.3.1 Statement of Financial Position		
Assets		
Number of KMPs	1	2
Loans and advances	1,928	6,310
Total	1,928	6,310

NOTES TO THE FINANCIAL STATEMENTS

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

Liabilities		
Number of KMPs	1	1
Due to other Customers		
Deposits	11,984	10,875
Accrued Interest	485	322
Number of KMPs	3	–
Debt Securities issued		
Debentures	41,400	–
Accrued Interest	1,276	–
Total	55,145	11,197

For the year ended 31 March	2013 LKR 000	2012 LKR 000
57.6.3.2 Income Statement		
Interest Income	345	471
Interest expense	2,667	864
Interest expense	2,100	1,980

57.6.4 Transactions with DFCC 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. The Chairman, the Chief Executive Officer together with two other employees and two pensioners (Ex-employees) are Trustees.

Transactions with DFCC Bank Pension Fund- Trust

As as 31 March 2013	31.03.2013 LKR 000	31.03.2012 LKR 000
Contributions prepaid at the beginning of financial year	24,197	(13,197)
Contribution due for the financial year (Note 18.1.1)	90,469	80,848
Contribution paid/pre-paid	(87,355)	(43,454)
Contribution prepaid at the end of the financial year (Note 49.4.1)	27,311	24,197

NOTES TO THE FINANCIAL STATEMENTS

57.7 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 shareholding 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 decision of the Bank. However, in fact this power was not exercised during the financial year ended 31 March 2013.

Paragraph 25 of Sri Lanka Accounting Standard Related Party Disclosure - LKAS 24 has exempted DFCC Bank from the normally applicable disclosure requirements on transactions with GOSL related entities. In making use of this exemption the Board has determined that the limited disclosure required under paragraph 26 of LKAS 24 is only required to be made for transactions 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 transaction to regulatory or supervisory authorities or require share holder approval.

57.7.1 Individually significant transactions included in the statement of financial position.

	31.03.2013 LKR 000
57.7.1.1 Statement of Financial Position	
Assets	
Cash and cash equivalents	203
Loans and receivables to other customers	318,902
Placements with Banks	2,524,733
Other financial assets held for trading	409,275
Financial investments available-for-sale	2,478,198
Total	5,731,311
Liabilities	
Due to Banks	6,109,000
Other borrowings - Credit lines	18,579,048
Total	24,688,048
57.7.1.2 Off-Balance Sheet Items	
Undrawn facilities	1,929,772
Total	1,929,772

NOTES TO THE FINANCIAL STATEMENTS

57.7.1.3 Income Statement

For the year ended 31 March	2013 LKR 000
Interest income Loans and receivables to other customers	15,933
Interest income Placements with Banks	239,145
Interests income - Financial investments	357,996
Interest expense other borrowings - credit lines	1,531,255
Interest expense on term borrowings	853,485

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

57.8 PRICING POLICY AND TERMS FOR TRANSACTIONS WITH RELATED PARTIES

Bank enters into transactions with related parties in the ordinary course of business on terms similar to comparable transactions with an unrelated comparable counterparty with the exception of accommodation granted to key Management Personnel under approved schemes uniformly applicable to all or specific categories of employees. The terms include pricing for loans, deposits and services, collateral obtained for loans where appropriate.

58. BUSINESS SEGMENT INFORMATION

For the year ended 31 March 2013	Lending LKR 000	Finance leasing LKR 000	Investing in equity LKR 000	Commercial banking LKR 000	Other LKR 000	Unallocated LKR 000	Eliminations LKR 000	Total LKR 000
Revenue								
Interest income	7,873,358	1,561,722	–	6,713,226	120,558	–	(126,315)	16,142,549
Net fees and commission income	82,132	–	–	566,848	223,490	–	(160,830)	711,640
Net loss from trading	–	–	–	93,770	5,294	2,936	–	102,000
Net gain from financial instruments at fair value through profit and loss	–	–	–	–	–	(571,555)	–	(571,555)
Net gain/(loss) from financial investments	–	–	1,082,848	53,191	82,478	7,605	(128,428)	1,097,694
Other income	71,086	–	186,364	(20,885)	205,026	314,187	(49,130)	706,648
Total Income	8,026,576	1,561,722	1,269,212	7,406,150	636,846	(246,827)	(464,703)	18,188,976
Percentage*	44	9	7	41	4	(1)	–	100
Expenses								
Segment losses	172,106	(13,343)	13,633	499,342	–	–	(9,133)	662,605
Depreciation	–	–	–	167,127	37,208	–	–	204,335
Other operating & interest expenses	4,359,162	817,937	–	5,786,788	421,855	–	(315,320)	11,070,422
Inter segment expense	–	–	–	–	–	–	–	–
	4,521,268	804,594	13,633	6,453,257	459,063	–	(324,453)	11,937,362
Result	3,505,308	758,128	1,255,579	952,893	177,783	–	–	6,251,614

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2013	Lending LKR 000	Finance leasing LKR 000	Investing in equity LKR 000	Commercial banking LKR 000	Other LKR 000	Unallocated LKR 000	Eliminations LKR 000	Total LKR 000
Unallocated expenses								1,462,153
Value added tax on financial services								394,461
								4,395,000
Share of profits of associates								24,150
Profit before tax								4,419,150
Income tax on profit on ordinary activities								881,183
Profit after tax								3,537,967
Non-controlling interests								80,447
Profit for the equity holders of the bank								3,457,520
Profits for the year								3,537,967
Other comprehensive income net of tax			1,877,161	20,416	112	–	–	1,897,689
Total comprehensive income								5,435,656
Total comprehensive income - non-controlling interests								147,006
Profit attributable to equity holders of the Bank								5,288,650
Assets	70,293,837	10,569,913	4,410,952	58,492,636	4,078,017	4,203,991	(1,340,327)	150,709,019
Percentage*	47	7	3	39	3	2	–	100
Investments in associate companies								415,251
								151,124,270
Liabilities	45,710,013	8,539,071	–	54,434,141	2,251,416	4,277,503	(1,340,327)	113,871,817
Capital expenditure - additions				194,481	21,815	113,283		329,579

* *Net of eliminations.*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012	Lending LKR 000	Financial leasing LKR 000	Investing in equity LKR 000	Commercial banking LKR 000	Other LKR 000	Unallocated LKR 000	Eliminations LKR 000	Total LKR 000
Revenue								
Interest income	4,998,955	1,145,503	–	3,988,104	147,876	–	(103,142)	10,177,296
Net fees and commission income	139,565	–	–	444,018	160,750	–	–	744,333
Net gain/(loss) from trading	–	–	(13,270)	63,402	(10,357)	–	–	39,775
Net gain/(loss) from financial instruments at fair value through profit and loss	–	–	–	–	–	180,563	–	180,563
Net gain/(loss) from financial investments	–	–	1,140,202	29,542	8,123	7,639	(98,136)	1,087,370
Other income	(52,605)	–	96,753	31,415	422,596	20,384	(152,204)	366,339
Total income	5,085,915	1,145,503	1,223,685	4,556,481	728,988	208,586	(353,482)	12,595,676
Percentage*	40	9	10	36	6	3	–	–
Expenses								
Segment losses	170,093	(108,544)	29,132	375,213	–	–	(17,367)	448,527
Depreciation	–	–	–	145,380	94,976	–	–	240,356
Other operating & interest expenses	3,562,327	627,577	–	3,271,846	355,406	–	(203,602)	7,613,554
	3,732,420	519,033	29,132	3,792,439	450,382	–	(220,969)	8,302,437
Result	1,353,495	626,470	1,194,553	764,042	278,606	–		4,293,239
Unallocated expenses								142,621
Value added tax on financial services								461,476
								3,689,142
Share of profits of associates								5,287
Profit before tax								3,694,429
Income tax on profit on ordinary activities								656,607
Profit after tax								3,037,822
Non-controlling interests								71,754
Profit for the equity holders of the Bank								2,966,068
Profits for the year								3,037,822
Other comprehensive income net of tax								(4,467,897)
Total comprehensive income								1,430,076
Total comprehensive income - non-controlling interests								67,325
Profit attributable to the equity holders of the Bank								1,497,401
Assets	49,421,283	9,559,333	16,211,396	45,521,308	3,930,713	1,573,403	(1,096,291)	125,121,145
Percentage*	39	8	13	36	3	1	–	100
Investments in associate company								373,227
								125,494,372
Liabilities	40,945,779	8,159,298	–	41,260,091	199,142	3,098,672	(1,096,291)	92,566,691
Capital expenditure - additions				223,564	54,923	49,672		328,159

* *Net of eliminations.*

NOTES TO THE FINANCIAL STATEMENTS

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

58.2 Revenue and expenses attributable to the business segment of DFCC Vardhana Bank PLC is included in the column for commercial banking.

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

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

59. POST-BALANCE SHEET EVENTS

59.1 PROPOSED DIVIDEND

The Directors have recommended the payment of a final dividend of LKR 5/- per share for the year ended 31 March 2013, which require the approval of the shareholders at the Annual General Meeting to be held on 28 June 2013. The Board of Directors confirms that the Bank has satisfied the solvency test in accordance with Section 57 of the Companies Act No. 07 of 2007 and have obtained the certificate from the Auditors.

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

No other circumstances have arisen which would require disclosure or adjustment to the financial statements.

60. RECLASSIFICATION OF COMPARATIVE FIGURES

Comparative information is reclassified where ever necessary to confirm with the current years classification in order to provide a better presentation.

The details of such reclassifications have been provided in Note 62.

61. CERTIFICATION REQUIRED BY THE COMPANIES ACT NO. 07 OF 2007

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

62. EXPLANATION OF TRANSITION TO SLFRSs - BANK

62.1 As a result of the transition from previous accounting standards referred to as Generally Accepted Accounting Principles (GAAP) to SLFRS on 1 April 2012 The cumulative increase to equity was LKR 9,381 million.

Transition to SLFRs resulted in,

- Reclassification of financial assets/liabilities with no impact on Equity
- Remeasurement of financial assets/liabilities with consequential increase/(decrease) to retained earnings and/or other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

Summary of the change to the Equity on transition to SLFRS:

	BANK	GROUP
	LKR million	LKR million
Total equity under previous GAAP on 1 April 2012	21,754	26,082
Cumulative addition to equity on transition to SLFRS as at 1 April 2012	9,381	6,845
Restated equity on 1 April 2012	31,135	32,927
Explained as follows:		
Cumulative difference on transition to SLFRS 1 April 2011 (commencement of the previous financial year)		
Unrealized gains on available-for-sale financial assets	13,808	11,425
Additional impairment allowance	(129)	(109)
Derivative assets/liabilities recognised at fair value	(16)	(16)
Reclassification of trading portfolio to available-for-sale financial asset	(64)	(64)
Recognition of income and expense over the period of service rendered instead of upfront recognition	(30)	(56)
Adjustments on associate company	–	2
Fair value recognition on loans to employees	9	8
Interest measurement at effective interest rate instead of contract rate	45	54
Fair value change on available-for-sale financial assets during the year to 31 March 2012	(4,377)	(4,468)
Increase in profit after tax during the year to 31 March 2012 due to transition to SLFRS	135	65
Other adjustments on other assets	–	4
Cumulative addition to equity on 31 March 2012	9, 381	6,845

Cumulative addition to equity is reflected in the increase is net assets.

	BANK		GROUP	
	01.04.2011 LKR million	31.03.2012 LKR million	01.04.2011 LKR million	31.03.2012 LKR million
Increase in assets	13,622	9374	11,268	6,944
Decrease in liabilities	1	7	(20)	(99)
Net impact on equity	13,623	9381	11,248	6,846

Notes on page 281 to 305 explain the change to each item in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS

62.2 RECONCILIATION OF EQUITY - BANK

		As at 1 April 2011				As at 31 March 2012			
		Previous SLAS	Reclassification	Impact on transition to SLFRS	SLFRS	Previous SLAS	Reclassification	Impact on transition to SLFRS	SLFRS
	Notes	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000
Assets									
Cash and cash equivalents	a	1,490,629	(1,474,076)	–	16,553	3,534,762	(3,451,552)	–	83,210
Balances with Central Bank		–	–	–	–	–	–	–	–
Placement with banks	b	–	1,490,942	–	1,490,942	–	3,505,346	–	3,505,346
Treasury Bills and other securities eligible for rediscounting with Central Banks		10,500,575	(10,500,575)	–	–	1,537,518	(1,537,518)	–	–
Securities purchased under resale agreements	e	166,000	(166,000)	–	–	–	–	–	–
Derivative financial assets held for risk management	c	–	–	2,636	2,636	–	243,001	–	243,001
Dealing securities		85,242	(85,242)	–	–	65,307	(65,307)	–	–
Other financial assets held for trading	d	–	397,058	–	397,057	–	58,510	–	58,510
Loans to and receivables from banks	e	2,254,778	(153,329)	–	2,101,449	1,917,373	38,231	–	1,955,604
Loans to and receivables from other customers	f	30,964,127	7,298,190	(196,019)	38,066,298	42,382,536	10,768,404	(124,721)	53,026,219
Finance leases	f	5,960,055	(5,960,055)	–	–	8,929,973	(8,929,973)	–	–
Interest receivable	j	257,299	(257,299)	–	–	360,675	(360,675)	–	–
Financial investments - Available-for-sale	g	–	13,451,944	13,739,528	27,191,472	–	6,890,257	9,386,434	16,276,691
Investment securities	f	4,031,527	(4,031,527)	–	–	6,907,117	(6,907,117)	–	–
Investments in associate companies		35,270	–	–	35,270	35,270	–	–	35,270
Investments in joint venture company		655,000	–	–	655,000	655,000	–	–	655,000
Investments in subsidiary companies		2,441,320	–	–	2,441,320	3,760,540	–	–	3,760,540
Due from subsidiaries		15,950	–	–	15,950	41,597	–	–	41,597
Property, plant and equipment		493,465	–	–	493,465	431,606	–	–	431,606
Intangible assets		45,491	–	–	45,491	29,978	–	–	29,978
Income tax refund due		–	–	–	–	139,574	–	–	139,574
Prepayments		17,331	–	–	17,331	43,810	–	–	43,810
Other assets	k	512,060	(4,722)	76,207	583,543	933,999	(248,205)	112,622	798,416
Total assets		59,926,119	5,308	13,622,352	73,553,777	71,706,635	3,404	9,374,335	81,084,372

62.2 RECONCILIATION OF EQUITY - BANK (Contd.)

	Notes	As at 1 April 2011 Previous SLAS LKR 000	Reclassification LKR 000	Impact on transition to SLFRS LKR 000	SLFRS LKR 000	As at 31 March 2012 Previous SLAS LKR 000	Reclassification LKR 000	Impact on transition to SLFRS LKR 000	SLFRS LKR 000
Liabilities									
Due to banks	l	–	4,622,886	–	4,622,886		7,358,338	(2,072)	7,356,266
Derivative financial liabilities held from risk management	c	–	–	18,605	18,605		–	–	–
Debt securities issued	m	–	1,227,220	(309)	1,226,911		718,756	(243)	718,513
Due to other customers	n	3,688,183	511,231	(45,381)	4,154,033	11,710,526	760,728	(26,700)	12,444,554
Other borrowings	o	24,128,704	548,405	(1,357)	24,675,752	32,630,092	(4,823,333)	(1,498)	27,805,261
Short-term Borrowings	l,o	4,931,819	(4,931,819)	–	–	2,186,500	(2,186,500)	–	–
Debentures	m	1,200,000	(1,200,000)	–	–	700,000	(700,000)	–	–
Due to subsidiaries		–	–	–	–	222	–	–	222
Interest accrued	p	842,137	(842,137)	–	–	1,144,954	(1,144,954)	–	–
Current tax liability		230,858	–	–	230,858	–	–	–	–
Deferred tax liabilities		275,121	–	–	275,121	328,039	–	–	328,039
Other liabilities	q	2,410,436	–	30,099	2,440,535	662,750	–	24,367	687,117
Subordinated debentures	r	2,000,000	69,524	(2,080)	2,067,444	590,000	20,367	(994)	609,373
Total Liabilities		39,707,258	5,308	(420)	39,712,145	49,953,083	3,403	(7,140)	49,949,345
Equity									
Share capital		2,648,838	–	–	2,648,838	2,650,977	–	–	2,650,977
Share premium		2,054,546	–	–	2,054,546	2,064,837	–	–	2,064,837
Stated capital		4,703,384	–	–	4,703,384	4,715,814	–	–	4,715,814
Statutory reserves		1,068,600	–	–	1,068,600	1,485,215	–	–	1,485,215
Retained earnings	s	3,067,038	–	(184,907)	2,882,131	1,772,684	–	(49,577)	1,723,107
Other reserves	t	11,379,839	–	13,807,678	25,187,517	13,779,839	–	9,431,052	23,210,891
Shareholders' equity		20,218,861	–	13,622,771	33,841,632	21,753,552	–	9,381,475	31,135,027
Non-controlling interests									
Total equity		20,218,861	–	13,622,771	33,841,632	21,753,552	–	9,381,475	31,135,027
Total equity and liabilities		59,926,119	5,308	13,622,351	73,553,777	71,706,635	3,403	9,374,335	81,084,372

NOTES TO THE FINANCIAL STATEMENTS

62.3 RECONCILIATION OF EQUITY - GROUP

		As at 1 April 2011				As at 31 March 2012			
		Previous SLAS	Reclassification	Impact on transition to SLFRS	SLFRS	Previous SLAS	Reclassification	Impact on transition to SLFRS	SLFRS
	Notes	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000
Assets									
Cash and cash equivalents	a	1,548,193	(10,869)		1,537,324	4,945,199	(3,486,836)	–	1,458,363
Balances with Central Bank	a	894,235	296		894,531	1,596,066			1,596,066
Placement with banks	b	–	38,751	85	38,836		3,545,339	(180)	3,545,159
Treasury bills and other securities eligible for rediscounting with Central Banks	d,g,e	18,429,116	(18,429,116)		–	10,568,367	(10,568,367)		–
Securities purchased under resale agreements	e	1,996,168	(1,996,168)			1,884,792	(1,884,792)		–
Derivative financial assets held for risk management	c		23,078	5,245	28,323		281,751	59,911	341,662
Dealing securities		85,242	(85,242)		–	65,307	(65,307)		–
Other financial assets held for trading	d		1,281,959	408	1,282,367		548,899	(480)	548,419
Non-current assets held for sale		2,875			2,875	2,875			2,875
Bills of exchange	f	288,932	(288,932)		–	532,925	(532,925)		–
Loans to and receivables from banks	e	2,254,778	2,673,158	4,795	4,932,731	1,917,373	2,215,309	(551)	4,132,131
Loans to and receivables from other customers	f	48,706,217	7,725,317	(188,303)	56,243,231	73,452,522	12,161,617	(186,692)	85,427,447
Finance leases	f	5,960,055	(5,960,055)		–	9,423,417	(9,423,417)		–
Financial investments - available-for-sale	g		22,181,048	11,360,036	33,541,084		17,674,879	6,922,549	24,597,428
Financial investments - held-to-maturity	h		80,750	5,043	85,793		80,750	1,278	82,028
Investment securities	h,g	6,685,547	(6,685,547)		–	9,559,437	(9,559,437)		–
Investments in associate company	i	177,291		2,509	179,800	370,800		2,427	373,227
Investments in subsidiary companies		16,000			16,000	–			–
Investment property		233,579			233,579	147,981			147,981
Goodwill on consolidation		226,411			226,411	226,411			226,411
Due from subsidiaries									
Property, plant and equipment		939,415			939,415	936,250			936,250
Intangible assets		173,042			173,042	203,861			203,861
Prepayments		17,331			17,331	43,810			43,810
Income tax refund due	k	1,471	15,349		16,820	161,020	190	(2)	161,208
Deferred tax asset		1,781			1,781	5,583			5,583
Interest receivable	j	415,225	(415,225)			646,900	(646,900)		–
Other assets	k	1,342,781	(116,248)	78,530	1,305,063	1,810,282	(291,669)	145,850	1,664,463
Total assets		90,395,685	32,304	11,268,348	101,696,337	118,501,178	49,084	6,944,110	125,494,372

NOTES TO THE FINANCIAL STATEMENTS

62.3 RECONCILIATION OF EQUITY - GROUP (Contd.)

		As at 1 April 2011				As at 31 March 2012			
	Notes	Previous SLAS LKR 000	Reclassification LKR 000	Impact on transition to SLFRS LKR 000	SLFRS LKR 000	Previous SLAS LKR 000	Reclassification LKR 000	Impact on transition to SLFRS LKR 000	SLFRS LKR 000
Liabilities									
Due to banks	l		4,932,566		4,932,566		11,141,255	(2,074)	11,139,181
Derivative financial liabilities held for risk management	c		27,025	20,754	47,779		45,887	58,867	104,754
Debt securities issued	m		1,227,220	(309)	1,226,911		718,756	(243)	718,513
Due to other customers	n	25,416,397	874,510	(52,825)	26,238,082	44,420,013	1,295,103	(36,433)	45,678,683
Other borrowings	o	24,128,704	3,374,011	(1,570)	27,501,145	32,630,092	(1,703,978)	(1,988)	30,924,126
Short-term borrowings		8,048,189	(8,048,189)		–	9,071,834	(9,071,834)		–
Debentures		1,200,000	(1,200,000)		–	700,000	(700,000)		–
Interest accrued	p	1,224,362	(1,224,362)		–	1,731,630	(1,731,630)		–
Current tax liability		401,254			401,254	56,665			56,665
Deferred tax liabilities		315,313			315,313	376,284			376,284
Other liabilities	q	3,492,112		55,896	3,548,008	1,842,546	(326)	81,762	1,923,982
Subordinated term debt	r	2,000,000	69,524	(2,080)	2,067,444	1,590,000	55,851	(1,348)	1,644,503
		66,226,331	32,304	19,865	66,278,502	92,419,064	49,084	98,543	92,566,691
Equity									
Share capital		2,648,838			2,648,838	2,650,977			2,650,977
Share premium		2,054,546			2,054,546	2,064,837			2,064,837
Stated capital		4,703,384		–	4,703,384	4,715,814		–	4,715,814
Statutory reserves		1,068,600			1,068,600	1,485,215			1,485,215
Other reserves	s	11,379,839		11,425,192	22,805,031	13,779,839		6,961,724	20,741,563
Retained earnings	t	6,530,865		(191,750)	6,339,115	5,686,342		(125,888)	5,560,454
Total equity attributable to equity holders of the Bank		23,682,688		11,233,442	34,916,130	25,667,210	–	6,835,836	32,503,046
Non-controlling interest	v	486,666		15,039	501,705	414,904		9,731	424,635
Total equity		24,169,354		11,248,481	35,417,835	26,082,114		6,845,565	32,927,681
Total equity and liabilities		90,395,685	32,304	11,268,346	101,696,337	118,501,178	49,084	6,944,108	125,494,372

NOTES TO THE FINANCIAL STATEMENTS

62.4 RECONCILIATION OF COMPREHENSIVE INCOME - BANK

For the year ended 31 March 2012	Note	Previous SLAS LKR 000	Reclassification LKR 000	Effect of transition to SLFRSs LKR '000	SLFRS LKR '000
Income		7,433,975	–	218,370	7,652,345
Interest income	f,g	5,871,820	85,304	175,990	6,133,114
Interest Expense	l,m,n,o,r	2,880,428		17,571	2,897,999
Net interest Income		2,991,392	85,304	158,419	3,235,115
Fees and Commission Income	q,v		132,370	7,195	139,565
Fees and Commission Expenses					–
Net fee and Commission Income		–	132,370	7,195	139,565
Net gain from trading	d,v		(32,668)	19,398	(13,270)
Net gain from financial instruments at fair value through profit or loss	c,v		238,326	15,969	254,295
Net gain from financial investments	d,v		1,148,024	(183)	1,147,841
Other Operating (loss)/income (net)	v	1,562,155	(1,571,355)	–	(9,200)
Operating income		4,553,547	–	200,798	4,754,346
Bad and doubtful debts - specific	v	103,869	(103,869)	–	–
- general	v	(104,816)	104,816	–	–
Investments - impairment losses	v	29,132	(29,132)	–	–
Impairment for loans and other losses	f,v	–	28,185	62,496	90,681
Net Operating Income		4,525,362	–	138,302	4,663,665
Personnel expenses	k,v	657,363	145,390	1,512	804,265
Provision for staff retirement benefits	v	176,142	(176,142)		–
Premises, equipment and Establishment expenses	r	282,374	(282,374)		
Other overhead expenses		325,247	(325,247)		–
Other expenses	q,v		638,373	1,461	639,834
Operating Profit Before Value Added Tax		3,084,236	–	135,329	3,219,566
Value added tax on financial services		336,338			336,338
Profit Before Tax		2,747,898	–	135,329	2,883,228
Income tax expense		430,429			430,429
Profit For The Year		2,317,469	–	135,329	2,452,799
Other Comprehensive Income					
Losses on remeasuring available for sale financial assets	g			(4,376,626)	(4,376,626)
Total Comprehensive Income				(4,241,297)	(1,923,827)

NOTES TO THE FINANCIAL STATEMENTS

62.5 RECONCILIATION OF COMPREHENSIVE INCOME - GROUP

For the year ended 31 March 2012	Note	Previous SLAS LKR 000	Reclassification LKR 000	Effect of transition to SLFRSs LKR 000	SLFRS LKR 000
Income		12,140,756	14,775	450,618	12,606,149
Interest income	f,g,v	9,646,418	85,304	445,574	10,177,296
Interest Expense	i,m,n, o,r	4,719,006		14,773	4,733,779
Net interest Income		4,927,412	85,304	430,801	5,443,517
Fees and Commission Income	q,v		775,123	(20,317)	754,806
Fees and Commission Expenses			10,473		10,473
Net fee and Commission Income		–	764,650	(20,317)	744,333
Net gain/(loss) from trading	d,v		17,781	21,994	39,775
Net gain/(loss) from financial instruments at fair value through profit or loss	c,v		162,519	18,044	180,563
Net gain/(loss) from financial investments	d,f,v		1,087,957	(587)	1,087,370
Other Operating income	f,v	2,494,338	(2,128,684)	685	366,339
Operating income		7,421,750	(10,473)	450,620	7,861,897
Bad and doubtful debts - specific	v	166,293	(166,293)		–
- general	v	(103,089)	103,089		–
Investments - impairment losses	v	11,765	(11,765)		
Impairment for loans and other losses	f,v		74,969	373,558	448,527
Net Operating Income		7,346,781	(10,473)	77,062	7,413,370
Personnel expenses	k,v	1,428,687	197,692	5,641	1,632,020
Provision for staff retirement benefits	v	251,567	(251,567)		–
Premises, equipment and establishment expenses	v	758,289	(758,289)		–
Other overhead expenses	v,q	823,079	(823,079)		–
Other expenses	v	–	1,624,770	5,962	1,630,732
Operating Profit Before Value Added Tax		4,085,159		65,459	4,150,618
Value added tax on financial services		461,476			461,476
Operating Profit Before Income Tax		3,623,683	–	65,459	3,689,142
Share of profits of associates		5,649		(362)	5,287
Profit Before Tax		3,629,332	–	65,097	3,694,429
Income tax expense		656,493		114	656,607
Profit For The Year		2,972,839	–	64,983	3,037,822
Other Comprehensive Income					
Loss on remeasuring available for sale financial assets	g			(4,467,897)	(4,467,897)
Total Comprehensive Income				(4,402,914)	(1,430,075)

62.5 RECONCILIATION OF COMPREHENSIVE INCOME - GROUP (Contd.)

62.6 NOTES TO THE RECONCILIATIONS

(a) Cash and Cash Equivalents

Placements/fixed deposits included in cash and cash equivalents have been reclassified as placements with banks.

The impact arising from the change is summarised as follows:

	BANK		GROUP	
	01.04.2011 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2012 LKR 000
Statement of Financial Position				
Reclassification				
Placements/fixed deposits transferred to placement with Banks	(1,474,076)	(3,451,552)	(10,573)	(3,486,836)
Transferred to balances with Central Bank	–	–	(296)	–
	(1,474,076)	(3,451,552)	(10,869)	(3,486,836)

(b) Placements with Banks

Placements/fixed deposits included in cash and cash equivalents have been reclassified as placements with banks. Further interest receivable included in interest receivable classified accordingly.

The impact arising from the change is summarised as follows:

	BANK	GROUP
For the year ended	2012 LKR 000	2012 LKR 000
Statement of Comprehensive Income		
Effective interest rate adjustment	–	4,778
	–	4,778

NOTES TO THE FINANCIAL STATEMENTS

	BANK		GROUP	
As at	01.04.2011 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2012 LKR 000
Statement of Financial Position				
Reclassification				
Placements/fixed deposits transferred from cash and short-term funds	1,474,076	3,451,552	10,784	3,486,036
Interest receivable on placements/fixed deposits	16,866	53,794	27,967	58,303
	1,490,942	3,505,346	38,751	3,545,339
Statement of Financial Position				
Effect on transition to SLFRS				
Effective interest rate adjustment	–	–	85	(180)
Impact on retained earnings	–	–	85	(180)

(c) Derivative Financial Assets/Liabilities held for Risk Management

Bank made a fair value adjustment on the forward foreign exchange contracts on 1 April 2011 and resulting derivative asset/liability was recognised in the financial statement.

Bank reclassified derivative financial instruments which were previously included in other assets/liabilities.

The impact arising from the change is summarised as follows:

	BANK	GROUP
For the year ended	2012 LKR 000	2012 LKR 000
Statement of Comprehensive Income		
Reversal of fair value adjustment on forward exchange contracts	15,969	18,044
	15,969	18,044

NOTES TO THE FINANCIAL STATEMENTS

	BANK		GROUP	
As at	01.04.2011 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2012 LKR 000
Statement of Financial Position				
Reclassifications				
Recognition of derivative financial assets		243,001	23,078	281,751
Recognition of derivative financial liabilities		0	(27,025)	45,887
		243,001	(3,947)	327,638
Statement of Financial Position				
Effect on transition to SLFRS				
Net impact on fair value adjustment of assets	2,636	–	5,245	59,911
Net impact on fair value adjustment of liabilities	(18,605)	–	(20,754)	(58,867)
	(15,969)	–	(15,509)	1,044

(d) Other Financial Assets Held-for-Trading

All such items that the Bank purchased with the intention of selling in the short term is now classified as Held-for-Trading as per new SLFRS.

Further, quoted shares previously classified under trading portfolio now have been reclassified to available-for-sale (AFS) financial assets.

The impact arising from the change is summarised as follows:

	BANK	GROUP
For the year ended	2012 LKR 000	2012 LKR 000
Statement of Comprehensive Income		
Net Gain from Financial Instruments at fair value through profit or loss		
Fair value adjustment included in net gain from trading transferred to AFS	19,215	19,215
Fair value adjustment recognised on dealing shares disposed transferred to net gain from financial investments	93	93
Realised gain on dealing securities classified as AFS	90	90
Capital gain on Government Securities		2,596
	19,398	21,994
Net gain from financial investments		
Fair value adjustment recognised on dealing shares disposed	(93)	(93)
Realised gain on dealing securities	(90)	(90)
	(183)	(183)

NOTES TO THE FINANCIAL STATEMENTS

	BANK		GROUP	
As at	01.04.2011 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2012 LKR 000
Statement of Financial Position				
Reclassification				
Transferred from treasury bills and bonds eligible for rediscounting with CBSL	397,058	58,510	1,281,959	548,899
Effect on Transition to SLFRS				
EIR adjustment and translation adjustments of Treasury Bill and Bonds	–	–	408	(480)
	–	–	(408)	(480)

(e) Loans to and Receivables from Banks

Bank reclassified securities purchased under resale agreements with banks and interest receivable on loans to banks as loans to and receivables from banks.

The impact arising from the change is summarised as follows:

	BANK		GROUP	
As at	01.04.2011 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2012 LKR 000
Statement of Financial Position				
Reclassification				
Reverse repurchase agreements with banks	166,000	–	1,996,168	1884,792
Transferred to loans and receivable from other customers	(356,038)	–	(356,038)	2,255
Transferred from treasury bills and bond eligible to rediscounting with Central Bank	–	–	998,514	375,163
Transferred from other assets			(14,157)	(102,262)
Interest receivables	36,709	38,231	48,671	55,361
	(153,329)	38,231	2,673,158	2,215,309
Effect of Transition to SLFRS				
EIR adjustment of and translation adjustment of Sri Lanka development bonds			380	(76)
EIR adjustment of and translation adjustment of Treasury bills and bonds			1,300	(8,330)
EIR adjustments on securities purchase under resale agreements			3,115	7,855
			4,795	(551)

NOTES TO THE FINANCIAL STATEMENTS

(f) Loans and Receivables to Other Customers

Bank reclassified securities purchased under resale agreements with other customers, Bills of Exchange, finance leases as loans and receivables from customers. Further, Bank classifies investment in redeemable preference shares and accrued dividend as loans and receivable from customers. Interest receivable has been added to relevant loans and receivables category.

Regulatory time-based provisioning replaced with the impairment provisioning methodology based on the incurred loss model as per new SLFRS requirement.

Staff loans granted at concessionary rates were revalued at market lending rates. The unamortised staff costs arising from the staff loans being deducted from loans and receivables and classified under other assets.

The impact arising from the change is summarised as follows:

	BANK	GROUP
For the year ended	2012 LKR 000	2012 LKR 000
Statement of Comprehensive Income		
Interest Income		
Reversal of interest in suspense (IIS) based on CBSL guidelines	161,787	426,110
Unwinding interest on impaired loans	7,949	7,949
Staff loan interest difference at market rate	1,937	(1,757)
	171,673	432,302
Net gain from financial investments and other operating income		
Effective interest rate adjustment on repo borrowings	–	(404)
Effective interest rate adjustment reclassified as repo borrowings	–	685
Impairment charges for loans and receivable		
Additional impairment provision on loans and receivables	63,443	398,238
Reversal of specific and general loan loss provisions based on CBSL guidelines	(947)	(24,680)
	62,496	373,558

NOTES TO THE FINANCIAL STATEMENTS

As at	BANK 01.04.2011 LKR 000	BANK 31.03.2012 LKR 000	GROUP 01.04.2011 LKR 000	GROUP 31.03.2012 LKR 000
Statement of Financial Position				
Reclassification				
Redeemable preference shares transferred from investment securities	776,667	1,567,500	776,667	1,567,502
Interest receivable on preference shares	10,030	8,608	10,028	8,608
Loans and advances reclassified from loans to banks	356,038	–	356,038	2,255
Finance lease receivable classified under loans and advances to other customers	5,960,055	8,929,973	5,960,055	9,423,417
Bills of Exchange classified under loans and advances to other customers	–	–	288,932	532,925
Transferred from other assets	–	–	3,335	–
Transferred from securities purchased under resale agreements	–	–	–	100,000
Interest receivable on loans and advances	195,400	262,324	330,262	526,910
	7,298,190	10,768,405	7,725,317	12,161,617
Impact on Transitions to SLFRS				
Reversal of provision for credit losses as per CBSL and IIS	3,433,431	3,455,614	5,685,442	5,326,854
Allowance for impairment	(3,562,053)	(3,476,996)	(5,793,782)	(5,374,693)
Interest difference and amortised prepaid cost adjustment on	8,694	9,159	8,274	7,494
Unamortised staff cost transferred to other assets	(76,091)	(112,498)	(88,237)	(146,347)
	(196,019)	(124,721)	(188,303)	(186,692)

(g) Financial Investments - Available-for-Sale (AFS)

Treasury Bills and Bonds eligible for rediscounting with Central Bank and certain items in investment securities were reclassified as financial assets available-for-sale. Interest receivable related to available-for-sale financial assets previously included in interest receivable have been reclassified accordingly. Further, investment in shares, unit trusts, preference shares (excluding redeemable preference shares) classified as available-for-sale securities.

Difference between the cost and the fair value is accounted in the Statement of Changes in Equity through 'Other Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS

The impact arising from the change is summarised as follows:

For the year ended	BANK 2012 LKR 000	GROUP 2012 LKR 000
Statement of Comprehensive Income		
Interest Income		
EIR adjustment on Government securities	4,317	9,997
Other Comprehensive Income		
Fair value adjustment on Government securities	(10,993)	(96,799)
Fair value adjustment on quoted shares	(4,237,816)	(4,237,717)
Fair value adjustment on quoted shares	–	(4,963)
Fair value adjustment on unit trusts	(108,602)	(109,285)
Fair value adjustment on shares transferred from trading portfolio	(19,215)	(19,215)
	(4,376,626)	(4,467,979)

	BANK		GROUP	
As at	01.04.2011 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2012 LKR 000
Statement of Financial Position				
Reclassification				
Redeemable preference shares reclassified as loans and advances to other customer	(776,667)	(1,567,500)	(776,667)	(1,567,500)
Quoted shares included in dealing portfolio reclassified	85,242	65,307	85,242	65,307
Interest receivable on Government securities	3,714	6,326	3,714	6,326
Government securities classified as AFS	10,108,128	1,479,007	16,153,254	9,644,305
Transferred from other assets	–	–	110,707	56,053
Investment securities reclassified	4,031,527	6,907,117	6,604,798	9,470,388
	13,451,944	6,890,257	22,181,048	17,674,879
Impact on Transition to SLFRs				
Fair value adjustment on Government securities	9,367	(1,626)	94,901	(3,235)
Fair value adjustment on quoted shares	13,545,962	9,308,146	13,587,693	9,344,132
Fair value adjustment on unit trusts	188,617	80,015	189,984	81,382
EIR adjustment on Government securities	(4,418)	(101)	(13,184)	(372)
Consolidated adjustment on part disposal of Investment in associate	–	–	(2,499,358)	(2,499,358)
	13,739,528	9,386,434	11,360,036	6,922,549

NOTES TO THE FINANCIAL STATEMENTS

(h) Financial Investments Held to Maturity

Debentures held by joint venture company previously classified under investment securities is reclassified as financial investments held to maturity

	BANK		GROUP	
As at	01.04.2011 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2012 LKR 000
Statement of Financial Position				
Interest income				
EIR adjustments on debentures	–	–	5,043	1,278
	–	–	5,043	1,278

(i) Investments in Associates

This represents the fair value adjustment on the investments made in an Associate Company due to reclassification of investment as Financial Assets Available-for-Sale.

The impact arising from the change is summarised as follows:

	BANK	GROUP
For the year ended	2012 LKR 000	2012 LKR 000
Statement of Comprehensive Income		
Share of profits - Income Statement	–	(362)
Share of other comprehensive income	–	280

	BANK		GROUP	
As at	01.04.2011 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2012 LKR 000
Statement of Financial Position				
Impact of Transition to SLFRS				
Fair value adjustment of shares by associate company	–	–	2,158	2,409
Other adjustments - deferred front end fees	–	–	351	18
	–	–	2,509	2,427

NOTES TO THE FINANCIAL STATEMENTS

(j) Interest Receivable

	BANK		GROUP	
As at	01.04.2011 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2012 LKR 000
Statement of Financial Position				
Reclassification				
Interest receivable	(257,299)	(360,675)	(415,225)	(646,900)
Cash and short-term funds	16,866	53,794	27,967	58,303
Loans to and receivables from other Banks	36,708	38,231	48,671	55,361
Loans to and receivables from other customers	195,400	262,324	330,262	526,910
Financial investments - Available-for-sale	3,714	6,326	3,714	6,326
Other financial assets held-for-trading	4,611	–	4,611	–
	–	–	–	–

(k) Other Assets

The concession given to employees on loans granted and higher interest rate on deposits was valued at the inception at market rate and amortised over the tenor and unammortised prepaid cost included in other asset.

The impact arising from the change is summarised as follows:

	BANK	GROUP
For the year ended	2012 LKR 000	2012 LKR 000
Statement of Comprehensive Income		
Personal Expenses		
Amortisation of prepaid staff cost	1,512	5,641

NOTES TO THE FINANCIAL STATEMENTS

	BANK		GROUP	
As at	01.04.2011 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2012 LKR 000
Statement of Financial Position				
Reclassification				
Fair value adjustment on derivative assets/liabilities included in other assets	–	(243,000)	3,947	(327,638)
Preference share dividend reclassified to loans and receivables	(10,030)	(8,608)	(10,028)	(8,608)
Transferred to loans and advances for customers	–	–	(3,335)	–
Classification of available-for-sale financial investments	–	–	(110,707)	(56,052)
Transferred from due to banks	–	–	(30)	–
Transferred to loans to banks	–	–	14,157	102,260
Transferred to other liabilities	–	–	–	(4,844)
Transferred to income tax refund due	–	–	(15,349)	(190)
Transferred from investment securities	–	–	(211)	–
Over provision of interest payable transferred from interest accrued	5,308	3,403	5,308	3,403
	(4,722)	(248,205)	(116,248)	(291,669)
Statement of Financial Position				
Impact of Transition to SLFRS				
Unamortised staff cost transferred from loans & receivable to other customers	76,091	112,498	88,237	146,347
Unamortised prepaid cost on staff deposits	116	124	828	913
Decrease in other assets	–	–	(10,535)	(1,410)
	76,207	112,622	78,530	145,850

(1) Due to Banks

Interest payable to banks classified under Other Liabilities has now been classified as Due to Banks Balance.

The impact arising from the change is summarised as follows:

	BANK	GROUP
For the year ended	2012 LKR 000	2012 LKR 000
Statement of Comprehensive Income		
Interest expense		
EIR adjustment	(2,072)	(2,072)

NOTES TO THE FINANCIAL STATEMENTS

	BANK		GROUP	
As at	01.04.2011 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2012 LKR 000
Statement of Financial Position				
Reclassification				
Interest payable on borrowings	3,067	87,068	(2,832)	79,337
Transferred from borrowings medium and long term	–	5,084,770	0	5,084,770
Transferred from short-term borrowings	4,619,819	2,186,500	4,935,428	5,982,225
Transferred to other assets	–	–	(30)	(5,077)
	4,622,886	7,358,338	4,932,566	11,141,255
Effect of Transition to SLFRS				
EIR adjustment	–	(2,072)	–	(2,074)
	–	(2,072)	–	(2,074)

(m) Debt Securities Issued

Debentures and interest payable on debentures reclassified to debt securities issued.

The impact arising from the change is summarised as follows:

	BANK	GROUP
For the year ended	2012 LKR 000	2012 LKR 000
Statement of Comprehensive Income		
Interest expense		
EIR adjustment	66	66

	BANK		GROUP	
As at	01.04.2011 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2012 LKR 000
Statement of Financial Position				
Reclassification				
Transfer from debentures	1,200,000	700,000	1,200,000	700,000
Interest payable on debentures	27,220	18,756	27,220	18,756
	1,227,220	718,756	1,227,220	718,756
Effect of Transition to SLFRS				
EIR adjustment	(309)	(243)	(309)	(243)
	(309)	(243)	(309)	(243)

NOTES TO THE FINANCIAL STATEMENTS

(n) Due to Other Customers

Interest payable to customers classified under interest accrued has now been reclassified as Due to Other Customers. Further, interest on deposits being recorded using effective interest rate at amortised cost.

The impact arising from the change is summarised as follows:

	BANK	GROUP
For the year ended	2012 LKR 000	2012 LKR 000
Statement of Comprehensive Income		
Interest expense		
EIR adjustment on deposits	18,633	16,282

	BANK		GROUP	
As at	01.04.2011 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2012 LKR 000
Statement of Financial Position				
Reclassification				
Interest payable on deposits	511,231	760,728	874,510	1,295,103
Effect of Transition to SLFRS				
Unamortised prepaid cost on staff deposits transferred to other assets	116	124	828	913
EIR adjustments on deposits	(45,497)	(26,824)	(53,653)	(37,346)
	(45,381)	(26,700)	(52,825)	(36,433)

(o) Other Borrowings

Interest of other borrowings categorised under interest accrued has now been added back to Other Borrowings.

The impact arising from the change is summarised as follows:

	BANK	GROUP
For the year ended	2012 LKR 000	2012 LKR 000
Statement of Comprehensive Income		
Interest expense		
EIR adjustment	(142)	(235)

NOTES TO THE FINANCIAL STATEMENTS

	BANK		GROUP	
As at	01.04.2011 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2012 LKR 000
Statement of Financial Position				
Reclassification				
Repurchased agreements transferred from short-term borrowings	312,000	–	3,112,757	3,089,609
Transferred from borrowings medium and long term	–	(5,084,770)	–	(5,084,770)
Interest payable on borrowings	236,405	261,437	261,254	291,183
	548,405	(4,823,333)	3,374,011	(1,703,978)
Effect of Transition to SLFRS				
EIR adjustment	(1,357)	(1,498)	(1,570)	(1,988)
	(1,357)	(1,498)	(1,570)	(1,988)

(p) Interest Accrued

Interest accrued has been classified to relevant liabilities as explained in the other notes

	BANK		GROUP	
As at	01.04.2011 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2012 LKR 000
Statement of Financial Position				
Reclassification				
Interest accrued	(842,137)	(1,144,954)	(1,224,362)	(1,731,630)
Subordinated debentures	69,523	20,367	69,523	55,851
Debt securities issued	27,220	18,756	27,220	18,756
Due to other customers	511,231	760,729	874,510	1,295,103
Due to banks	3,066	87,068	(2,837)	79,337
Other borrowing	236,405	261,437	261,254	291,183
Over provision on premium on other borrowings transferred to other assets	(5,308)	(3,403)	(5,308)	(8,600)
	–	–	–	–

(q) Other Liabilities

Commission income recognised on the cash basis being adjusted to recognise the income over the period of the underlying instrument.

Further, adjustment for future rent increase on escalation terms has been recogonised.

NOTES TO THE FINANCIAL STATEMENTS

The impact arising from the change is summarised as follows:

For the year ended	BANK 2012 LKR 000	GROUP 2012 LKR 000
Statement of Comprehensive Income		
Fee and Commission income		
Derecognition of commission income	7,195	(20,317)
Adjustment for future rent increase on escalation terms	1,461	5,962

As at	BANK		GROUP	
	01.04.2011 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2012 LKR 000
Statement of Financial Position				
Effect of Transition to to SLFRS				
Adjustment for future rent increase on escalation terms	10,812	12,275	36,609	69,670
Deferment of commission income	19,287	12,092	19,287	12,092
	30,099	24,367	55,896	81,762

(r) Subordinated Term Debts

Interest payable included in interest accrued now being added to subordinated term debts and EIR adjustment is made.

The impact arising from the change is summarised as follows:

For the year ended	BANK 2012 LKR 000	GROUP 2012 LKR 000
Statement of Comprehensive Income		
EIR adjustment	1,086	732

As at	BANK		GROUP	
	01.04.2011 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2012 LKR 000
Statement of Financial Position				
Reclassification				
Interest payable on subordinated term debts	69,524	20,367	69,524	55,851
	69,524	20,367	69,524	55,851
Effect of Transition to SLFRS				
EIR adjustment	(2,080)	(994)	(2,080)	(1,348)
	(2,080)	(994)	(2,080)	(1,348)

NOTES TO THE FINANCIAL STATEMENTS

(s) Retained Earnings

The impact arising from the change is summarised as follows:

	BANK		GROUP	
As at	01.04.2011 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2012 LKR 000
Consolidated Statement of Financial Position				
New SLAS Adjustments				
Reversal of provision for credit losses as per CBSL and IIS	3,433,431	3,455,614	5,685,442	5,326,854
Allowance for impairment	(3,562,053)	(3,476,996)	(5,793,782)	(5,374,693)
Difference between amortised prepaid cost and interest difference on staff loans	8,694	9,159	8,274	7,494
Fair value adjustment on forward exchange contracts	(15,969)		(15,509)	1,043
EIR adjustment on Government securities	(4,418)	(101)	(7,982)	(1,405)
EIR adjustment on placements	–	–	85	(180)
EIR adjustment on held to maturity investments	–	–	5,043	1,278
Adjustment for associate company	–	–	2,509	2,427
Change in other assets	–	–	(10,535)	(1,410)
EIR adjustment - due to Banks	–	2,072	–	2,074
EIR adjustment - debt securities issued	309	243	309	243
EIR adjustment on deposits	45,497	26,824	53,653	37,346
EIR adjustment other borrowings	1,356	1,498	1,570	1,988
Adjustment for future rent increase on escalation terms	(10,814)	(12,275)	(36,609)	(69,670)
Derecognition of commission income	(19,287)	(12,092)	(19,287)	(12,092)
EIR adjustment subordinated term debts	2,080	994	2,080	1,348
Fair value adjustment on dealing securities reclassified to AFS reserve	(63,732)	(44,517)	(63,732)	(44,517)
Change in the income tax	–	–	–	(2)
Change in non-controlling interest	–	–	(3,279)	(4,014)
	(184,906)	(49,577)	(191,750)	(125,888)

(t) Other Reserves - Fair Value Reserve

Treasury Bills and Bonds eligible for rediscounting with Central Bank and investment securities were reclassified as financial assets available-for-sale. Interest receivable related to available-for-sale financial assets previously accounted for in interest receivable have been reclassified accordingly. Further, investment in shares,unit trusts, preference shares (excluding redeemable preference shares) classified as available-for-sale securities.

The cost and the fair value is accounted in the Statement of Changes in Equity through Other Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS

The impact arising from the changes is summarised as follows:

	BANK		GROUP	
As at	01.04.2011 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2012 LKR 000
Consolidated Statement of Financial Position				
Reclassification of fair value adjustment on dealing securities	63,732	44,517	63,732	44,517
	63,732	44,517	63,732	44,517
New SLAS Adjustments				
Fair value adjustment on Government securities	9,367	(1,626)	94,901	(3,235)
Fair value adjustment on quoted shares	13,545,962	9,308,146	13,587,693	9,344,132
Fair value adjustment on unit trusts	188,617	80,015	189,984	81,382
Consolidation adjustment on part disposal of investment in associate company	–	–	(2,499,358)	(2,499,358)
	13,743,946	9,386,535	11,373,220	6,922,921
Non-controlling interest	–	–	(11,760)	(5,714)
			11,425,192	6,961,724

(u) Non-Controlling Interest (NCI)

Change in the net assets of the subsidiaries due to the SLFRS related adjustments.

	BANK	GROUP
For the year ended	2012 LKR 000	2012 LKR 000
Statement of Comprehensive Income		
Change in non-controlling income	–	(879)
	–	(879)

	BANK		GROUP	
As at	01.04.2011 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2012 LKR 000
Statement of Financial Position				
New SLAS Adjustments				
Change in net asset in the Group subsidiary	–	–	15,036	9,731
	–	–	15,036	9,731

NOTES TO THE FINANCIAL STATEMENTS

(v) Other Classifications in the Statement of Comprehensive Income

Certain items included in Other Operating Income in the earlier SLAS has been reclassified as follows:

	BANK		GROUP	
As at	01.04.2011 LKR 000	31.03.2012 LKR 000	01.04.2011 LKR 000	31.03.2012 LKR 000
Other Operating Income		(1,571,355)		(2,128,684)
Interest income - Preference share dividend		85,304		85,304
Fees and Commission Income		132,370		775,123
Net gain/(loss) from Trading		(32,668)		17,781
Net gain/(loss) from financial investments designated at fair value through PL	238,326	238,326		162,519
Net gain/(loss) from Financial Investments		1,148,024		1,087,957
		–		–
Personnel Expenses				
Provision for staff retirement benefits has been reclassified under personal expenses				
Personnel expenses		176,142		251,567
Provision for staff retirement benefits		(176,142)		(251,567)
		–		–
Impairment for Loans and Other Assets				
Provisions for bad and doubtful debts investments impairment losses reclassified under impairment for loans and other losses				
Bad and doubtful debts - specific		(103,869)		(166,293)
- general		104,816		(103,089)
Investments - impairment losses		(29,132)		(11,765)
Impairment for loans and other losses		28,185		74,969
Other Expenses		638,373		1,624,770
Premises equipment and establishment expenses		(282,374)		(758,289)
Other overhead expenses		(325,247)		(823,079)
Personnel expenses		(30,752)		(54,875)
Fees and commission expenses		–		10,473
		–		–

63. FINANCIAL RISK MANAGEMENT

63.1 INTRODUCTION AND OVERVIEW

Bank has exposure to following 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 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 with three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories that includes credit, liquidity and market risk. The Board has assigned the overall risk management to this Committee to assist the Board to manage these risks prudently.

Bank's risk management policies are established to identify and analyse the risk faced by the Bank, to set appropriate risk limits and controls and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

63.2 CREDIT RISK

63.2.1 QUALITATIVE DISCLOSURES

credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Bank's loans and advances to customers and other banks and investment in debt securities.

Management of credit risk includes the following elements:

- 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.
- Establishing the authorisation structure for the approval and renewal of credit facilities.
- Limiting concentration of exposures to counterparties and industries.
- 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.
- Reviewing compliance through regular audits by internal audit.

63.2.2 Quantitative Disclosures

63.2.2.1 Loans and advances and Impairment Analysis

	BANK				GROUP			
	Loans		Leases		Loans		Leases	
	31.03.2013 LKR 000	31.03.2012 LKR 000	31.03.2013 LKR 000	31.03.2012 LKR 000	31.03.2013 LKR 000	31.03.2012 LKR 000	31.03.2013 LKR 000	31.03.2012 LKR 000
Individually Impaired								
Gross amount	1,594,993	1,449,877	–	–	3,728,993	3,044,877	–	–
Allowance for impairment	(1,477,986)	(1,383,599)	–	–	(3,229,986)	(2,811,599)	–	–
Carrying amount	117,007	66,278	–	–	499,007	233,278	–	–
Collectively Impaired								
Gross amount	1,669,555	1,873,124	89,523	124,773	3,047,555	3,019,124	89,523	124,773
Allowance for impairment	(1,442,958)	(1,645,623)	(54,241)	(73,098)	(2,340,958)	(2,448,623)	(54,241)	(73,098)
Carrying amount	226,597	227,501	35,282	51,675	706,597	570,501	35,282	51,675
Incurred Loss Not Yet Identified Impairment								
Gross amount	523,281	377,953	99,734	135,914	523,281	377,953	99,734	135,914
Allowance for impairment	(271,959)	(238,762)	(99,734)	(135,914)	(271,959)	(238,762)	(99,734)	(135,914)
Carrying amount	251,322	139,191	–	–	251,322	139,191	–	–

NOTES TO THE FINANCIAL STATEMENTS

63.2.2.1 Loans and advances and Impairment Analysis (Contd.)

	BANK				GROUP			
	Loans		Leases		Loans		Leases	
	31.03.2013 LKR 000	31.03.2012 LKR 000	**31.03.2013 LKR 000**	31.03.2012 LKR 000	**31.03.2013 LKR 000**	31.03.2012 LKR 000	**31.03.2013 LKR 000**	31.03.2012 LKR 000
Past Due But Not Impaired								
Gross amount	9,317,352	5,357,010	3,697,463	2,114,019	13,962,352	7,785,010	3,697,463	2,114,019
Allowance for impairment	–	–	–	–	–	–	–	–
Carrying amount	9,317,352	5,357,010	3,697,463	2,114,019	13,962,352	7,785,010	3,697,463	2,114,019
Neither Past Due Nor Impaired								
Gross amount	39,598,607	38,265,585	5,601,137	6,804,960	73,646,283	67,728,813	5,601,137	6,804,960
Allowance for impairment	–	–	–	–	–	–	–	–
Carrying amount*	39,598,607	38,265,585	5,601,137	6,804,960	73,646,283	67,728,813	5,601,137	6,804,960
Carrying Amount- Amortised Cost	49,510,885	44,055,565	9,333,882	8,970,654	89,065,561	76,456,793	9,333,882	8,970,654
Loans and Advances to Banks								
Neither Past Due Nor Impaired								
Gross amount	1,822,838	1,955,604			5,633,902	4,132,131		
Allowance for impairment								
Carrying amount	1,822,838	1,955,604			5,633,902	4,132,131		

** Carrying amount of the Bank's loans and advances includes accounts with renegotiated terms of which the capital outstanding as at 31 March 2013 amounts to LKR 2,363 million (2012 - LKR 2,937 million)*

NOTES TO THE FINANCIAL STATEMENTS

63.2.2.2 Analysis of Fair Value of Loans and Advances to Customers - Bank

	31.03.2013		31.03.2012		31.03.2011	
	Loan balance LKR 000	Security value LKR 000	Loan balance LKR 000	Security value LKR 000	Loan balance LKR 000	Security value LKR 000
Against Individually Impaired						
Property	1,495,368	1,214,125	1,365,733	1,532,488	1,395,683	2,179,018
Unsecured	99,625	–	84,143	–	86,269	–
Against Collectively Impaired						
Property	1,395,950	1,855,153	1,444,959	2,198,791	1,472,166	2,423,987
Others	8,650	8,190	15,532	9,515	19,093	18,390
Unsecured	165,861	–	121,307	–	121,089	–
Incurred Loss Not Yet Identified Impairment						
Property	339,562	355,813	365,609	582,713	310,872	935,213
Others	9,471	18,000				
Unsecured	174,248		12,344		59,335	
Against Past Due But Not Impaired						
Property	6,909,278	18,037,882	4,624,526	13,712,738	3,716,373	12,377,262
Others	76,078	130,917	91,318	58,686	55,187	68,932
Unsecured	2,417,476	–	878,286	–	812,136	–
Against Neither Past Due Nor Impaired						
Property	18,799,590	48,416,212	18,930,043	51,490,987	331,787	801,174
Debt securities	535,506	825,123	–	–	–	–
Equity	704,650	1,545,149	980,619	1,533,675	488,359	587,925
Others	2,928,731	920,075	2,662,259	985,799	14,323,337	48,088,481
Unsecured	16,643,744	–	15,746,872	–	12,027,322	–
Total	52,703,788	73,326,639	47,323,550	72,105,392	35,219,006	67,480,382
Leases	9,487,857		9,179,665		6,409,345	
Total	62,191,645	73,326,639	56,503,215	72,105,392	41,628,351	67,480,382

63.3 LIQUIDITY RISK

63.3.1 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:

- 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.
- Asset Liability Committee (ALCO) is mandated to execute liquidity management policies, procedures and practices approved by Board of Directors, effectively.
- Monitoring the ratio of net liquid assets to deposits from customers (statutory minimum is currently 20%) using a flow approach or a combination of stock and flow approaches.

63.3.2 Quantitative Disclosures

63.3.2.1 Liquidity Risk Position of DFCC Vardhana Bank PLC

	2013 %	2012 %
Liquid Asset Ratio (DBU)		
At 31 March	28.8	31.8
Average for the year	27.1	25.8
Maximum for the year	29.9	31.8
Minimum for the Year	23.9	23.6
Gross Advances to deposit ratio	85.2	91.0
Net Loans to total assets	62.8	68.5

63.3.2.2 Liquid Asset Ratio of DFCC Bank

	2013 %	2012 %
At 31 March	52.8	51.5
Average for the year	40.3	117.18
Minimum for the year	32.3	24.15
Maximum for the Year	52.8	282.96

63.3.2.3 Maturity Analysis of Financial Liabilities

	Carrying Amount LKR 000	Total LKR 000	Up to 3 months LKR 000	%	3 to 12 months LKR 000	%	1 to 3 years LKR 000	%	3 to 5 years LKR 000	%	>5 years LKR 000	%
Non Derivative liabilities												
Due to banks	6,399,595	6,406,703	2,818,188	44	3,588,515	56	0	–	0	–	0	–
Due to other customers	15,548,067	15,567,135	9,059,548	58	5,715,081	37	482,455	3	306,508	2	3,543	0
Other Borrowings	33,846,282	33,849,065	1,629,906	5	7,742,627	23	7,304,466	22	6,136,844	18	11,035,222	33
Debt securities issued	558,257	559,284	–	–	16,884	3	542,400	97	–	–	–	–
Subordinated term debts	609,373	610,367	–	–	20,367	3	–	–	590,000	97	–	–
Due to subsidiaries	525	525	525	100	–	–	–	–	–	–	–	–
Other liabilities	761,825	735,145	735,145	100	–	–	–	–	–		–	–
	57,723,924	57,728,224	14,243,312	25	17,083,474	30	8,329,321	14	7,033,352	12	11,038,765	19
Derivative Liabilities												
Unutilised credit facilities	8,498,348	8,498,348	2,124,587	25	4,249,174	50	2,124,587	25	–	–	–	–
	8,498,348	8,498,348	2,124,587	25	4,249,174	50	2,124,587	25	–	–	–	–

The gross nominal outflow represents the contractual undiscounted cash flows.

63.4 MARKET RISK

63.4.1 Qualitative disclosures

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk includes the following elements:

- Overall authority for managing market risk is vested with the Board of Directors through the Board Integrated Risk Management Committee. The operational authority for managing market risk is vested with ALCO.
- Foreign exchange risk is managed within the approved limits by Treasury.
- 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 and held-to-maturity and from derivatives held for risk management purposes.

63.4.2 Quantitative Disclosures

Quantitative disclosure requirements of market risk in the financial statements have been exempted for the financial year 31 March 2013, as per SLFRS 7 - Financial instruments: disclosures paragraph 46.

63.5 OPERATIONAL RISK

63.5.1 Qualitative Disclosures

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the DFCC Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

DFCC Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the DFCC's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall DFCC Bank's standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of the transaction
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic of assessment of operational risk faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standard, and
- risk mitigation, including insurance where this is effective

NOTES TO THE FINANCIAL STATEMENTS

Compliance with DFCC'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 of DFCC Bank.

63.6 CAPITAL MANAGEMENT

63.6.1 Qualitative Disclosures

DFCC Bank manages its capital at group level, considering both regulatory and economic capital.

Regulatory Capital

DFCC's regulator, Central Bank of Sri Lanka sets and monitors capital requirements on both consolidated and solo basis.

The Group is required to comply with the provisions of the Basel II framework in respect of regulatory capital. Standardised approach for credit risk, basic indicator approach for operational risk and for market risk are used currently.

Regulatory capital comprises Tier One capital and Tier Two capital as given below:
The Group's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

DFCC Bank and its subsidiary DFCC Vardhana Bank PLC engage in commercial banking business have complied with the minimum capital requirements imposed by the Central Bank of Sri Lanka throughout the period.

63.6.2 Quantitative Disclosures

As as	Note	31.03.2013 Basel II LKR '000
Tier 1 capital		
Ordinary share capital	51	2,650,977
Share premium		2,064,837
Statutory reserve fund	52	1,285,000
Retained earnings	53	7,519,364
General and other reserves	54	14,500,864
Non-controlling interests		512,375
Less: deductions		
Good will	41	226,411
Net deferred tax asset	42	834
Intangible assets	40	261,668
50% investments in the capital of other banks and financial institutions		3,490,502
Total Tier 1 capital		24,554,002
Tier 2 capital		
Qualifying subordinated liabilities		1,272,000
General provision		486,774
Less: deductions		
50% investments in the capital of other banks and financial institutions		3,490,502
Total regulatory capital		22,822,277

OTHER DISCLOSURE REQUIREMENTS UNDER THE PRESCRIBED FORMAT ISSUED BY THE CENTRAL BANK OF SRI LANKA FOR PREPARATION OF ANNUAL FINANCIAL STATEMENTS OF LICENSED SPECIALISED BANKS

Disclosure Requirements		Description	Page No.
1. Information about the Significance of Financial Instruments for Financial Position and Performance			
1.1	**Statement of Financial Position**		
1.1.1	Disclosures on categories of financial assets and financial liabilities.	Note 23 to the Financial Statements - Measurement of Financial Instruments.	232
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	209
	ii. Reclassifications of financial instruments from one category to another.	Significant Accounting Policies: Note 5.2.3 - Reclassification of Financial Instruments	209
	iii. Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Note 26.1 placements with banks	235
	iv. Reconciliation of the allowance account for credit losses by class of financial assets.	Notes to the Financial Statements: Note 31.3 - Movement in specific and collective for Allowance Impairment	237
	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:	221
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 10 - Interest income	221
	ii. Fee income and expense.	Note 12 to the Financial Statements: Net fees and commission income	222

Disclosure Requirements		Description	Page No.
	iii. Amount of impairment losses by class of financial assets.	Note 17 to the Financial Statements: Impairment for loans and others losses.	223
	iv. Interest income on impaired financial assets.		
1.3	**Other Disclosures**		
1.3.1	Accounting policies for financial instruments.	Significant Accounting Policies: Note 3.3 - Financial instruments - initial recognition, classification and subsequent measurement.	205
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 27 - Derivative financial Instruments Note 28 - Other financial assets held for trading	235
	ii. Description of how fair value was determined.	Significant Accounting Policies: Note 3.3.9 - Determination of fair value	205
	iii. The level of inputs used in determining fair value.	Significant Accounting Policies: Note 3.3.9 - Determination of fair value	205
	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. Significant Accounting Policies: Note 3.3.2.1 - 'Day 1' profit or loss.	205
	v. Information if fair value cannot be reliably measured.	Note 32 to the Financial Statements: Financial Investments - Available-for-Sale.	240
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.	

Disclosure Requirements		Description	Page No.
2.1.2	Management's objectives, policies, and processes for managing those risks.	Please refer the section relating to Integrated Risk Managements objectives, policies and processes.	
2.1.3	Changes from the prior period.	There was no major policy change during the period under review.	
2.2	Quantitative Disclosures.		
2.2.1	Summary of quantitative data about exposure to each risk at the reporting date.	Please refer the section relating to Integrated Risk Managements objectives, policies and processes.	
2.2.2	Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed.	Please refer the section relating to Integrated Risk Managements objectives, policies and processes.	
	i. Credit Risk		
	a. Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets.	Note 31.1.3 on industry analysis.	237
	b. For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset.	Note 31.1.3 on industry analysis. Note 63.2.2.1 & 64.2.2.2 on loans and advances and impairment analysis.	237
	c. Information about collateral or other credit enhancements obtained or called.	Note 63.2.2 Analysis of fair value of loans and advances.	304
	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'.	

Disclosure Requirements	Description	Page No.
ii. Liquidity Risk		
a. A maturity analysis of financial liabilities.	63.3.2.3 Maturity analysis of financial liabilities.	304
b. Description of approach to risk management.	The section on ‘Integrated Risk Management’.	
c. For other disclosures, please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Please refer the section on ‘Integrated Risk Management’.	
iii. Market Risk		
a. A sensitivity analysis of each type of market risk to which the entity is exposed.	Please refer the section on ‘Integrated Risk Management’.	
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’.	
iv. Operational Risk 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’.	
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.	Significant Accounting Policies: Note 5.2.2 - Held to maturity financial investments Note 5.2.2 - Available for sale financial investments	209
• Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.		

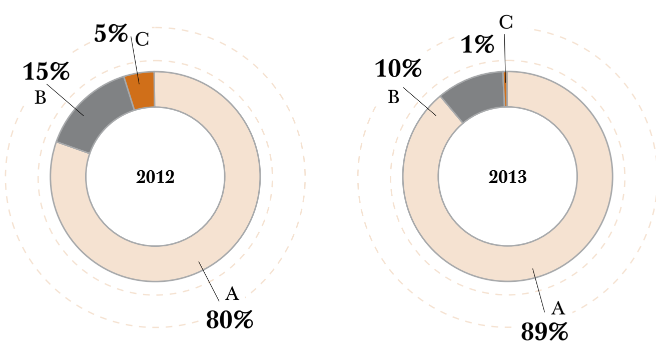
Disclosure Requirements		Description	Page No.
	b. Quantitative Disclosures		
	• Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value. • The types and nature of investments. • The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period.	Notes to the Financial Statements: Note 32 - Financial investments - Available-for-sale Note 34 - Investments in Subsidiaries Note 35 - Investments in Associates Note 15 - Net gain/loss from Financial Investments	 240 248 249 223
	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'.	
	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'. Level of interest rate risk exposure in the banking book of DFCC is given in the interest rate sensitivity statement in the report on "Integrated Risk Management. Based on the interest rate sensitivity position of DFCC as at 31st March 2013 (asset sensitive position), interest rates movement of 1% upward or downward (assumed parallel shift in the yield curve) would lead to an increase/decrease in Nil/ economic value by royalty LKR 21 million.	
2.2.3	Information on concentrations of risk.	Please refer the section on 'Integrated Risk Management'.	

Disclosure Requirements	Description	Page No.
3. Other Disclosures		
3.1 Capital		
3.1.1 Capital Structure		
i. Qualitative Disclosures.		
Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.	Note 63.6.2	304
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 63 - Financial Risk Management	304
3.1.2 Capital adequacy		
i. Qualitative Disclosures A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.	Please refer the section on 'Integrated Risk Management'.	
ii. Quantitative Disclosures		
a. Capital requirements for credit risk, market risk and operational risk	Please refer the section on 'Integrated Risk Management'.	
b. Total and Tier 1 capital ratio	Please refer the section on 'Integrated Risk Management'.	

SOURCES AND DISTRIBUTION OF INCOME - BANK

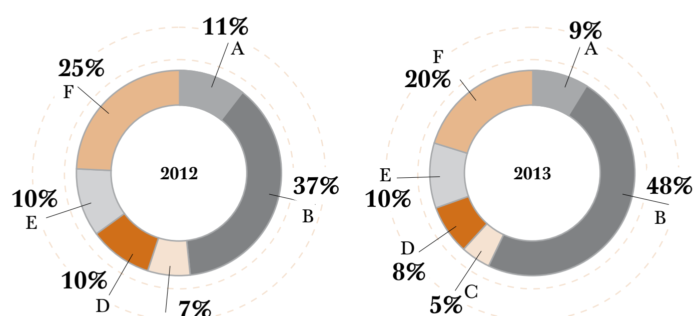
For the year ended 31 March LKR million	2009	2010	2011	2012	2013
Sources of Income					
Interest income	8,529	7,416	6,206	6,133	9,279
Income from investments	913	1,138	2,911	1,148	1,090
Others	446	289	5,074	371	64
	9,888	8,843	14,191	7,652	10,433
Distribution of Income					
To employees as emoluments	708	715	791	804	928
To lenders as interest	5,624	4,224	2,786	2,898	5,023
To providers of supplies and services	359	383	487	512	497
To Government as taxation	1,203	1,348	2,629	767	803
To shareholders as dividends	654	794	2,649	795	1,060
Retained in the business:					
Depreciation set aside	124	104	117	127	128
Provision of losses	510	356	244	91	169
Reserves	706	919	4,488	1,658	1,825
	9,888	8,843	14,191	7,652	10,433

Sources of Income



	2012 %	2013 %
A - Interest income	80	89
B - Income from investments	15	10
C - Others	5	1

Distribution of Income



	2012 %	2013 %
A - To employees as emoluments	11	9
B - To lenders as interest	37	48
C - To providers of supplies and services	7	5
D - To Government as taxation	10	8
E - To shareholders as dividends	10	10
F - Retained in the business	25	20

TEN YEAR SUMMARY

	Based on previous GAAP								Based on current SLFRS	
Year ended 31 March LKR million	2004	2005	2006	2007	2008	2009	2010	2011	2012	**2013**
Bank										
Operating Results										
Total income	4,444	4,641	5,387	6,887	9,636	9,888	8,843	14,191	7,652	10,433
Profit before tax	1,490	1,512	1,652	1,865	1,983	2,006	2,402	7,876	2,883	3,455
Income tax	385	404	472	740	665	646	689	739	430	571
Profit after tax	1,105	1,108	1,180	1,125	1,318	1,360	1,713	7,137	2,453	2,885
Balance Sheet										
Assets										
Cash and short-term funds	2,675	2,778	4,928	7,935	8,124	8,415	10,472	11,991	3,646	7,103
Dealing securities	1	0	14	26	18	10	56	85	–	–
Receivables	909	1,641	946	1,611	1,684	1,348	930	803	1,126	1,057
Loans to and receivables from banks and other customers	26,672	30,984	37,772	47,226	46,703	41,917	38,660	41,512	58,460	64,015
Impairment	(1,077)	(995)	(937)	(946)	(1,179)	(1,670)	(1,979)	(2,168)	(3,478)	(3,347)
Net of impairments	25,595	29,989	36,835	46,280	45,524	40,247	36,681	39,344	54,982	60,668
Financial investments - Equity Securities	1,704	1,731	1,340	1,260	1,680	1,918	1,999	4,032	16,277	19,298
Investment in associate, joint venture & subsidiary companies	2,514	2,636	3,057	3,350	5,829	6,064	5,845	3,132	4,451	4,446
Other assets	528	487	493	479	500	483	433	539	602	518
Total assets	33,926	39,262	47,613	60,941	63,359	58,485	56,416	59,926	81,084	93,090
Liabilities										
Equity	7,383	8,207	9,091	9,494	13,761	14,491	15,723	20,219	31,135	34,707
Other borrowings	20,148	25,507	32,837	35,897	42,480	36,710	33,530	32,261	36,489	41,605
Customer deposits	4,944	3,780	4,017	13,573	5,112	5,308	5,124	3,688	12,445	15,548
	25,092	29,287	36,854	49,470	47,592	42,018	38,654	35,949	48,934	57,153
Other liabilities	1,451	1,768	1,668	1,977	2,006	1,976	2,039	3,758	1,015	1,230
Total equity and liabilities	33,926	39,262	47,613	60,941	63,359	58,485	56,416	59,926	81,084	93,090
Return on equity %	16.1	14.2	13.6	12.1	11.3	9.6	11.3	39.7	7.5	8.8
Return on total assets, %	3.6	3.0	2.7	2.1	2.1	2.2	3.0	12.3	3.2	3.3
Earnings per share, LKR*	4.57	4.57	4.87	4.63	5.09	5.17	6.48	26.95	9.62	10.88
Market value per share, LKR*	52.26	55.34	52.75	69.78	62.45	33.78	90.23	171.8	112.6	131.5
Price earnings ratio,times*	11.4	12.1	10.8	15.1	12.3	6.5	13.9	6.4	11.7	12.1
Earnings yield, %	6.8	8.3	9.3	6.6	8.1	15.4	7.2	15.6	8.5	8.3
Dividend per share, LKR	5.5	5.5	6.0	5.0	5.0	5.0	6.0	10.0	4.0	5.0
Dividend cover, times	3.5	3.5	3.4	2.5	2.0	2.1	2.2	2.7	3.1	2.7
Gross dividend, LKR million	314.3	315.8	345.5	454.4	653.7	653.7	794.3	2,649	795	1,060
Liquid assets to liabilities(as specified in the Banking Act No. 30 of 1998), %	28	38	48	79	31	145	214	295	52	52.8
No of employees	305	340	374	422	419	419	427	451	466	461

** Adjusted for bonus issue.*

Highlighted information is based on LKASs/SLFRSs

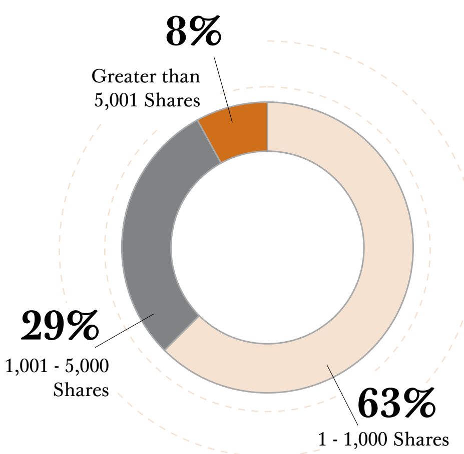
SHARE INFORMATION

DFCC BANK SHARE PRICE FOR PERIOD 1 APRIL 2012 TO 31 MARCH 2013

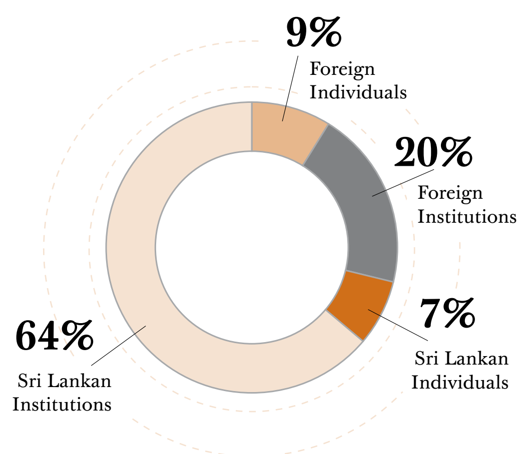
Year ended 31 March	**2013**	2012
Price Indices		
All Share Price Index	5,735.68	5,420.20
Milanka Price Index	Not available	4,891.58
S&P Sri Lanka 20 Index	3,293.57	Not available
Share Prices		
Lowest, LKR	103.00 (07.06.12)	98.00 (15.02.12)
Highest, LKR	131.80 (28.03.13)	188.80 (10.05.11)
Close, LKR	131.10 (28.03.13)	112.60 (30.03.12)
Market Capitalisation		
Value, LKR million	34,754	29,850
% of total trade	1.58	1.48
Rank	13	14
Value of Shares Traded		
Value, LKR million	1,315	2,256
% of total trade	0.69	0.51
Rank	26	49
Days Traded		
Number of days traded	239	240
Total number of market days	239	240
% of market days traded	100.00	100.00
Frequency of Shares Traded		
Number of transactions	5,171	7,346
% of total frequency	0.32	0.20
Rank	99	122

SHARE INFORMATION

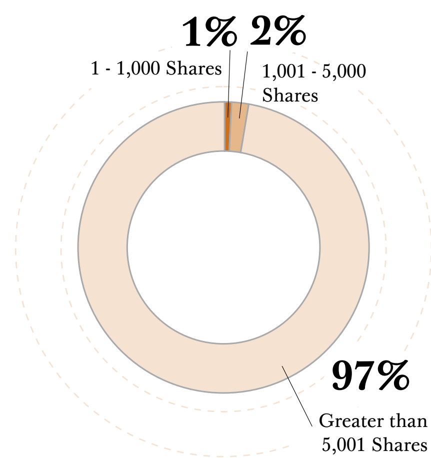
Shareholders



Ownership



Shareholding



As at	31.03.2013			31.03.2012		
Shareholding %	Foreign	Local	Total	Foreign	Local	Total
Individuals	8.76	7.49	16.25	8.76	7.94	16.7
Institutions	19.99	63.76	83.75	19.14	64.16	83.3
Total	28.75	71.25	100.00	27.9	72.1	100.00

As per the Rule No. 7.6 (iv) of the Colombo Stock Exchange, percentage of public holding as at 31.03.2013 was 63.26% (63.38% as at 30.03.2012)

SIZE-WISE DISTRIBUTION OF SHAREHOLDING

As at	31.03.2013			31.03.2012		
	No. of Holders	Total Holding	%	No. of Holders	Total Holding	%
01 - 1,000	5,858	2,005,469	0.76	6,066	2,158,534	0.81
1,001 - 5,000	2,753	5,672,155	2.14	2,930	6,103,395	2.30
5,001 - 10,000	347	2,483,946	0.94	380	2,742,367	1.03
10,001 - 50,000	304	6,442,131	2.43	323	6,723,728	2.54
50,001 - 100,000	48	3,360,221	1.27	51	3,485,588	1.32
100,001 - 500,000	37	7,224,131	2.72	43	9,108,834	3.44
500,001 - 1,000,000	8	5,009,356	1.89	9	5,885,300	2.22
Greater than - 1,000,000	24	232,900,279	87.85	25	228,889,942	86.34
Total	9,379	265,097,688	100.00	9,827	265,097,688	100.00

SHARE INFORMATION

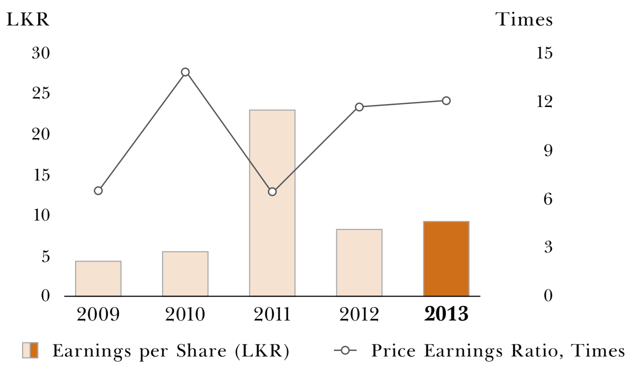
TWENTY MAJOR SHAREHOLDERS OF THE BANK AS AT 31 MARCH 2013

	2013		2012	
Name of Shareholder/Company Name	No. of Shares	%*	No. of Shares	%
Bank of Ceylon - No. 2 A/C	38,039,994	14.35	38,039,994	14.35
Hatton National Bank PLC - A/C No. 1	32,396,140	12,22	32,109,140	12.11
Sri Lanka Insurance Corporation Ltd - Life Fund	26,509,832	10.00	26,509,832	10.00
Employees' Provident Fund	24,368,995	9.19	23,904,758	9.02
Mr M A Yaseen	22,886,700	8.64	22,886,700	8.64
Distilleries Company of Sri Lanka PLC	17,042,856	6.43	17,042,856	6.43
Seafeld International Limited	15,286,794	5.77	15,286,794	5.77
HSBC Intl. Nominees 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. Nominees Limited - BPSS LDN - Aberdeen Asia Pacific Fund	6,750,000	2.55	6,750,000	2.55
HSBC Intl. Nominees Limited - BP2S London - Edinburgh Dragon Trust PLC	5,620,164	2.12	4,742,200	1.79
Renuka Hotels Limited	4,073,360	1.54	4,073,360	1.54
HSBC Intl. Nominees Limited - BP2S London - Aberdeen Asia Smaller Companies Investment Trust	3,889,870	1.47	1,800,000	0.68
HSBC Intl. Nominees Limited - BP2S Luxembourg - Aberdeen Global Frontier Markets Equity Fund	3,133,300	1.18		
Employees' Trust Fund Board	2,474,528	0.93	2,016,266	0.76
Cargo Boat Development Company PLC	2,098,200	0.79	2,098,200	0.79
HSBC Intl. Nominees Ltd - BP2S London - Aberdeen New Dawn Investment Trust XCC6	1,800,000	0.68	1,800,000	0.68
Mellon Bank N.A. - Florida Retirement System	1,500,000	0.57	1,500,000	0.57
National Savings Bank	1,342,024	0.51	1,342,024	0.51
Aviva NDB Insurance PLC - A/C No. 7	1,338,804	0.51		
Total of the 20 ajor shareholders	229,694,577	86.67		
Other Shareholders	35,403,111	13.33		
Total	265,097,688	100.00		

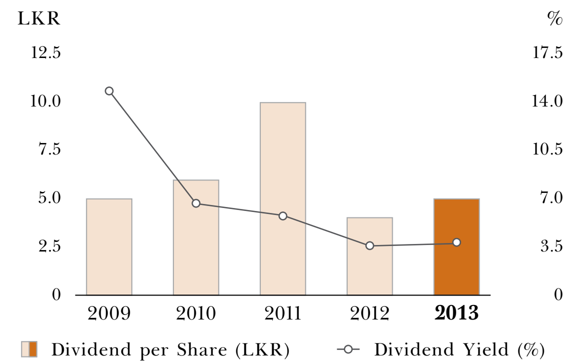
**Comparative shareholdings as at 31 March of the twenty largest shareholders as at 31 March 2013*

SHARE INFORMATION

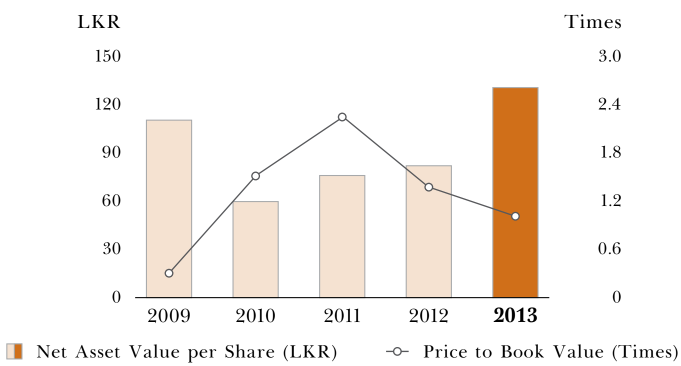
Earnings Per Share and Price Earnings Ratio



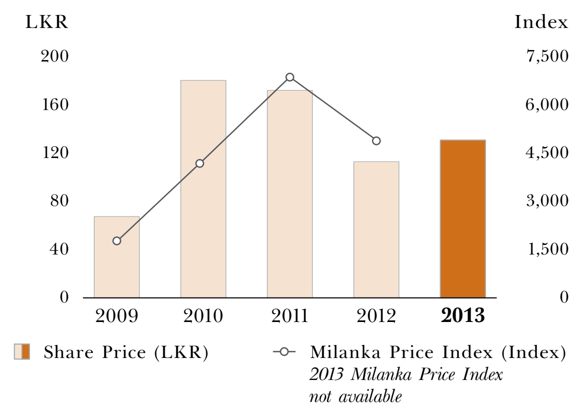
Dividend per Share and Dividend Yield



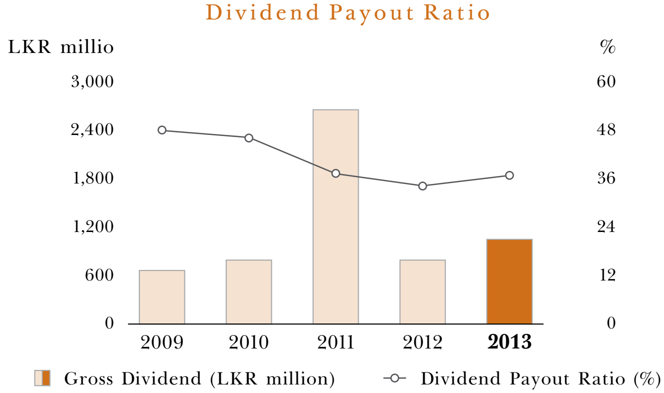
Net Asset Value per Share And Price to Book Value



Share Price and Movement Relative to Milanka Price Index



Gross Dividend and Dividend Payout Ratio



DFCC BANK'S OFFICES

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3, D S Senanayake Street
Ampara
Telephone: 063-2224242/
063-2223442
Fax: 063-2224243

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249, Maithreepala Senanayake
Mawatha
Anuradhapura
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025-2236463
Fax: 025-2223418

BADULLA
14, Udayaraja Mawatha
Badulla
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Batticaloa
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Fax: 011 2440376

No. 73, W.A.D. Ramanayake
Mawatha,
Comombo 02.
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Malabe
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Matara
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Fax: 041-2222585

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Rajagiriya
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Fax: 011-2880887

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Ratnapura
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Fax: 045-2223670

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Trincomalee
Telephone: 026-2225550/5522
Fax: 026-2225566

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7B, Horowpathana Road,
Vavuniya
Telephone: 024-2226622/00
Fax: 024-2226699

1955
OCTOBER
DFCC Founded by Act No. 35 of 1955

1956
MAY
Commenced Operations with LKR 8 million Share Capital

1958
FEBRUARY
Act Amended No. 8 of 1958

1967
MARCH
Act Amended No. 1 of 1967

1974
APRIL
Act Amended No. 12 of 1974

1977
JANUARY
Paid-up Share Capital LKR 16 million
MARCH
ADFIAP formed DFCC Founder Member

1979
NOVEMBER
Paid-up Share Capital LKR 24 million

1982
DECEMBER
Act Amended No. 42 of 1982

1983
JANUARY
Bonus Issue 1 to 4 paid-up Share Capital LKR 30 million
FEBRUARY
Paid-up Share Capital LKR 60 million
MARCH
Paid-up Share Capital LKR 100 million

1984
SEPTEMBER
Finance Leasing Introduced

1985
JANUARY
Medium-Term Working Capital Financing
SEPTEMBER
Insurance Agency Business

1986
MAY
Head Office Building Opened

1988
AUGUST
1st Branch opened in Kandy

1989
NOVEMBER
Short-Term Working Capital Financing

1991
AUGUST
Bonus Issue 1 to 3 paid-up Share Capital LKR 133 million
OCTOBER
Paid-up Share Capital LKR 170 million Public Issue at 5 Times Par increased number of Shareholders from 826 to 12,320
DECEMBER
NAMAL Founded

1992
FEBRUARY
LVL Founded
MARCH
Achieved highest PAT among all Listed Companies
MARCH
LINDEL Founded

A PIONEER'S JOURNEY

1993

APRIL
ADFIAP Annual Sessions hosted

JUNE
Act Amended No. 25 of 1993 Share Split

AUGUST
Reached No. 1 Position in Market Capitalisation

OCTOBER
Rights Issue 1 for 3 at 18 Times Par Paid-up Share Capital LKR 226.7 million

1995

JUNE
Bonus Issue of 1 for 3 increased Paid-up Share Capital to LKR 302.2 million

JULY
Asia Money Ranks DFCC as the Best Managed Company in Sri Lanka

1996

APRIL
DMG and DFCC Sign Telecom Mandate with GOSL

APRIL
Fixed Deposit Mobilisation

APRIL
Commissioning Sri Lanka's First BOO Power Project, Sponsored by DFCC

1997

JULY
Appointed Administrative Unit of World Bank Funded Energy Services Delivery Project

AUGUST
Act Amended No. 23 of 1997

SEPTEMBER
Acquired 29.8% Stake in Commercial Bank of Ceylon PLC

1998

FEBRUARY
5 New Products Launched Under Small and Medium Enterprises Development Programme

APRIL
Bonus Issue of 1 for 6 Increased paid-up Share Capital to LKR 352.6 million

DECEMBER
FRN of US$ 65 million Guaranteed by ADB

DECEMBER
Lead Arranged the Largest Sri Lanka Rupee Syndicated Loan for Sri Lanka Telecom

1999

OCTOBER
Asia Money Ranks DFCC as the Best Managed Company of the Decade

2000

MARCH
Structured and Managed Sri Lanka's First Rated Debenture Issue for Sri Lanka Telecom

2001

JANUARY
DFCC Acquired ABN AMRO Securities (Pvt) Limited Renamed DFCC Stock Brokers (Pvt) Limited

APRIL
Bonus Issue of 1 for 5 Increased Paid-up Share Capital to LKR 423.1 million

2002

NOVEMBER
Managed the IPO of Sri Lanka Telecom; the Largest Offering on CSE

DECEMBER
Fitch Rating Lanka Limited assigned "SLAA" National Rating for Implied Long-Term Unsecured Senior Debt of DFCC Bank

2003

AUGUST
Acquired 94.16% of MERC Bank

OCTOBER
MERC Bank Renamed DFCC Vardhana Bank

2004

FEBRUARY
Bonus Issue of 1 for 3 Increased Paid Up Share Capital to LKR 565.9 million

SEPTEMBER
AA Rating Affirmed

SEPTEMBER
DFCC Consulting Founded

2006

MAY
ADFIAP Annual Sessions hosted

JULY
Bonus Issue of 1 for 2 Increased Paid-up Share Capital to LKR 863.9 million

Issue of Debentures to the Value of LKR 2 billion Enhanced Regulatory Capital

2007

JUNE
Rights Issue 1 for 4
Bonus Issue of 1 for 5 Increased Share Capital to LKR 1,302 million

SEPTEMBER
AA(lka) Fitch Rating affirmed

2008

JULY
Acuity Partners (Pvt) Limited commenced commercial operations

OCTOBER
AA(lka) Fitch Rating affirmed

2009

SEPTEMBER
AA(lka) Fitch Rating affirmed

2010

JANUARY
Divested LVL Shares to Acuity Partners (Pvt) Limited

JUNE
Commercial Bank of Ceylon PLC ceased to be an Associate Company

SEPTEMBER
AA(lka) Fitch Rating affirmed

NOVEMBER
Bonus Issue 1 for 1 increased paid-up Share Capital to LKR 2,648 million

2011

JUNE
Shareholding in DVB increased to 99.1%

SEPTEMBER
AA(lka) Fitch Rating affirmed

2011

JULY
Invested in 10% of shares in Nations Trust Bank

2013

March
DFCC successfully concluded an international loan syndication for US$ 45 million

2013

JULY
AA(lka) Fitch Rating affirmed

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GRI APPLICATION LEVEL TABLE

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Standard Disclosures	Profile Disclosures output →	Report on: 1.1 2.1-2.10 3.1-3.8, 3.10-3.12 4.1-4.4, 4.14-4.15	Report Externally Assured	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5-4.13, 4.16-4.17	Report Externally Assured	Same as requirement for Level B	Report Externally Assured
	Disclosures on Management Approach output →	Not Required		Management Approach Disclosures for each Indicator Category		Management Approach Disclosed for each Indicator Category	
	Performance Indicators & Sector Supplement Performance Indicators output →	Report fully on a minimum of any 10 Performance Indicators, including at least one from each of: Social, Economic and Environmental.		Report fully on a minimum of any 20 Performance Indicators, at least one from each of: Economic, Environment, Human Rights, Labour, Society, Product Responsibility.		Respond on each core and Sector Supplement* Indicator with due regard to the Materiality Principle by either: a) reporting on the indicator or b) explaining the reason for its omission.	
				✓			

CORPORATE INFORMATION

NAME OF COMPANY

DFCC Bank

LEGAL FORM

A quoted public company with limited liability incorporated by DFCC Bank Act No. 35 of 1955.

A licensed specialised bank under the Banking Act No. 30 of 1988

CREDIT RATING

AA (lka) credit rating from Fitch Ratings Lanka Limited.

THE ANNUAL GENERAL MEETING

will be held at the Cinnamon Lakeside Colombo, Sir Chittampalam A Gardiner Mawatha, Colombo 2, on 28 June 2013. Details of the business of the meeting and other information are contained in the booklet enclosed with this Annual Report.

FOR ANY CLARIFICATIONS ON THIS REPORT PLEASE WRITE TO:

The Board Secretary
DFCC Bank
No. 73/5, Galle Road,
Colombo 03, Sri Lanka.
or E-mail to: info@dfccbank.com

Minimise waste by informing the DFCC Bank Board Secretary to update the mailing list if you are receiving more than one copy of the Annual Report.

BOARD SECRETARY

Ms A Withana

AUDITORS

KPMG
Chartered Accountants

BANKERS

DFCC Vardhana Bank PLC

VAT REGISTRATION NO.

409000088-7000

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