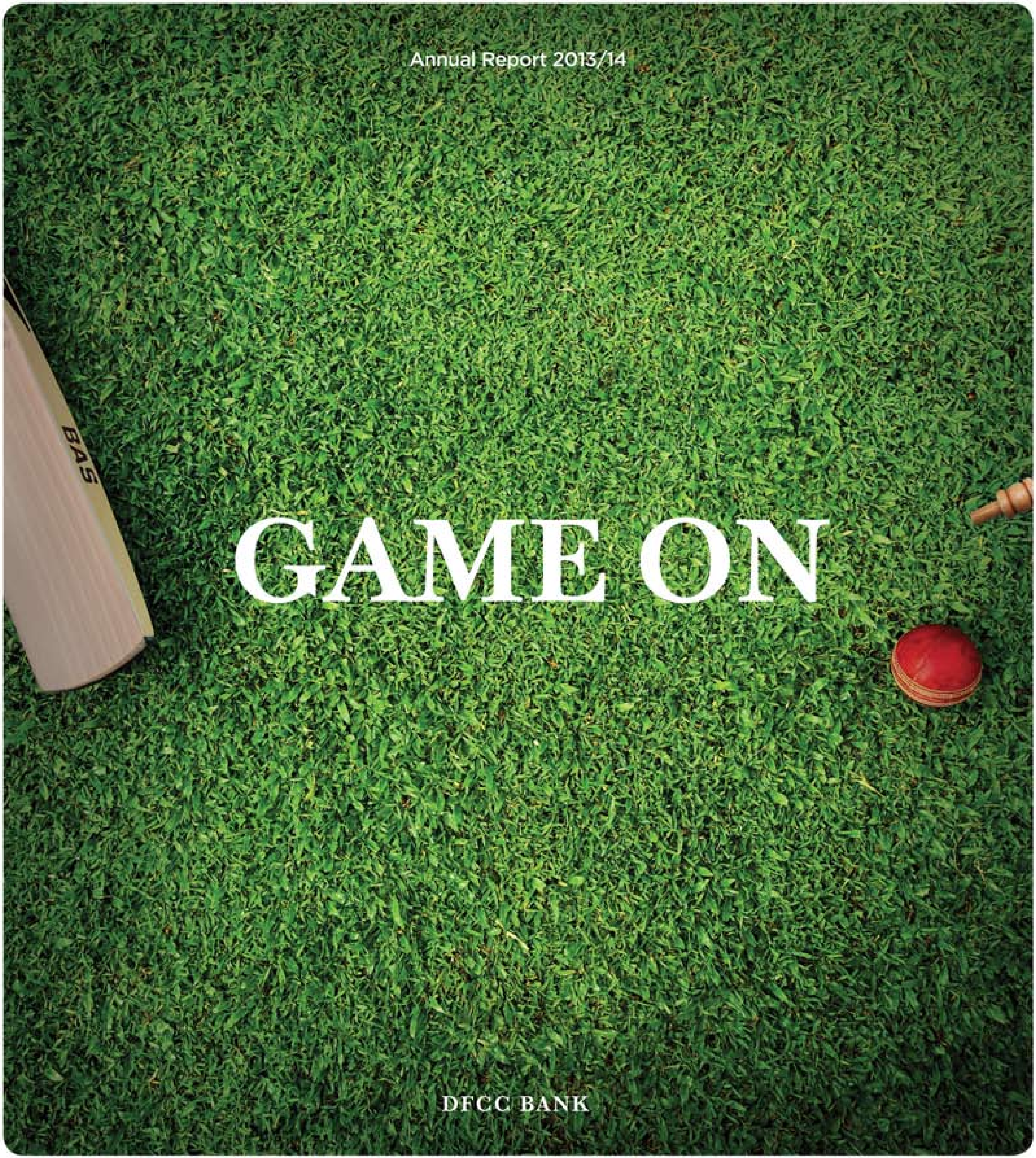
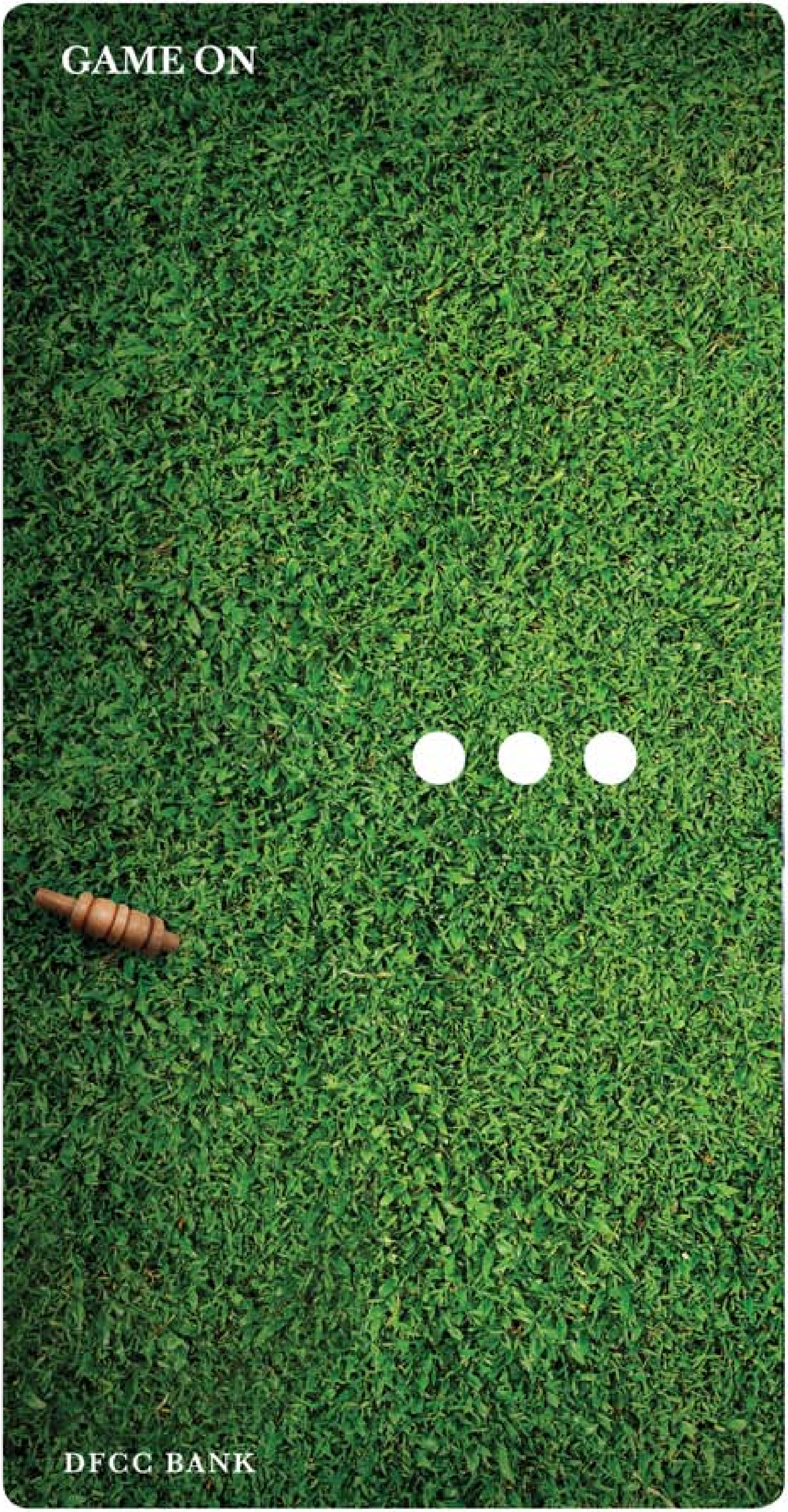
Annual Report 2013/14

GAME ON

DFCC BANK




GAME ON
DFCC BANK

Development Banking is our turf. Our forte.

Sri Lanka is on a roll.
We're ready to play our part.

CONTENTS

DFCC Bank was incorporated in 1955 with a remit to drive the developmental thrust of the Nation through the provision of project financing for the private sector. Over the years, we grew, evolved and diversified to meet the changing needs and aspirations of an emerging economy, offering a full suite of banking products and services across a broad spectrum of clients and sectors, whilst holding firm to our development banking roots. Throughout this process, we adopted a firm, clear focus in providing the impetus to grow new economic sectors in the country - such as tourism, mobile telecom and renewable energy more recently and to providing, higher risk term loans, taking up equity positions, offering advisory services and developing risk mitigation instruments to support such long-term investments. DFCC Bank is ideally equipped to drive straight through to the exciting new era unfolding in Sri Lanka's financial services industry today.

ABOUT THIS REPORT

DFCC Banking Business which comprises the operations of DFCC Bank and its almost wholly-owned subsidiary DFCC Vardhana Bank, is a strong advocate of sustainability; hence this ideology precedes our reporting policy. We have been adopting the triple bottom line reporting approach since year 2010. We produced our first integrated annual report last year to reflect our integrated thinking and provide a holistic view of the relationships and interdependence of the various aspects of our business. Building on this approach we have attempted to improve the transparency and coverage of our annual report this year and explain the value creation process of our organisation.

Accordingly, the report communicates the linkages between the economic, social and environmental impacts of our enterprise and the ways in which we relate to our key stakeholders in creating sustainable value. The value creation process at DFCC Bank is detailed further in the section on Creating Sustainable Value in this Report.

In preparing this report we have drawn on concepts, principles and guidance from the Global Reporting Initiative (GRI) Sustainability Guidelines G4, the International Integrated Reporting Framework and the Smart Media Methodology for Integrated Reporting™.

The Bank's 2012/13 annual report was based on GRI 3.1 Guidelines. This year however, the non-financial reporting is in accordance with the core criteria of GRI G4 Guidelines, and the level of reporting is demonstrated in the GRI Content Index found elsewhere in this Report. Although we did not obtain an external assurance for this Report, we will continue to examine ways and means of having the GRI-based information assured in future.

Report Boundary

DFCC Bank and its Subsidiary DFCC Vardhana Bank (DVB) are collectively referred to as the DFCC Banking Business (DBB) in this report. The period under review for DBB is the year ended 31 December 2013 for DVB, and 31 March 2014 for DFCC Bank and it is consistent with our annual reporting cycle.

Comparability

The basis for reporting on subsidiaries, joint ventures, 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 Financial Reports.

Contact Point for Clarifications

We will be pleased to clarify any queries regarding this annual report.

Please Contact:

Secretary to the Board
DFCC Bank
No. 73/5, Galle Road,
Colombo 3.

Email: info@dfccbank.com

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

HIGHLIGHTS OF THE YEAR

For the year ended 31 March	Group	
	2014	2013
Income	**20,607**	18,197
Profit before taxation (PBT) - (LKR million)[1]	**4,184**	4,272
Profit after taxation (PAT) - (LKR million)[1]	**3,250**	3,390
Cost to income	**41.7**	39.3
Return on average shareholders funds - (LKR million)[2]	**11.0**	13.1
Return on average assets (%)[2]	**2.1**	2.74
Dividend per share (LKR)	**5.5**	5
Earnings per share (EPS) - (LKR)	**11.89**	13.18
Market value of share at the year end (LKR)	**143.90**	131.10
Price earnings (times)	**12.03**	9.98
Net assets per share (LKR)	**151.34**	138.59
Price to book value	**0.95**	0.94
Capital adequacy		
Core capital ratio	**18.75**	20.84
Total capital ratio	**17.23**	19.37

1. Adjusted for one-off financial services VAT refund

2. After eliminating fair value reserve

CHAIRMAN'S MESSAGE

Dear Shareholders,

As we approach our sixtieth year, DFCC Bank can reflect on its journey with immense pride. Starting from small beginnings, we've grown into one of Sri Lanka's top banking groups with assets of LKR 177,333 million, which include untapped resources from its valuable equity portfolio. DFCC is one of the largest capitalised companies in the Colombo Stock Exchange valued at LKR 38,148 million, its shares widely sought and actively traded.

DFCC has achieved this tremendous growth and consistent record of success by judiciously managing its business and expanding through a series of strategic acquisitions, alliances and partnerships over the years. In an ever changing market place we have continued to succeed because of our proven ability to manage and adapt to change and execute business strategies that ensure value to our stakeholders as the number one priority.

Returns to Our Shareholders

Over the last ten years, besides capital gains, a shareholder of DFCC would have received a consistent return on the investment. In terms of dividends, DFCC has increased the gross dividend paid to shareholders from LKR 314 million in 2004 to LKR 1,060 million in 2013. A shareholder of DFCC would have received a total of LKR 57.50 in dividends for each share held over the ten year period. This works out to an average of LKR 5.70 per share per annum.

Economy and Future Outlook

For many countries, the period gone by was one of recovery from the lagged effects of the financial crisis. In the case of Sri Lanka, 2013 began on a positive note with the removal of the credit ceiling by the Central Bank of Sri Lanka, having achieved its goal of containing inflation and easing the pressure on the economy.

The country rebounded on a high growth trajectory and recorded a healthy GDP growth of 7.3% in 2013. A combination of factors, including stable macroeconomic conditions and relatively low inflation supported the growth momentum. These factors also enabled the country to experience a stable exchange rate regime and a significant and speedy decline in benchmark interest rates. Amidst these positive conditions, the banking sector had to contend with a sharp reduction in the price of gold in the international markets that stressed the pawning advances portfolios especially of those banks that had a significant exposure to that asset class. In addition, private sector credit growth was at a relatively low pace despite the decline in interest rates. The impact of falling gold prices on DFCC Group's banking business was mitigated and had only a small impact on our results due to the robust risk framework that was in place as well as the relatively low exposure to pawning.

Going forward, the macroeconomic prospects locally and globally are positive, gold prices seem to have stabilised and the existing monetary policy stance is likely to continue. There are now signs of a recovery in domestic consumption and with investments picking up banks can take on a more aggressive stance with regard to credit expansion in the private sector.

Consolidation

Today we face a rapid and continuous change. All our markets are characterised by more evolving technologies, more knowledgeable and demanding customers, aggressive competition and new regulatory frameworks to abide by. Financial services markets around the world are being reshaped by the same major forces as well as by significant consolidation.

As you may be aware, consolidation of the financial sector as proposed by the Government of Sri Lanka (GOSL) in the 2014 budget and presented in Central Bank's Road Map for 2014, is a policy initiative to reduce systemic risk and create strong financial institutions with scale benefits. This move would steer Sri Lanka towards the developmental goals set for 2016 and beyond.

In this context, the proposed amalgamation of DFCC Bank, DFCC Vardhana Bank PLC and National Development Bank PLC is a timely move and a landmark event in the banking landscape with the country positioning itself as a middle income economy. The effective management of challenges inherent in a voluntary amalgamation of strong financial institutions would be a key factor in determining the success of such effort. Much preliminary work needs to be done and the three banks are collaborating in a spirit of unstinted co-operation. Our priority in this exercise is to ensure that our stakeholders (shareholders, employees and customers) interests are well looked after and protected. We will keep all our stakeholders informed of key milestones and progress achieved.

Key Strategies

DFCC is fully prepared to meet the challenges of the changing market place and is well positioned for ongoing success. The Bank will continue to rely on four key strategies across all our business lines: building stronger more profitable relationships, leveraging synergies across our main businesses, capitalising on our core strengths and carefully managing costs.

Building Relationships

Customers remain DFCC's major priority. In all of the business lines the Bank will continue to align operations to establish an even greater emphasis on customers and a responsive sales and service culture within the Bank. A focus on meeting the full range of customer needs is the key feature driven by the amalgamation of commercial banking and project financing units. The model of integration is working well and continues to deliver good results. Teams of dedicated relationship managers at the centre and at branches provide clients with creative fully-integrated solutions.

Leveraging Synergies

The integration and coordination of activities of all our business lines to focus on customers, enhance sales and augment cross sell opportunities will continue. Further integration of the DFCC Bank and DFCC Vardhana Bank services will result in value additions to our customers. DFCC invested LKR 2,196 million in December 2013 as equity in DFCC Vardhana Bank PLC in order that full economies of scale from our commercial banking business can be reaped.

A notable achievement during the year was DFCC Group's selection as consultants to provide technical and advisory services to launch the commercial banking operation of the Home Finance Company (HFC) of Fiji. This was an important milestone as our financial services expertise complemented by our fully-owned information and communication technology subsidiary in Synapsys, enabled DFCC Group to win this mandate over other financial institutions in Sri Lanka and elsewhere.

Capitalising on Our Core Strengths

The Bank will continue to rely and build upon its core strengths and competitive advantages in project financing, long-standing relations with customers, regulators and multilateral agencies, good governance practices, risk management, cost rationalisation, diversification and a skilled and an excellent team. These strengths have delivered consistent results over the years and form the basis of what sets us apart from our competitors.

DFCC is well placed to reap the benefits of the Five+1 Hubs Strategy of GOSL by seeking new opportunities to extend financial and advisory services in developing the relevant sectors. Nurturing the Small and Medium Enterprise sector and supporting individual entrepreneurship will remain key areas of focus as well.

Managing Costs

Cost management has always been a key driver at DFCC. Costs are managed carefully by continually streamlining operations and investing in new technology. This process has been reinforced through the implementation of the Organisational Effectiveness Improvement Programme. The Bank will continue to enhance productivity, service delivery networks and alternate delivery channels giving customers the broadest possible choice to access our services.

Long-Term Funds for Development Banking

Despite the higher risks involved, DFCC Bank never lost sight of its mission of being the premier development bank in the country. Attracting low cost funds to stay true to its mission has been a challenge which the Bank has managed very successfully. In addition to funds available from the market, DFCC has continuously secured long-term funds through credit lines from multilateral and bilateral agencies.

Indicative of the high esteem DFCC is held by agencies in the multilateral financing community, during the year, DFCC procured long-term funding from the AAA rated European Investment Bank (EIB). These funds will be deployed to support the SME sector in Sri Lanka as well as to support Green Energy initiatives. Based on DFCC's unparalleled track record of managing multilateral credit lines, the Bank was EIB's clear choice to be the manager/administrator for the programme.

Another commendable achievement during the year was the raising of USD 100 million through a landmark 5-year bond issue in the international capital market in October 2013 based on the strength of the Bank's own balance sheet. It was the first time an international credit rating was obtained for DFCC Bank. This was a significant feat given the volatility in the debt markets that prevailed at the time and it is a strong testament to the international investor confidence in the Bank and the country alike.

In addition to raising funds from the capital market, DFCC can unlock and deploy the substantial value of its equity portfolio which includes significant holdings in strong listed financial institutions. The funds unlocked as and when required could significantly enhance the regulatory capital of the Bank and provide the foundation for leveraging and supplementing the growth of the Bank's balance sheet although the Bank has not made a decision to scale down these investments at this time.

Performance

DFCC was able to post a commendable performance given the difficult market conditions which were not conducive to project financing business. Disregarding a one-off financial services Value Added Tax refund of LKR 184 million included in the prior year profit after tax at the Bank and Group levels, the Group posted a profit of LKR 3,250 million which was marginally lower by 4% compared with LKR 3,390 million reported in the previous year. Total Group assets grew by 17% to LKR 177,333 million. A detailed analysis of the financial performance is discussed under the section on Financial Capital.

Change of Guard

The year was significant for DFCC Bank, as a change of leadership in the positions of both the Chairman and the Chief Executive took place after about a decade. Mr Nihal Fonseka relinquished duties as the Chief Executive at the end of September 2013, having served for fourteen years. We wish to pay tribute to Mr Fonseka for his contribution to DFCC Group's growth and success. On behalf of all of our stakeholders, we extend our sincere thanks to him for his leadership and are happy about his continuing involvement in the Group as a Non-Executive Director of DFCC Vardhana Bank PLC. We warmly welcome his successor, Mr Arjun Fernando, who was appointed as the Chief Executive on 1 October 2013.

Mr Fernando's diverse experience as a banker with many years of local and international exposure and strong commitment to ethical leadership will be invaluable as we begin a new chapter at DFCC Bank. We are confident that his leadership will enable the Bank to successfully take on change and progress to greater heights.

I stepped down from the Board of DFCC Bank as Chairman and as a member of the Board on 21 March 2014. Mr Royle Jansz, an experienced campaigner has taken over the reigns and I wish him great success as Chairman of Sri Lanka's premier development bank. I am certain he will lead the Board to successfully meet new challenges and deliver value to our stakeholders.

In Conclusion...

I would like to thank my colleagues on the Board for their unwavering support and co-operation during my tenure. My appreciation goes to the staff of DFCC Bank for their commitment and dynamism in taking DFCC to new heights.

A journey of nearly six decades would not have been possible without our valued clients, most of whom have long-standing relations with us. Whilst I thank them all for their steadfastness, I wish to assure that DFCC will stay committed to strengthen their businesses delivering new levels of service excellence.

I am especially appreciative of the support and cooperation of the officials of the Ministry of Finance and the Central Bank of Sri Lanka who have helped DFCC stay true to its mission.

As our shareholders, you have displayed faith in our ability to guide and direct DFCC, and I, together with my fellow Directors of the Board, thank you for your conviction.

The way ahead for the DFCC Group will be challenging but also full of promise. I am confident that DFCC has what it takes to stay on top and deliver exceptional value for your shareholding in the years ahead.

JMS Brito

J M S Brito
Immediate Past Chairman

28 May 2014

It is a privilege to take over the Chairmanship of Sri Lanka's oldest and best development bank, which has over the years nurtured to fruition some of the country's best business conglomerates, at a time when change is in the air, and opportunities abound. Your Bank is well-positioned to take advantage of these opportunities, having at its disposal a highly skilled set of people, with years of experience in both development and retail banking and procedures which have been tailor-made to provide our customers with solutions guaranteed to enable their businesses to grow in partnership with DFCC, as countless others have done over the last six decades.

DFCC's governing mandate has always been to provide long-term financing to customers, which was unavailable to them elsewhere, to grow their business, not thinking solely about profitability, but of the benefit such businesses would bring to the economy of the country as a whole. This strategy involved more risk than would normally be acceptable to commercial banks in the past, and has sometimes seen us burning our fingers, but has, in the vast majority, provided DFCC with many satisfied and lifelong customers.

Our robust pipeline of requests for funding for new projects, the rolling out of EIB loan funds to SME's at concessionary rates, our new initiatives in Fiji and the Solomon Islands and work on the proposed amalgamation with NDB are exciting prospects which all of us at the Bank are looking forward to with great anticipation. The year ahead looks promising, and your Bank is geared to perform.

I wish to thank Mr Brito who retired as Chairman on 21 March 2014 after a nine year stint on the Board. It was an impressive innings during which DFCC moved into a higher league delivering an outstanding performance.

Mr A S Abeyewardena retired from the Board of Directors in March 2014. His contribution as a member of the Board, as Chairman of the the Audit Committee and a member of the Risk Committee is greatly appreciated. I welcome Mr P M B Fernando who joined the Board in July 2013 and look forward to leveraging his skills and experience to meet new challenges.

I, together with my colleagues on the Board, value the trust and confidence that you have placed in our abilities to guide and direct DFCC. You can be rest assured that we will continue to strive to achieve the levels of performance that you, as shareholders, deserve. We are committed to safeguarding the rights of our stakeholders and assure you that under our stewardship the enhancement of the value of your shareholding would be a top priority.

The Board has recommended a final dividend of LKR 5.50 per share this year, which is 10% higher than last year.

C R Jansz
Chairman

28 May 2014


SRI LANKA
T-20

This is my first report since taking over as Chief Executive in October 2013. Given the impending paradigm shift in the banking industry, I am keenly aware that 2014 would be a watershed for DFCC Group. Therefore it is fitting to look back briefly at DFCC Bank's progress over nearly sixty years and to consider the current state of play and the journey ahead.

I am writing in the backdrop of Sri Lanka's success at the T 20 World Cup, which has prompted me to use cricketing parlance. In fact, if we look at the strategies during the various stages of DFCC's journey, they would be analogous to those employed in the three formats of the game, i.e. the Tests, the 50-overs and the T20s. And coincidently it would seem that DFCC's sixty years fit chronologically into three periods suggestive of these formats - the Test era from the mid-1950s to 2000; the 50-over era from 2000 to 2013 and the T20s from 2014 onwards. In hindsight, the leadership and strategy in each era was one that was right for the times.

A Long Innings

The period up to 2000 was a time for settling in and concentrating on playing the long innings, whilst taking calculated risks and quickly capitalising on any opportunities that were bowled up. DFCC was to therefore steadily consolidate its development banking business while at the same time diversifying its activities into other financial services as and when the opportunity arose. DFCC seized the day with the acquisition of the 29.8% stake in Commercial Bank of Ceylon PLC which was to later stand us in good stead. In fact, it could be said that DFCC literally had a first hand experience in what was the forerunner to the wave of consolidation now being mooted.

Change of Pace

The new millennium saw an upward shift in tempo where game strategies and conditions called for more aggressive play and quicker reactions. Accordingly, DFCC's business model was revamped by a full scale foray into commercial banking and investment banking through the acquisition of Merc Bank and its re-launch as DFCC Vardhana Bank PLC (DVB) as an almost wholly-owned subsidiary which is functionally merged and Acuity Partners (Pvt) Limited, an equally owned joint venture with Hatton National Bank PLC that involved the amalgamation of investment banking businesses and franchises of the two banks.

The period was also noteworthy for a successful realignment of DFCC's culture and processes to be ahead of the asking rate of the game. At the same time, there was no dilution of focus on the Bank's core business of development banking as it continued with passion to discharge its project financing mandate. In fact, the title of a World Bank publication in 2007 read 'DFCC Bank: One among the Successful Few'.

Game On!

Coming to the present day; what is the state of play? Consolidation in the financial services sector, like the cricketing T20 format, is here to stay. And consolidation, like a T20 game, is awaited with expectation and excitement tinged with apprehension and anxiety. To succeed in a T20 game, the team has to be dynamic, flexible, agile and even unconventional to beat whatever challenge thrown at them. Above all, they have to play to their strengths. Likewise, in consolidation, these same qualities are critical. Even if the prerequisites such as approvals and statutes are in place, consolidation will fail if the mindset of the players and other participants is not up to it.

Institutional resistance to change is one of the biggest challenges to successful consolidation. In this context, I am happy that the organisation I inherited from my predecessor is amply demonstrating the ability to adapt to not just superficial changes, but changes that have been institutionalised in structures, processes and the way things are done. In fact during my one and a half year tenure with the Bank, I have been able to implement several measures to further improve efficiency under an Organisational Effectiveness Improvement Programme.

DFCC is also fortunate that it has recent first hand experience in successful acquisitions and business amalgamations with regard to both DVB and Acuity Partners. In addition to structural re-organisation, these have required a realignment of mindsets. So, as far as consolidation goes, I would say 'Game On. Bring It On'.

A Strong Player

What will DFCC bring to the consolidation table? Tangibly, it is financial strength and untapped value of key assets, diversity of financial businesses and with DVB, multiplicity of distribution channels. Intangibly, it is the unrivalled pedigree in project financing and the ethos of going the extra mile to take the risk in partnering and supporting pioneering ventures or new industries like resort hotels, export of apparels, mobile telecoms and renewable energy. But, above all, it is DFCC's stature in the banking industry as the ultimate repository of project financing expertise coupled with our excellent team of professionals. These attributes will ensure value creation for our stakeholders whatever the future holds.

A Remarkable Run-Up

The year was excellent in terms of raising funds to fuel DFCC's future business in an economic environment that has become conducive to sustained growth. During the year, funds sourced from a mix of multilateral and bilateral agencies, international and domestic markets, debentures, customer deposits and repos boosted DFCC's interest bearing liabilities from a total of LKR 131,302 million, an increase of 20% from the previous year's LKR 109,200 million.

Especially noteworthy was the USD 100 million five-year funds from the landmark international debt issue in October 2013 and the concessionary credit line sourced from the European Investment Bank (EIB). DFCC is therefore ready to meet the anticipated credit expansion, especially at the long end, as the private sector begins to move on in the wake of the Government's development drive. In fact the funds sourced are already shifting our project lending activity into top gear.

The main thrust of DFCC's medium term strategic plan is to capitalise on financing the direct and spin off business opportunities arising from the Government's Five+1 Hub strategy. DFCC's leadership in key sectors such as Green Energy and Tourism will underpin its capabilities in this respect. At the same time, supporting Small and Medium Enterprises (SME) will continue to play a major role in DFCC's strategy and this sector will benefit greatly from the low cost funds sourced from EIB. Skills and resources that have been honed over nearly 60 years of project financing will continue to hold us in good stead in our drive to play a great innings.

New Pitch

The year was also marked by DFCC's foray into new business lines with great potential. The first of these is international consultancy. DFCC was retained by two financial institutions to provide consultancy and management services. This has established the Bank's credentials in the international markets as a provider of fee based services and will be the launch pad to aggressively pursue future assignments. Another component of our international strategy would be to partner our customers in venturing overseas. The second is Bancassurance, which was introduced recently. This will broaden our palette of services to customers. DFCC looks forward to a significant growth in fee income from this business.

Match Commentary

The performance of DFCC needs to be viewed in the context of its business model and the macroeconomic scenario of the country. 2013 was a challenging year for project financing business which is DFCC's key driver.

DFCC Group's performance is largely driven by the performance of its development and commercial banking businesses, which comprises DFCC Bank (DFCC) and DFCC Vardhana Bank PLC (DVB), collectively referred to as the DFCC Banking Business (DBB).

The main drivers of DBB profit are net interest income, other income, operating costs and impairment cost. These components must be assessed in the aftermath of high credit growth in 2011 and in the context of the impact of the decline in international gold prices on the gold linked advances of DVB, the increased liquidity and declining interest rate trend experienced during the period under review.

At the DFCC Group level, the consolidated profit after tax was marginally lower by 4% at LKR 3,250 million compared to LKR 3,390 million recorded in the previous year after deducting a one off prior year Value Added Tax refund of LKR 184 million.

DBB recorded a profit after tax of LKR 3,102 million compared to LKR 3,447 million in the previous year. Gross loans and advances grew 14.8% to LKR 124,511 million from LKR 108,401 million. Of this, DFCC grew by 3% from LKR 64,014 million to LKR 65,967 million while DVB grew by 32% from LKR 44,387 million to LKR 58,544 million. As a long term lender DFCC's loan growth is over and above customer loan repayments, which are of a non revolving nature.

The increased market liquidity and decline in interest rates had different outcomes. For DFCC, loan growth only materialised in the latter part of the year as customers took advantage of the short term liquidity in the interim period. For DVB, growth was spurred by increased working capital and personal finance but nevertheless margins tightened due to competitive pressure and liabilities repricing with a lag. A significant proportion of customer deposits in DBB will reprice in the next few months and this together with the signs of higher credit growth that are emerging will be a positive development for DBB.

Team's Local and Overseas Performance

The other members of the DFCC Group comprise Lanka Industrial Estates Limited, Synapsys (Private) Limited, DFCC Consulting (Private) Limited, the Acuity Partners Group and the associate company - National Asset Management Limited. The performance of other DFCC Group members is covered elsewhere in this report.

However, I would like to add some brief comments. Lanka Industrial Estates Limited, DFCC's industrial park joint venture with the Government, turned in another consistent performance with an increasing number of Fortune 500 companies among its tenants. Synapsys, the Group's IT company, was successful in securing contracts for implementing banking systems in the Pacific Islands namely Fiji and the Solomon Islands. DFCC Consulting also had overseas success, securing two assignments for renewable energy capacity building in Uganda. Acuity Partners, DFCC's joint venture investment bank with Hatton National Bank, recorded a strong all round performance with good contributions from all its constituent business units. As testimony to its outstanding performance, Acuity was awarded 'The Best Corporate Finance Firm in Sri Lanka 2014' and 'Best Stock Broking Firm in Sri Lanka 2014' by the Global Banking and Finance Review.

Match Winning Partnerships

I joined DFCC in August 2012 and had the good fortune to understudy Mr Nihal Fonseka, my predecessor as CEO. Mr Fonseka, who stepped down at the end of September 2013, joined DFCC Bank as CEO nearly fourteen years ago. He was a key champion in diversifying DFCC's business into the commercial banking and investment banking spaces by bringing DFCC Vardhana Bank and Acuity Partners under DFCC's umbrella. His style of leadership inspired an organisational culture that above all, was open to change which will stand the Bank in good stead as we move forward with the proposed amalgamation with National Development Bank PLC. For this, the staff of DFCC Bank and I owe him a deep debt of gratitude. Mr Fonseka retired from DFCC's service in March 2014 and we wish him all the very best in his future endeavours.

For a short spell of time, I also had the privilege of working with Mr Brito, who retired as Chairman of DFCC Bank in March 2014. His wise counsel and unstinted support was invaluable and later on, he was a key figure in giving impetus for the preparation of DFCC's roadmap to consolidation. It was a short but very productive partnership. I thank him and wish him well.

Annexes Financial Reports Supplementary Financial Information Stewardship Recognition Management Discussion Business Model Messages and Management Profiles

I warmly welcome his successor as Chairman, Mr Royle Jansz, an outstanding all-rounder and seasoned player. Looking ahead, I am very confident that it would turn out to be a match winning partnership.

The Game Ahead

I would now like to express my appreciation to the various stakeholders of DFCC Bank, all of whom have been instrumental in making DFCC what it is today. I thank our valued customers for their patronage and loyalty. I thank the officials of the Central Bank of Sri Lanka, the Ministry of Finance and other Government agencies for their support and co-operation. I thank the multilateral and bilateral lending institutions for their financial assistance and backing. I thank our bondholders for their confidence in DFCC.

Our subsidiaries and joint venture have contributed well to DFCC Group and I extend my thanks to all the respective CEOs and their teams. And not least of all, my thanks go to all my colleagues at DFCC for their dedication and the unstinted team effort displayed in what was a somewhat challenging market environment.

DFCC's medium term plan is to remain steadfast to its mission as Sri Lanka's premier development bank which augurs well with our plan to dovetail with GOSL's Five+1 Hub strategy.

The amalgamation of NDB, DFCC and DVB is expected to be a reality. It is an event of great bearing for all stakeholders whether they are shareholders, lenders, customers, suppliers, regulators or employees. However, I prefer to view it as the next phase of DFCC's evolution where the Bank progresses to greater heights in a new form that is stronger, more dynamic and more enduring. In fact, consolidation will materialise the full value of DFCC's constituents; i.e. its investments, customer base, project financing franchise, human capital, IT systems and so on. This process can only benefit all of DFCC's stakeholders as the outcome will be an entity whose value is greater than the sum of all its individual parts.

Arjun Fernando
Chief Executive

28 May 2014


GOLD

BOARD OF DIRECTORS

1 C R Jansz
Chairman

Appointed to the Board of DFCC Bank in July 2010 and appointed Chairman on 21 March 2014.

Mr Jansz 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.

He has many years of experience in logistics in the Import/Export field and in Documentation, Insurance, Banking and Finance relating to international trade.

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

2 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 and Employees Holdings (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.

3 G K Dayasri
Director

Appointed to the Board of DFCC Bank in March 2010.

Mr Dayasri is a practicing 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.

Annexes
Financial Reports
Supplementary Financial Information
Stewardship
Recognition
Management Discussion
Business Model
Messages and Management Profiles

4 A R Fernando
Chief Executive

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

Mr Fernando is a career banker and holds 29 years experience in the banking and financial services industry in executive and managerial positions. Prior to joining DFCC Bank in August 2012, during the period October 2010 to June 2012 he was the Regional Head of Change and Delivery (commercial banking, trade and supply chain), HSBC Asia Pacific, based in Hong Kong covering 22 countries.

Mr Fernando is a Director of DFCC Vardhana Bank PLC and Chairman of DFCC Consulting (Pvt) Limited, Lanka Industrial Estates Limited and Synapsys Limited, Subsidiary Companies of DFCC Bank and the Chairman of Acuity Partners (Pvt) Limited, Joint Venture Company of DFCC Bank and Chairman of Lanka Ventures Limited. He is also a Director of Home Finance Company Limited, Fiji with which DFCC Bank has entered into a collaboration agreement to provide management/technical expertise. Mr Fernando is a member of the Board of Directors of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP).

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

5 P M B Fernando
Director

Appointed to the Board of DFCC Bank in July 2013.

He is the Director/Chief Executive Officer of Laugfs Capital Limited and is a member of the Financial System Stability Consultative Committee of the Central Bank of Sri Lanka.

He started his professional career at KPMG Ford Rhodes Thornton & Company and was a Partner of the Firm. He has extensive experience in financial services, holding many senior positions at Vanik and Forbes Ceylon Group. Mr Fernando also functioned as the Group Finance Director of Confifi Group and then joined Virtusa (An Information Technology Company based in Boston USA) as its Director Finance, Asian Region. He was responsible for the finance function of the subsidiaries in India and Sri Lanka.

Subsequently in 2005 Mr Fernando joined Capital Reach and functioned as the Managing Director of the holding Company from the inception and was the Chairman of the three subsidiaries. In August 2010 activities of former Capital Reach Group was consolidated under one Company, Softlogic Finance PLC and Mr Fernando was the Director/ Chief Executive Officer of Softlogic Finance PLC.

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

6 Mrs Shamalie Gunawardana
Government Director

Appointed to the Board of DFCC Bank in August 2010.

Mrs Gunawardana is 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 a Board Member of the Information Communication Technology Agency and the Postgraduate Institute of English. She is also a member of the Steering Committee spearheading Legal and Judicial Reform initiatives of the Government.

She has over 25 years experience holding senior public office, having served *inter alia* 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 LL.M. 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 - Singapore and the World Bank - USA.

7 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.

8 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 the 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

CORPORATE MANAGEMENT TEAM

1 - Arjun Fernando
BSc (Eng) MSc ACIB (UK)
Chief Executive

2 - Lakshman Silva
BCom MBA
Chief Executive -
DFCC Vardhana Bank PLC

Executive Vice-Presidents

3 - Tyrone De Silva
CEI MBA
Lending & Investment Banking

4 - Trevine Fernandopulle
BSc (Math) MBA (Stat) MSc FCIB(UK)
Chief Risk Officer

5 - Palitha Gamage
BSc (Eng) MBA ACMA (UK) MIESL CEng
Planning and Operations

6 - Anomie Withana
FCMA (UK) FCA MBA
Finance
Secretary to the Board

Senior Vice-Presidents

7 - Nandasiri Bandara
BSc (Bs. Admn) FCA
Internal Audit

8 - Manohari Gunawardhena
BSc MA (Fin. Econ) MBA ACI (Dealing Cert)
Corporate Banking and Capital Markets

9 - Achintha Hewanayake
BBA MSc (IT) ACMA (UK)
Chief Technology and Services Officer

10 - Ananda Kumaradasa
BSc ACMA (UK) MBA
Rehabilitation and Recoveries

11 - Kapila Nanayakkara
MBA, PGD (Bs. Admn), ACI (Dealing Cert), Certified Investment Manager (CAM-UK)
Group Treasury

12 - Dharmasiri Wickramatilaka
BSc (Eng) MBA ACMA(UK) MIESL CEng
Branch Banking

MANAGEMENT TEAM

Vice-Presidents

Bhathiya Alahakoon
BSc (Eng)
Regional Manager

Chinthika Amarasekara
ACA
Accounting and Reporting

Renuka Amarasinghe
LLB Attorney-at-Law
Corporate Banking

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

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

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

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

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

Neville Fernando
BSc ACMA(UK) PMP
Business Systems

Sanjeewa Fernando
BBMgt (Acct) CFA
Integrated Risk Management

Samarakodi Godakanda
BSc (Agri)
Manager - Kandy Branch

Chaminda Gunawardana
BSc AIB MBA
Business Banking

Roshan Jayasekara
ACMA(UK)
Business Banking

Sonali Jayasinghe
BSc (Bs & Econ)
Human Resources

Chanaka Kalansuriya
MBA
Procurement and Services

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

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

Jayangani Perera
BCom
Credit Risk Appraisal

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

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

Kapila Samarasinghe
BSc (Eng) MSc (Eng) MIESL CEng
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

Nishan Weerasooriya
BSc (Comp. Sc) MBA MBCS
IT Operations

Rosheeni Madanayake Wijesekera
BA PGD in Bs. Admn
Corporate Communications

Assistant Vice Presidents

Shantha Atapattu
BSc (Agri)
Manager - Kaduruwela Branch

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

Channa Dayaratne
AIB ACI (Dealing Cert)
Funding and Capital Markets

Ranjith Dissanayake
BCom MBA
Manager - Bandarawela Branch

Dilshan Dodanwela
BSc ACI (Dealing Cert)
Foreign Exchange and Money Markets

Terrence Etugala
BSc (Acct) - Leasing

Gaminda Fernando
BSc (Eng)
Credit Administration

Jayan Fernando
BSc (Acct) MBA ACA ACMA(SL)
Asset Liability Management and Treasury Middle Office

Shan Heenkenda
LLB Attorney-at-Law
Employee Relations and Industrial Relations

Bhatika Illangarathne
BSc (Agri) ACMA ACIM
Manager - Kurunegala Branch

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

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

Iresha Kumbukage
BSc (Mngmt) ACMA (UK)
Credit Administration

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)
Litigation

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

Chandrika Ranawaka
MBA AIB
Corporate Banking

Sepali Ranawana
LLB Attorney-at-Law
Legal

Saravanapavan Raveendra
BA MBA
Regional Manager

Mangala Senaratne
BSc (Eng)
Manager - Kalutara Branch

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

Game Plan

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 2442009	+94 11 2371371	+94 11 2400318, +94 11 2400319 +94 11 2400320, +94 11 2400532
Email	rohantha.seneviratne@dfccbank.com	info@dfccvardhanabank.com	lindel@itmin.net
Incorporated	9 September 2004	25 August 1995	12 March 1992
DFCC's Interest	100%	99.17%	51.15%
Principal Activity	Consultancy	Commercial banking	Operating an industrial estate
Directors	A R Fernando - Chairman T W de Silva S E de Silva	J M S Brito - Chairman L H A Lakshman Silva - CEO L N de S Wijeyeratne T Dharmarajah A R Fernando A N Fonseka Ms S R Thambiayah Ms M A Tharmarathnam	A R Fernando - Chairman H A Samarakoon - CEO T W de Silva Dr R M K Ratnayake A D Tudawe Mrs W H A Wimalajeewa

Financial Year End	31 March		31 December		31 March	
Financial Year	2013/14	2012/13	2013	2012	2013/14	2012/13
Profit after Tax (LKR million)	5.0	(1)	624	613	119	125
Dividend per Share (LKR)	–	–	0.50	0.50	7.00	7.00
ROE (%)	20.6	–	11.4	12.6	21.8	23.7

	Joint Venture	Associate Company	
Synapsys Limited	Acuity Partners (Pvt) Limited	National Asset Management Limited	**Company**
540, Nawala Road, Rajagiriya	53, Dharmapala Mawatha, Colombo 03	7th Floor, Union Bank Building, No. 64, Galle Road, Colombo 03	**Address**
+94 11 2880711	+94 11 2206206	+94 11 2445991	**Phone Nos.**
contactus@synapsys.sg		info@namal.lk	**Email**
11 October 2006	7 February 2008	28 September 1990	**Incorporated**
100%	50%	30%	**DFCC's Interest**
Provide information technology services 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	Management of Unit Trust & Private Portfolio	**Principal Activity**
A R Fernando - Chairman D J P Fernandopulle - CEO T W de Silva A N Fonseka Ms R A P Withana	A R Fernando - Chairman M R Abeywardena - CEO A J Alles T W de Silva D A B Ellepola Mrs C M M S Gunawardena D P N Rodrigo Mrs I R D Thenabadu	A Lovell - Chairman A Herat - CEO A Amarasuriya T W de Silva P Gamage K Seiw J Warnakulasuriya A Wijesekara	**Directors**

31 December		31 December		31 December		**Financial Year End**
2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	**Financial Year**
(24)	(0.9)	250	96	21	8	**Profit after Tax (LKR million)**
–	–	0.32	–	2	2	**Dividend per Share (LKR)**
–		9.3	4.2	11.8	4.5	**ROE (%)**

DFCC Bank was incorporated by an Act of Parliament in 1955, as a part of the Government initiative to create a strong institution to support the private sector with medium and long-term finance. The Bank commenced operations with an initial share capital of LKR 8 million and has since increased its capital base to LKR 2,651 million as at the conclusion of the financial year 2013/14.

In 2003, DFCC Bank expanded into commercial banking by acquiring a 94% stake in National Mercantile Bank (MERC Bank), which was subsequently rebranded as DFCC Vardhana Bank Limited (DVB). Today, DFCC Bank and DVB form the DFCC Banking Business (DBB). Combining the expertise of a pioneer development bank and the dynamism of a commercial bank, the entity offers a breadth of seamless banking solutions. DBB serves all provinces of Sri Lanka through a unified distribution channel.

DFCC Bank is governed by a Board of Directors, comprising of an Executive Director, a Government Non-Executive Director and six Independent Non-Executive Directors.

Operationally, DBB's revenue is driven by five lines of business.

These comprise of Corporate Banking, Small and Medium Enterprise Finance, Personal Banking, Investment Banking and International Banking. The business lines are complemented by subsidiaries, a joint venture and an associate company for services in consultancy, information technology, industrial estate, investment banking and fund management.

Scale of Operations

DBB operates 19 DFCC and DVB combined branches, 55 DVB branches and 62 DVB service points at Sri Lanka Post outlets. Customers could also transact from 673 ATMs across the nation including zero cost cash withdrawals from ATMs that are shared with five other banks. DBB also offers internet banking services for individuals and corporates who prefer to transact from any location of their choice.

The total staff strength of DBB is 1,371.

Products and Services Portfolio

Product/Service	Description	Target Segment	Geographic Reach
Project Loans funded by credit lines	Saubagya	SMEs	Countrywide
	Sarusara	Short-term cultivation	Countrywide
	Awakening North Revolving Fund Phase II	SMEs	Northern Province
	Awakening East Revolving Fund Phase III	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 District
	SMEDeF II	SMEs	Countrywide

Product/Service	Description	Target Segment	Geographic Reach
	Tea Development Project Revolving Fund	Plantations requiring to re-plant tea	Tea cultivating areas
	Smile III Revolving Fund	SMEs	Countrywide
	CSDDLS	Dairy Sector	Countrywide
	Dasuna Revolving Fund Phase II	SMEs	Southern Province
	EIB SME and Green Energy Global Loan	SMEs	Countrywide
Other Project Loans	Term Loans	Corporates and SMEs	Countrywide
Working Capital Loans	Medium and long-term loans to finance permanent working capital requirements	Large corporates, SME sector and professionals	Countrywide
Leasing Facilities	'Easy Leasing' facilities for brand new and unregistered vehicles. Finance lease facilities for machinery and plant & equipment	Large corporates, SME sector, professionals and individuals	Countrywide
Hire Purchase Facilities	Hire purchase facilities for vehicles	Large corporates, SME sector and professionals	Countrywide
Guarantee Facilities	Facilities such as bid bonds, advance payment, performance bonds, purchase of goods on credit etc.	Large corporates, SME sector and professionals	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
Consultancy and Advisory Services	Provision of legal, tax, finance, market and other advisory services to start up a new business or revamp existing businesses	Large corporates, SME sector and entrepreneurs	Countrywide

Annexes Financial Reports Supplementary Financial Information Stewardship Recognition Management Discussion Business Model Messages and Management Profiles

Product/Service	Description	Target Segment	Geographic Reach
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 savings account offering a range of gifts and support for higher education.	Children below 18 years of age	Countrywide
	Vardhana Junior Plus. Children's savings account with a higher interest rate	Children below 18 years of age	Countrywide
	Vardhana Garusaru. Offers a higher interest rate with a range of other benefits	Senior citizens above 55 years of age	Countrywide
Personal Loans	A loan that helps to enrich one's life	Professionals, Entrepreneurs and Employed sector	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, Foreign Money transfer via Western Union and local payments.	Professionals, entrepreneurs, business community and employed sector	Countrywide

OPERATING ENVIRONMENT

Global Economy

The global economy continued to recover in the second half of 2013 with an average growth of 3.6% compared to 2.5% in the first six months of the year. Growth in advanced economies gathered momentum contributing to global expansion. Benefiting largely from the increased demand from advanced economies, emerging markets and developing economies grew at a moderate pace during the year. Accordingly, growth in Asia picked up in the latter half of 2013 on recovering exports and robust domestic demand. The Euro area finally emerged from recession on account of the less fiscal drag and impetus from private domestic demand. Global inflation remained moderate and subdued in 2013.

Sri Lankan Economy

Sri Lanka recorded a GDP growth of 7.3% in 2013 compared to 6.3% the previous year. The recovery reflects the increase in domestic demand and the expansion in exports and tourism. The economic growth was largely driven by the industry sector, followed by the services and agriculture sectors. Industry sector grew at a slower pace of 9.9% compared to 2012, due to a slowdown in the construction & mining and quarrying sub sectors. Services sector recorded a growth of 6.4% as a result of the expansion of wholesale and retail trade and transport and communication sub sectors. Favourable weather conditions in the second half of the year enabled the Agriculture sector to grow by 4.7% in 2013.

Inflation which averaged 6.9% in 2013 was contained within single digit levels for the fifth consecutive year. The Central Bank of Sri Lanka pursued a relaxed monetary stance to address the subdued growth in 2012 which continued during 2013 as well. Accordingly, the bank lending rates dipped significantly from 14.3% in January to 9.9% in December 2013.

Compared to many other currencies in the region, the Sri Lanka rupee remained relatively stable throughout the year. Looking ahead, Sri Lankan economy is expected to grow by 7.8% in 2014. Increased investment, improved macroeconomic stability and improving global economic conditions are expected to drive economic growth. Inflation is expected to remain in the mid single digits. Supply of credit from the domestic banking sector for development activities is likely to rise on account of greater inflows of foreign debt and equity capital to the banking sector.

Banking Sector

The banking sector remained strong maintaining healthy capital levels and adequate liquidity buffers. Total assets increased by a moderate 16.5% to LKR 5.9 trillion as a result of increased investments. However, the asset quality deteriorated due to increase in non-performing pawning advances as a result of the decline in the gold prices in the global market.

Deposits with commercial banks continued to be the main source of funding, recording a growth of 15%. However, it was lower than the 18% growth in 2012. Foreign currency borrowing constituted bulk of the borrowings on account of the increased borrowings from international markets.

Profitability of the banking sector dipped by 9.8% to LKR 74.6 billion during the year. This was largely due to the decline in net interest income consequent to the increased high cost term deposits and low yielding assets and slowing down of core business operations of the banking sector.

The regulatory and supervisory framework of the banking sector was strengthened further, while expansion of the branch network, particularly outside the Western Province, gathered momentum during the year contributing to financial inclusiveness.

The Government of Sri Lanka in its 2014 budget proposal declared a new vision for the Banking and Finance sector which was detailed out by the Central Bank of Sri Lanka in its strategy documents Road Map 2014 and Plan for Consolidation of the Financial Sector. This is aimed at strengthening the financial sector to support the envisaged economic growth of the country. Accordingly, the proposed consolidation is expected to result in of banks with strong balance sheets including a few banks with an asset base of LKR one trillion or more. A strong development bank will be developed through the amalgamation of DFCC Bank and NDB Bank, which would provide a broader impetus to development banking activities in Sri Lanka. The capital structure of banks will be strengthened, whilst the risk management framework too will be improved further. Several new regulatory measures would also be introduced to be on par with international best practices in the banking sector.

Messages and Management Profiles | Business Model | Management Discussion | Recognition | Stewardship | Supplementary Financial Information | Financial Reports | Annexes

Strategic Goals and Objectives

Medium-Term Business Goals and Strategies (Next three years)

1. Increase Market Share in all Key Business Segments	2. Strategic Cost Management	3. Enhance Customer Centricity	4. Improve Employee Satisfaction Index	5. Manage DFCC Brand in View of the Proposed amalgamation
• Corporate Banking: Focus on low margin and high volume strategy resulting in reduction in cost per delivery	• Organisational Effectiveness Improvement Programme (OEIP): One aspect of OEIP is improvement in cost efficiency through strategic cost management.	• Focus on business and customer orientation and drive new business acquisitions	• Introduction of Balanced Score Card for performance evaluation	• Strive for business excellence awards
• Business Banking: Focus on a medium margin and medium volume strategy to fit into risk return	• Focus on Organisational Structure, Property Portfolio, Information Technology, Outsourcing, Utilities, Management and other areas for improvement	• Transform current staff mix of business to service from 1:4 to 1:1 by 2016	• Appointment of the Grievance Committee to improve employee relationships	• Strengthen the Brand Image as the pioneer development bank
• Branch Banking: Aggressive pricing for acquiring new relationships and continue focus on SMEs	• Centralise all branch payments of DFCC Bank and DVB.	• Continue customer training programs refinanced under SMEDeF credit line	• Employee engagement and motivation through proactively addressing concerns raised through surveys, branch visits, exit interviews etc.	• Implementation of strategic CSR projects
• Focus on the Five+1 Hub Strategy and seek new opportunities and potential markets	• Develop a property strategy	• Diversify the customer base through relationship building	• Identification of staff training needs	• Determine the current awareness levels of the corporate brand through dipstick survey
• Expand international operations and consultancy services	• Introduce an electronic document management and storage system	• Simplify processes at contact points	• Continuous improvement of employee communications, transparency of processes and methods of addressing employee needs	• Implement an integrated communications campaign using mass media
				• Enhance the brand through the use of PR - editorial publicity

Strategy in Action - 2013/14

Goal	Strategy	Level of Achievement as at 31 March 2014
Tapping into market segments	• Identify growth sectors to increase the volume of lending • Diversify the customer base through acquisition of new clients and relationship building • Increase “Share of Wallet” by cross-selling group products and services • Strengthen the brand image at provincial level • Take anticipatory and preventive actions to maintain portfolio quality • Expand international operations and consultancy services	• Corporate Banking project lending portfolio expanded to LKR 30,000 million from LKR 27,000 million • Branch Banking portfolio including Business Banking recorded a growth of LKR 600 million • Developed marketing plans at regional level to expand customer base and conducted sector focused marketing campaigns • Revised exposure limits in line with emerging trends and developments • Maintained an overall NP ratio of 4.8% • International operations launched successfully with a consultancy assignment in Fiji
Improve operational efficiency	• Identify key areas for centralisation of branch processes and improve productivity • Develop a methodology to capture cross branch transactions • Take advantage of emerging media to promote products and services cost effectively • Standardise procurement and media buying and concept development • Speed up the credit approval process • Speed up transaction/service delivery times	• General payments of all DFCC Bank branches were centralised • Promotional activities through Facebook, Web, Electronic Direct Mailers, Corporate Data Banks, Bus TV, Salon TV, Public TV Screens • Set up DFCC Bank/DVB Board sub-committee for credit approvals • Established a structure encompassing all related functions (Treasury, Trade, Credit Admin) to increase pace of cross departmental processes

Annexes
Financial Reports
Supplementary Financial Information
Stewardship
Recognition
Management Discussion
Business Model
Messages and Management Profiles

Goal	Strategy	Level of Achievement as at 31 March 2014
Enhance risk management operations	• Independent review for credit proposals and rescheduling proposals	• Independent rating reviews for credit papers and rescheduling proposals on selective basis
	• Carry out industry analysis and updates to assess industry related risk	• Industry reports completed on food & beverages, palm oil industry, tourism and tea manufacturing and five flash reports
	• Development and review of rating and scoring models	• Review of rating models for SME- DFCC Bank, PFS scorecard, housing loan score card
	• Measure and arrange reporting position of risk limits of DFCC Bank & DVB.	• Position of the Overall Risk Limit System reported to BIRMC and Board at the end of the respective quarters
	• Establishment of ICAAP to inform the Board of the ongoing assessment of DBB 's risks, ways of mitigating integrated risks and the current and future capital requirements	• Documentation of the methodologies and strategies of the ICAAP development process
	• Support businesses and service units to manage operational risk exposures	• Appointed an Operational Risk Management Committee
Improve Fund Mobilisation	• Diversify funding sources by adding more foreign long term funding lines	• Executed a landmark debt issue in the international capital market in October 2013 for USD 100 million
	• Augment the competitive advantage on credit line funding	• Raised USD 45 million overseas debt through short-term syndicated loan
		• Agreements executed for the European Investment Bank (EIB) Climate Change and SME line of credit
		• DFCC Bank appointed as the Administrative Unit by EIB for the EIB Climate Change and SME line of credit

STAKEHOLDERS

Our stakeholders are individuals or organisations who have an interest in our business activities. They can either affect or be affected directly or indirectly by our activities or by their engagement with us. Accordingly, the key stakeholders of DBB are our investors, customers, employees, business partners, regulators and legislators and the society and environment.

Investors

Our investors provide us with the capital needed for expansion and growth. In turn, we offer optimal returns for their investments through sustained growth of the organisation.

Customers

Our customers are critical for the survival and success of our business. Through provision of financial products and services of the highest quality we meet their diverse needs.

Employees

Employees form the backbone of our organisation. They carry out business operations of DBB in an efficient manner. The dedication and commitment of our employees drive the revenue generating activities of DBB. We enhance the value of our employees through training and development, career advancement, and provision of attractive benefits and remuneration.

Regulators and Legislators

Regulators and legislators ensure that we provide a superior service to customers whilst conducting our operations transparently conforming to stipulated standards and regulations. Accordingly, we conduct our operations in an ethical and responsible manner complying with the applicable regulations.

Business Partners

Business partners provide financial assistance and support to enhance our services. We ensure that the funds are utilised for the intended purpose in the most efficient manner.

Our ability to fulfill customer demands and provide services of the highest quality partly depend on our suppliers. They help us to become more efficient and productive, which results in cost savings and increased profits for the organisation. In turn, we provide continuous business to our suppliers and extend support to develop their businesses through partnership with the Bank.

Society and Environment

The society and environment gear us to operate as a good corporate citizen, upholding fair business practices, giving due consideration to the environment whilst contributing to charitable and social causes. The community also provides us with a skilled workforce enabling us to maintain our competitive edge.

Accordingly, we conduct our operations responsibly; ensuring that our activities do not exert a negative impact to the community and the environment. We adhere to the relevant environmental standards and support the communities through the provision of employment opportunities and engaging in other CSR activities.

Stakeholder Engagement

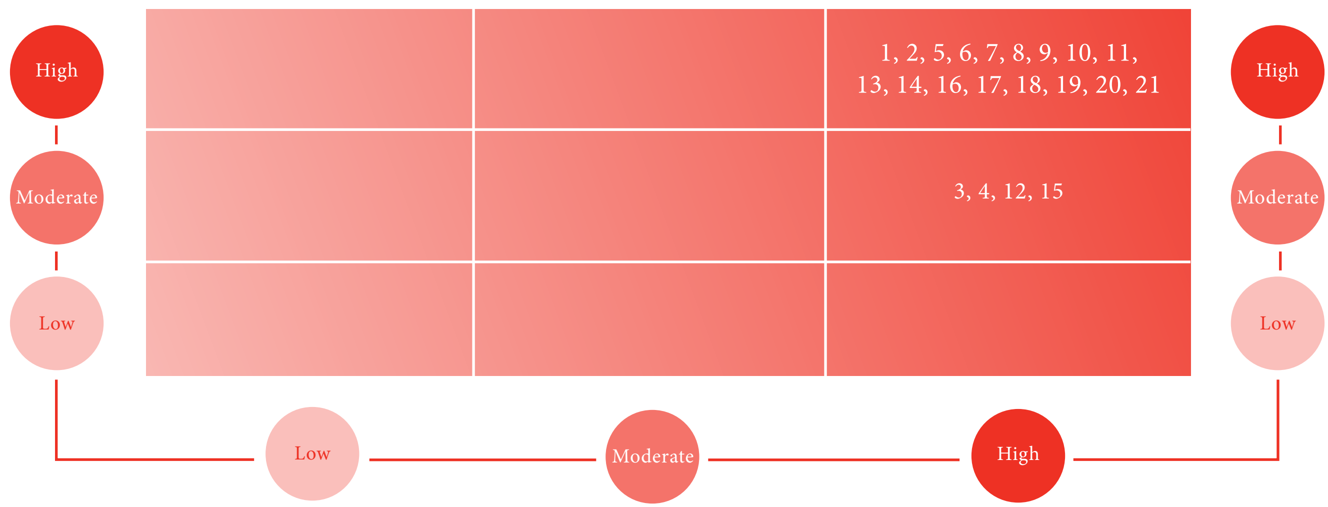
As a responsible corporate entity, we engage with our stakeholders to facilitate successful delivery of our services and maintain inclusive relationships. Through regular interactions, we strive to understand their expectations and continuously improve our operations based on feedback obtained. A transparent line of communication is maintained by us to obtain feedback. This helps us to deliver a more efficient and responsive service which has a favourable bearing on our risk management practices, the efficiency and effectiveness of service delivery, quality of decision making, community confidence and innovative spirit of the organisation.

The methodology used in stakeholder engagement is described in detail in the Corporate Governance section.

MATERIAL ASPECTS AND BOUNDARIES

We have mapped out and identified the material aspects to DBB based on their importance to DBB and its stakeholders. This materiality matrix was developed taking into accounts guidance provided in GRI G4 guidelines.

Importance to DBB



Importance to Stakeholders

Economic	Environment	Social: Labour Practices and Decent Work	Social: Human Rights	Social: Society	Social: Product Responsibility
1. Economic performance	4. Emissions	6. Employment	12. Investment	15. Local communities	18. Product and service labelling
2. Market presence	5. Products and services	7. Occupational health and safety	13. Non-discrimination	16. Anti-corruption	19. Marketing communications
3. Indirect economic Impact		8. Training and education	14. Human rights grievance mechanisms	17. Compliance	20. Customer privacy
		9. Diversity and equal opportunity			21. Compliance
		10. Equal remuneration for men and women			
		11. Labour practice grievance mechanisms			

1. Material Economic Aspects

1.1 Economic Performance

Economic performance is an important aspect as growth in business and profits not only benefit the organisation but the customers, community and the nation. Therefore, the management aims to project DBB as a solid, stable and reputed financial services group. The performance standards are reflected in the overall goals and strategies whilst set targets are measured through effective performance monitoring systems facilitated by the Board and the management.

1.2 Market Presence

DBB plays an active role in financing SMEs and developing rural entrepreneurs. Market presence is an important criteria especially to develop local economies in the rural areas and make a positive contribution to the community. DBB has a higher concentration of branches in the lower GDP ranked areas of Sri Lanka. This highlights our commitment to catalysing economic development in less developed areas in the country.

1.3 Indirect Economic Impact

Our operations exert an indirect impact on the communities in which we operate. Whilst providing direct employment, our operations also uplift the livelihood of the local communities through the creation of indirect job opportunities and transferring of skills and knowledge. In carrying out needs assessment of our projects, we give due consideration to the indirect economic impacts of our business activities.

2. Material Environment Aspects

2.1 Emissions

The direct environmental impacts we address include emissions stemming from electricity usage, transport and combustion. DBB is committed to mitigating the negative environmental impacts from these sources, complying with applicable environmental laws and standards. Action plans are implemented periodically to improve efficiency and effective use of energy.

2.2 Products and Services

As a financial services provider, our impact on the environment is mostly indirect, arising from the activities of our customers whom we finance or provide products and services to. We have developed an Environment Management System (EMS) to encourage our customers, employees and service providers to adopt environmentally responsible practices in order to counter negative impacts.

3. Material Social Aspects

3.1 Employees

3.1.1 Employment

At DBB, we depend on our employees to deliver the best possible service to customers. Therefore, we believe that an engaged and motivated workforce is vital to improve organisational efficiency and productivity. Our practices are governed by the Shop and Office Act of Sri Lanka and other applicable legal enactments in relation to employment. We consider our employees vital assets, and pursue corresponding policies towards human resources management and people development. Annual performance calibration, and talent reviews are conducted to discuss and assess employee performance and succession planning.

3.1.2 Occupational Health and Safety

DBB takes a proactive approach to ensure high standards of occupational health and safety. These measures benefit employees from an individual perspective whilst adding value to the business by reducing absenteeism, improving morale and productivity.

3.1.3 Training and Education

The business impact derived from investing in knowledge enhancement and skills development of people has always been an important area for DBB. Therefore, our employees are encouraged and given access to attractive loan and grant schemes to pursue higher studies, and obtain professional qualifications in their respective fields of work.

Annexes Financial Reports Supplementary Financial Information Stewardship Recognition Management Discussion Business Model Messages and Management Profiles

3.1.4 Diversity, Equal Opportunity and Equal Remuneration

DBB promotes a diverse and an inclusive culture, free from discrimination and harassment. Employees are encouraged to share their views, whilst attending on grievances promptly. Diversity of our employee base enables us to respond to customers effectively and develop and retain the best employees. Different aspects of human resource practices are covered by formal Board-approved policies.

3.1.5 Labour Practice Grievance Mechanism

A Grievance Committee was set up to attend on employee grievances. Further, a ‘Pulse’ survey is conducted annually to ascertain employee satisfaction, apart from the opinion surveys conducted periodically. The Whistle Blowing Policy of DBB formalises procedures for staff to raise concerns maintaining their anonymity.

3.2 Society

3.2.1 Local Communities

DBB engages with the local communities through numerous community development programmes. We are represented in all provinces through our network of 136 branches across the island. In addition to the CSR activities conducted at a corporate level, the branches are also encouraged to engage with the community, conducting at least one community development project for the year.

3.2.2 Anti-corruption

DBB has always been committed to carrying out business with integrity, avoiding corruption in any form including bribery and complying with the anti-corruption regulations in the country. Our Code of Ethics is incorporated in the employees’ handbook which is also made available through the intranet.

3.2.3 Compliance

We ensure compliance with all data protection policies, procedures, regulations and guidelines 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 the regulatory and legal requirements and DBB has not been penalised for non-compliance of any sort.

3.3 Customer

3.3.1 Product and Service Labeling

We ensure that our product and service labeling provides transparency and carries accurate information to educate our customers. We maintain the highest ethical standards and conform with the Customer Charter.

3.3.2 Marketing Communications

Our marketing, advertising and promotional activities are carried out promoting transparency, ethics and conforming to statutory requirements as outlined by the Central Bank of Sri Lanka. We aim to enable customers to make informed decisions on our financial products and services. All marketing campaigns are screened prior to launch to check for conformity and approvals by relevant authorities. Brochures displaying information of our products and services are available in Sinhala, Tamil and English. Further, in order to promote online inclusivity, the website was upgraded to include all three languages. Our interest rates, exchange rates, credit ratings, contact details of the Financial Ombudsman and holiday notices are also prominently displayed on our website and at all branches.

3.3.3 Customer Privacy

DBB is committed to treating and using personal financial information pertaining to customers’ responsibly. The privacy of our online customers and site visitors are also protected with the same level of care. A unit to handle customer complaints, queries, requests and complaints regarding breach of customer privacy was set up in January 2014 within the 'Channels and Service Delivery Department’. Service Delivery focuses on establishing service level agreements with all sections and departments of the organisation to ensure consistency and transparency in handling customer requests.

CREATING SUSTAINABLE VALUE

Value creation is a dual process which encompasses delivering value to and deriving value from stakeholders.

Delivering value involves creating financial and non-financial value for the stakeholders in the context of economic, social and environmental aspects. This process leads to external capital formation in the form of investor capital, customer capital, human capital, social capital and environmental capital.

Deriving value on the other hand involves creating value for the Bank through interactions between the organisation and the external capitals. The internal capital comprises of financial capital and institutional capital.

The Management Discussion details an analysis of the various forms of capitals, the initiatives that we have undertaken during the year as well as in the recent past for the benefit of the holders of these capitals, their impact and the planned initiatives.

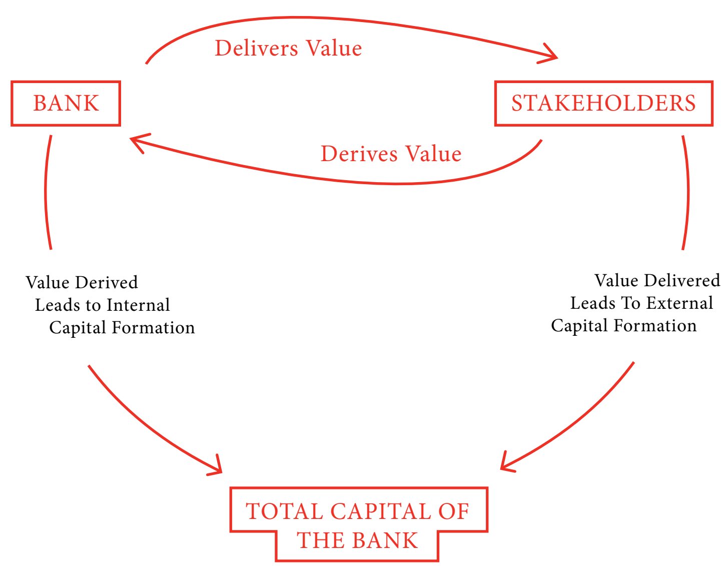
As a financial services institution, our offering to the customer includes a comprehensive portfolio of products and services. The main business activities of DBB include,

1. Providing fund based facilities for projects which comprise term loans, working capital loans, money market facilities, financial leases & hire purchase facilities and offering commercial banking facilities to corporate and retail clientele.
2. Extending fee based services such as letters of credit, indemnities, guarantees to facilitate trade and business activities and providing remittance and investment services.
3. Investing in financial assets and instruments.
4. Mobilising funds through credit lines, issuing corporate bonds locally and internationally, borrowing from financial institutions and accepting customer deposits.

The activities mentioned above generate the operating income of the Bank as follows:

1. Net interest income: Interest income net of interest expense for all interest bearing financial instruments are recognised.
2. Net fee and commission income: Fee and commission income from financial services.
3. Investment income: This comprises dividends and net gain/ (loss) from financial investments.
4. Net trading income: Income from trading in foreign exchange and financial investments.

The dual nature of the value creation process is illustrated in the diagram below:



Management Discussion

Match Analysis Report

Internal Capital Formation

Internal capital constitutes financial capital and institutional capital. These capitals are formed through the value created by DFCC's Banking Business.

Financial capital is quantifiable and most visible, whilst institutional capital constitutes intangibles such as organisational knowledge, brand value, business ethics, integrity etc.

Financial Capital

Accounting Framework

This is the second financial year of adoption of new Sri Lanka Financial Reporting Standards (SLFRS) that became effective in the previous financial year to 31 March 2013. SLFRS are aligned with corresponding International Financial Reporting Standards (IFRS).

The current accounting regime measures most of the financial assets and liabilities with few exceptions at the respective fair values instead of amortised cost. It also includes extensive disclosures relating to financial instruments whose recognition and measurement are based on the legal form of the contract instead of the substance of the transaction.

Whenever new standards or amendments to existing standards are made by The Institute of Chartered Accountants Sri Lanka (ICASL), where appropriate, the Bank changes its existing accounting policy or introduces new accounting policies. In the event of a change of an existing accounting policy, the relevant accounting standard requires retrospective application of the amended accounting policy. Thus, in the current year, consequent to the issue of revised LKAS 19 - 'Employee Benefits', the comparative information for the year ended 31 March 2013 has been restated covering both Statements of Financial Position as at 1 April 2012 (beginning of the comparative year) and 31 March 2013 (end of the comparative year). Correspondingly, the income statement and other comprehensive income statement of the comparative year have also been restated.

The impact of this restatement is summarised later on in this review.

This financial year extensive disclosures as required by SLFRS 7 - Financial Instruments: Disclosures, include some which were exempt in the previous year by way of a transition year relief. This mostly relates to information on market risk quantification complemented with sensitivity analysis where appropriate.

Group does not adopt hedge accounting.

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 (99.17% 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 2013, have been consolidated with a three months gap.

In this review, current year means the year ended 31 March 2014 and previous year means the year ended 31 March 2013.

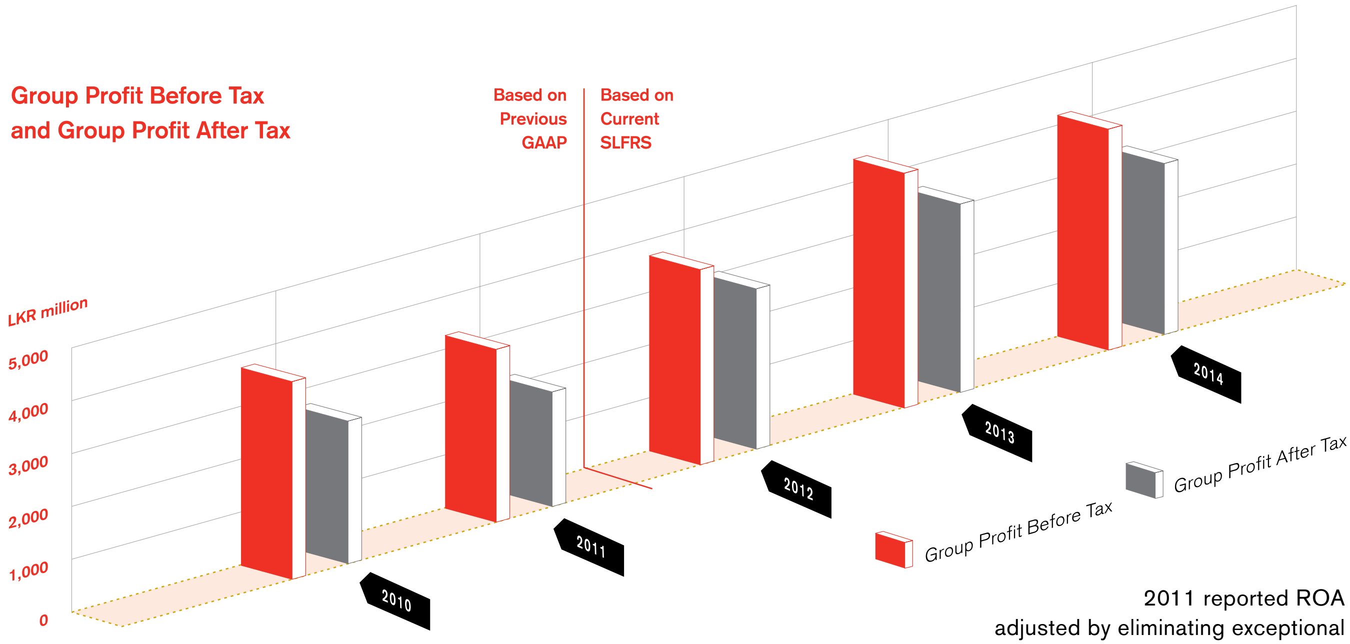
Composition of Group Profit Before Tax

	31.03.2014		31.03.2013		YoY Change
	LKR million	LKR million	LKR million	LKR million	%
Profit before tax - DBB		3,982		4,294	(7)
Profit before tax - subsidiaries					
LINDEL	136		142		
APL (50% share)	158		59		
Other subsidiaries	(20)		(2)		
Sub total	274		199		
Consolidation adjustment	(78)		(40)		
Total - subsidiaries		196		159	23
Profit before tax - Total		4,178		4,453	(6)
Income Tax		(934)		(1,065)	12
Profit after tax - subtotal		3,244		3,388	(4)
Share of profit - associate company, NAMAL		6		2	
Adjusted profit for the year		3,250		3,390	(4)
Prior year VAT refund		–		184	
Profit for the year as reported		3,250		3,574	(9)

Overall, the Group profit decreased marginally by 4% to reach LKR 3,250 million compared with LKR 3,390 million for the previous year after adjusting for the one off non-recurrent financial services value added tax refund amounting to LKR 184 million included in the income statement for the comparable period while total assets of the Group increased to LKR 177,333 million on 31 March 2014 from LKR 151,194 million on 31 March 2013.

Return on Assets (ROA) was 1.98% in the current year, decreasing from 2.58% in the previous year. This was largely due to asymmetric growth in total assets in the second half of the current financial year. In the first half of the financial year, total assets increased by LKR 4,955 million reflecting sluggish credit demand in the banking sector, whereas in the second half it increased by LKR 21,184 million.

Group Profit Before Tax and Group Profit After Tax



2011 reported ROA adjusted by eliminating exceptional gains from 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

This commentary is based on supplementary information (non-audited) on the consolidated income and statement of financial position of DBB (given on pages 167 to 171). This information is derived from the audited Group financial statements.

The performance of the DBB in the current financial year has to be evaluated in the context of significant changes in the macroeconomic environment. Pursuant to well contained inflation and inflation expectations, Central Bank of Sri Lanka took specific steps to ease monetary policy to support growing economic activity during 2013. It initiated dialogue with banks to reduce on-lending rates and deposit rates in tandem with significant reduction in the yield of Government Securities in the primary market. Average Weighted Prime Lending Rate (AWPR) in April 2013 of 13.76% per annum decreased to 8.57% per annum in March 2014. Sharp decline in on-lending rates commenced from July 2013.

Lending is the core business of DBB as in the case of most banks in Sri Lanka. The easing of monetary policy measures by Central Bank of Sri Lanka was intended to stimulate credit demand, but the market response to these initiatives remained lukewarm until around the last quarter of the calendar year 2013. Furthermore, the time lag in term deposit re-pricing to compensate for the sharp decline in on-lending rates exacerbated by the slow pick-up in credit demand eventually had an impact on the overall profitability of the banking sector in 2013.

Due to these extenuating circumstances, DBB achieved only 14.1% year-on-year increase in net interest income. However, a substantial growth of credit portfolio (LKR 16,108 million, 15.2% of portfolio on 31 March 2014) and commitments for unutilised credit facilities amounting to LKR 25,954 million on 31 March 2014 augur well for potential improvement in the succeeding financial year 31 March 2015.

Subdued year-on-year increase in net interest income of 14.1% was moderately compensated by improved performance in Treasury and equity market operations in a competitive environment. However these gains were marginally offset by the cost of hedging net foreign currency exposure arising from US Dollar to LKR funding swap. The total operating income recorded 11.2% year-on-year increase.

Further analysis on the performance of key drivers of profit generation is given in the pages to follow.

Revenue Growth

Total income of DBB comprising interest income and other income was LKR 20,214 million in the current year, an increase of 13.3% over the LKR 17,837 million of the previous year. Interest income of DBB was LKR 18,467 million in the current year an increase of 14.8% over LKR 16,085 million of the previous year.

The interest income yield (interest income divided by average interest earning assets) was 13.8% per annum during the current year compared with 14.5% during the previous year. The main reasons for the decrease in the yield is the drop in the on-lending rates of DFCC Bank in line with a drop in benchmark interest rates and a credit growth mainly achieved in the last quarter due to low credit demand during the first three quarters of the financial year.

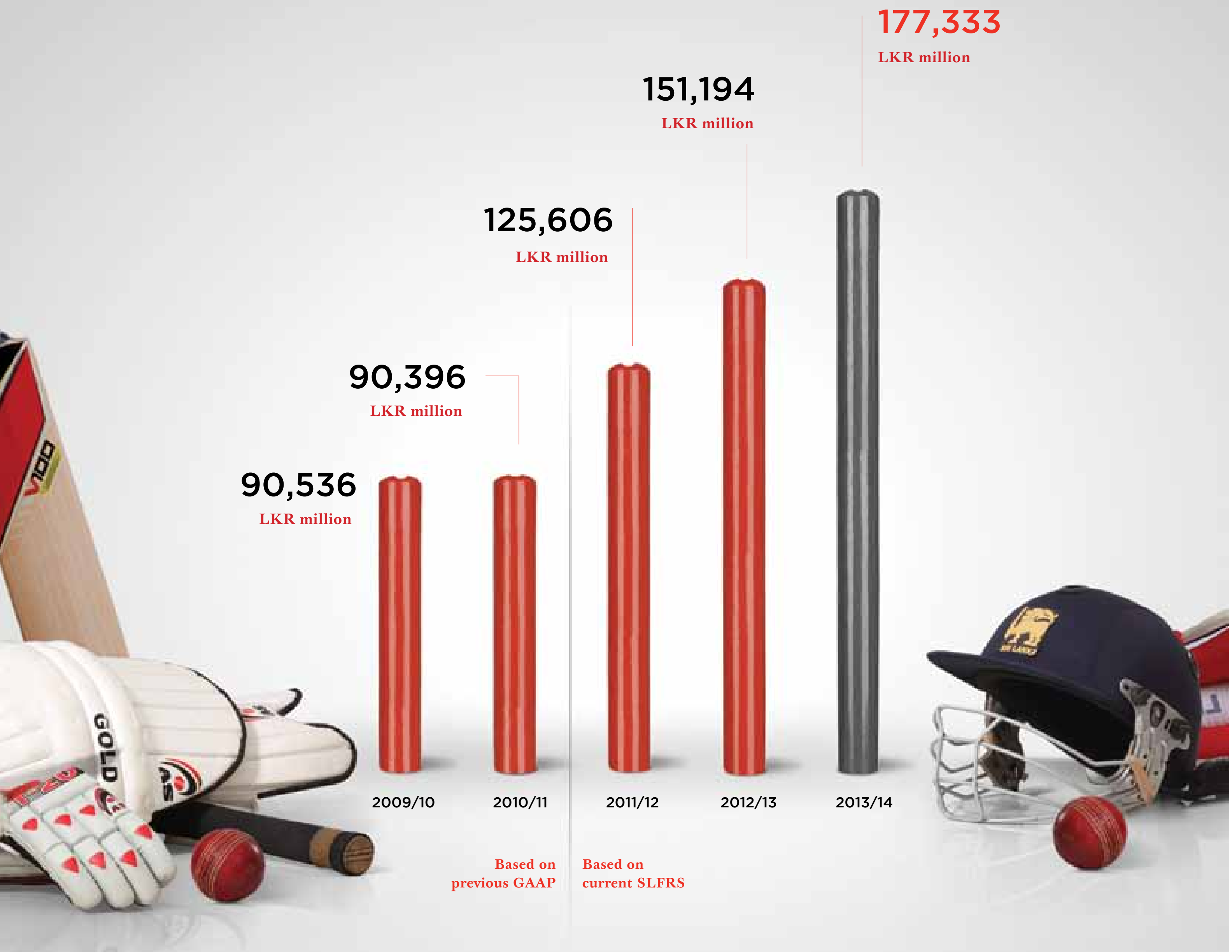
Cost of Funds

Interest expense of LKR 10,599 million in the current year was a 15.3% increase over the LKR 9,190 million in the previous year. The interest margin on earning assets was 5.9% per annum during the current year compared with 6.2% during the previous year.

Net Interest Income

Net Interest Income of LKR 7,868 million in the current year was a 14.1% increase over LKR 6,895 million in the previous year.

Group Total Assets



Despite the anticipated credit growth not being witnessed, total assets grew by 14.6% YOY while 5-year CAGR was in excess of 15%.

Revenue Mix - DBB

Key Components of Income

	31.03.2014		31.03.2013	
	LKR million	**%**	LKR million	%
Net interest income	**7,868**	**81.8**	6,895	79.8
Net fee and commission income	**814**	**8.5**	649	7.5
Dividend income	**893**	**9.3**	884	10.2
Others	**34**	**0.4**	211	2.5
Total	**9,609**	**100.0**	8,639	100.0

- Lending and investment in Government Securities were the major activity areas of DBB.
- The fee and commission income was 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. Fee income of DFCC during the period included consultancy fees earned on assignments undertaken in the Pacific Islands.
- 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.
- USD to LKR funding swap volume was higher in the current financial year compared to previous financial year. This enabled DBB to fund its LKR loan portfolio through funding swaps. The cost of hedging the net foreign currency exposure against market risk, consistent with prudential limits on net open foreign currency exposure imposed by the Board subcommittee for Integrated Risk Management is included in ‘others’.

Cost Efficiency

DBB’s expenses including personnel expenses as a proportion of net interest and other income deteriorated marginally to 40% compared to 38% in the previous financial year.

Composition of Operating Expenses

	31.03.2014	31.03.2013
	%	%
Personnel cost	**47.8**	50.6
Depreciation and amortisation	**8.3**	9.3
Administration and establishment Expenses	**17.7**	12.3
Nation Building Tax (NBT)	**0.7**	–
Others	**25.5**	27.6

- Operating expenses of DBB increased by 16.8% during the year to LKR 3,828 million from the previous year’s LKR 3,278 million.
- Approximately half of the operating expenses is on account of personnel compensation (Current and deferred compensation relating to retirement) and the main reason for a 10% year-on-year increase is one-off salary structural adjustment in DFCC Vardhana Bank PLC as a precursor to alignment with the compensation policy of DFCC Bank after the careful matching of skills and responsibilities.
- Operating expenses excluding the personnel cost increased by 23% during the year. This was largely due to costs associated with branch expansion (6 new branches were opened, whilst 8 extension offices were converted to fully-fledged branches). These costs incurred on expansion of branch network will be eventually recovered by additional revenue generation by these new branches.

Credit Quality

Analysis of Impaired Loans

	31.03.2014	31.03.2013
Impaired loans to customers (LKR million)	**8,029**	6,874
Impairment allowance (LKR million)	**6,892**	5,997
Ratios:		
Impairment allowance/impaired loans (%)	**85.8**	87.2
Impaired loans/total loans (%)	**6.4**	6.3

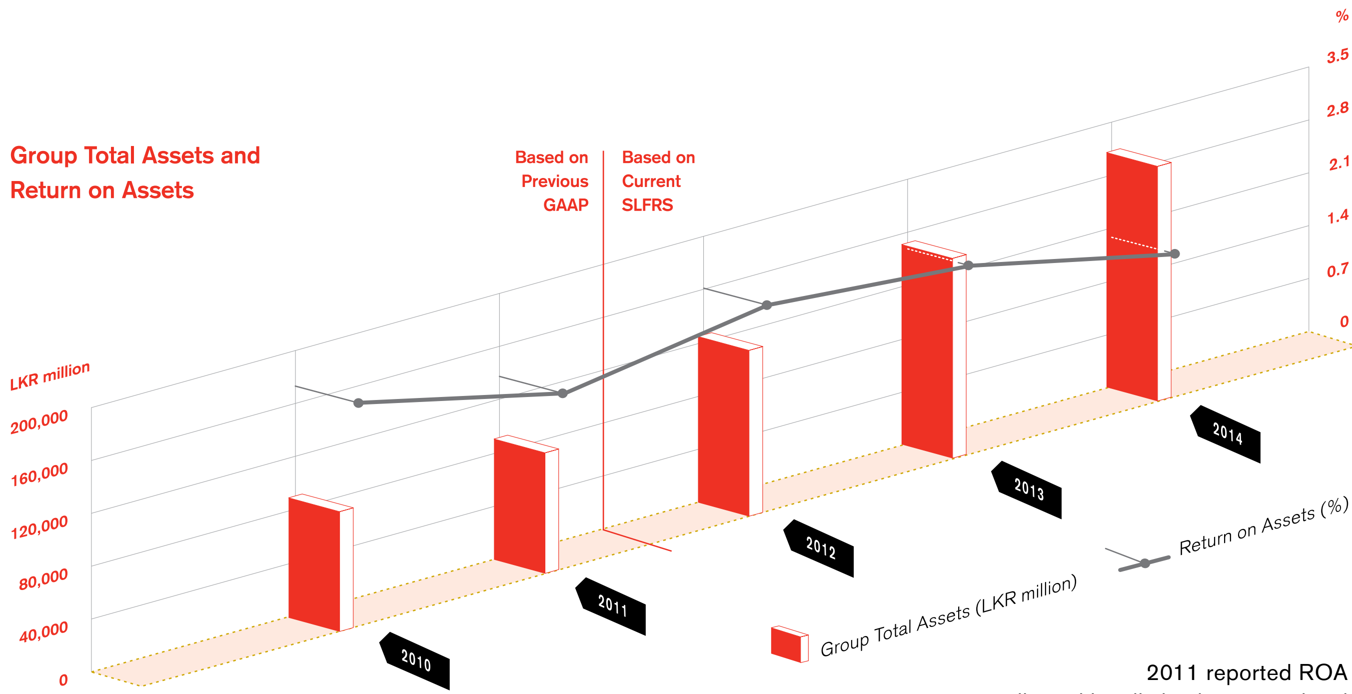
The ratio of impaired loans to total loans on 31 March 2014 was 6.4%, higher than 6.3% on 31 March 2013, indicating a marginal deterioration. The SLFRS based impairment assessment, both on individual assessment and collective assessment, is to a large extent based on historical evidence modified by experience 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.

Composition of Total Assets

	31.03.2014 %	31.03.2013 %
Earning Assets		
Loans and advances to and receivable from customers	64.3	66.3
Loans and advances to and receivable from banks	3.1	2.5
Other interest-earning financial assets	3.6	5.4
Available-for-sale investments	22.9	18.5
Non-earning Assets		
Property, plant and equipment	0.6	0.6
Goodwill and intangible assets	0.2	0.3
Others	5.3	6.4
Total Assets	100.0	100.0

91% of the assets were denominated in LKR and the balance comprised mainly of USD denominated assets.

Group Total Assets and Return on Assets



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

Composition of Interest-Bearing Liabilities

	31.03.2014		31.03.2013	
	LKR million	**%**	LKR million	%
Borrowing Sourced from				
Multilateral lending agencies	**17,826**	**13.6**	19,434	17.8
Bilateral lenders	**7,607**	**5.8**	15,384	14.1
International capital market	**13,446**	**10.2**	–	–
Domestic capital market	**1,610**	**1.2**	1,610	1.5
Debenture issue private placement	**563**	**0.4**	558	0.5
Borrowing from banks	**4,285**	**2.9**	7,994	7.3
Customer deposits	**81,230**	**61.9**	63,191	57.9
Repos	**4,735**	**3.9**	1,029	0.9
Total	**131,302**	**100.0**	109,200	100.0

Liabilities of DBB are Mainly in LKR but it also has Foreign Currency Liabilities, Mainly USD.

A key development during the current financial year is the successful issue of the USD 100 million five-year Notes issue. This Notes issue to non resident investors in October 2013 carries a fixed coupon interest rate and is listed on the Singapore Stock Exchange. DFCC Bank was able to issue the Notes on the strength of its financial position for the first time without any credit enhancement by way of a guarantee by Government. However, the Government supported this initiative by providing a foreign exchange cover from the Central Bank of Sri Lanka to neutralise any change in exchange rates up to USD 75 million.

This Notes issue is repayable after five years and the fixed coupon interest rate compares favourably with domestic bond issues (albeit on much smaller scale) even under the current low interest rate regime.

The proceeds of these notes are to be deployed predominantly in LKR denominated monetary assets. In order to mitigate market risk arising from any fluctuation in the LKR/USD exchange rate DFCC Bank has entered into an arrangement with CBSL for 75% of the principal amount of US Dollar (USD) denominated liability.

The arrangement referred to is set out below:

a. DFCC Bank sold USD to CBSL at the exchange rate prevailing at the time funds were received.

b. DFCC Bank will purchase the USD at the market rate prevailing at the time of repayment of notes.

c. On an annual basis CBSL will compensate DFCC Bank for any loss arising from the depreciation against USD or conversely DFCC Bank will pay CBSL any gain arising from LKR appreciation against USD.

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

USD 75 million was sold to CBSL on 1 November 2013 for LKR 130.80 per Dollar. As per the contract CBSL will swap USD to LKR in November 2014 for LKR. 130.80 per Dollar irrespective of market price of USD at that time. The fair value of this contract on 1 November 2013 was based on equivalent one year USD forward purchase contract price maturing in November 2014 was obtained from quotes from market participants. This forward price was LKR 140.8661 per Dollar. Thus a fair value gain of (140.8661 - 130.80) x USD 75 million = LKR 754.96 million was recognised as Government grant receivable and deferred income of an equivalent amount in the statement of financial position on 1 November 2013.

Subsequent changes in the fair value of CBSL contract was recognised as changes in the fair value of the financial instrument while amortisation of the deferred income of the Government grant that compensated for the fall in changes of the fair value of CBSL contract was recognised in other income.

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

	LKR million
Fair value gain of CBSL contract on 1 November 2013	754.96
Fair value gain of CBSL contract on 31 March 2014	276.88
Fair value loss November 2013 to March 2014 disclosed as changes in financial instruments fair value through profit/loss	(478.08)
Amortisation of deferred income grant disclosed as other income	459.33
Net loss that offsets LKR appreciation	(18.75)

At the end of the first year contract, the amount recognised in the statement of the financial position will be the amount receivable from or payable to CBSL.

Taxation

Income tax liability is based on the accounting profit computed under SLFRS and the gazette notification issued on 9 April 2014, under Section 212 (2) (c) of the Inland Revenue Act No. 10 of 2006.

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 31.9% in the current financial year compared with 30.4% in the previous financial year after adjusting for the one-off non-recurrent financial services value added tax refund amounting to LKR 184 million.

Profit Contribution from Other Subsidiaries and Joint Venture Company

Amongst the subsidiaries, LINDEL continues to be profitable with a return on investment of 21.8% during the current financial year compared with 23.7% during the previous financial year. During the year APL the joint venture company outperformed all others in the Group. Synapsys Limited, an information technology provider to DBB incurred a loss of LKR 24 million compared to a loss of LKR 1 million in the previous year. During the year, Synapsys Limited was selected as the technology partner for Home Finance Company Limited, Fiji and Pan Oceanic Bank Limited, in the Solomon Islands. The reason for the higher loss during the year was as a result of fully expensing development costs in relation to the contract with Pan Oceanic Bank Limited for which the revenue stream will be accounted commencing the next financial year.

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.

Where relevant and appropriate, the estimates are tested for probable variation in critical assumption that has a material impact on the computation of the estimate consistent. This is a disclosure requirement of SLFRS 7 -(Financial instruments: Disclosure).

Current Year Changes to Financial Reporting

The revised LKAS 19 -'Employee Benefits' became applicable during the current financial year ended 31 March 2014. The significant change that necessitated a change in accounting policy with retrospective application was the determination of expenses associated with the pension scheme (closed and limited to employees recruited prior to May 2004) and the statutory gratuity on termination of employment by employees who are not eligible for pension.

These expenses include an element related to actuarial loss/(gain) that arises by comparing the assumptions relating to future behaviour of interest rate, demographic changes etc. with actual results in the year. Prior to the adoption of revised accounting standards, these actuarial losses/(gains) were not immediately recognised but were recognised over the remaining working life of participating employees if the amount did not exceed a prescribed limit. As a result of this there was an amount of unrecognised actuarial loss/(gain).

Total Income

12.7%

Increase

LKR 20,100 million - 2013/14

The total income of DBB comprising interest income and other income recorded an increase compared to the previous year.

Consequent to adoption of the revised standard it was necessary to recognise in full the unamortised actuarial loss/(gain) immediately without recognising it over the remaining working life of the employees. However, since this estimate is sensitive to critical assumptions relating to future spanning 20 - 30 years, the previously unrecognised actuarial gain on funded pension liability net of loss on unfunded pension/gratuity liability is recognised only in other comprehensive income (OCI).

The financial impact of retrospective recognition of hitherto unrecognised actuarial loss/(gain) is disclosed in Note 62.

Consequently, as at 31 March 2014 the pre-payment to pension fund trust by DFCC Bank was LKR 161 million and management will in consultation with Actuary, determine whether future contribution to pension fund can be reduced.

Impending Changes to Financial Reporting

These are disclosed in Notes to the financial statements.

Management of Equity

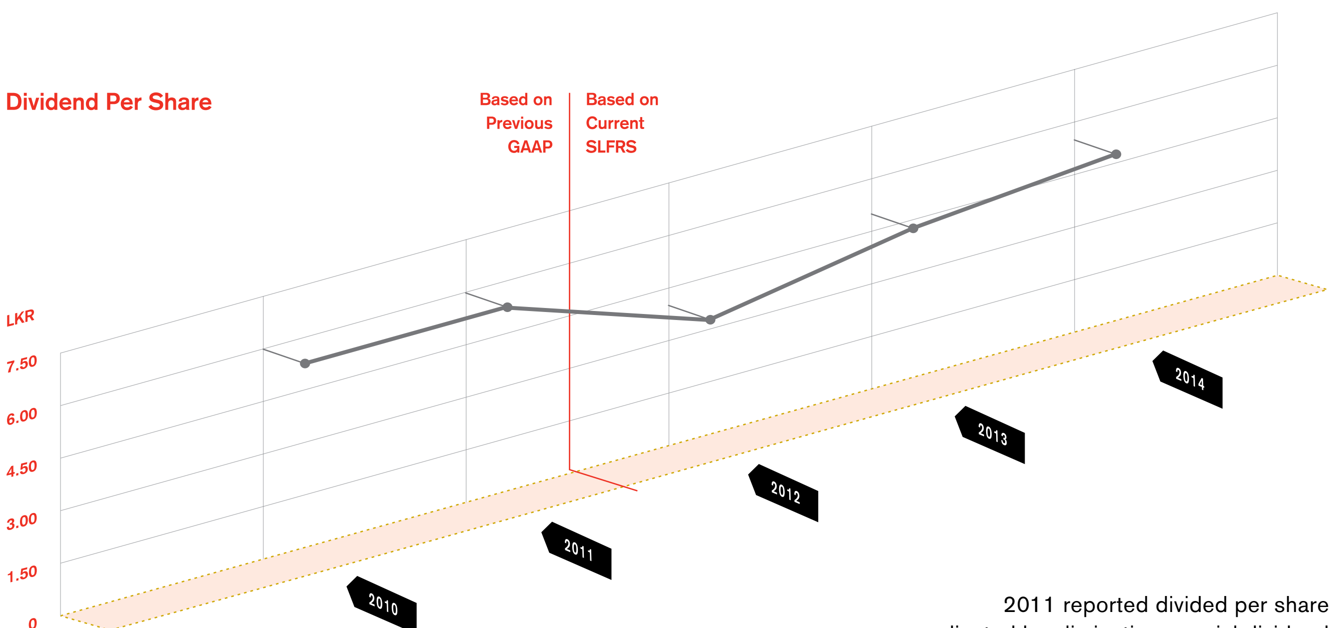
Dividend Performance

The payout ratio based on the dividend recommended by the Directors is 56% in the current year compared to 46% 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 66% in the current year compared to 56% in the previous year.

Dividend per share in the current year is LKR 5.50 per share, an increase of 10% over LKR 5/- per share in the previous year.

Dividend Per Share

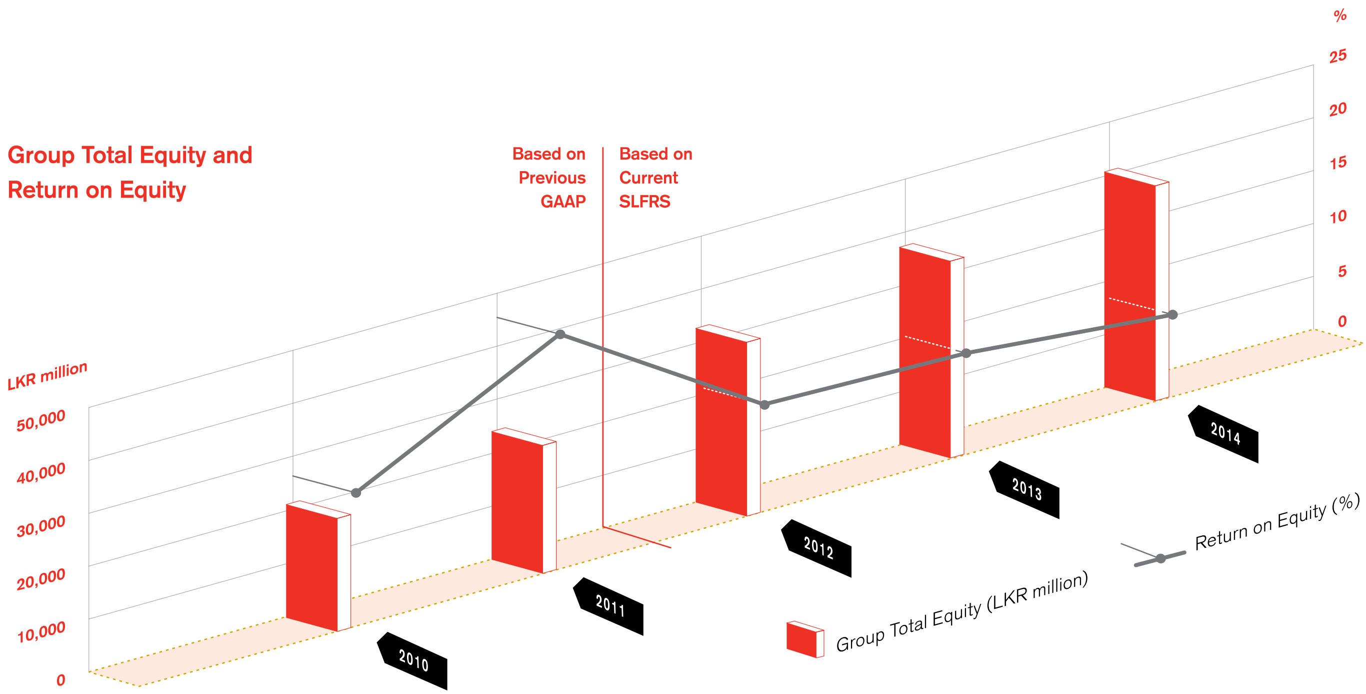


2011 reported divided per share adjusted by eliminating special dividend distribution arising from gains from sale of shares in Commercial Bank of Ceylon PLC.

Return on Equity

Return on equity for the current year was 8.3%. The equity of the Group is significantly augmented due to the recognition of unrealised gains on listed ordinary shares and Government Securities classified under 'available-for-sale' as required under SLFRS and the resultant increase in equity on 31 March 2014 is LKR 10,080 million. The return on equity will improve to 11% if this unrealised gain is not taken into account.

Group Total Equity and Return on Equity



Messages and Management Profiles
Business Model
Management Discussion
Recognition
Stewardship
Supplementary Financial Information
Financial Reports
Annexes

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 120).

Financial Assistance Received from Government

The Government has acted as a conduit for direct funds raised from multilateral and bilateral agencies for lending to eligible sectors. The amount outstanding on 31 March 2014 was LKR 19,818 million.

The exchange cover provided by Central Bank of Sri Lanka for USD 75 million of international Note issue is a de-facto grant. However, as at 31 March 2014 due to marginal appreciation of LKR vis-a-vis USD instead of Government grant, there was a potential obligation to pay LKR 18.75 million. This was only a potential obligation since the actual transaction will be only on 1 November 2014.

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 2014 the aggregate shareholding was approximately 35%.

Investment in DFCC Vardhana Bank PLC (DVB)

During the current financial year, DFCC Bank which owns 99.17% of this commercial banking subsidiary participated in a rights issue and invested LKR 2,196 million. This strategically important investment by increasing the regulatory capital base of DVB would enable DVB to have higher single borrower exposure, enhanced foreign correspondent bank network, improved credit rating and higher counterparty limits for its domestic market operations in LKR and foreign currency.

The cumulative investment on 31 March 2014 was LKR 5,823 million. The net worth of DVB as at 31 March 2014 represented by net assets was LKR 7,921 million.

Thus, DVB had surplus distributable reserves of LKR 1,953 million on 31 March 2014. The return on this investment based on year ended 31 December 2013 results of DVB was 11.4%

Key Regulatory Changes

- Decrease in statutory reserve ratio from 8% to 6% on LKR deposits with effect from 1 July 2013. This is applicable only to the Commercial Banking subsidiary, DFCC Vardhana Bank PLC. The financial impact of this is to release deposits with Central Bank with zero interest for profitable operation and to that extent reduce the effective cost of customer deposits, the mainstay of commercial banking fund base.
- Almost doubling of the limit on daily net open position in foreign currency of commercial banks with effect from 2 January 2013. This relaxation of prudential requirement allows flexibility to engage in foreign exchange operations with possible beneficial effect on foreign exchange income.

Institutional Capital

Institutional capital entails non-financial aspects of DBB that form a solid basis in undertaking value creating activities of the organisation. Unlike financial capital, a value cannot be placed to these components. They comprise of organisational knowledge, brand value, systems and processes, operations, business ethics and integrity, information technology and the corporate culture.

Organisational Knowledge

DFCC Bank, which is one of the oldest development banks, has played an innovative and catalytic role in the development of the private sector in Sri Lanka. In 2003, the Bank entered into commercial banking through an operational merger with its commercial banking subsidiary, DVB. Together, DBB offers a seamless gamut of financial solutions through a unified distribution channel.

DBB has always upheld the importance of the business impact derived from investing in knowledge enhancement and skills development. Therefore, several mechanisms were implemented to promote organisational learning and knowledge sharing, supported by information technology.

Brand Value

Being the pioneering development bank in the country, DFCC Bank has established an outstanding reputation for providing products and services of the highest quality for nearly six decades. The DFCC brand has constantly evolved catering to the needs of its diverse customer base by venturing into new and complementary areas of business.

Our passion for innovation and excellence has fuelled our continuous growth, success and credibility over the years. During the year, DBB conducted numerous brand building activities re-enforcing its position as a dependable and innovative service provider. Our marketing, advertising and promotional activities are aimed at promoting transparency and ethics and helping customers to make informed decisions. They also conform to statutory requirements as outlined by the Central Bank of Sri Lanka.

The product brochures are trilingual and contain information on all products and services. The following initiatives were undertaken to engage with our customers:

- Customer engagement through social media:

  Customers are now able to interact with us through Facebook, which is an additional contact point. This platform enables us to obtain customer feedback which facilitates us to continually offer an effective and superior customer service. Our Facebook page enables customers to keep abreast of the latest news about us and obtain other relevant information as well.
- Customer engagement through the website:

  The DFCC Banking Business website is tri-lingual and is easily accessible by all stakeholders. It enables customers to perform transactions with ease from any part of the world.
- Customer engagement through street dramas:

  DFCC Vardhana Bank conducted several street dramas at branch openings to engage with the local communities. This created an opportunity to educate them about banking products and the importance of selecting a suitable banking partner.

Systems and Processes

DBB maintains highest standards in systems and processes and adopts best practices.

During the year, DBB implemented the Organisational Effectiveness Improvement Programme [OEIP] which was designed and implemented using in-house resources.

The OEIP covered seven broad areas, namely capital, income, cost, brand, staff, customer service and regulatory aspects of the organisation. A strategic cost management initiative based on the SCREAM principle (Specialisation, Centralisation, Rationalisation, Elimination, Automation and Management) was also implemented under this programme.

The performance evaluation system was enhanced with the introduction of the Balanced Scorecard Model. In addition, a new computerised refinance management system was implemented to expedite the refinance application process of the SME sector. This was developed by Synapsys Limited, the Bank's Subsidiary.

Improvements were effected to the Customer Profitability Analysis Systems while the process of risk assessment of the lending approval process was strengthened.

The current workflow system of credit approvals will be replaced with a state-of-the-art approval system from Germany. This will enhance the efficiency of the credit approval process and enhance the data capturing process of credit facilities. This is another system which is being implemented by Synapsys Limited.

Operations

The DFCC Banking Business operates based on the resource optimisation principles of shared and centralised services of DFCC Bank and DVB.

To maximise synergies at DBB level, areas such as lending, treasury, credit administration, risk management, human resources management, information technology and internal audit are managed as group services. In addition, DFCC Bank has centralised the functions of services & procurement and transaction processing.

The functionalities of credit administration, services & procurement, general payments, refinance administration and business continuity planning come under the purview of the operations division of DFCC Bank. All departments of the division are guided by pre-agreed Service Level Agreements (SLAs) with respective stakeholders. These are monitored periodically through a dashboard update process. Adherence to these service levels ensures high service standards at optimal levels of cost.

Credit administration is a centralised function that covers the branch operations of both DFCC Bank and DVB. The division is responsible for maintaining the integrity of the credit portfolio database and ensuring facilities are approved and disbursed based on delegated authority limits. It also facilitates adherence to internal and external reporting of the credit portfolio in compliance with the requirements of the Central Bank and other reporting entities. The services & procurement department facilitates smooth and uninterrupted operations of the head office and branches. During the year, the auditorium of DFCC Bank head office was refurbished with state-of-the-art facilities.

The transaction processing department processes capital and revenue expenditure payments of the Bank. Centralisation of general payment of all branches was completed in January 2014.

Refinance administration is responsible for the lines of credit, borrowings, payment of interest and capital and all reporting aspects as per the stipulated mandates of the credit lines.

The Bank has developed a Business Continuity Planning process to address contingencies posed by natural and man-made disasters. This is continuously updated and tested to ensure minimal impact to DBB in the event of the occurrence of such disasters.

DBB commenced international operations taking on an advisory and consultancy assignment with Home Finance Company (HFC) of Fiji. In addition, Synapsys Limited is engaged in developing a Core Banking System for a bank to be set up in Solomon Islands.

During the year, the Government of Sri Lanka and the European Investment Bank (EIB) appointed DFCC Bank as the Administrative Unit for the EIB line of credit. In addition to DFCC Bank, Commercial Bank of Ceylon and the Regional Development Bank are the other participating banks of the credit line.

Business Ethics and Integrity

Nurturing an ethical culture is of utmost importance to DBB. We pay close attention to making right ethical decisions in our daily business activities. We ensure active participation, understanding and commitment from all our employees in enforcing the Code of Ethics. Several codes and control mechanisms are in place to guard against irregularities and unethical practices. These are reviewed and upgraded based on need.

Information Technology (IT)

IT plays a key role in the expansion of the branch network and business lines. During the year, several improvements were effected with the support of IT to achieve process efficiencies in internal operations and launch new products.

An integrated call centre, operative 24 hours was launched to serve our customers with greater efficiency as well. This has increased customer convenience and productivity of the collection and recovery process.

An anti-money laundering solution was deployed in DVB to facilitate constant monitoring of exceptional transactions. This was a step forward in achieving a higher level of compliance in terms of both local and international best banking practices.

Organisational Effectiveness Improvement Programme (OEIP)

This programme was implemented during the year to enhance productivity and service delivery.

Corporate Culture

We promote team culture, where every member contributes towards realising the overall vision of the organisation. All employees are guided by our core values namely Accountability, Customer Service, Teamwork, Passion for Innovation and Excellence, Ethics, Profitability, Care for the Society and Environment. They are recognised and rewarded based on individual and team performance. To reinforce this, a reward scheme was introduced during the year enabling more frequent recognition of employees who perform exceptionally.

External Capital Formation

External capital of DBB includes investor capital, customer capital, human capital, business partner capital, social capital and environmental capital. These capitals are formed through the value created by DBB through its business activities for the benefit of the stakeholders.

Investor Capital

We have a diverse investor base consisting of individuals and corporates. Investors provide us with the capital required for expansion and growth. In order to enhance investor value, we strive to deliver steady and increased profits, strengthen capital levels, improved share value and business sustainability.

Dividend Per Share

LKR

5.50

per share

In the current year a dividend of LRK 5.50 was announced by the Board of Directors of DFCC Bank which is an increase of 10% compared to the previous year.

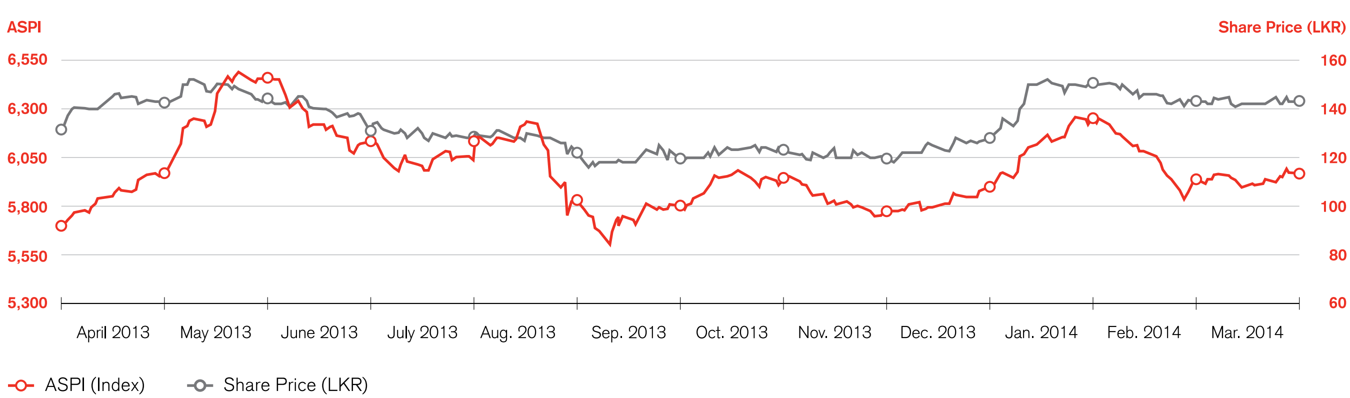
Dividend Policy of the Bank

DBB, in determining the dividend payout strives to consistently reward shareholders with a reasonable portion of its profit while retaining the balance to support its growth and development. In determining the amount of the dividend, DBB ensures that it is compliant with all statutory ratios and that it satisfies the minimum solvency requirement subsequent to the distribution of dividend.

Performance of the Share

The market value of the DFCC Bank's ordinary share on 31 March 2014 was LKR 143.00 per share. The highest and lowest values recorded during the 12 month period were LKR 154.00 on 13 January 2014 and LKR 115.00 on 15 November 2013. A sharp increase in the share price was witnessed since 3 January 2014 in response to the preliminary announcement issued by DFCC Bank on the proposed amalgamation with NDB Bank.

Share Price Movement of DFCC Bank from April 2013 - March 2014



Customer Capital

DBB has a diverse customer base consisting of individuals, corporates, small and medium scale enterprises and the Government. Adopting a customer centric approach, DBB is committed to developing long-lasting customer relationships. Through the extension of tailor-made services of the highest quality we meet the diverse needs of our customers. The expectations of our customers are rapidly changing with the developments in technology. Therefore, we place great emphasis on developing our internal capabilities and service standards to meet these expectations.

Given below are the main areas of focus in meeting the expectations of our customers.

Expanding Branch Network and Service Delivery Points

To widen our geographical coverage, seven new branches were added during the year. Another eight service units located in Sri Lanka Post Offices were replaced with fully-fledged branches placed in the heart of the respective towns, increasing the network of fully-fledged branches to 74.

Areas which lack access to superior banking facilities were given emphasis. Hence our services were extended to Chunnakam, Manipay, Nelliady, Oddamavadi, Akkaraipaththu, Ja-ela, Hambantota, Kotahena, Digana, Galewala, Thambuththegama, Eheliyagoda, Mathugama, Narammala and Nikaweratiya.

Significant effort was made to expand the use of electronic delivery channels. DBB's technological infrastructure facilitated the successful migration to electronic banking, which has reduced the reliance on branch counters. A series of direct promotional campaigns were launched to promote eBanking usage. The ATM network of DBB was expanded by 15 to 71 by year end. Additionally, DBB joined the common ATM switch enabling customers to access over 673 ATMs across the country.

DBB Branch and ATM Network

Branch Network	**2013/14**	2012/13	Growth %
ATMs	71	56	26.78
DFCC and DVB Combined Branches	19	18	5.5
DVB Branches	55	41	34.15
Postal Service Points	62	70	-13

Internet Banking

Online Banking Statistics	**2013/14**	2012/13	Growth %
Customer Base Growth	1,375	973	41
Transaction Value Growth (LKR million)	344	115	199
Transaction Volume Growth	9,916	2,770	258

Enhancing Customer Satisfaction

A special unit within the Channels and Service Delivery Department was established in January 2014 to handle customer complaints, queries, requests and external party communications. The Unit has improved the level of customer service and promoted consistency in handling customer requests. The maximum response time for customer complaints is 24 hours.

All access points of DBB encourage customers to provide feedback and suggestions. In addition, approximately 50 customer surveys and health checks on new customers are carried out on a weekly basis. The feedback enables us to improve our services in an effective manner.

Compliance

No incidents were reported in relation to non-compliance with regulations and voluntary codes pertaining to our products and services in terms of health and safety, marketing communications and promotions and information labelling during the year. DBB did not receive substantiated complaints regarding breaches of customer privacy or loss of customer data either. Further, during the year, there were no incidents in which DBB was imposed fines for non-compliance with laws and regulations concerning the provisions and use of products and services.

Review of Business Lines

Overall Performance

Development banking and commercial banking are the core businesses of DFCC's Banking Business. Development banking focuses on customer segments comprising corporate and small and medium enterprises. In overall terms there was a resurgence in total approvals of project financing facilities comprising term loans, finance leases, investment securities and guarantees which grew substantially to LKR 34,692 million from LKR 23,490 million in the previous year. Of this, total project loan approvals amounted to LKR 30,107 million compared to LKR 16,778 million in the previous year. Due to the lag effect typically in project financing, the total project financing portfolio grew to LKR 67,814 million from LKR 64,801 million in the previous year. Term loans constituted the bulk of the portfolio - 77%, followed by finance leases - 12% and preference shares and debt securities - 11%. Along with this growth there was a marginal increase in the non- performing loan ratio from 4.5% to 4.8%.

In terms of sector segmentation, the largest quantum of approvals - 25% was to the manufacturing sector followed by financial and business services - 21% and trade -16 %. As in the previous year it was noteworthy that a significant amount of credit demand was from enterprises directly and indirectly involved in infrastructure projects such as roads and water supply.

Project Financing for Corporates

Total project loan portfolio for Corporates stood at LKR 28,000 million recording a growth of 11% year-on-year. This was a commendable achievement considering the low credit growth in the industry. Total approvals increased by 57% to LKR 15,787 million in 2013/14. The highest demand stemmed from construction & infrastructure and tourism sectors, reflecting the country's thrust on development. In terms of sector exposure, manufacturing, which consists of nine sub-sectors accounted for 17% of the total portfolio, followed by equal exposures of 13% to energy and construction sectors.

The total loan disbursements for the year stood at LKR 30,365 million. LKR 17,651 million was collected as capital repayments of the project loan portfolio which was also relent within the annual disbursement figure. The latter was achieved in a highly liquid and declining interest rate scenario where many borrowers deferred borrowing decisions due to the anticipated decline in interest rates.

Portfolio quality continued to remain a priority. Non-performing assets of corporate project loans stood at 0.43% as at the end of the year. This compared well with the industry average. The quality of project appraisal, excellent project disbursement procedures and effective follow up and monitoring mechanisms enabled us to continue to maintain a low non-performing ratio during the year.

Maintaining interest margins proved to be a significant challenge during the year where benchmark interest rates converged to single digit region permitting little flexibility on the funding side to reprice and adjust rapidly in the declining rate scenario. The corporate banking portfolio is largely variable rate as opposed to fixed reflecting the Bank's pricing mix.

DFCC also invested in corporate debt instruments which enhanced the investment portfolio. The exposure to asset-backed notes, listed and unlisted debentures amounted to 13% of the total investment portfolio as at end March 2014.

Long-Term Funding

Resource mobilisation is a crucial factor in Development Banking. During the year, DFCC issued a USD denominated fixed rate bond in the international capital markets and listed in the stock exchange of Singapore on a clean basis. This is the second time DFCC accessed international capital markets and the first time on a clean basis. A varied suite of investors joined the equity investors of the Bank representing funds and corporate. The bond received patronage by GOSL and CBSL by way of a FX hedge which insulated the Bank from exchange rate movements up to 75% of the bond capital amount.

DFCC Bank successfully negotiated a credit line for Euro 90 million from the European Investment Bank. These funds along with funds from loan repayments are expected to be deployed in medium to large scale enterprises especially in the provinces and energy efficiency and renewable energy projects.

Both the above borrowings assisted in maintaining a longer tenure to maturity in the funding book.

The long-term funding mix comprises of capital and interest collections of customer loans granted out of long-term borrowings, borrowings from bilateral and multilateral lending agencies, locally issued rupee denominated debentures and deposits. The market based component had remained at 47% in comparison with March 2013. Both market and non-market based borrowings reduced in cost. The decline in market based funding costs were higher than the market, reflecting the current interest rate environment.

Commercial Banking for Corporates

DBB provides commercial banking facilities to large corporates and medium scale companies spread across trade, manufacturing, agriculture and service sectors. The corporate business transactions are characterised by low margins and high business volumes with revolving credit limits. Operations are supported by automated front-end and back-office solutions, facilitating cost and operational efficiencies.

The Bank focused on the growth of the commercial banking portfolio of corporates and the non-funded income base. Maintaining the asset quality of the portfolio was also a priority. The qualitative focus was on increasing visibility of the commercial banking franchise among the corporate community.

The portfolio increased by 16.5% to LKR 29,969 million of approved limits as at the end of the financial year. There was a moderate growth in fee income during the year as the main concentration was asset growth and consolidating market share. The approved limits stood at LKR 30,000 million of which utilisation amounted to LKR 15,219 million. Portfolio maintenance was achieved by increasing the share of customer wallet whilst balancing the interest income generated through corporate clients.

The increase in the limits approved indicates the growth in the number of relationships maintained. Our services are rendered by dedicated relationship managers who drive new business acquisitions on commercial banking, especially through DFCC's project lending client base.

Approximately, 17.3% of DVB's asset portfolio constitutes facilities for corporates. DBB is well positioned to offer an integrated package of products and services to its corporate customers due to the longstanding relationships resulting in an excellent insight into clients businesses.

Total Approvals

Loans, Finance Leases, Hire Purchase, Investment Securities and Guarantees

Total approvals during the year amounted to LKR 34,692 million in comparison to LKR 23,490 million during the previous year. A major proportion of the demand for credit came from manufacturing and financial & business services.

Although credit to the private sector contracted in the first quarter of the year, DVB capitalised on the expansion in the remainder of the year. New business generated in construction, trading, apparel and health care sectors enabled DVB to maintain a well diversified portfolio. The contraction of imports during the year had an adverse impact on trade facilities. However, through the offer of attractive rates to its export clients the Bank increased utilisation in this segment.

The clientele is well spread among key sectors of the economy contributing to the GDP of Sri Lanka. The single borrower limit of the Bank had improved from the previous year, which enabled DVB to optimise customer relationships. The clientele continued to enjoy trade relationships facilitated by DVB's corresponding banking network on their cross border transactions as well.

Going forward, the interest rates are expected to stay within reasonable limits, to achieve the envisaged growth of the Sri Lankan economy. Sectors such as leisure and tourism, construction, education, health care, IT/BPO and plantations are expected to expand. To meet the ensuing demand for credit, DBB will implement customer centric initiatives in the coming year making it more conducive for businesses to obtain asset based facilities to meet the growth needs.

Project Financing For Small and Medium Entrepreneurs

As the pioneer development bank, DFCC Bank has for nearly six decades nurtured and developed the Small and Medium Enterprises (SME) of the country. Year 2013/14 marked the silver jubilee of launching into branch banking operations outside Western Province. This has facilitated the extension of project financing and long to medium term lending to the SMEs established in the outstations.

During the year, two new dedicated Project Financing Units were set up in Hambantota and Negombo. This increased the number of dedicated SME Financing Units to 20. Several initiatives were undertaken to optimise operational efficiencies of the branch network. Structural changes were effected to the reporting lines and the credit approval flow to optimise the span of control, eliminate identified inefficiencies and improve credit appraisal quality. These were implemented based on the recommendations of a comprehensive study on branch operations.

The Bank's product range was expanded with the launch of the Hire Purchase business during the year. DBB expects to grow this line of business through its branch network in the medium term.

SME Performance

Though the economic environment was challenging, the asset portfolio of the branch network maintained its growth momentum during the year. Total advances grew by 14.6% to LKR 57,118 million as at the year end. However, the total loan portfolio of DBB was adversely affected due to the contraction of the lease portfolio on account of the increased import duties and taxes on vehicles. The Non-Performing Assets ratio showed a marginal increase from 5.1% to 5.5% during the year under review.

Branch banking continued to drive deposit mobilisation. The Savings and Deposits grew by 31.2% to LKR 39,389 million by the year end.

SME Specific Initiatives

Several initiatives were implemented to nurture the SME segment during the financial year. Under the 'SME Capacity Building Programme' of DFCC Bank, 890 entrepreneurs and managerial staff of medium-scale enterprises were trained on entrepreneurial skills. This was launched through the local business units of the Bank giving due attention to districts which lack proper training opportunities. Accordingly, districts such as Badulla, Trincomalee, Anuradhapura, Matara and Hambantota were given emphasis.

To support emerging SMEs who are vulnerable to interest fluctuations, the Bank launched a fixed interest rate loan scheme with repayment tenures of four and five years. The scheme proved to be highly popular among the target market with the entire fund allocation being utilised within a period of five months. The funds for the loan scheme were sourced through the internal funds of the Bank.

Apart from the above, low cost funding was extended to SMEs through concessionary loan schemes available to the Bank. Substantial amount of loans were granted through the Small and Medium Enterprise Development Facility (SMEDeF), *Saubagya* Loan Scheme, SMILE III Revolving Fund, Commercial Scale Dairy Development Loan Scheme (CSDDLS), *Dasuna* Revolving Funds, Awakening the North and Awakening the East lines of credit.

Further, the Bank continued to be a net lender to the markets outside Western Province. Aligning itself with the development goals of the Government, the branch network focused on developing the sectors identified as critical to the development of the country. Accordingly, large scale projects in tourism, agriculture, health care, transportation & logistics, education and manufacturing sectors were given priority. Special emphasis was given to developing dairy projects as well. Apart from extending funds through 'Commercial Scale Dairy Development Loan Scheme (CSDDLS), a special programme was introduced to finance micro scale dairy projects in line with the '*Gami Diriya*' programme of Economic Development Ministry. Main focus group were farmers in districts such as Hambantota, Moneragala, Ampara and Batticaloa. The Bank had to structure its products beyond traditional lending models to accommodate this programme by paying particular attention to collateral and collection.

A pilot project was initiated in Ampara District to provide women entrepreneurs with hassle-free financing for small-scale projects. The project received positive feedback and will be extended to other rural areas as well in the future.

Future Strategic Focus on SMEs

DFCC will restructure its operations at branch level to increase the service points for SME clients and enhance the marketing function. The proposed restructuring would segregate the marketing and credit evaluation functions of the branches. Marketing function which will be manned by a dedicated marketing cell will be the first point of contact for new clients. The unit will drive the marketing plan of the respective branch carrying out business promotional activities. Credit evaluation and processing function will be handled by a dedicated Credit Evaluation Unit comprising of experienced Relationship Managers. These changes would gear DBB to develop an agile organisation structure to deliver a speedy response to customer needs. The proposed new structure of the marketing function of Leasing and Hire Purchase segment will be effective in 2014.

Going forward, DFCC will leverage on the Five+1 Hub concept of the Government, to expand its loans and advances portfolio of the branches.

Financing for High-end SMEs

A mix of lower end corporate clients, higher end SME clients and retail customers are served through a dedicated banking unit set up a few years ago titled the Business Banking Unit (BBU).

The unit functions as a one stop shop, delivering an entire array of development banking and commercial banking products. The fund based products include greenfield project financing, term loans for one-time purchase of business assets, construction of factory buildings and provision of utilities and permanent working capital requirements. The fee based products include Letters of Credit and guarantees to cover transaction related contingencies of customers. Leasing, overdrafts, personal loans and housing loans are offered to cater to the retail customers.

Performance

As at the year end, the loans and advances portfolio related to the Business Banking Unit's commercial banking activity grew by 48%, year-on-year to LKR 8,917 million. Fee-based non-funded trade finance and guarantee facilities increased by 22% to LKR 2,260 million. This was achieved by offering limit enhancements and increasing the utilisation among the existing customers.

Gross interest income on lending amounted to LKR 1,079 million while the net interest income amounted to LKR 352 million for the year. To maintain the net interest margin in a rapidly declining interest rate environment, special emphasis was given to promote PFS products. This strategy enabled the unit to maintain an overall net interest margin of 4.7% during the year.

Fee based income for the year amounted to LKR 128 million while the net income amounted to LKR 349 million during the year.

The portfolio infection ratio remained relatively low at 2.5%, compared to the industry average. This was achieved by taking remedial action based on early warning signals and through stringent credit appraisals and monitoring mechanisms implemented.

The deposit base amounted to LKR 8,327 million as at year end. Business Banking Unit became a net borrower as the deposit growth was not in tandem with the asset growth.

During the year under review the Business Banking Unit approved LKR 2,590 million for project lending activity. The total portfolio contracted marginally by LKR 134 million compared to previous year. This was on account of low credit growth due to depressed market conditions.

Personal Banking

During the year, DVB introduced a full range of Personal Banking products and services under the brand name 'Personal Plus' enabling DVB to position itself as a total solutions provider. Five types of products which meet the needs of individuals at various stages in their life were bundled under 'Personal Plus'.

The Vardhana Personal Loan scheme enables customers to obtain finance for a vast range of personal needs. The scheme provides further benefits in terms of customised loans, flexible and extended repayment terms, fast approvals and simplified documentation.

Sandella Housing Scheme provides finance facilities to purchase, renovate and construct homes with flexible repayment options and also with an added advantage of purchasing real estate as an investment option. The credit line for housing extended by the Asian Development Bank enabled DVB to contribute towards housing development in Sri Lanka especially in the conflict and tsunami affected areas in the North, the East and the South of Sri Lanka.

DVB extended leasing facilities to the transport sector by funding passenger transport buses. In addition, competitive rates were offered to customers by partnering with vehicle vendors. Support was extended to pawning customers who were adversely affected due to decline in gold prices.

The customer centric marketing initiatives of DVB enabled the Personal Financial Services portfolio to grow to LKR 1,400 million at the conclusion of 2013.

Card Operations

DVB has issued over 47,000 debit cards by the conclusion of the year, since the launch of international Visa debit card in the year 2011. Over 23,000 debit cards were issued during the year. The card holders are provided access to over 31 million Visa accredited merchants globally and to a Visa ATM network of over 2.1 million. Total card usage at ATMs and POS terminals amounted to LKR 1,300 million and LKR 184 million respectively. Three categories of Visa debit cards were introduced during the year, for the three clusters of DVB Premier Banking customers, namely Premier Plus, Premier and Prabhu.

DVB continued to strengthen its credit card portfolio by issuing cards to retail and corporate customers of DVB and DFCC Bank. DVB offers three types of internationally valid cards, namely Visa Classic, Gold and Platinum cards. The Platinum cards are issued to premier customers of DFCC Bank and DVB, with a number of value added features. In addition, corporate cards are issued to corporate customers of both Banks.

Network

136

branches

and customer service units

15 new branches commenced operations during the year.

Several key strategies were adopted to facilitate risk free card transactions for all DVB credit card holders. These are issuing chip based cards, the SMS alert message service pertaining to all card transactions and 24 hour contactability to the DVB call centre.

The total credit exposure of the credit card portfolio of DVB was LKR 485 million, while the card usage was LKR 325 million for the year. In the last quarter of 2013, DVB began offering instalment card payment facilities on an experimental basis.

The credit card operation of DVB remains a viable business line despite its late entry into the credit card market. The card portfolio is free of material infections due to prudent screening methods adopted in issuing the cards.

The Visa Global Traveller's card was launched by DVB in the final quarter of the year. This is a pre-paid card currently issued in three currencies. This card is an ideal alternative in facilitating foreign exchange transactions to clients travelling abroad.

Investment Banking

Trading activity in the Colombo Stock Exchange (CSE) was subdued during the period under review. The average daily turnover increased marginally to LKR 799 million, compared to LKR 794 million the previous year. The ASPI expanded by 4% to 5968.31 points compared to 6% the previous comparable period. Renewed interest in the banking and diversified sectors and a 50 basis points policy rate cut by the Central Bank, exerted an upward movement in the ASPI during the quarter ended June 2013.

However, the market dipped significantly during the month of August due to the rights issue of John Keells Holdings (JKH), the biggest to be recorded in the CSE. The ASPI dropped by over 170 points as the JKH share price declined. The index reached a 10 month low of 5,605 in September, but recovered with the renewed interest in blue chip companies.

Moderate gains were experienced in the quarter ended December, partially due to a policy rates cut by the Central Bank and a renewed retail interest in speculative stocks. However, this momentum could not be sustained, as weak quarterly results of companies were announced. Nevertheless, the market did recover in December as a result of institutional and high net-worth buying.

The daily average turnover during the March quarter amounted to LKR 900 million with few large foreign transactions taking place in the banking and diversified sector. However, the ASPI during the period remained flat. Foreign investors were net buyers for the year ended 31 March 2014, with net purchases amounting to LKR 10,972 million.

As at 31 March 2014, the aggregate cost of 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 2,745 million. The cost of the quoted share portfolio (excluding CBC) and unit trust holdings was LKR 2,603 million and its carrying value was LKR 3,391 million, representing an appreciation in value of

LKR 788 million. The cost of the unquoted share portfolio was LKR 142 million and the investment is carried at cost on the balance sheet. The market value of the investment in CBC was LKR 14,390 million on 31 March 2014 compared to the cost of LKR 2,862 million. The investment is carried at its market value.

Selected divestments of mature quoted shares and unit trust holdings were carried out during the year, realising sales proceeds of LKR 349 million and LKR 186 million in capital gains. During the year, DFCC Bank subscribed for rights issues in DFCC Vardhana Bank and Synapsys Ltd. DFCC Bank's shareholding in DFCC Vardhana Bank increased to 99.17% from 99.12% subsequent to the purchase of additional rights from few minority shareholders. DFCC Bank's shareholding in Synapsys Limited., remains 100%

Treasury

Market

The year started with relatively calmer market conditions compared to the previous year. The Rupee depreciated by 2.7% against the US dollar while the benchmark interest rates dipped by approximately 3%. The removal of the credit ceiling by the Central Bank gave the market renewed optimism to actively focus on Balance Sheet growth. Nevertheless, the relaxed monetary policy measures adopted by the Central Bank of Sri Lanka are yet to induce the private sector credit appetite to the desired levels. The REPO Standing Facility (RSF) rate and Reverse Repo Standing Facility (RRSF) rate stood at 6.5% and 8% respectively as at the year end.

Foreign Exchange

The Group Treasury engages in foreign exchange (FX) exposure management of DBB arising out of foreign currency funding, foreign exchange transactions with customers and foreign exchange trading. Foreign exchange exposures are capped with prudential risk management limits approved by the Board Integrated Risk Management Committee (BIRMC).

The Group Treasury manages a considerable funding swap book, and as a result of proactive strategies adopted during the year, contributed significantly to manage the DBB cost of funds effectively.

Having overcome challenges of thin margins and marginal customer volume growth, the commercial banking business of DVB recorded a significant increase in FX profits related to customer transactions and an increase of 76.1% in FX profits related to trading, when compared to year 2012.

Treasury Interest Income

Interest income and realised and unrealised gains on Fixed Income Securities increased during the year, as a result of increased investments and trading in Government Securities and Corporate Bonds. Further, active engagement in the Interbank Call Money Market activities also contributed significantly towards this. DBB recorded LKR 47.3 million in trading gains through Fixed Income operations (realised and unrealised) for the period under review.

The total LKR and FCY denominated Government Securities portfolio of DBB stood at LKR 23,944 million as at the end of the year, accounting for 13.73% of the total assets of DBB. Of this portfolio, LKR 4,732 million of securities have been sold under repurchase agreements.

Treasury Risk Management

The Treasury manages the interest rate risk, foreign exchange risk and liquidity risk of DBB. All these risk categories are monitored through a structured reporting procedure where material risk exposures are escalated 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.

Structure

Treasury has three main revenue generating units namely, FX/ Money Markets Unit, Fixed Income (FI) Unit and Treasury Sales Unit that directly report to the Head of Treasury. This structure was adopted during the period under review, to maintain a lean hierarchy to support future business growth.

Going forward, improved Treasury sales, increased net interest income, active trading, generation of other income and focused and efficient ALM Management would be key areas that would take Treasury to the next level of business.

The scope of the Treasury Middle Office was enhanced in tandem with the regulatory guidelines to support the growing treasury business. Treasury Middle Office functions independently and reports to the Chief Risk Officer.

The Treasury Back Office which is a supporting unit, is responsible for payment preparation and verification and payment authorisation of all transactions carried out by Treasury Front Office. In order to maintain the independence of the Unit, as per the regulatory guidelines, Treasury Back Office reports to the Head of Finance.

International Banking

All international banking transactions relating to trade and remittances of DFCC Bank customers are routed through DVB.

DVB offers an efficient service to corporates and SME clients through continuous improvement of service standards, widened correspondent banking network and through the offer of special competitive packages. A new Trade Finance module was also introduced during 2013.

Business Partner Capital

Business partners provide the funding to engage in financing activities. Over the years we have partnered with several multilateral and bilateral agencies, building lasting relationships based on reliability and mutual trust.

Credit Line Management

As the pioneer development bank in Sri Lanka, DFCC Bank has built strong relationships with several international development banks. Some of these relationships date back to the 1960's. The Bank performed implementing agency functions both as an Apex Body and as an Administrative Unit to international agencies such as The World Bank, the Asian Development Bank, KfW (Germany), FMO (Netherlands) and the European Investment Bank. In executing these functions, DFCC Bank has earned a reputation as a highly competent and a successful implementer of international development agency credit lines for the Government of Sri Lanka. The Bank was actively involved as a participating financial institution in these credit lines as well. Among the notable projects implemented were the renewable energy projects funded by the World Bank and the Global Environment Facility, where 'highly satisfactory' ratings were conferred to the Administrative Unit for exceptional performance.

Most recently in 2014, the Government of Sri Lanka appointed DFCC Bank as the Administrative Unit for the EUR 90 million SME and Green Energy Credit Line of the European Investment Bank. The Bank also functions as one of the three intermediary banks to channel these funds to the relevant sectors.

The strong relationships maintained with international partners and the Government is evident through the key role played by DFCC Bank in the development of Sri Lanka's private sector and the economy.

Multi-Bank Credit Lines Managed by DFCC

World Bank (International Development Association - IDA)/Global Environment Fund (GEF)

Project	Implementation
Energy Services Delivery Project (DFCC Bank Administered component) • **IDA - USD 19.7 million (Credit)** • **GEF - USD 3.8 million (Grant)** **Status: Completed**	**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 • **IDA - USD 115 million (Credit)** • **GEF- USD 8 million (Grant)** **Status: Completed**	**Target:** Capacity addition of 135 MW through small scale grid-connected renewable energy based power generation. **Achievement:** 184 MW commissioned.
	Target: 1,500 income generating activities in communities that gain access to electricity (households, small/medium enterprises and public institutions). **Achievement:** 742 income generating activities.
	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 households.
	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.

Project	Implementation
DFCC V Credit Line for SME in the North and the East **EUR 5 million** **Status: Completed**	**Purpose:** To assist small and medium enterprises in the Northern and Eastern Provinces; Contribute towards improved access to credit and other financial services for entrepreneurs and small enterprises, through the commercial banking sector. The overall goal was to contribute to the creation of additional employment and income opportunities in the micro and SME sector and hence, the alleviation of poverty and to promote economic development in the region. **Achievement:** Cumulative Refinance Disbursements: LKR 771.06 million (EUR 5 million). 488 projects assisted through 5 participating banks.
Post Tsunami Line of Credit - Contract A **EUR 60 million** **Status: Completed**	**Purpose:** To assist private sector companies in industry and services directly or indirectly affected by the 2004 Tsunami. **Achievement:** Contract A Cumulative Refinance Disbursements: LKR 9,072.4 million (EUR 60 million). 82 projects assisted through 6 participating banks. Contract B Screened 145 directly Tsunami affected projects amounting to LKR 1,567.8 million (EUR 10 million) for refinance disbursement by CBSL under Contract B.
SME & Green Energy Global Loan **EUR 90 million** **Status: Ongoing**	**Purpose:** To support investments that contribute to private sector development in Sri Lanka through the finance of SME (70% of loan) and to renewable energy and energy efficiency development (30%).
Exclusive Credit Lines:	
EIB Global Loan 1 **EUR 40 million** **Status: Completed**	**Purpose:** To assist small and medium projects in the industrial, productive infrastructure, tourism and mining sectors of the economy and related services as well as eligible health and climate change mitigation projects. **Achievement:** Disbursements: LKR 3,152 million, USD 18,468 million

Project	Implementation
EIB Global Loan 2 **EUR 50 million** **Status: Completed**	**Purpose:** Extension of the EIB Global 1 loans to assist small and medium projects in the industrial, productive infrastructure, tourism and mining sectors of the economy and related services as well as eligible health and climate change mitigation projects. **Achievement:**

Sectors	Total EIB Allocation LKR (millions)
Construction	2,081.5
Entertainment	30
General Trading	220
Manufacturing	3,747
Poultry	150
Power and Energy	845.7
Printing	54
Service	1,449
Grand Total	8,577

The Supply Chain

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

Administrative Unit for the SME & Green Energy Credit Line

DFCC appointed as the administrative unit for the SME & Green Energy Credit Line of the European Investment Bank

Human Capital

We believe that an engaged and motivated workforce is vital for organisation growth and sustainability. Hence, we focus on developing a professional and team oriented work environment, promoting a culture of diversity and inclusion. Our hiring and retention practices, compensation and benefit structures, human resource development policies and grievance handling procedures are geared to optimise the value generated by human capital against investment.

Rationalising Resourcing

The staffing structures of business units are periodically reviewed and necessary amendments effected to achieve sustainable business growth as per the strategic imperatives of DBB. The structures of support departments are also reviewed and amended to improve efficiencies and maximise resource utilisation.

Talent Acquisition

Sourcing new talent, possessing required competencies and fitting in with the culture and values of DBB continued to be a priority. Following consistent and transparent recruitment policies, priority was given to internal candidates to fill up vacancies through the adoption of a formal procedure to advertise vacancies internally. For external recruitments, the main tools for identifying potential recruits continued to be referrals and the website. DBB also participated in the EDEX Career Fair in February 2014.

During the year, 256 employees were recruited to DBB of which approximately 40% were recruited to fill new positions arising mainly due to branch expansions. All recruitments for the senior management positions were done locally. At the end of the year, the overall headcount stood at 1,371, reflecting an year-on-year growth of 8.6%. Over 90% of employees were in the permanent cadre of DBB.

Total Number of Employees by Employment Type and Gender

Employee Type	Number of Employees			Composition of Employees (%)		
	2013/14	2012/13	2011/12	2013/14	2012/13	2011/12
Full-time - Male	690	645	620	50	51	50
Full-time - Female	681	617	608	50	49	50
Total						
Outsourced - Male	0	0	0	0	0	0
Outsourced - Female	0	0	0	0	0	0
Total	1,371	1,262	1,228	100	100	100

Total Number of Permanent Employees by Employment Level and Gender

Employee Type	2013/14			2012/13			2011/12		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Management	48	17	65	48	16	64	46	16	62
Executive	193	157	350	175	136	311	153	123	276
Non-Executive	368	452	820	310	384	694	283	342	625
Other/SLP	0	0	0	0	0	0	0	0	0
Total	609	626	1,235	533	536	1,069	482	481	963

Total Workforce

Employee Type	Permanent			Contract/Casual/Part Time			Total Number of Employees		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Management	48	17	65	10	1	11	58	18	76
Executive	193	157	350	20	14	34	213	171	384
Non-Executive	368	452	820	18	13	31	386	465	851
Other/SLP	0	0	0	33	27	60	33	27	60
Total	609	626	1,235	81	55	136	690	681	1,371

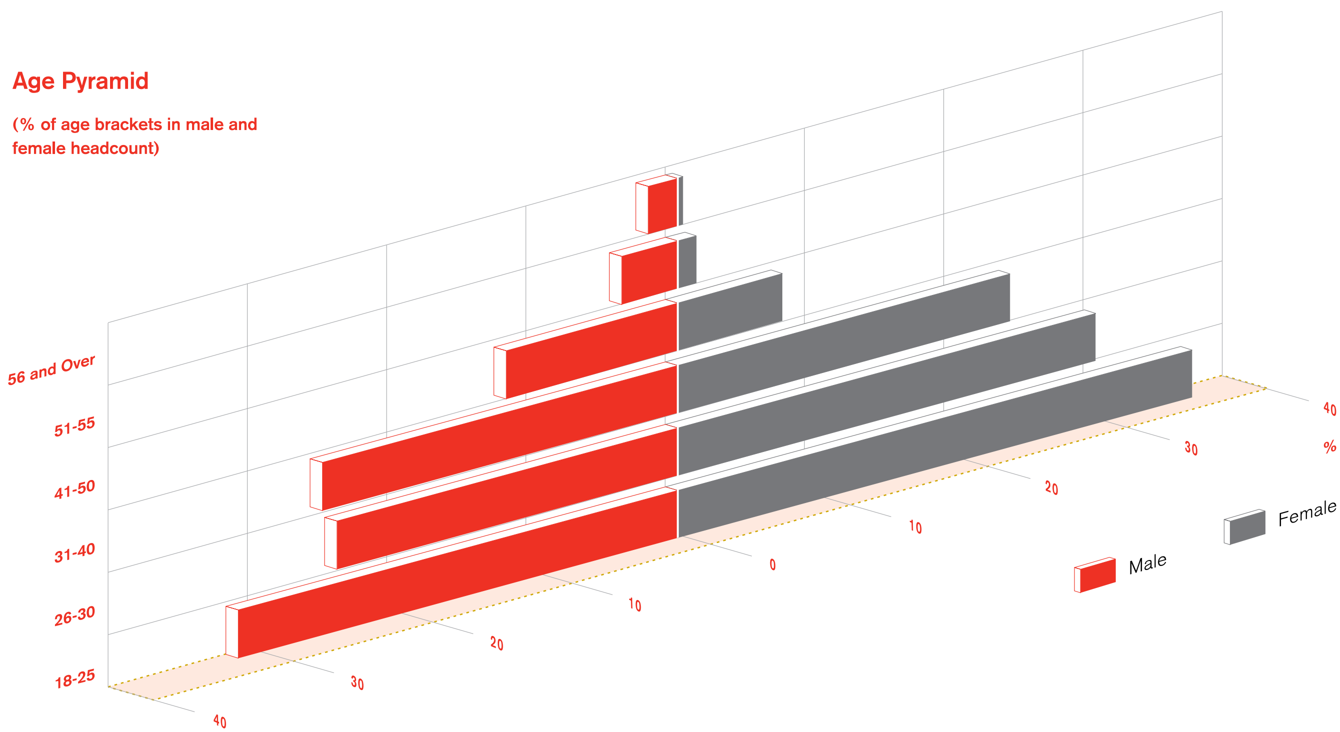
Total Workforce by Region and Gender

	2013/14					2012/13					2011/12				
			No. of Employees					No. of Employees					No. of Employees		
Province/Departments and Other Business Units	No. of Branches	No. of SLP Units	Male	Female	Total	No. of Branches	No. of SLP Units	Male	Female	Total	No. of Branches	No. of SLP Units	Male	Female	Total
Central	9	5	57	47	104	7	6	54	47	101	7	6	52	41	93
Eastern	8	4	50	20	70	5	5	41	22	63	4	5	37	21	58
Northern	6	0	34	22	56	4	0	25	19	44	2	0	14	12	26
North-Central	3	6	39	20	59	2	7	37	16	53	2	8	40	19	59
North-Western	5	6	31	34	65	3	7	31	32	63	3	7	28	36	64
Sabaragamuwa	5	10	37	38	75	4	11	37	32	69	4	11	37	34	71
Southern	8	15	67	60	127	7	16	61	56	117	4	19	60	49	109
Uva	3	6	39	18	57	3	6	37	17	54	3	6	38	19	57
Western	28	10	140	169	309	25	12	129	151	280	23	12	123	151	274
Departments and Other Business Units	63	0	196	253	449	52	0	193	225	418	55	0	191	226	417
Total	138	62	690	681	1,371	112	70	645	617	1,262	107	74	620	608	1,228

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

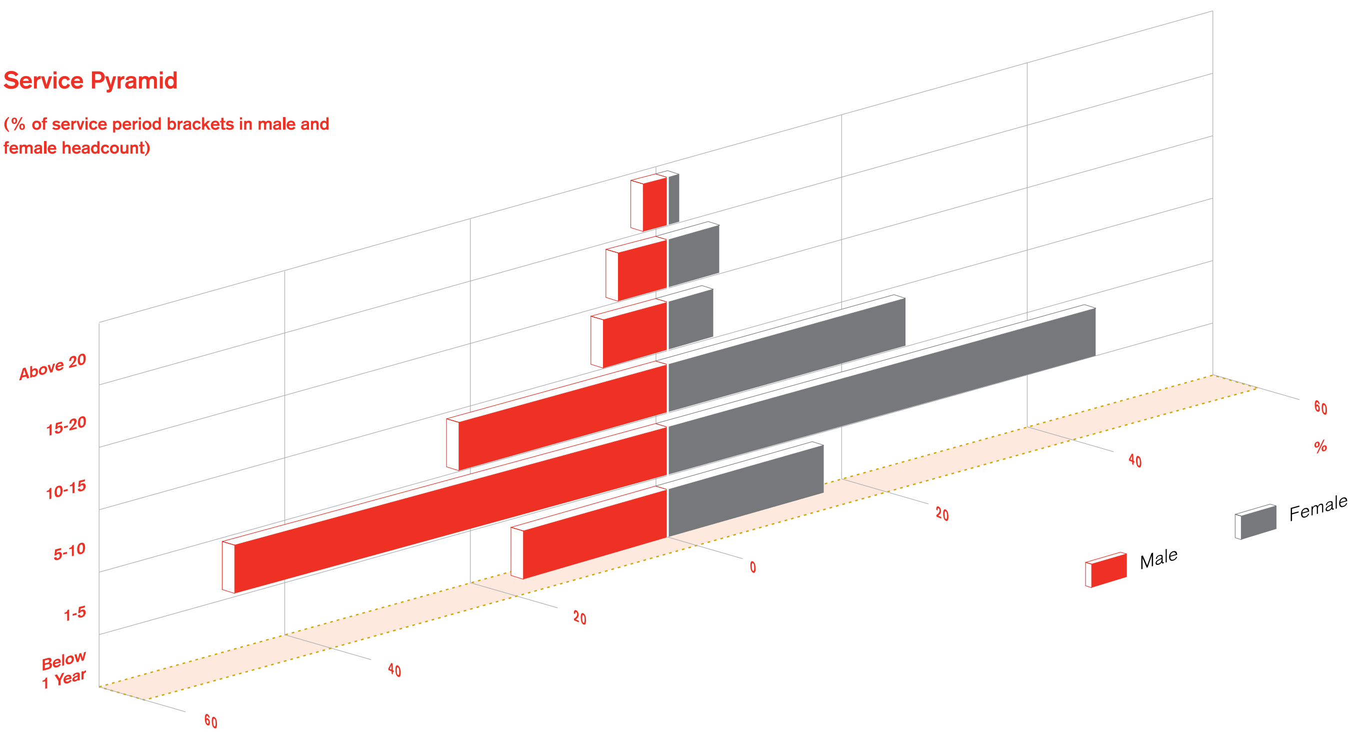
Age Pyramid

(% of age brackets in male and female headcount)



Service Pyramid

(% of service period brackets in male and female headcount)



Of the new recruits, over 85% were below the 30 years of age category, while the male to female ratio was 48:52.

Annexes
Financial Reports
Supplementary Financial Information
Stewardship
Recognition
Management Discussion
Business Model
Messages and Management Profiles

Recruitments During the Year

Grade	Age Group				Gender		
	Less than 30 years	Between 30-50 years	Above 50 years	Total	Male	Female	Total
Management	0	2	2	4	4	0	4
Executive	38	16	1	55	32	23	55
Non-Executive	156	13	0	169	71	98	169
Other/SLP	28	0	0	28	16	12	28
Total	222	31	3	256	123	133	256

Total Number and Percentage of New Employees Hired by Age Group and Gender

Category	2013/14				2012/13				2011/12			
	New Employees Hired		(%)*		New Employees Hired		(%)*		New Employees Hired		(%)*	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Below 30 years	100	122	27	29	91	71	27	18	126	118	39	30
30 - 50 years	20	11	7	5	15	3	6	1	18	12	7	6
51 - 60 years	3	0	8	0	9	1	21	6	4	2	10	13
Above 60	0	0	0	0	0	0	0	0	0	0	0	0
Total	123	133	18	20	115	75	18	12	148	132	24	22

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

Equal Opportunity Employment

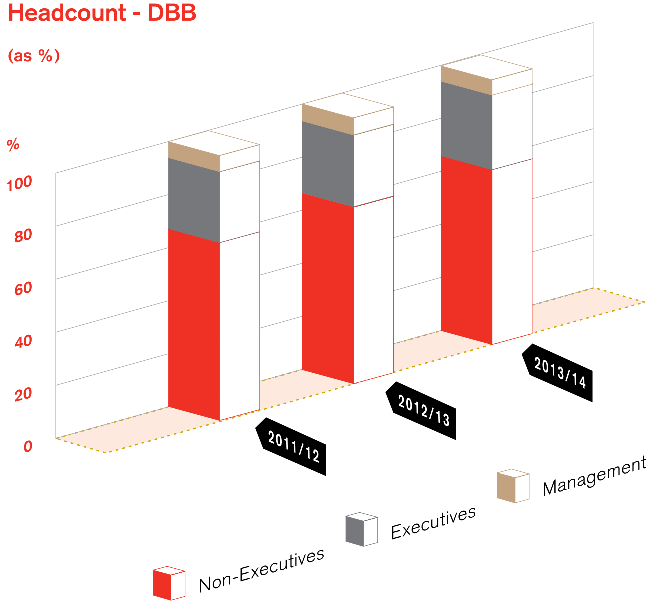
Male 50%, Female 50%

in 2013/14

DFCC's human resource practices are standardised irrespective of gender and the present workforce is well balanced.

Composition of Total Headcount - DBB

(as %)



Following a standardised and stringent selection process, 26 graduate trainees were recruited during the year. Reflecting our position as an employer of choice, 96% of graduates accepted the employment offers made by us.

Recruitment of Graduate Trainees, % of Female Graduates

	Male	Female	Total	Male %	Female %
Total No. of graduate trainees recruited	17	9	26	65	35

Enhancing the diversity of our workforce remained a key area of focus. This is reflected in the profiles of our graduate trainees coming from varied educational backgrounds, possessing multi-disciplinary qualifications, obtained locally and overseas.

Regional Distribution of Graduate Trainees

	Male	Female	Total	%
Central	1	0	1	4
Eastern	2	1	3	12
Northern	2	0	2	8
North-Central	2	0	2	8
North-Western	0	0	0	0
Sabaragamuwa	1	1	2	8
South	3	0	3	12
Uva	2	0	2	8
Western	4	7	11	42
Total	17	9	26	100

Retention

Staff retention is a vital area of focus for DBB towards optimising resources utilisation and operational efficiencies. Exit interviews are conducted for all voluntary resignations. Quarterly data on exit interviews is disseminated to the senior management and the Operational Risk Management Committee and improvements to internal processes and procedures effected if necessary. Of the attrition occurring during the year about 75% was at junior levels.

Employee Turnover

Grade	Age Group				Gender		
	Less than 30 years	Between 30-50 years	Above 50 years	Total %	Male	Female	Total %
Management	0	0	6	6	5	1	6
Executive	9	8	2	19	13	6	19
Non-Executive	45	9	4	58	25	33	58
Other/SLP	17	0	0	17	11	6	17
Total	71	17	12	100	54	46	100

Turnover by Cause

Employee Type	Cause				
	Voluntary	Dismissal	Retirement/ End of Contract	Death	Total %
Management	3	0	3	0	6
Executive	18	0	1	0	19
Non-Executive	51	0	7	0	58
Other/SLP	13	0	4	0	17
Total	85	0	15	0	100

Sustainable Capacity Building

The talent management strategy of DBB encompasses the following,

- Developing and implementing a transparent mechanism for talent identification and differentiation.
- Establishing a formal process for succession planning and building managerial and leadership competencies across the organisation.
- Following a standardised methodology for identification of strengths and development gaps of employees and addressing those needs.
- Encouraging and facilitating employees to pursue personal and professional growth.

During the year under review, DBB adopted the 'nine box' mechanism for talent identification and differentiation. Executives were assessed and differentiated based on their performance and development potential.

Each permanent employee has a development plan which is prepared based on the annual review conducted between the employee and the supervisor pertaining to their strengths and development needs. In addition, 93 employees availed themselves of subsidised educational benefits to obtain academic and professional qualifications relevant to their area of work.

DBB continued to invest in staff training with the total training spend per employee increasing by 24% over the previous comparable period. During the year, 4,108 participants attended varied training programmes of which 103 were organised in-house. The total number of training hours increased by 26%.

The popularity and usage of the E-learning platform continued, with usage increasing by 58% year-on-year. Out of the 48 modules available, 67% were targeted towards technical skills enhancement and product knowledge development.

No. of Programmes

	DBB
Management	114
Executive	253
Non-Executives	168

No. of Participants

	DBB
Management	289
Executive	1,630
Non-Executives	2,189

No. of Training Days

	DBB
Management	347
Executive	2,291
Non-Executives	3,390

The above figures do not reflect the E-learning statistics. The E-learning modules were accessed 13,084 times during the year with the total number of training hours in relation to E-learning amounting to 8,386 for the year.

Training on Human Rights

A total of 27 branch managers and departmental heads were trained by experts from the Human Rights Commission of Sri Lanka. The programme covered areas such as international and local human rights protection mechanisms and business and human rights.

Training on Environmental Aspects

During the year, 41 employees were trained on environmental aspects of project lending. Furthermore, an E-learning module on energy conservation was made available on the E-learning platform. To date 126 employees have completed this module.

Developing the Sales Team

A series of programmes were conducted to develop our sales staff on areas such as product knowledge, customer service, negotiation skills, networking and relationship building.

Employee Engagement

Rewards and Recognition

Several schemes are implemented to recognise and reward special achievements of staff members. During the year, two new schemes were launched to further instill a culture of recognition and appreciation, focused on both individual and team based contributions.

Opportunities for Career Advancement

A new career advancement mechanism was launched to support the non-executive junior level staff members to advance in their career.

A concerted effort was also made during the year to provide more training opportunities to this staff category. We are pleased to note that there was a 100% improvement in the level of training provided to junior staff members at DFCC Bank compared to the previous year.

In addition, staffing structures were reviewed and amended facilitating better alignment with business objectives and effective focus on succession planning and career advancement.

Skills Management and Lifelong Learning

Several programmes were implemented to promote skills management and life-long learning. These include the career development programme for non-executive junior level staff and access to calssroom and activity based competency enhancement opportunities as well as availability of distance learning through E-learning facilities. An extensive library located in the DFCC Bank head office is also accessible to all staff members. In addition, attractive loan and grant schemes are made available to encourage employees to pursue academic and professional qualifications of relevance to DBB.

Opportunities for Development and Growth

The process for identifying and addressing training gaps was reviewed and streamlined. Formalising employee and supervisor accountability in the development process, increasing the minimum training hours of the junior staff and making the individual development plans mandatory were some of the measures effected during the year.

Mentoring

A mentoring programme was launched during the year targeted towards new graduate trainees. Approximately, 13 trainees were provided with mentors to assist them with their career endeavours. A total of 23 staff members were identified as prospective mentors and were given necessary training.

Assimilation and Building Bonds

We believe that the emotional commitment of the employees towards the workplace is largely determined by the level of bonding with their colleagues. Therefore, several activities were organised to facilitate interactions among employees and their families during the year. These were organised at Bank, departmental and regional levels.

Collective Expression of Opinions

DBB provides supportive platforms to address the diverse needs of its employees. Following are some of the key initiatives that are in place:

- Staff is encouraged to meet as a collective group and express common views and concerns at regular forums conducted on a regional level.
- Skip level discussions with CEO and senior management are encouraged to resolve specific issues.
- Visits to branches by the staff of HR Department provide employees with opportunities to express their views collectively or individually.
- The DFCC REDS Club for management trainees is a strong medium for Gen-Y executives to acquire the necessary influence to present their needs and ideas on a collective basis.
- Opinion surveys are conducted regularly as a proactive measure to determine employee sentiments.

These measures enable employees from diverse backgrounds to come together in a supportive environment, infusing positive attitudes and thinking in the work place. This is actively promoted by management who appreciates the importance for sustainable employee and industrial relations.

Grievance Handling

In addition to the detailed grievance handling mechanism available to employees as laid down in DBB's Board approved grievance policy, a Grievance Committee was set up in March 2014 further facilitating escalation of employee grievances. DBB does not have any employees covered by collective bargaining agreements.

Occupational Health and Well-being

DBB has consistently upheld the value of ensuring high standards of occupational health and well-being of employees. Therefore, we have always endorsed the need of facilitating healthy work-life balance. To this extent we encourage our employees to utilise their annual leave and even extend financial incentives to do so. We also facilitate flexible working arrangements for staff members where possible.

We have in place formal measures to handle emergencies and relevant staff members have been trained on procedures to be followed in such instances. Periodic drills are conducted to reinforce the learning. Employee perspective on wellness and personal care are developed through facilitating access to wellness programmes covering aspects such as preventing communicable diseases, nutrition, physical fitness, managing stress, etc. During the year the number of employees who utilised subsidised gym memberships extended by DBB increased by 75% year-on-year.

There were two incidents of occupational hazards reported during the year. These were reported in the Manipay and Kurunegala branches. A total of 42 man-days were lost as a result.

Employee Health and Safety Initiatives

The Business Continuity Plan has been implemented to educate the first-aid team, fire wardens, evacuation wardens and on scene commanders on procedures to follow during emergencies. Departmental desktop drills as well as programmes on 5S were also conducted during the year to promote health and safety within DBB.

Prevention of Diseases

Workshops on occupational health and safety and stress management were conducted during the year. In addition, E-learning modules are available on first-aid and office ergonomics. Further, weekly visits of a doctor is organised at the head office premises of DFCC and DVB.

Fostering Diversity and Inclusion

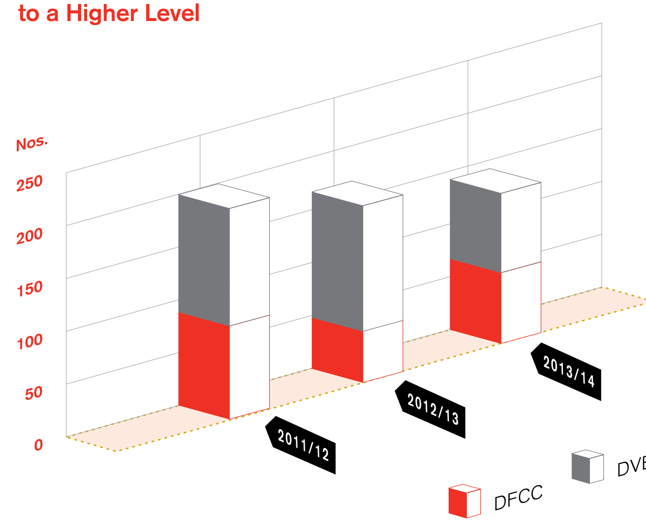
DBB has always respected and appreciated differences among employees in terms of ethnicity, gender, religion, education and personal orientation. Diversity of perspectives and ideas, stemming from diverse experiences, culture and lifestyles of employees are essential factors in driving creativity and innovation. Therefore, at DBB, we strive to create an inclusive culture that values and develops unique skills and aptitudes of each and every employee.

Over the years DBB has fostered a culture of openness, team work and professionalism. Harassment in any form is not tolerated and the expected standards of behaviour are clearly laid down by the Board and communicated to employees during on-boarding sessions and through mandatory E-learning modules.

As an equal opportunity employer every effort is made to ensure our recruitments and promotions are transparent and based on merit. We adopt a standardised remuneration structure across all employment grades. Attracting, developing and retaining women and minority ethnic communities are integral to the group. This is exemplified by the fact that half of our workforce constitutes women, which is a distinctive achievement within the banking sector in Sri Lanka. The representation of women within the management cadre of DBB is 24% at present.

During the period under review 143 employees were extended promotions within DBB, accounting for 10% of the workforce. Of these 51% comprised of women.

No. of Staff Promoted to a Higher Level



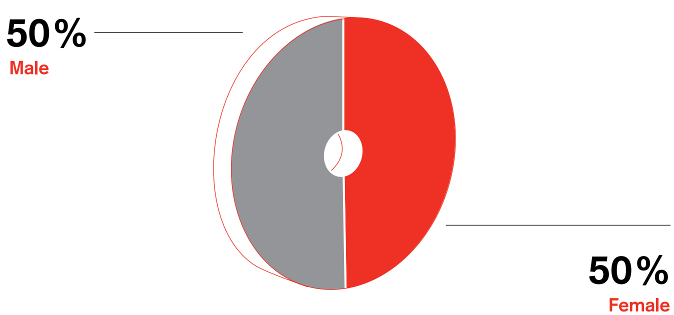
Salary Analysis

Employee Type	Number of Employees			Basic Salary Ratio
	Male	Female	Total	Male/Female
Management	58	18	76	51:49
Executive	213	171	384	51:49
Non-Executive	386	465	851	53:47
Other/SLP	33	27	60	50:50
Total	690	681	1,371	51:49

Mechanisms for Equal Opportunity Employment

Formal Board approved policies covering different aspects of human resource practices are adopted in a standardised manner for all staff members irrespective of gender. Our present staff cadre is equally balanced in terms of gender. We have also absorbed 5 differently-abled employees to the permanent cadre of DBB.

Staff Distribution by Gender



Return to Work after Parental Leave

Indicator	Male	Female	Total
Number of employees entitled to parental leave during previous reporting period	N/A	681	681
Number of employees who took parental leave	N/A	52	52
Number of employees who returned to work after the end of parental leave	N/A	50	50
Number of employees who returned to work after parental leave ended who were still employed 12 months after return to work	N/A	49	49
Retention rate	N/A	94.2	94.2

Embracing Change

Much change as well as opportunities for growth, exposure and advancement is envisaged with the proposed consolidation of the banking sector. Going forward, DBB will focus on assisting the employees to adapt to the anticipated changes positively and acquire necessary skills to navigate through work and career challenges effectively.

Social Capital

DBB actively contributes to the diverse needs of the society by engaging in initiatives that impact communities positively. Special focus is given to supporting entrepreneurship which is a key driver of economic and social development.

Community

DBB actively supports entrepreneurs, businesses and individuals by providing access to banking services through its extensive branch network. Our corporate social investment initiatives are geared to create long-term social value for the communities in which we operate. Our stakeholder relations management approach enables us to engage with stakeholders more frequently as well.

The Corporate Social Responsibility (CSR) concept extends well beyond charitable donations. It is considered an integral part of DBB's business strategy. DFCC Bank's mission of nurturing business enterprises and creating value for all stakeholders exemplifies its developmental role in Sri Lanka's economic and social landscape.

Education was an area which we actively supported. We firmly believe that educating children has lasting positive effects on the entire nation. Therefore, we focused on exposing children at a young age to the principles of productivity which will lead to a more productive workforce in the future. Implementation of the 6S concept in schools continued under the theme 'Towards an exemplary society' during the financial year.

Implementing 6S and 3R Concepts in Schools

In collaboration with the Ministry of Education in 2009, DFCC Bank and DFCC Vardhana Bank launched a project to inculcate 6S principles among primary school children in the country. This concept was based on the Japanese 5S principles - sorting, setting, systematic clearing, standardising and sustaining with a sixth S - 'safety' added on by us. Since commencement, the project has benefited over 50,000 children from 100 schools in the districts of Anuradhapura, Badulla, Polonnaruwa, Batticaloa, Galle, Colombo, Jaffna, Kandy, Kalutara, Kurunegala, Gampaha, Matara, Matale, Nuwara Eliya, Ratnapura, Trincomalee and Hambanthota.

In addition, we introduced the 3R principles - reduce, reuse, recycle to schools, instilling respect for the environment and teaching them the values of environmental stewardship in line with our sustainability strategy.

Project Selection

The project was selected in keeping with our business objectives. During our many years of project lending, it was observed that productivity levels of Sri Lankan enterprises were very low. A key reason identified was the lack of an organised environment, which promotes efficiency. Therefore, in order to nurture and develop citizens who are better organised, we decided to introduce the Japanese 5S Management System to primary school children who would better absorb the principles and grow to be organised citizens.

Implementation

The programme was implemented in partnership with the Ministry of Education. DBB also partnered with a '5S' expert with extensive experience in working with children to train and guide them during the implementation process. DBB has so far expended over, LKR 50 million on this programme.

The participating schools were selected through an interview process conducted by a panel consisting of the Ministry of Education, industry officials and DFCC Bank. The schools were chosen based on their present conditions and willingness to support the programme. Prior to training the school children, the teachers were educated and trained on the theoretical and practical applications of the concept. It also included guidance on the 3R principles. Since the application should be extended beyond schools to homes and elsewhere, parents were also given training.

Volunteer Involvement

Every year, an average of around 150 staff members of DBB volunteered their time and effort to implement this project. A total of 6,000 volunteer hours was recorded during the project.

They worked closely with the schools, creatively implementing the programme.

Most schools were located within a 20 kilometre radius from the branch offices. This made it easier for the staff members to work with the respective schools. Each school had a dedicated team of volunteers who engaged as mentors to the teachers and students in implementing the project. The project also facilitated team building among staff members.

Encouraging Innovation and Creativity

A unique aspect of our project is that it encouraged schools to creatively implement and practice the principle of 6S. The team of volunteers monitor the progress and provides continuous guidance. The schools were adjudged mostly on creativity and generation of innovative ideas.

'Matching Grant' Programme

Lack of funds for the daily upkeep and management of premises and classrooms was a constraint faced by most rural schools. This caused a resistance in the implementation of the programme. As a solution, DBB commenced the 'Matching Grant' programme where funds raised by the school through enterprising projects were matched by DFCC Bank. This not only generated the required funds to meet the project implementation expenses but it cultivated an entrepreneurial spirit among children.

Environmental Stewardship

As an extension to the '6S' and '3R' programmes, DBB commenced a project to educate students on environmental stewardship and waste management.

Changing Attitudes

The attitudes of the principals, students, teachers and parents were a key factor which determined the success of the project. In order to effect an attitude change amongst these key participants, several seminars and workshops relating to change management, positive thinking, leadership development, teamwork and creative thinking were conducted.

'Matching Grant Project' has benefited

over 50,000

children

The programme was introduced to 100 schools with the support of 560 staff members.

Results

At the end of each year a panel of judges ranked the schools on the implementation of the project. An overall change was observed in these schools since the adoption of the 6S principles. The classrooms were better organised and the surrounding areas were cleaner and greener. The change was even reflected in children in terms of their discipline, attitudes and productivity. We are happy to state that over 90% of the schools scored above 70 points and a clear turnaround was seen in all of the schools.

Continuing the Programme

In order to ensure the continued application of 6S principles, teachers and parents were given necessary training to independently carry out the programme. Further, we effected a system to conduct audits by training selected teachers from these 100 schools.

Encouraging Community Engagement Across the Group

In addition to the aforementioned main CSR project, the branch staff are encouraged to engage with the local communities through education and community development projects. The branch network of DBB embarked on a project to support the less fortunate school children in Katugastota, Kilinochchi and Trincomalee areas. The main objective was to provide the basic necessities required to pursue education. DBB also voluntarily opened junior savings accounts for them by depositing funds in their accounts which will help to nurture the habit of saving.

Annexes
Financial Reports
Supplementary Financial Information
Stewardship
Recognition
Management Discussion
Business Model
Messages and Management Profiles

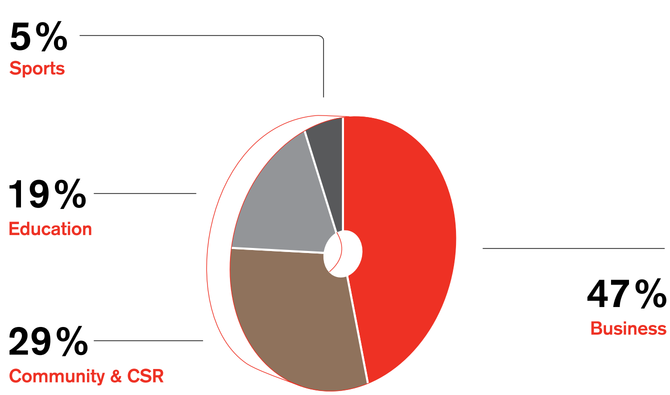
The Welfare and Recreation Club and the DFCC REDS also engaged in CSR initiatives during the year under review. DFCC REDS comprise of young recruits in the executive and management trainee cadre. Collectively they engaged in CSR projects which helped them to instil team spirit and integrate into the Bank's culture.

Going forward, DBB hopes to further enhance the CSR activities of each branch through adequate and effective budget allocations.

Business Units Analysed for Risks of Corruption

Indicator	Measure
Total Number of Units Identified	41
Number of Units Analysed during the Financial Year	22
Percentage Analysed	53.60

Sponsorships During 2013/14



Environmental Capital

Minimising adverse impacts on the environment remains a key area of focus in our sustainability strategy. Though the direct impact to the environment through our operations is minimal, we are committed to managing our resources efficiently. Our commitment to environmental sustainability is threefold, namely, managing resource consumption, supporting environmental initiatives and encouraging responsible investment.

Managing Resource Consumption

The resource consumption of DBB is periodically reviewed to establish new and innovative methods of conserving and managing resources. DBB is committed to progressively increasing the efficiency of resources utilisation. In this regard, all internal correspondence is essentially restricted to email communications, while internal management meetings are conducted through technological solutions which utilise hand-held devices for review and transfer of information. A 25% thinner paper was introduced for photocopying, which requires lesser wood pulp in production. This ultimately contributes towards conservation of trees. The elevator and the central air conditioning unit in the head office building were replaced during the year resulting in 50% and 7% energy saving respectively.

A document retention policy was developed facilitating electronic storing of non-legal documents. This resulted in saving space. The waste was segregated into three categories namely, paper, bio degradable and other, facilitating efficient and environmentally friendly waste disposal. In an attempt to reduce noise pollution, the noise emanating from generators was reduced to a level below the Urban Development Authority recommended level. To maximise fuel efficiency, all vehicles utilise 95 octane or super diesel fuel. The furniture used in the office premises are manufactured using environmentally friendly material while the use of timber is discouraged in order to conserve trees.

The ongoing environmental conservation initiatives that would contribute towards energy conservation in the future include, replacing the current lighting system with energy efficient lighting systems and implementing a rainwater harvesting system to recycle water.

Direct and Indirect Greenhouse Gas Emissions

We are reporting our greenhouse gas (GHG) emissions on a voluntary basis for the second successive year. We see this as an important step towards greater environmental accountability, which will also lead to benchmarking and target setting in subsequent years as we refine our measurement processes.

As in the previous year the boundary is DBB including all branches and offices, while financial control is the basis for consolidating the GHG emissions. Our calculations are based on the WBCSD/WRI Greenhouse Gas Protocol Corporate Standard and the most recent versions of applicable appendices and calculation tools.

Our reporting under Scopes 1 and 2 is complete except for fugitive emissions from air conditioning plants, which may well be insignificant, while Scope 1 GHG emissions from processing do not apply in our case. Reporting on Scope 3, which is optional, is selective based on significance and data availability. Scope 3 GHG emissions arising from employee 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	GHG Emissions			
		2013/14		2012/13	
		tCO_2e	**%**	tCO_2e	%
Scope1 (direct)	Stationary combustion	11.8	0.5	17.2	0.7
	Mobile combustion	238.2	9.8	231.3	9.4
	Total Scope 1	250.0	10.3	248.5	10.0
Scope 2 (indirect)	Purchased electricity (CEB)	836.5	34.4	861.3	34.9
	Total Scopes 1 and 2	1,086.5	44.7	1,109.8	44.9
Scope 3 (indirect)	Stationary combustion	14.6	0.6	61.3	2.5
	Mobile combustion	3.2	0.1	38.3	1.6
	Purchased electricity (CEB)	1,285.5	52.8	1,220.7	49.4
	Employee air travel	43.0	1.8	39.5	1.6
	Total Scope 3	1,346.3	55.3	1,359.8	55.1
	Total Scopes 1, 2 and 3	2,432.8	100.0	2,469.6	100.0

Annexes | Financial Reports | Supplementary Financial Information | Stewardship | Recognition | Management Discussion | Business Model | Messages and Management Profiles

The total GHG emissions of DBB for the year under review amounted to 2,433 tonnes carbon dioxide equivalent (tCO_2e), with Scopes 1 and 2 accounting for 45% of the total. These figures are comparable to the previous financial year, despite growth in the number of branches and business volume.

As to be expected indirect GHG emissions from purchased electricity was by far the single largest contributor, taking a 34% share under Scope 2 (consumption in premises financially controlled by DBB) and another 53% share under Scope 3 (consumption in premises not financially controlled by DBB), bringing its total share to 87%. The composition figures for electricity are similar to the previous year, but with a slight increase under Scope 3 due to branch expansion.

It is encouraging to note that our GHG emissions intensity (all Scopes) decreased from 286 kgCO_2e per LKR million to 253 kgCO_2e per LKR million of total operating income of DBB, reflecting our efforts in the prudent use of energy.

While we take pride in our achievement in controlling our carbon footprint in both absolute and intensity terms, a clear implication is that the efficient use of electricity through sound energy management practices is an area that DBB will continue to focus on, a win-win approach to the 'triple bottom line'.

Integrating Environmental Concerns with Business Processes

DBB gives due emphasis to environmental and social appraisal in making investment decisions and managing internal operations.

An Environmental and Social Management System (EMS) has been implemented to monitor and review environmental and social aspects and adherence to stipulated environmental standards of both current and proposed projects. In addition, policies pertaining to Health and Safety, Environment and Society have been established to implement EMS taking into consideration the business objectives, national laws and regulations and guidelines issued by multi-lateral agencies.

Our Greenhouse Gas emissions intensity in 2013/14

253 kgCO_2

per LKR million

It is encouraging to note that this is a decrease from 286 kgCO_2 per LKR million of total operating income of DBB, reflecting our efforts in the prudent use of energy.

Environmental and Social Assessment

Environmental and social assessment helps to identify potential risks at the initial stages of the project financing process. These risks are either inherent to the location or could arise during project implementation. During project appraisal, these impacts are identified and the effectiveness of the proposed preventive measures is assessed. Apart from this, several other aspects are also reviewed. These include, project feasibility reports, environmental studies, applicable national laws and regulations, clearances granted by relevant authorities and their post monitoring requirements, operating guidelines of multilateral agencies and the DFCC Bank lending policy.

Project sites are visited prior to project appraisal to assess the surrounding environment and identify associated risks. Projects are monitored regularly during implementation and at the operations phase. Inspections of project sites are mandatory.

Organisational Capacity and Staffing

DFCC Bank provides necessary training to environmental officers and lending staff to ensure successful implementation of EMS. The environmental officers assist the lending staff to implement EMS on a daily basis. The training is provided locally as well as internationally with programmes exclusively designed for the Bank's staff.

Pitch Report

SPURRING ECONOMIC DEVELOPMENT IN SRI LANKA

DFCC Bank, the pioneer development bank in the country, today provides the full gamut of development and commercial banking services together with its almost wholly owned subsidiary DFCC Vardhana Bank. For almost 60 years, DFCC Bank has remained steadfast to its original mandate of development financing. The Bank has been in the forefront of development, transforming rural economies by nurturing entrepreneurship, partnering and financing pioneering ventures and new industries and thereby contributing to capital formation and employment creation in all provinces of Sri Lanka.

Tourism

In the early years, most of the project loans were extended to enterprises for expansion or modernisation. In the late 1960s, DFCC Bank achieved a significant milestone in pioneering, by funding Sri Lanka's first beach resort. The financial package comprised both equity and debt, which clearly demonstrated DFCC Bank's aptitude in partnering promoters in the start-up stages where risk levels are considerably high. This project set the stage for many other hotel projects and the start of Sri Lanka's tourism industry which is today, in the aftermath of the war a booming industry with the Government targeting to attract 2.5 million tourists by 2016.

DFCC Bank has also pioneered several other industries in the private sector namely apparel, aquaculture, ceramics, horticulture, mobile telecom and renewable energy.

Telecom

More recently, technology has been the driver of new industries such as mobile telecoms and renewable energy. In the late 1980s, Sri Lanka was the first South Asian nation to introduce cellular telecoms. The Bank granted the first loan facility to Sri Lanka's pioneering cellular company in 1989. Since then, DFCC Bank has extended a number of facilities to several companies. Furthermore, DFCC Bank was the joint advisor to the Government of Sri Lanka in the privatisation of Sri Lanka Telecom in 1997. Subsequently, the IPO of Sri Lanka Telecom was also successfully handled by DFCC Bank in 2002.

Green Energy

DFCC Bank's foray into the renewable energy sector is significant. In 1994, the Bank financed Sri Lanka's first ever privately owned, grid connected mini-hydro power plant, with both long-term debt and equity. The success of this pioneering project catalysed the setting up of several other ventures resulting in a thriving industry which today supplies nearly 8% of the country's power needs. In fact, DFCC Bank received commendation from the World Bank for the important role played in the renewable energy sector. The Bank also financed a pioneering manufacturer of turbines for local and foreign hydro power plants. This project was the recipient of ADFIAP's award for 'Outstanding Project - Technology Development'. Assistance has also been extended to local hydropower developers to set up projects overseas.

DFCC Bank also became the pioneer financier for private sector wind power projects in Sri Lanka, when it part-financed the first wind power project in 2010. The Bank's involvement extended beyond mere financing, to facilitating the introduction of a cost-based, technology specific tariff structure. This enabled projects using wind technology to be commercially viable and has spurred development of this form of renewable energy in Sri Lanka. Since then, nine projects have commenced operations with several more projects in the pipeline. DFCC Bank's exposure to wind power is 31% of the Bank's renewable energy portfolio. To date, the Bank has funded 54 hydropower projects and 3 wind power projects contributing 146.2 Mw and 30.0 Mw respectively to the national grid.

Education

DFCC Bank played a significant role in the development of the education sector. As the country rapidly progresses towards a middle income economy, education plays a pivotal role in developing a knowledgable and skilled workforce. Additionally, the knowledge hub initiative of the Government is geared to position Sri Lanka as a centre of excellence and a regional hub for learning and innovation. These factors have created immense opportunities for further development of the sector. DFCC has been actively promoting several private sector initiatives in this sector.

Food and Beverage

The food and beverage sector is a key area of the economy of the country. The untapped markets of the North and the East have great potential for this sector. DFCC has taken cognisance of this trend and is supporting ventures of the SMEs in these geographical areas through concessionary credit lines. DFCC was the promoter of pioneering ventures of several leading players in the food and beverage sector including confectioneries, biscuits, beverages and other categories.

Ceramic and Porcelain

Sri Lanka produces quality porcelain tableware, porcelain ornamental ware, floor and wall tiles to the local and world market. Due to the nature of the manufacturing process, these companies are highly capital intensive. DFCC Bank has actively promoted and supported these companies to acquire the capital for expansion over the years.

Glass

In the glass manufacturing sector, DFCC Bank has maintained a close banking relationship with the only Glass manufacturer in the country since its inception in 1955. It was one of DFCC's very first clients. DFCC Bank's involvement in this project has been significant from initial factory set up to subsequent expansions and relocations together with major capacity expansions in recent times.

Health

DFCC Bank has also been a major financier in the private healthcare sector for more than two decades, as the increase in income levels and changing lifestyles has created a significant demands for private health services.

All these reflect significant contributions made by DFCC Bank to the economic development of Sri Lanka. As the country progresses towards an emerging economy, the Government has established a Five+1 Hubs strategy to achieve an inclusive and sustainable growth. Through the development of these hubs namely, the Knowledge Hub, Energy Hub, Commercial Hub, Aviation Hub, Tourism Hub and Maritime Hub, Sri Lanka hopes to meet its 2016 growth targets.

In this context, DFCC Bank will continue to play an active and pivotal role in the economic progress of the country. The Bank will broaden and increase its exposure to sectors prioritised in the Government's development agenda. The proposed amalgamation will result in the creation of a stronger and a more dynamic development bank that would provide the required impetus for economic growth of Sri Lanka.

Annexes
Financial Reports
Supplementary Financial Information
Stewardship
Recognition
Management Discussion
Business Model
Messages and Management Profiles

A PIONEER'S JOURNEY

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

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 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 USD 65 million Guaranteed by ADB

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

JULY
Issue of Debentures to the Value of LKR 2 billion Enhanced Regulatory Capital

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

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

2013

MARCH
DFCC successfully concluded an international loan syndication for USD 45 million

JULY
DFCC Bank won most outstanding sustainable finance award at Annual Global sustainability finance conference held in Karlsruhe Germany

AUGUST
DFCC Bank Hambantota Branch opened on 14 August 2013

AUGUST
DFCC' Trilingual website won several awards at bestweb.lk awards 2013 organised by Sri lanka Domain Registry

2013

SEPTEMBER
Fitch Rating lanka rated DFCC Bank AA- (lka)

OCTOBER
Mr. Arjun Fernando appointed as Chief Executive Officer from 1 October 2013

2013

OCTOBER
DFCC Annual Report won Grand Award for "Best in Sri Lanka" at 27th International ARC awards, USA

OCTOBER
DFCC Bank executes USD 100 million International notes issue

NOVEMBER
DFCC Group ventures overseas - Selected as consultant to FIJI's Home Finance Company

2014

MARCH
DFCC Bank & NDB Bank signed the MOU for preliminary discussions on amalgamation (24 March 2014)

MARCH
DFCC negotiated a Euro 90 million credit line from the European Investment Bank

Awards	Project
Outstanding Development Project Awards	Annai Sea Food, Jaffna
Best Website	www.dfcc.lk (Website)
Best Annual Report	Annual Report 2011/12
Karlsruhe Sustainable Finance Awards	Renewable Energy Projects
Annual Report Awards - Gold	Annual Report 2012/13
Gold Award	www.dfcc.lk (Website)
Silver Award	
Bronze Award	
Silver Award	
Gold Award	Annual Report 2012/13
Silver Award	
Bronze Award	
Bronze Award	
Bronze Award	
Honors	
Gold Award	
Position - 14	Corporate Brand
Best Sustainability Project Awards 2013	CSR - 6S Implementation in Schools Project
Silver Award	Annual Report 2012/13
Golden Gavel Award for year 2013/14	DFCC Toastmaster Club

Category	Institution	Date
Local Economic Development	ADFIAP	May 2013
Special Awards		
Outstanding Sustainable Project Finance Award	Global Sustainable Finance Conference, City of Karlsruhe, Germany	July 2013
Banking Category	American Communications Professionals (LACP)	July 2013
Best Corporate, Banking, Finance & Insurance	LK Domain Registry	August 2013
Best Sinhala Website		
Best Tamil Website		
Overall Winner		
Banks: Local Category - Cover Design	ARC Worldwide/International ARC Awards 2013	September 2013
Banks: Local Category - Overall Annual Report		
Banks: Local Category - Interior Design		
Banks: Local Category - Written Text		
Banks: Local Category - Photography		
Banks: Local Category - Printing & Production		
Best of Sri Lanka		
Business Today - Top 25	Business Today Magazine	October 2013
Winner - Long-Term Projects	The Ceylon Chamber of Commerce	November 2013
Financial Institution	Chartered Accountant, Sri Lanka	December 2013
Leadership and Communication Development	Toastmaster International District 82	May 2014

Stewardship

The Umpires Remit

Risk Culture and Vision

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

Credit risk is the key quantifiable risk faced by DBB which accounted for 88.5% of risk weighted assets as at 31 March 2014 computed under the Standardised Approach of Basel II.

Following broad risk categories are in focus:

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

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

- The Board of Directors' responsibility for maintenance of a prudent risk management functions DBB.
- 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 underpinning the risk management and business operations of DBB are fully adhered into.
- Centralised Integrated Risk Management Function which 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 redesign of assets and liability products and processes.
- Adoption of risk-based pricing in principle.
- Ensuring that minimum regulatory capital requirements are not compromised.
- Ensuring a cushion above the minimum regulatory capital is maintained to cover possible losses caused by unquantifiable risks such as strategic risk, liquidity and reputation risk.
- Aligning risk management strategy to the DBB's business strategy.
- Ensuring comprehensive, transparent and objective risk disclosure to the Board, Corporate Management, Regulators, Shareholders and other stakeholders.

Annexes
Financial Reports
Supplementary Financial Information
Stewardship
Recognition
Management Discussion
Business Model
Messages and Management Profiles

- Continuous review of the risk management framework and practices to bring them in line with the Basel II and Basel III recommendations and regulatory guidelines.
- Maintenance of internal prudential risk limits based on the risk appetite of the DBB wherever relevant over and above the regulatory limits requirement.
- Ensuring a prudent risk management culture within DBB.

Risk Governance

Approach of 'Three Lines of Defence'

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

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

DBB exhibits an established risk management culture with effective risk management approaches, systems and controls. Policy manuals, internal controls, segregation of duties, clearly demarcated authority limits and internal audit function form a part of key risk management tools. The Group Chief Risk Officer (CRO), who is an Executive Vice-President functions on a group basis with direct access to the BIRMC. 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 broader aspect, the policies, guidelines and organisational structure for the management of overall risk exposures of DBB in an integrated approach. This framework defines risk integration and the aggregation approaches for different risk categories. In addition, separate policy frameworks detail 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. Compliance with this respect is monitored through an independent reporting mechanism.

Governance Structure for Risk Management in DBB

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

CEO

Senior Management Committees

Corporate/Business Banking
Branch Banking
Treasury
Accounting & Finance
General Operations
Information Technology
Human Resource
Loan Restructuring & Recoveries
Personnel Financial Services (PFS)
International Trade Services
Corporate Communications & Marketing
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 Group CRO, 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

Risk Appetite

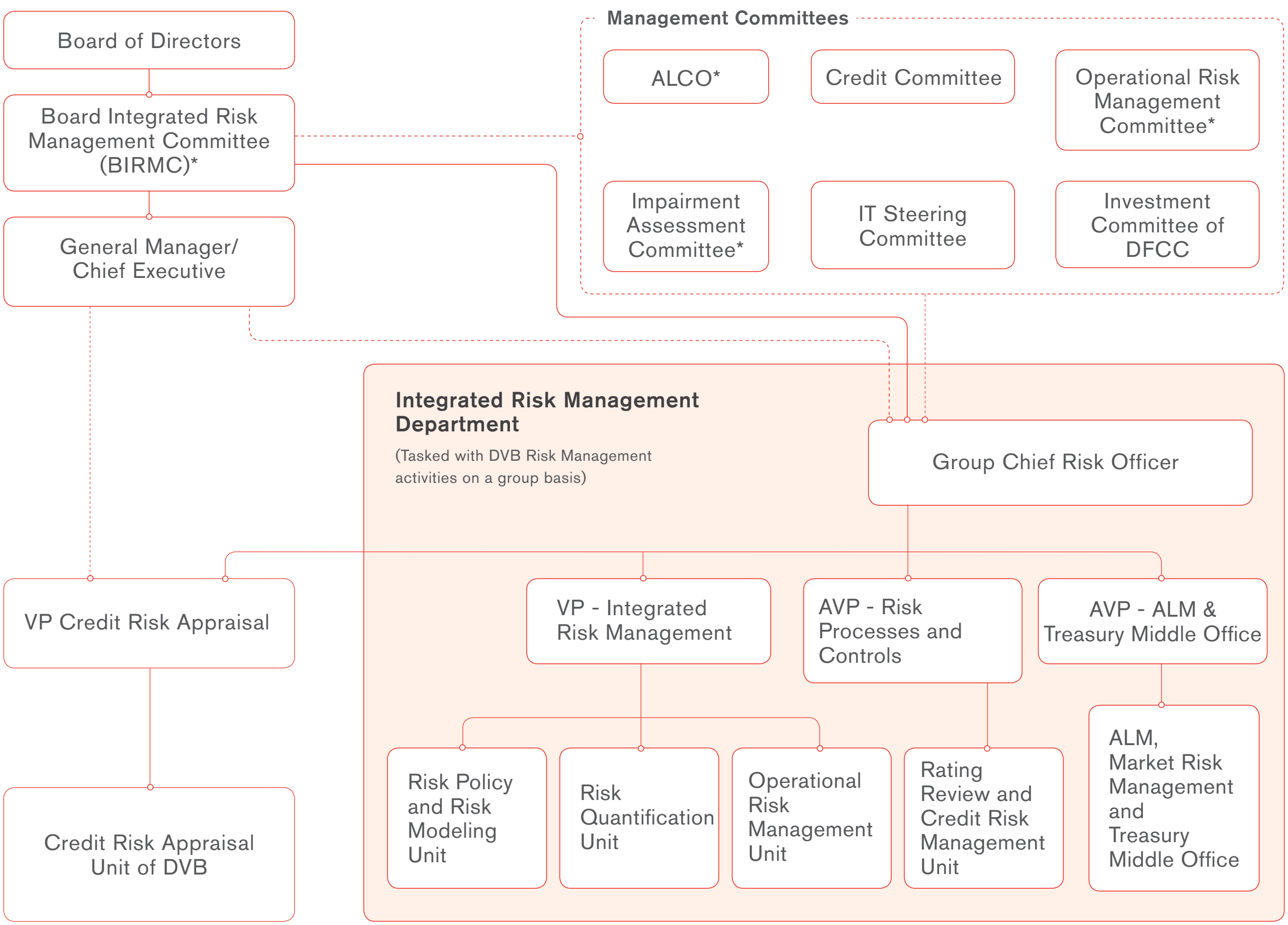
Risk appetite of the Bank has been defined in the Overall Risk Limits System. It consists of risk limits arising from regulatory requirements, borrowing covenants and internal prudential purposes. This limits system forms a key part of the key risk indicators and covers key risk areas such as credit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

Organisational Structure for Risk Management

Board Integrated Risk Management Committee (BIRMC)

The BIRMC is a Board sub-committee, which oversees the overall risk management function at DBB in line with the Board approved policies and strategies. BIRMC sets 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, Credit Committee, Asset/Liability Committee (ALCO), Operational Risk Management Committee (ORMC) and Group CRO on risk management related activities. In addition to the Board's representatives, the BIRMC consists of the CEO and representation from Credit, Finance, Treasury, Integrated Risk Management and Operations. The CRO is a voting member in the Committee together with Directors being other voting members. Summary of the responsibilities and functions of BIRMC is given in the Report of the Board Integrated Risk Management Committee on page 129 of this Annual Report.

Organisational Structure for Integrated Risk Management



** Two Separate Committees for DFCC and DVB*

Involvement of Management Committees

Management committees such as Credit Committee, ALCO, Investment Committee, IT Steering Committee and Impairment Assessment Committee 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 Terms of Reference and the membership of each committee has been defined to bring an optimal balance for business and risk management.

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 executive committees in carrying out the overall risk management function at DBB. It consists of four separate units such as Risk Policy and Modelling, Credit Risk Management, Asset/Liability Management (ALM) and Market Risk Management and Operational Risk Management. IRMD is involved with product and business strategy development and entering into new business lines from the initial design stage through input to the task/process from a risk management perspective. The Credit Risk Management Unit of IRMD carries out an independent review of the credit ratings of the large exposures. Treasury Middle Office (TMO) is functionally segregated from the Treasury Department and directly reports to the Group CRO, and monitors the Treasury-related market risk limits.

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

During the period under review, several significant initiatives were undertaken. Among them, obtaining an international credit rating for the Bank, measures to manage exposures arising from DFCC's debut international bond issue and establishment of the Internal Capital Adequacy Assessment Process (ICAAP) were the key aspects.

DFCC's Foreign Currency International Credit Rating and the Local Currency Credit Rating

The period under review was an important year for DBB from a risk management perspective too. By September 2013, the Bank obtained its foreign currency international rating in conjunction with the debut international bond issue. The Bank was assigned a foreign currency credit rating of B+ (stable outlook) by Fitch Ratings while Standard and Poor's assigned B (stable outlook) for the DFCC. The DFCC's local currency credit rating of 'AA-(LKA)' denotes a healthy credit rating in a local context.

During the year, DBB continued to pay emphasis on the regulatory developments and reassessed its existing risk management policies, guidelines and practices for necessary improvements. In addition to these regulatory specifications, changes in business strategy, industry factors and international best practices were also considered during this improvement process. The following are other initiatives of significance achieved during the year under review, which brought improvements to the overall Integrated Risk Management Function:

- The Bank developed the Internal Capital Adequacy Assessment Process (ICAAP). This ICAAP formulates the Group's capital targets, capital management objectives and capital augmentation plans in addition to internal capital assessment for Pillar II Risk in the Basel II.
- The DBB's position was evaluated in relation to the Basel III specifications in the areas of capital and liquidity management. This analysis indicated that DBB's healthy capital and liquidity position already meet the capital and liquidity specifications in the Basel III. The DBB will continue to monitor its capital and liquidity in the ICAAP and such monitoring measures have been incorporated in risk management tools, practices and policies.
- Concentration risk of the lending portfolio and the funding structure was monitored and managed proactively during the year tracking the early warning signals from the relevant parameters in the Overall Risk Limits System and funding structure analysis. Exposure limits for industry sectors and particular borrower or borrower segments were established based on the diversification focus.

- DBB established the Loan Review Mechanism as part of the IRMD's tasks with defined guidelines in the Loan Review Policy.
- Greater focus was drawn on the management of credit risk through which credit appraisal processes were reviewed and realigned with specific improvements. A Quality Assurance Unit was established as a part of the credit appraisal function. The reporting structure in the credit appraisal function was improved.
- A greater improvement was achieved from an operational risk management perspective with the establishment of the Operational Risk Management Committee (ORMC), and appointment of operational risk co-ordination officers covering long-term project lending business. ORMC focuses on monitoring and managing the operational risk within the vision and direction set out by the BIRMC and the Board. DBB has commenced collecting operational risk incident data and establishing an incident database. This incident data is analysed by the IRMD and reported to the ORMC, BIRMC and the Board on a quarterly basis. This data is currently used to improve the systems and processes in addition to maintenance of a database in order to be used for risk capital computation for operational risk under the Advanced Measurement Approach (AMA) of Basel II. Operational Risk Co-ordination Officers (ORCO) appointed covering all the relevant business and services units would facilitate DBB in the process of operational risk assessment and management.
- Several innovative asset and liability products were introduced during the year under review, particularly in the area for commercial banking operations while revisions to certain existing products were effected after evaluation of the possible risk exposures and relevant risk mitigation procedures. Such products are focused on enhancing the NII, portfolio growth, stability in the funding structure and other sources of income. These new products and revisions were routed through the structured process for approval defined in the New Product Development Policy of the Group, which incorporates independent evaluation and comments by the IRMD.
- While initiating actions to develop new credit scoring models for Personal Financial Services products in the commercial banking business, necessary user guidelines for borrower credit rating models for corporate exposures and SME exposures were reviewed and amended during the year. The leasing product was also reviewed and amended. Such amendments brought precision and improved discipline for the usage of credit rating models.
- DBB continued its practice of forecasting the capital adequacy ratios for the year as an element of 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 facilitates well in advance the Group's strategic decisions in the areas of funding through senior debt vs subordinated debt and capital requirement for planned growth apart from proactiveness in the risk management perspective. Maintaining a capital cushion is a requirement under Basel III.
- Periodically stress tests were carried out during the year in line with the Stress Testing Policy of the Group and the results were reviewed by the ALCO, BIRMC and the Board. DBB indicated a satisfactory capital position even under the worst case scenario assuming all risk factors arise from different risk categories should they crystallise simultaneously.
- As a part of the implementation of the IFRS, 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) discussed under Basel II, provided the historical evidence of the recovery rates after taking the recovery time also into consideration. LGD developed under Basel II methodology was aligned with Loss Ratio under IFRS for conceptual and usage refinements. These credit risk parameters facilitate credit sanctioning, pricing and credit risk management.
- Impairment provisions amounted to about 84% of the impaired assets (computed under the new accounting rules of IFRS) indicating a strong cushion for credit losses in case they crystallise, compared to the overall exposure weighted LGD of below 50% of Exposure At Default computed under the Basel II methodology.

- The Committee reviewed the proposed Complaint Management Framework for DFCC which is an action point derived from the Customer Charter, which sets a set of guidelines to ensure that customers are treated equally and with due respect as well as keeping the service standards high. The Complaint Management Framework allows a process to be included to ensure that all customer complaints are responded to and necessary actions are taken to ensure that the customer has been given a satisfactory resolution within an acceptable time frame.
- A data availability test and a Quantitative Impact Study (QIS) were conducted for the implementation of the Standardised Approach of Basel II for capital computation for operational risk as per the exposure draft of the CBSL. This study indicated the data feasibility and a nominal impact to the capital adequacy in case the Standardised Approach is introduced compared to the currently effective Basic Indicator Approach.

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. However, 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 88.5% of risk-weighted assets 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, their costs and mitigation.

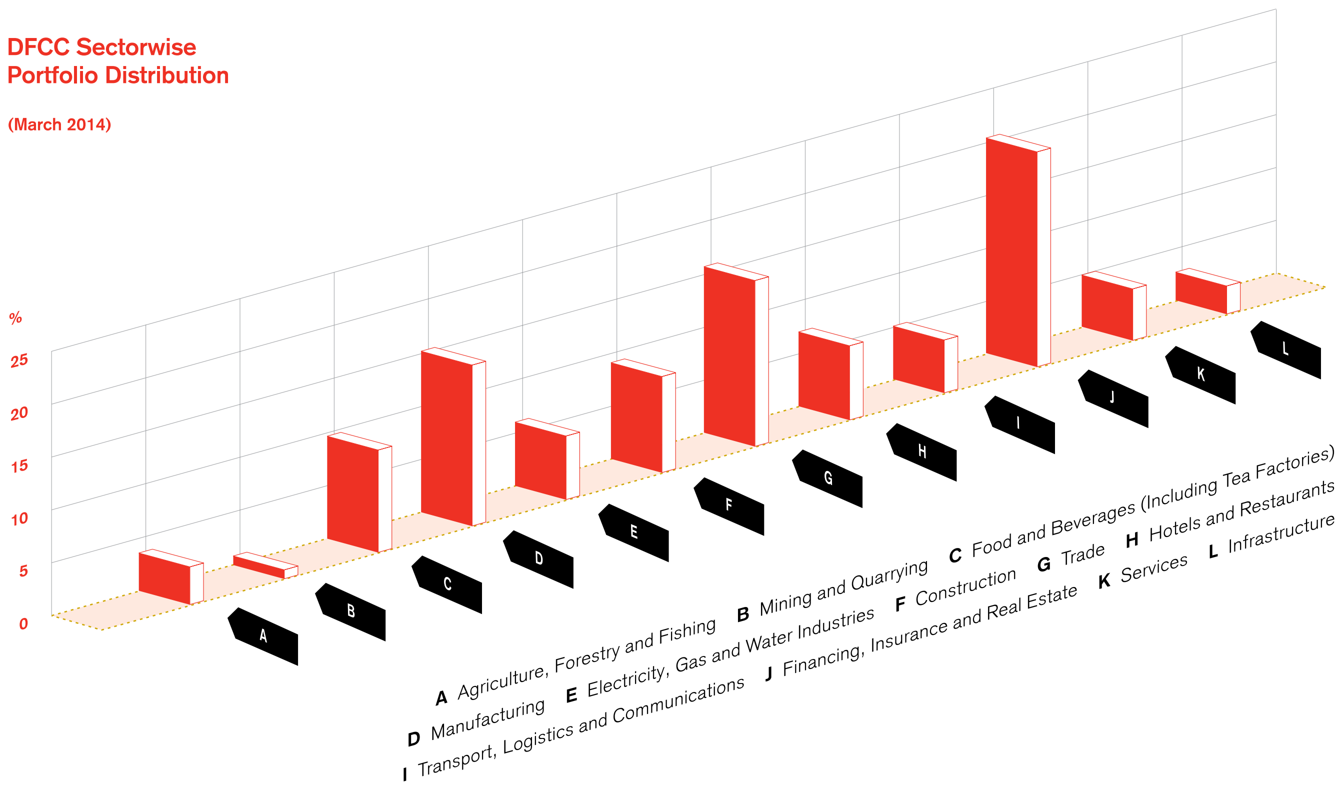
The credit strategy synchronises with the credit risk management which includes identification of target markets and business sectors, level of diversification and cost of capital involved and bad debts. The credit policies and procedures of the Bank define target markets and lending criteria, credit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

The use of internal rating models and the periodic review of assigned ratings by the DBB form the basis for risk profiling of borrowers for the purpose of managing credit risk through structuring, pricing, monitoring, restructuring and recovery action. A well-structured approval process is in place, guided by the Delegation of Lending and Related Authority limits based on risk categories. 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. Credit Risk Management Process independently reviews individual credit proposals and rationale for credit rating in addition to adoption of portfolio-based credit risk management tools.

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 the Group. DBB has recognised in its Delegation of Lending and Related Authority limits some sectors as the 'Special Clearance and Negative List for the Lending'. Lending to the Special Clearance category is routed through a special appraisal and approval mechanism. The Negative List of DBB for lending includes borrowers, products and sectors, which are unwarranted as per the country's laws and regulations, DBB's corporate policies and values and the levels of risk exposure.

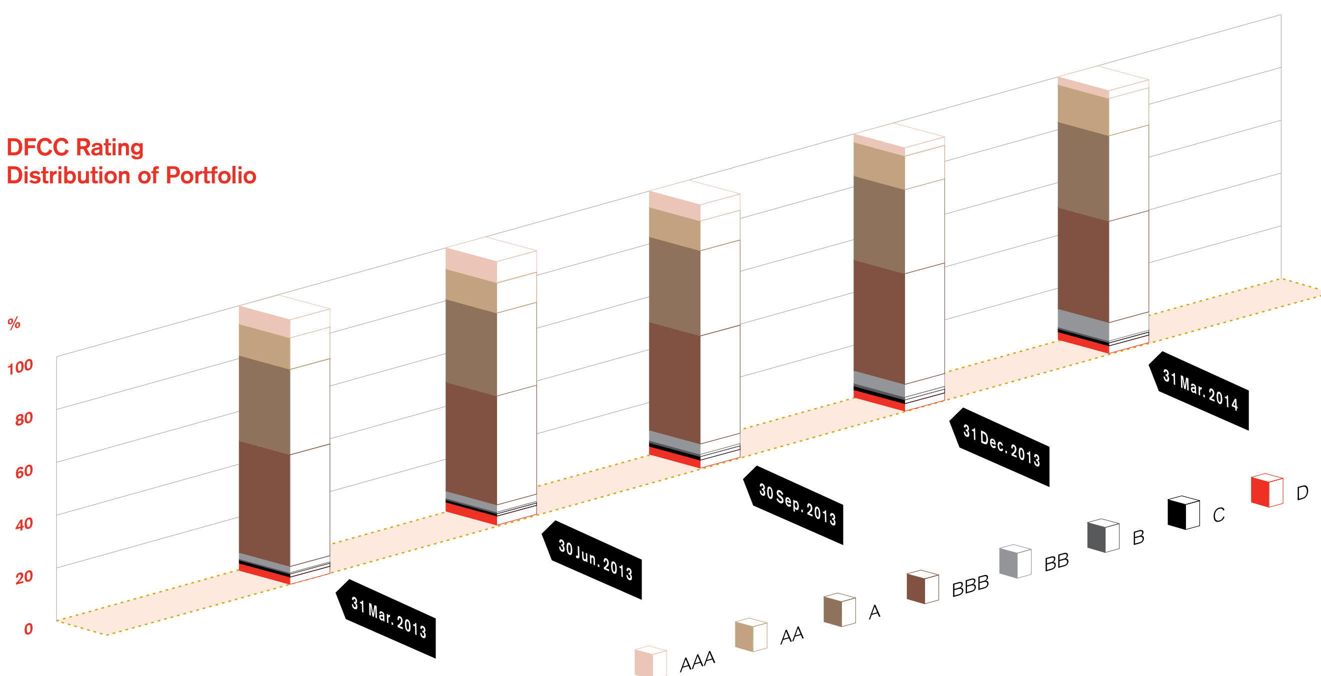
DFCC Sectorwise Portfolio Distribution

(March 2014)



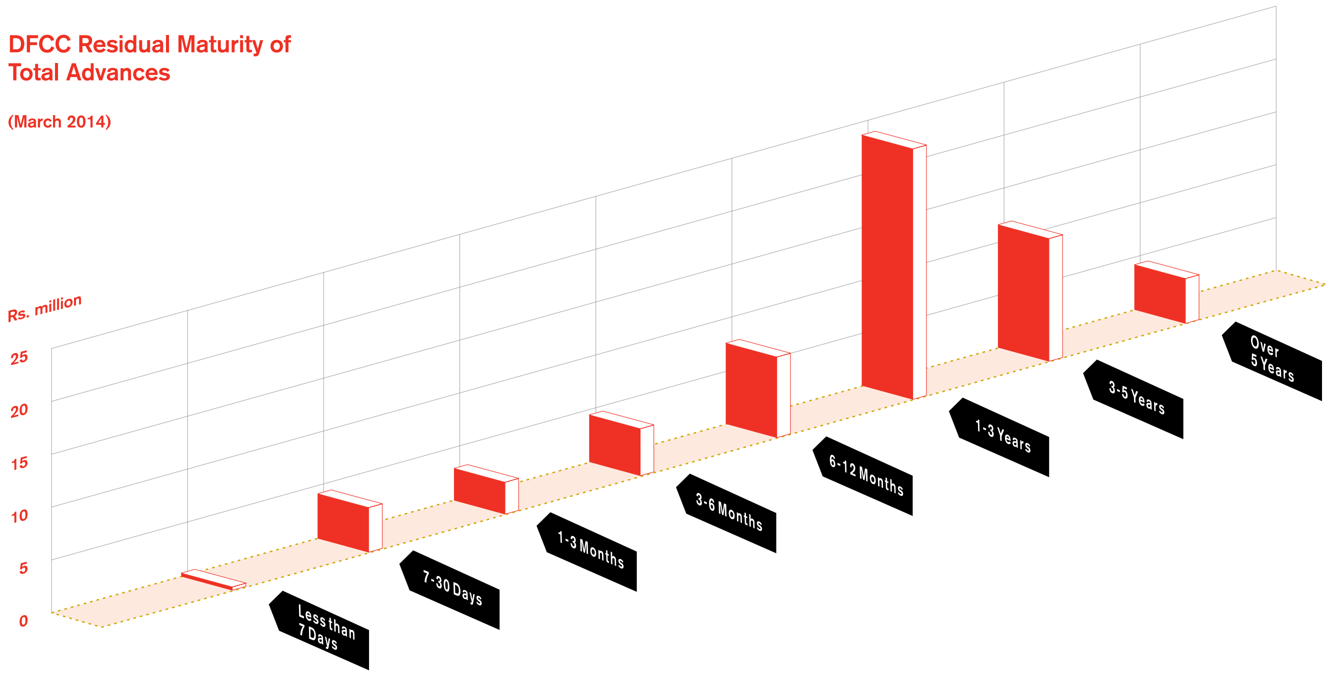
Messages and Management Profiles
Business Model
Management Discussion
Recognition
Stewardship
Supplementary Financial Information
Financial Reports
Annexes

DFCC Rating Distribution of Portfolio



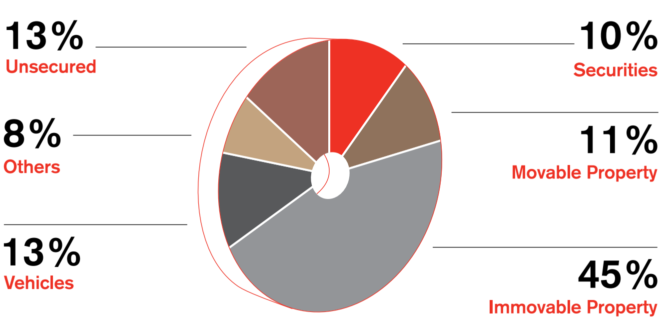
DFCC Residual Maturity of Total Advances

(March 2014)



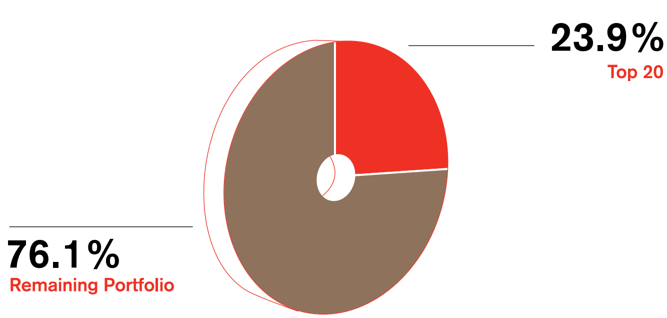
DFCC Collateral Distribution

(March 2014)



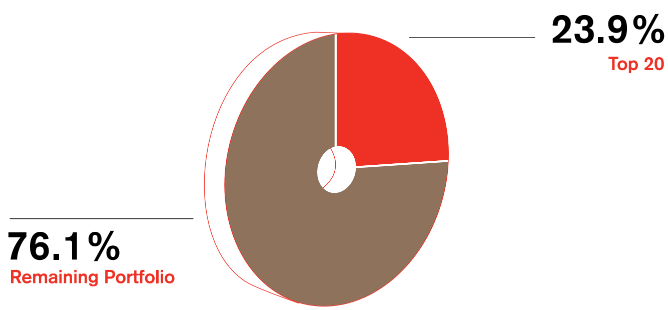
DFCC - Share of Top 20 Individual Clients of Total Advances

(March 2014)

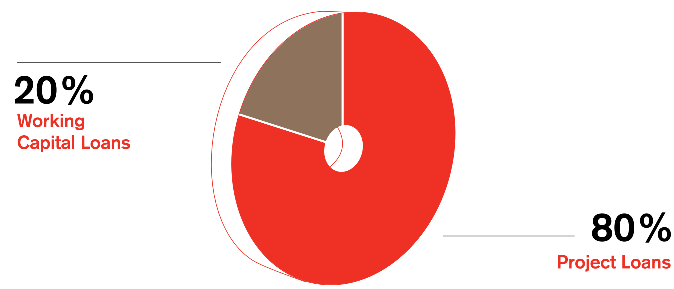


Annexes
Financial Reports
Supplementary Financial Information
Stewardship
Recognition
Management Discussion
Business Model
Messages and Management Profiles

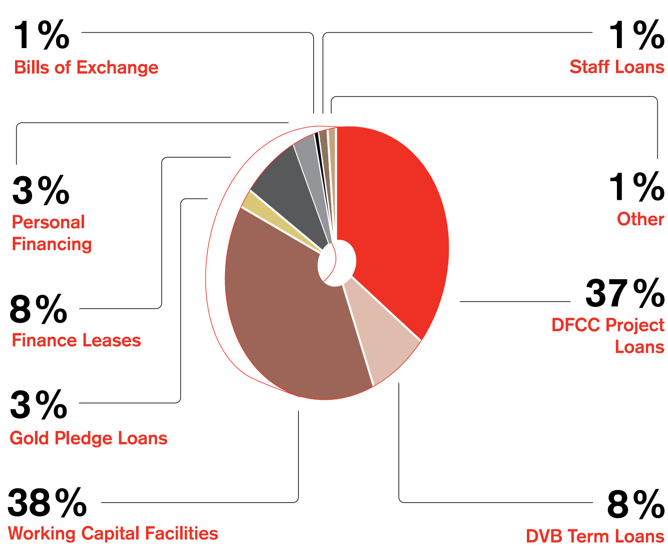
DBB - Share of Top 20 Individual Clients of Total Advances



DFCC Loan Composition

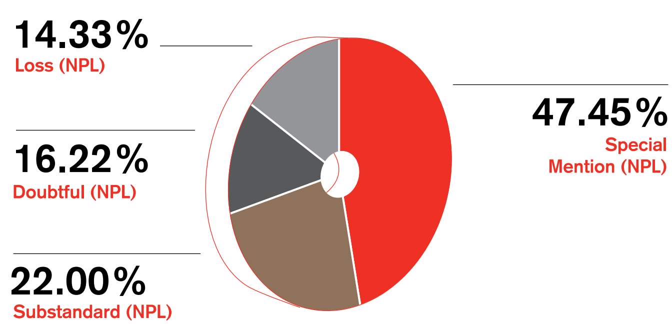


DBB - Product Composition

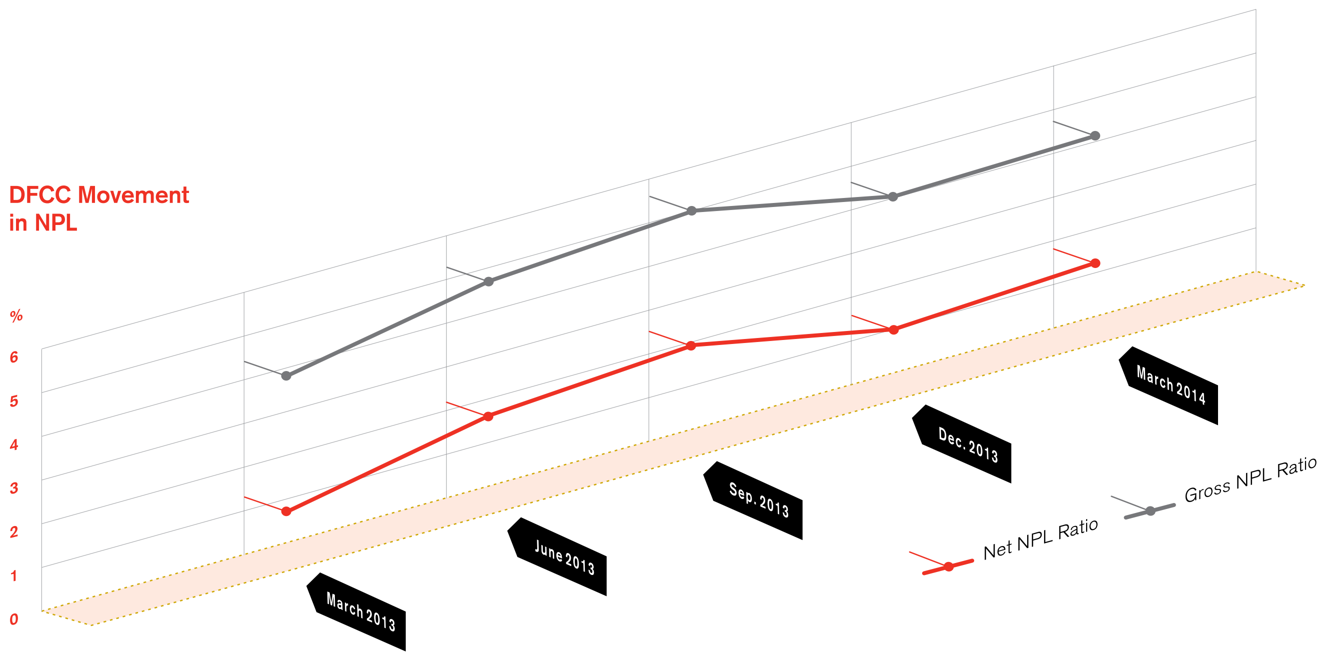


DFCC NPL Composition

(March 2014)



DFCC Movement in NPL



Market Risk

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

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 be looked at in two dimensions, as traded market risk, which is associated with the trading book and non-traded market risk, which is associated with the Banking Book.

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

Treasury Middle Office is segregated from the Treasury Front Office and Bank Office and reports to CRO. The role of the TMO is the day-to-day operational function of monitoring and controlling risks assumed in the Front Office and Back Office based on clearly defined limits and controls. Being independent of the dealers, the Middle Office provides an objective view of Front Office activities and monitors the limits from outside the Front Office. TMO has the authority to escalate limit excesses as per delegation of authority to the relevant hierarchy. The Treasury Information Management System includes a dashboard that facilitates the timely reporting of treasury market positions independently to management. This dashboard displays the foreign currency positions and the market rates throughout the day in a timely manner.

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. Further, sensitivity measurement tools such as Duration and Price Variation per Basis Point (PVBP) and Value-at-Risk (VAR) are used to quantify and analyse the market risk exposure of the fixed income securities portfolio in addition to marking-to-market. These methodologies would be back tested for robustness. Also the Treasury Telephone Voice Logging System is fully deployed and is under the purview of the TMO in order to minimise operational risks associated with the voice-based market activities.

Interest Rate Risk

Interest rate risk can be termed as the risk of loss in the net interest income (earnings perspective) or the net worth (economic value perspective) due to adverse changes in the market interest rates. The Assets and Liability Management Unit routinely assesses the Bank's asset and liability profile in terms of interest rate risk and the trends in costs and yields are reported to 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.

Foreign Exchange Rate Risk

Foreign exchange rate risk can be termed as possibility of adverse impact to a bank's capital or earnings due to fluctuations in the market exchange rates. This risk arises when a bank holds assets or liabilities in foreign currencies. Net Open Position (NOP) on foreign currency indicates the level of net foreign currency exposure that has been assumed by the Bank at a point of time. This figure represents the unhedged position of Bank in all the foreign currencies. DBB accrues foreign currency exposure through purchase and sale of foreign currency from customers in its commercial banking business and through borrowings and lending in foreign currency. DBB manages the foreign currency risk using a set of tools which includes limits for net unhedged exposures, hedging through forward contracts and hedging through creating offsetting foreign currency asset or liability. TMO monitors the end of the day Net Open Position (NOP) as calculated by the Treasury Back Office, and the NOP movement in relation to the spot movement is presented to the BIRMC. The daily interbank foreign currency transactions are monitored for the consistency with the preset limits and any excesses are reported to the management and the BIRMC. The unhedged foreign currency exposure of DBB is closely monitored and necessary steps are taken to hedge in accordance with the market volatilities.

The Bank issued its debut foreign currency international bond of USD 100 million with an original maturity of 5 years in October 2013. The Bank entered into a hedging agreement with the Central Bank of Sri Lanka (CBSL) in order to mitigate the foreign exchange rate risk to the extent of USD 75 million. The balance part of this foreign currency borrowing is managed actively within the Bank in line with the market movements as a part of managing the Bank's overall unhedged foreign currency exposure.

As at 31 March 2014, DBB carried a net unhedged foreign currency liability (Short Position) equivalent to USD 19.2 million which consists of USD short position of 19.49 million and EUR asset (Long) position of 0.37 million.

Equity Prices Risk

Equity prices risk is the risk of losses in the equity trading book, which is marked-to-market due to the decline in the market prices. The direct exposure to the equity prices risk by the DBB arises from the Trading and Available-for-sale equity portfolios 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 of DFCC is responsible for managing equity portfolio in line with the policies and the 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, proper market timing and close monitoring of the portfolio performance in relation to the market performance would 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 the Group to reap optimal benefits from the selected securities in the portfolio. The indirect exposure to equity prices risk arising from the margin lending of DVB is managed through the specific margin trading policy framework under the supervision of the Credit Committee. Each margin lending customer is carefully appraised for his track record with the Bank and the financial strength while the equity exposure arising in terms of collateral is assessed under a structured process set out in the Margin Trading Policy before the origination of the facility. Fundamentals of the lodged shares, market liquidity of the share and the diversification of the portfolio are looked at during the assessment. Margin lending is governed by proper documentation and daily monitoring and management reporting as specified in the Margin Trading Policy.

The DBB's direct exposure to equity market accounted to 9.8% of the Group's assets inclusive of DFCC's residual investment in the Commercial Bank of Ceylon PLC and the investment in the Nations Trust Bank based on the marked-to-market values as at 31 March 2014. This equity portfolio which is classified as AFS, indicates an unrealised capital gain of LKR 9,709 million, which is reported under the Other Comprehensive Income and the fair value reserve based on the marked-to-market value. In case, only the equity portfolio declines more than 56.2% of the current marked-to-market value, there would be a negative impact to the income statement should the portfolio or part be disposed.

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 the next quarter 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 or AA- (LKA). assigned by Fitch Ratings Lanka and reputation in the market enables the DBB to access domestic wholesale funds.
For short-term liquidity support, the Bank also has access to the money market at competitive rates. The risk-based pricing mechanism ensures that residual liquidity risk is duly priced when pricing assets.

The CBSL Direction No. 7 of 2011 specifies that liquidity can be measured through stock or flow approaches. Under the stock approach, liquidity is measured in terms of key ratios which portray the liquidity 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. In line with the long-term project financing business, the Bank focuses on long-term funding through dedicated credit lines while its commercial banking business focuses on Current and Savings Accounts (CASA) as the key source of funding for its lending of short-term nature.

ALCO executes liquidity management policies, procedures and practices approved by the Board of Directors, effectively. ALM is concerned with strategic balance sheet management involving all market and liquidity risks. The ALCO which meets regularly on a monthly basis is the management forum that undertakes formulation, monitoring and review of ALM strategies and their implementation at the DBB. The structure and procedures for Asset/Liability Management at DFCC Bank and DFCC Vardhana Bank have been clearly set out in the Board approved ALCO Charters.

ALCO makes decisions on asset and liability pricing, fixed versus floating interest rate structures, funding strategies, debt structures, and the magnitude of interest and liquidity risks the Banks should absorb. Relevant business managers are invited to participate in the decision-making process as required. The Business Unit Managers are responsible in executing the business strategies decided at ALCO meetings and reporting of the resulting risk exposures. The Treasury Division takes responsibility for the 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.

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 the Bank ranging from losses arising from fraudulent activities, unauthorised trades or account activity, human errors, omissions, inefficiencies in reporting, technology failures or from external events such as tsunami, floods or even political instability. The objective of the Bank is to manage, control and mitigate operational risk in a cost effective manner consistent with the Group's risk appetite.

The Group has ensured an escalated level of rigor in operational risk management approaches for sensitive areas of its operations. The ORMC, which is a Management Committee, oversees and directs the management of operational risk of DBB at an operational level with facilitation from the Operational Risk Management Unit of the IRMD. Active representation of the relevant departments and units of DBB has been ensured in the process of operational risk management through the Operational Risk Coordination Officers. Operational incident data analysis, Risk & control self assessment and Key Risk Indicators are several key elements in the operational risk management process. During the year, the Group commenced 6S in selected areas of operations with a view of covering commercial banking operations on a phased out basis. Training and knowledge sharing on operational risk management was conducted through several tools for staff of the Bank.

Segregation of duties with demarcated authority limits, internal and external audit, strict monitoring facilitated by the technology platform and back-up facilities for information are the fundamental tools of operational risk management. Audit findings and management responses are forwarded to the Board's Audit sub-committee for their examination. Effective internal control systems, supervision by the Board, senior management and the line managers forms part of 'First Line of Defence' for operational risk management at DBB. The Group demands a high level of technical skills, professionalism and ethical conduct from its staff and these serve as insulators for many operational risk factors. The Group business continuity plan deals with natural or other catastrophes. The loss of physical assets is mitigated through insurance.

Reputation Risk

Reputation risk is the risk of losing public trust or the tarnishing of the DBB's image in the public eye. It could arise from environmental, social, regulatory or operational risk factors. Events that could lead to reputation risk events are closely monitored, utilising an early warning system that includes inputs from frontline staff, media reports and internal and external market survey results. Further, reputation risk sources are tracked through operational risk incident reporting and customer complains. Necessary measures are taken to arrest recurrence of such incidents and customer complains so that DBB's exposure to reputation risk is managed. Policies and standards relating to the conduct of the Group's business have been disseminated through internal communication and training. A culture of compliance permeates at all levels of DBB, and the Chief Compliance Officer submits quarterly compliance reports to the Board of Directors and the BIRMC. A Communication Policy addresses aspects of reputation risk through a structured approach for communication under clearly defined responsibilities.

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. DBB's business plan forms a strategic 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 enables the DBB to formulate its strategies for growth and business risk management. The processes such as Planning, ALM, IT and Product Development in co-ordination of business functions facilitate the management of business risk through recognition, measurement and implementation tasks. IRMD and Planning and Plan Implementation Department with the facilitation from Treasury and Credit Department proactively assess the implications on the business risk exposure of the Group arising from the banking sector dynamics and macro level factors including regulatory developments. These assessment findings and recommendations are informed to the senior management, BIRMC and the Board, and are incorporated in the strategic business decisions of the Group 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 legal risk , the Legal Unit of the DBB takes immediate action to address and mitigate these risks. External legal advice from Counsel is obtained when necessary.

Compliance Risk

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

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

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

Business Continuity Management

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

The DBB's Risk Capital Position and Financial Flexibility

DBB adopts a proactive approach to ensure that it maintains a satisfactory risk capital level throughout its operations. In line with its historical practice and the capital targets, the DBB aims to maintain its risk capital position higher than the regulatory minimum requirements of 5% for Tier I and 10% for Total capital. The risk capital position of the DBB (on a group basis) demonstrates the following key features:

DFCC Group Capital Adequacy Ratios

Under Simple Approaches of Basel II

Parameter	As at 31st March	
	Tier I %	Total Capital %
Minimum regulatory requirement	5	10
DFCC Group capital position		
- 2010	26.2	23.1
- 2011	26.7	25.8
- 2012	21.0	19.9
- 2013	20.8	19.3
- 2014	18.7	17.2

a. The Group maintains a healthy risk capital position assessed based on the local regulatory guidelines. The capital position as at 31 March 2014 demonstrates a cushion of about 13.7% and 7.2%, respectively, for Tier I and Total Capital over the minimum regulatory requirements. This capital position is higher than the Bank's target risk capital ratios.

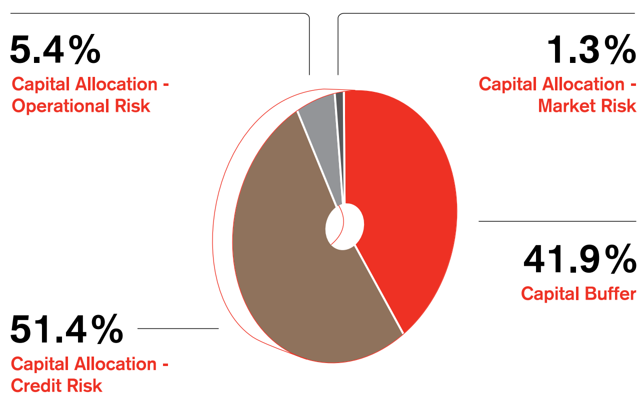
b. High capital buffer ensures a stronger balance sheet position of the Bank to withstand any unexpected eventualities if crystallised in an extreme situation. In addition, it enables the Bank to venture into above average portfolio growth or any new business diversifications in a timely manner without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

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

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

Graph below shows the DFCC Group's capital allocation and available capital buffer as at 31 March 2014 based on the quantified risk as per the applicable regulatory guidelines. Out of the regulatory risk capital (total capital) available as at 31 March, credit risk accounts to 51.4% of the total capital while the available capital buffer accounts to 41.9%.

DFCC Group's Capital Allocation and Available Capital Buffer as at 31 March 2014



Risk-weighted Assets of the DFCC on a Solo and a Group Basis as at 31 March

Risk-weighted assets (quantified risk for relevant risk categories as per the CBSL Guidelines) (LKR million)	2013		2014	
	Bank	Group	Bank	Group
Credit risk	67,668	102,245	73,761	125,474
Market risk	3,238	3,259	2,896	3,069
Operational risk	8,034	12,332	7,575	13,172
Total	78,940	117,836	84,232	141,715

Industry Comparison for the Risk Capital Position

The table below demonstrates that the strong risk capital position of DFCC which is above the industry average is a key phenomenon of the Bank over a long period of time. The quarterly capital ratios also confirm this trend and ensure DBB's commitment to maintaining a higher risk absorption capacity as a practice.

DFCC Group's Capital Position in Comparison to Comparable Industry Subset

As at financial year-end (DFCC - 31 March, industry counterparts - 31 December)

Parameter	2011/12		2012/13		2013/14	
	Tier I %	Total Capital %	Tier I %	Total Capital %	Tier I %	Total Capital %
Average of the industry subset (on a Group basis)	14.5	15.9	14.9	16.5	12.0	14.1
DFCC on a Group basis	21.0	19.9	20.8	19.3	18.7	17.2

(The comparable industry subset consists of local private sector banks. Industry comparable data is based on the Annual Reports as at 31 December.)

Financial Flexibility in the DFCC's Capital Structure

Apart from the strong capital position reported on-balance sheet, the Bank maintains a financial flexibility through the stored value in its equity investment portfolio. The unrealised capital gain of LKR 9,709 million, as at 31 March 2014 of the listed equity portfolio demonstrates financial flexibility in the Capital Structure of DFCC. This unrealised capital gains of the equity portfolio is included in the Fair Value Reserve and currently not taken for consideration in capital adequacy computation based on regulatory specifications.

DFCC Group Capital Position Under Simple Approaches of Basel II as at 31 March

	2013		2014	
	Bank	Group	Bank	Group
Tier capital I (LKR million)	19,414	24,555	19,696	26,566
Total capital (LKR million)	16,718	22,822	15,163	24,411
Tier I CAR (%)	24.6	20.8	23.4	18.7
Total CAR (%)	20.5	19.3	18.0	17.2
Credit RWA (LKR million)	67,668	102,245	73,761	125,474
Market RWA (LKR million)	3,238	3,259	2,896	3,069
Operational RWA (LKR million)	8,034	12,332	7,575	13,172
Total RWA (LKR million)	78,940	117,836	84,232	141,715

Local Supervisory Background

Banking Supervision Department of the Central Bank of Sri Lanka (CBSL) has taken steps to strengthen the risk management aspects of the licensed banks in Sri Lanka by enforcing certain set of regulations, specifications, guidelines and recommendations over a period, which are in line with the Basel II recommendations. The following regulatory specifications are key, in particular:

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

b. CBSL Direction No. 11 and 12 of 2007 on the Corporate Governance of Licensed Banks in Sri Lanka. In this Direction, the Licensed Banks are required to form a Board sub-committee on Integrated Risk Management with a defined scope of responsibilities.

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

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

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

Overall Risk Limits System

Risk Category	Impact	Key risk indicators	Statutory/ advisory limit	Position as at 31 March 2014
Credit & Concentration	When the credit portfolio is concentrated to a single borrower, single group or to a few borrowers with large exposures, there is a high risk of a substantial loss due to a failure of one such single 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 whose 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 (ISIC) as a percentage of Total Lending Portfolio	Internal advisory limit is applicable	Complied
		Exposure to selected regions On-balance sheet exposure to selected regions as a percentage of Total Lending Portfolio	Internal advisory limit is applicable	Complied

Risk Category	Impact	Key risk indicators	Statutory/ advisory limit	Position as at 31 March 2014
		Industry HHI	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 and lease portfolio (including Off-Balance Sheet) plus preference shares	Internal advisory limit is applicable	Complied
		Margin Trading - Commercial Banking Segment Aggregate exposure of margin extended/Total loan and advances	Internal advisory limit is applicable	Complied
		Maturity profile of loan book - Commercial Banking Segment Loans and advances with a maturity of less than one year/total loan and advances	Internal advisory limit is applicable	Complied
		Non-performing ratio of the lending portfolio	Internal advisory limit is applicable	Complied

Risk Category	Impact	Key risk indicators	Statutory/ advisory limit	Position as at 31 March 2014
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 only to public sector. There is a high risk of substantial loss due to a failure of one such single company, one sector.	**Equity exposure - Individual** (Equity investment in a private or public company as a percentage of capital funds of the Bank)	10% Statutory	5.3%
		Aggregate equity exposure in public companies (Aggregate amount of equity investments in public companies/capital funds of the Bank)	50% Statutory	44.9%
		Aggregate Equity exposure in private companies (Aggregate amount of equity investments in private companies/capital funds of the Bank)	25% Statutory	3.1%
		Aggregate Equity exposure in private and public companies (Total investments in private and public companies/capital funds of the Bank)	75% Statutory	48%
	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
		Internal advisory limits to manage interest rate risk arising in the Government Securities trading portfolio: • Maximum Treasury Trading Securities Portfolio size	Internal advisory limit is applicable	Complied

Risk Category	Impact	Key risk indicators	Statutory/ advisory limit	Position as at 31 March 2014
	The Bank engages in the foreign exchange markets in a broad capacity. Thus the Bank is exposed to exchange rate risk on foreign exchange portfolio positions.	Internal Advisory Limits to Manage Exchange Rate Risk: • Limit for counterparty Off-Balance Sheet market risk-forward exchange contracts • Limit for settlement risk arising from interbank transactions • Un-hedged foreign currency exposure related to long-term borrowings	Internal advisory limit is applicable	Complied
Liquidity	If adequate liquid assets are not maintained, the Bank will be unable to fund the Bank's commitments and planned asset growth without incurring unacceptable costs or losses.	**Liquid assets ratio** Average monthly liquid assets/total monthly deposit liabilities	20%	
		• Project lending business		77.5%
		• Commercial banking business		39.3%
		Liquidity gap report matching of 3 months cash outflows on static basis with cash availability	Internal advisory limit is applicable	Complied.
		Loan to deposit ratio (Commercial Banking Segment only)	Internal advisory limit is applicable	Complied
Integrated Risk	Adequate level of capital is required to absorb unexpected losses without affecting the Bank's stability.	**Core capital adequacy ratio - Group** (Core capital as a percentage of total risk weighted assets)	5%	18.7%
		Total capital adequacy ratio - Group (Total capital as a % of total risk weighted assets)	10% Statutory	17.2%
Operational Risk	Adequately placed policies processes and systems will ensure and mitigate unnecessary risks arising. This will result in the stability of the Bank	**Overall operational risk loss reporting limit set by CBSL**	Rs. 500,000	Complied Internal limit set by DBB in making a more stringent approach than that set by the regulator and any losses more than Rs. 10,000 requires reporting to IRM and BIRMC

Risk Category	Impact	Key risk indicators	Statutory/ advisory limit	Position as at 31 March 2014
		Internal fraud	Zero tolerance	Complied 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.
		External fraud	Zero tolerance	0.008% (Total loss value as a percentage of the last three years' average gross income) For losses due to acts which intended to defraud misappropriate property or circumvent laws, by a third party.
		Risk areas related to Employee practices and workplace safety	Zero appetite	Complied 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

Annexes
Financial Reports
Supplementary Financial Information
Stewardship
Recognition
Management Discussion
Business Model
Messages and Management Profiles

Risk Category	Impact	Key risk indicators	Statutory/ advisory limit	Position as at 31 March 2014
		Risk areas related to Client products and business practices	Zero appetite	Complied For losses arising from an unintentional act 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.
		Damage to physical assets	Very low appetite	Complied For losses arising from damage to physical assets from natural disasters or other events.
		Business Disruption and Systems Failures	Very low appetite	Complied For business disruptions/system failures for more than 30 minutes during service hours.
		Errors in execution, delivery and process management	Very low appetite	Complied For losses from failed transaction processing or process management.

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.

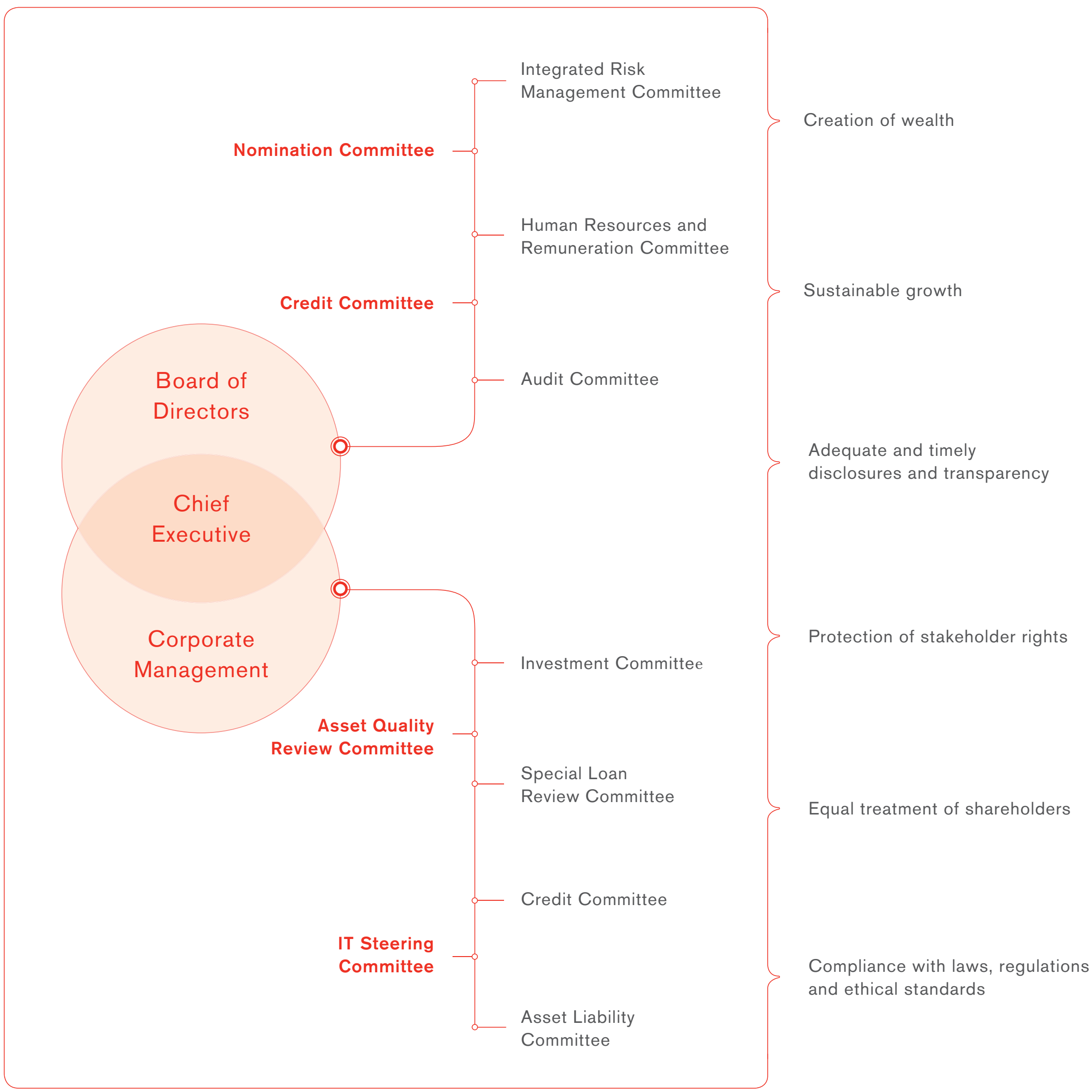
DFCC Bank practices high standards of corporate governance based on the OECD principles of good governance.

OECD principles of good governance are based on the following six guidelines:

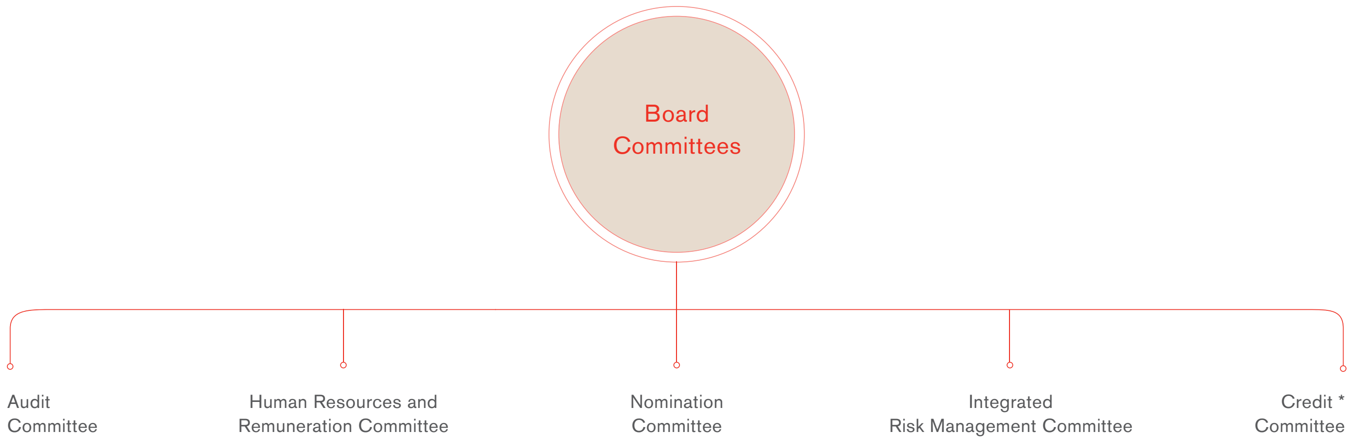
- Promoting transparency, being consistent with laws and clearly articulating division of responsibilities.
- Protecting and facilitating the exercise of shareholder rights.
- Equitable treatment of all shareholders.
- Recognising the rights of stakeholders and encouraging co-operation between stakeholders 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.

Our Goals of Good Corporate Governance



Composition of Main Board and Board Committees as at 31 March 2014



** The Credit Committee approves papers by circulation.*

Attendance

ATTENDANCE OF DIRECTORS AT MEETINGS

Name of Director	Main Board	Audit Committee	Human Resources & Remuneration Committee	Nomination Committee**	Integrated Risk Management Committee
Total No. of Meetings	12	13	5	3	4
Mr A S Abeyewardene	11/12	13/13			4/4
Mr J M S Brito	12/12		5/5	2/2	3/4
Dr L P Chandradasa	9/12				
Mr G K Dayasri	11/12		5/5		
Mr A R Fernando	7/7				2/2
Mr P M B Fernando	9/9	8/9			
Mr A N Fonseka	5/5				2/2
Mrs H M N S Gunawardana	11/12	4/4			
Mr C R Jansz	12/12			3/3	4/4
Mr J E A Perumal	12/12	11/13	5/5	1/1	
Mr R B Thambiayah	12/12			3/3	

*** 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 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.

Eliminating Conflicts of Interest

DFCC'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 151 and on Note 58 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'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.

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 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 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 and the Group. All important information is given publicity through the press and electronic media and posted on DFCC's website.

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

The shareholders of DFCC 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.

Employees

DFCC 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.

A Board approved grievance handling policy and procedure was introduced during the year with a view to developing sound employee relations and ensuring a fair, successful and productive environment at the workplace. A Grievance Committee comprising staff of different levels of the Bank was also set up as an alternate avenue for employees to express concerns and seek assistance.

The employees engage with DFCC 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 previous 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.
- 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 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	√	
Global Reporting Initiatives	2012	Multi-stakeholders		√

Memberships

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

Stakeholder Engagement

Being a responsible corporate entity, DFCC 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
	Face book	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, policies 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	
	Grievance Committee	Continuous	
	Employee newsletter	Quarterly	

Type of stakeholder	Mode of engagement	Frequency	Key topics discussed
Business Partners (including International Financial Institutions and suppliers)	Meetings	As and when required	• Health of the Bank and developments • Engagement activities with business partners • Responsible procurement
	Corporate Website	Continuous	
	Teleconferences	As and when required	
	Annual Reports	Annually	
	Supplier Management Policy	Continuous	
Regulators and legislators	Prudential reports	Monthly/Quarterly	• 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	
Society and Environment	CSR initiatives	Continuous	• Corporate Social Responsibility initiatives • Investing in the community through sponsorships • Responsible lending • CSR project awareness • Communication to general public • Entrepreneur and SME development • Fellowship with media • Media briefings
	Corporate website	Continuous	
	Sponsorships	Continuous	
	Branch network	Continuous	
	Public events	Periodically	
	Call Centre	Continuous	
	Media releases	As and when required	
	Discussions with editors and journalists	As and when required	
	Annual Media Get-together	Annually	
	Press conferences	As and when required	

Annual General Meeting

The Annual General Meeting of DFCC 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 2014 published in terms of Section 3 (1) (xvi) of the Banking Act Direction No. 12 of 2007.

Rule	Governance Principle	Compliance	Remarks
3.1 Responsibilities of the Board			
3.1 (i)	Safety and soundness of the Bank	Compliant	
	The Board has strengthened the safety and soundness of the Bank through the implementation of the following:		
	(a), (b) & (c) Strategic objectives, corporate values, overall business strategy	Compliant	The Board engages in the strategic planning and control of DFCC Bank (the Bank) by overseeing the formulation of business objectives and targets and assessing risks by engaging qualified and experienced personnel and delegating them with the authority for conducting operational activities and monitors the performance through a formal reporting process. The corporate values approved by the Board are posted on the internal web and all employees are guided by these values.
	(d) Communication with stakeholders	Compliant	The Board approved Corporate Communications Policy ensures that information is made available to shareholders and other stakeholders through timely disclosure made to the Colombo Stock Exchange (CSE) and by publicity through the press and electronic media and posted on DFCC Bank's website. The Bank has an internally developed Code of Conduct for its employees which is posted on the internal web and is accessible by all employees.
	(e) Bank's internal control and management information systems	Compliant	The Audit Committee assists the Board in reviewing and evaluating the effectiveness of the internal control system including the controls over financial reporting of the Bank. The Internal Audit carries out periodic reviews to ensure that the internal control systems are functioning as appropriate. The report by the Board of Directors on Internal Control over Financial Reporting is given on page 162 The independent Assurance Report by the External Auditor on the Directors Statement on Internal Control is given on page 165.

Rule	Governance Principle	Compliance	Remarks
	(f) Key Management Personnel (KMP)	Compliant	The Board has identified and designated its Key Management Personnel. Please refer Note 58.6 to the financial statements.
	(g) Authority and responsibility	Compliant	Board has identified matters reserved for Board. The duties and responsibilities of other KMP's are formally documented in their job descriptions.
	(h) Oversight of the affairs of the Bank by KMP's	Compliant	Oversight exercised through Board Committees with reporting to the Board as appropriate.
	(i) Board's own governance practices	Compliant	The effectiveness of the Board's own governance practices are reviewed by the Board. An annual self-assessment is carried out on a structured format and areas for improvement are discussed for necessary action.
	(j) Succession plan for KMP's	Compliant	The Bank has in place a succession plan for senior management which is reviewed annually and approved by the Board.
	(k) Regular meetings with KMP's to monitor	Compliant	Meetings are attended by relevant executives when required. Additional information sought by Directors on papers submitted to Board is clarified by the respective officers. Board has free access to senior management.
	(l) Regulatory Environment	Compliant	Chief Executive Officer briefs the Board on specific issues.
			Directors attend the annual symposium conducted by the Central Bank. Board Secretary provides all regulatory information required to the Board members. Senior management maintains dialogue with the Regulator.
	(m) Due diligence in hiring and oversight of External Auditor	Compliant	The primary responsibility for making recommendations on the appointment of the External Auditor rests with the Audit Committee.
			A formal policy approved by the Board on engagement of External Auditor to perform Non-audit services is in place.
3.1 (ii)	Appointment and segregation of the roles of the Chairman and CEO	Compliant	The Board elects the Chairman and appoints the Chief Executive Officer while the Chairman provides leadership to the direction, oversight and control process exercised by the Board. The CEO is responsible for management of the Bank as per DFCC Act.
3.1(iii)	Board meetings	Compliant	The Board held 12 monthly 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.

Rule	Governance Principle	Compliance	Remarks
3.1(iv)	The Board to ensure that arrangements are in place for Directors to include items and proposals in the Agenda of Board Meetings	Compliant	Whenever the Directors provide suggestions of topics for consideration at the Board meetings, they are included in the Agenda under 'open discussion' which is an integral part of every Board meeting and other supporting data, reports, documents etc relevant for the subject matter are circulated among the Directors for information.
3.1 (v)	Notice of Board Meetings - At least 7 days notice of regular meetings and reasonable notice of other meetings to be given	Compliant	Dates for the regular monthly Board meetings are agreed by the Directors at the commencement of each year and any changes to dates of scheduled meetings are decided well in advance. The Board circulars and other documents pertaining to meetings are made available well in advance to enable the Directors to participate in deliberations.
3.1 (vi)	Attendance at Board meetings	Compliant	All Directors attended more than two-thirds of Board meetings and no Director was absent for three or more consecutive meetings. Attendance details are given on page 129.
3.1 (vii)	Duties and qualifications of the Company Secretary	Compliant	The Company Secretary possesses the qualifications specified in Section 43 of the Banking Act.
			The Company Secretary while performing the secretariat services to the Board and shareholders' meetings is responsible to the Board in ensuring that Board procedures and applicable rules and regulations are followed.
			All new Directors are provided with the necessary documentation on 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 meeting 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.

Rule	Governance Principle	Compliance	Remarks
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 the 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.
3.1 (xiv)	Reporting insolvency to the Director of Bank Supervision	Compliant	Solvency is a matter constantly monitored by the Treasury Department, Integrated Risk Management Committee and the Board of Directors. During the year the Bank remained solvent and no event has or is likely to occur that would make the Bank not able to meet its obligations.
3.1 (xv)	Adequacy of capital	Compliant	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 the Bank's Annual Report.
3.1 (xvii)	Self-assessment of the Board of Directors	Compliant	The Board has a structured scheme of self-assessment which is carried out annually. The performance of the respective sub-committees are also evaluated by the other members who are not members of the respective sub-committees in order to ensure that they function effectively. The findings are discussed at the Board meetings and action is taken on areas identified for improvement.
			The CEO is a non-voting member as per the DFCC Act. The performance assessment criteria of CEO are given in 3.5 (xi).

Rule	Governance Principle	Compliance	Remarks
3.2 Composition of the Board			
3.2 (i)	Number of Directors	Compliant	The Board of Directors comprised eight Directors at the end of the period under review.
3.2 (ii)	Period of service of a Director	Compliant	No Director has held the position of a Director of the Bank for more than nine years.
3.2 (iii)	Number of Executive Directors	Compliant	The Chief Executive is the only Executive Director of the Board. He is an ex-officio 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	The 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.
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 the Bank provide that the Directors appointed by the Board of Directors hold office until the following AGM at which they have to be elected by the shareholders.
3.2 (xi)	Resignation or removal of a Director	Compliant	The retirement of Directors from office during the period under review are given in the Annual Report of the Directors. 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 the Bank is a Director of another bank except the subsidiary company, DFCC Vardhana Bank, which is a permitted exception.

Rule	Governance Principle	Compliance	Remarks
3.3 Fitness and Propriety of Directors			
3.3 (i)	Maximum age of Directors	Compliant	All Directors who reached the age of seventy have relinquished office.
3.3 (ii)	Holding of Director's position in more than 20 companies in all	Compliant	All Directors comply with this requirement.
3.4 Management Functions Delegated by the Board			
3.4 (i)	Delegation arrangements	Compliant	The Board of Directors has delegated authority to the management subject to specific criteria, limitations, safeguards and monitoring mechanisms.
3.4 (ii)	Extent of Delegation	Compliant	The delegation of authority made by the Board is designed to facilitate efficient management of the affairs of the Bank and to aid the oversight role exercised by the Board. It is not of an extent to hinder the ability of the Board to discharge its functions. The Board retains the authority to expand, curtail, limit or revoke such delegated authority.
3.4 (iii)	Review of delegation process	Compliant	The delegation process is subject to periodic review by the Board in order to ensure that necessary amendments are approved to meet the requirements of the Bank. Material decisions made under delegated authority are reported to the Board for information.
3.5 The Chairman and Chief Executive 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 an independent Non-Executive Director.
3.5 (iii)	Disclosure of Relationship between the Chairman, CEO and other Directors	Compliant	No relationships exist between the Chairman, CEO and 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.

Rule	Governance Principle	Compliance	Remarks
3.5 (v)	Agenda of Board meetings	Compliant	The Agenda of each Board meeting is drawn by the Company Secretary under the direction of CEO and Chairman and any matters relevant to the policies and operations of the Bank proposed by other Directors are included in the agenda upon approval by the Chairman.
3.5 (vi)	Providing information to the Directors	Compliant	The Chairman ensures that all Directors are properly briefed on issues which arise at the Board meetings and ensures that they receive adequate information in a timely manner.
3.5 (vii)	The Board to act in the best interest of the Bank	Compliant	The Chairman encourages exercise of independent judgment by the Directors on matters under consideration by the Board in order that the best interests of the Bank can be assured.
3.5 (viii)	Effective contribution of Non-Executive Directors	Compliant	The Chairman facilitates contributions by the Non-Executive Directors in making decisions.
3.5 (ix)	The Chairman not to engage in executive functions	Compliant	The Chairman is non-executive and does not supervise any management personnel of the Bank directly.
3.5 (x)	Communication with shareholders	Compliant	The Chairman had 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 22 current and potential institutional investors, attended two investor forums where over 300 investors/fund mangers participated 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 Officer is the Head of the management team and is in charge of day-to-day management of the Bank's operations and business.
			At the beginning of each year the Board discusses the business plan with the CEO and senior management and agrees on the medium and short-term financial and non financial targets to be achieved and action plans to be implemented by the Bank. Progress is monitored on an ongoing basis and the assessment of the performance of the Bank is carried out by the Board at the end of each year based on the initiatives laid down in the business plan.

Rule	Governance Principle	Compliance	Remarks
3.6 Board Appointed Committees			
3.6 (i)	Four Board appointed committees	Compliant	The Board has appointed four committees required by Direction. The reports on their duties, performance and roles are published in the Annual Report.
3.6 (ii)	Board Audit Committee -		Please refer page 155.
	(a) Chairman of the committee	Compliant	During the year the Audit Committee was chaired by an Independent Non-Executive Director (INED) who is a qualified Chartered Accountant.
	(b) Composition of the members	Compliant	All members of the committee are Non-Executive Directors.
	(c), (d) & (e) External Auditor	Compliant	The Audit Committee assists the Board in implementing a transparent process in the engagement and remuneration of External Auditor and assist in the general oversight of financial reporting, internal controls, and compliance with laws, regulations and codes of conduct. The committee reviewed the statement issued by the External Auditor pursuance to Section 163 (3) of the Companies Act No. 7 of 2007.
			A formal Policy approved by the Board on Engagement of External Auditor to perform non-audit services is in place.
	(f) Nature & Scope of External Audit	Compliant	The committee met with the External Auditor to discuss and finalise the scope of the audit to ensure that it is in compliance with guidelines issued by Central bank.
	(g) Review of Financial Information of Bank	Compliant	The committee reviewed all quarterly non audited interim financial statements and the financial statement for the year ended 31 March 2014.
	(h) & (l) Meetings with External Auditor	Compliant	The committee met with the External Auditor on 4 occasions and 2 meetings without the presence of the management.
	(i) Review of Management letter	Compliant	The committee considered the management letter issued by the External Auditor for the year ended 31 March 2013 and the management responses thereto.

Rule	Governance Principle	Compliance	Remarks
	(j) & (k) Internal Audit	Compliant	The committee with the approval of the Board continued to supplement the internal audit function by engaging two firms of chartered accountants to carry out the periodic audits of some business units.
			The committee reviewed the internal audit reports and considered the findings, recommendations and corrective action.
	(m) Terms of Reference	Compliant	The committee is guided by the Audit Committee Charter.
	(n) Meetings	Compliant	During the financial year ended 31 March 2014, 13 Meetings were held. Attendance of committee members is given in the table on page 129.
	(p) Secretary	Compliant	Senior Vice President - Group Internal Audit serves as the secretary of the committee.
	(q) Process of raising issues in confidence	Compliant	The Board has adopted a Whistle Blowing Policy to encourage employees to communicate legitimate concerns if any of illegal or unethical practices.
3.6 (iii)	Board Human Resources and Remuneration Committee -		Please refer page 158.
	(a) - (d) Remuneration & review of performance of KMP's	Compliant	Committee annually reviews the performance against set target of the CEO and other KMP's and the remuneration levels of the CEO and KMP's while ensuring appropriate compensation levels are maintained in order to retain and motivate staff.
3.6 (iv)	Board Nomination Committee -		Please refer page 159.
	(a) - (e) Appointment of new directors & KMP's	Compliant	During the year the committee considered and recommended to the Board the appointment of one new Director and the re-election of the Directors retiring under DFCC Regulation 87 & 90 while ensuring that they are fit and proper persons to hold such office. The committee also reviewed the list of KMP's and ensured that they were fit and proper to hold office.
	(f) Composition	Compliant	The committee consists of 3 Non-Executive Directors and is chaired by an Independent Director.

Rule	Governance Principle	Compliance	Remarks
3.6 (v)	Board Integrated Risk Management Committee		Please refer page 160.
	(a) Composition	Compliant	Please refer page 160.
	(b) - (g) Assessment of Risk	Compliant	The committee assesses possible risks, reviews and takes appropriate action to mitigate such risks. The assessment included the review of risks relating to subsidiaries and the joint venture of the Bank. In respect of subsidiaries other than DVB and the Joint Venture, risk assessment is carried out by having DFCC's nominees on the respective Boards and through review of their financial indicators. The committee met on a quarterly basis. The risk exposures of the Bank are assessed on a monthly basis through Key Risk Indicators. The Board is informed of the Board Integrated Risk Management Committee (BIRMC) proceedings and required approvals are obtained through specific submissions to the Board.
			The committee also assessed the effectiveness of all management committees.
	(h) Compliance function	Compliant	The Compliance Officer reports to the BIRMC. Committee overseas the function and reviewed the quarterly reports on compliance. The compliance function was headed by a KMP until end October 2013. With effect from 1 November 2013, the Assistant Vice President Legal, who is not a KMP, was appointed as the Acting Compliance Officer in agreement with the Central Bank pending finalisation of the proposed bank amalgamation process.

Rule	Governance Principle	Compliance	Remarks
3.7 Related Party Transactions			
3.7 (i) to (iii)	Avoidance of conflicts of interest and favourable treatment in transactions with related parties	Compliant	The Bank has adhered to the law as specified in the Banking Act and the Directions issued there under with regard to transactions with related parties. Board ensures that no related party benefits from any favourable treatment except as indicated in 3.7 (vi).
			The Bank has put in place a mechanism to obtain on a quarterly basis, a confirmation from all key management personnel on a structured format to assist in the process of collating related party transactions.
3.7 (iv)	Accommodation to Directors or their close relations	Compliant	The Bank complies with the law as specified in the Banking Act and the Directions issued there under in granting accommodation to the Directors and/or their close relations.
3.7 (v)	Accommodation granted to Directors prior to appointment	Compliant	The provisions of the Banking Act will be followed if such situations arise and public will be informed if not compliant by the specified date as he/she will cease to hold office. This situation did not arise.
3.7 (vi)	Avoidance of favourable treatment in accommodation to employees, close relations of employees and/or entities in which any employee or close relation of such employee hold substantial interest	Compliant	The accommodation to employees, close relations of employees and/or entities in which any employee or close relation of such employee hold substantial interest are subject to normal commercial terms applicable to such transactions except in case of accommodation under approved schemes uniformly applicable to all or specific categories of employees. The CEO has not participated in these schemes.
3.7 (vii)	Not to remit part of accommodation or interest without prior approval of Monetary Board	Compliant	No such situation has arisen.

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

(i)	The Board shall ensure that:	
	The Annual audited financial statements and quarterly financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards and such statements are published in the newspapers in an abridged form in Sinhala, Tamil and English.	Complied with.
(ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report:	
	a. A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with. Please refer the Statement of Directors' Responsibility on page 174.
	b. A report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied with. Please refer to the Directors' Statement of Internal Control on page 162.
	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 165.
	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 21 and Notes 19 and 58.5 to the financial statements

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

Category of related party and type of transaction	31.03.2014 LKR 000	%
Key management personnel - loans	7,076	0.05
Subsidiaries - Finance lease	5,687	0.04
Total net accommodation	12,763	0.09
Regulatory capital - solo basis	15,162,565	

The total net accommodation was 0.09% of the Bank's regulatory capital on solo basis. Maximum limit determined by Directors is 25% of Bank's regulatory capital on solo basis.

Requirement	Compliance
f. The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.	Complied with. Please refer Note 58.6 to the financial statements.
g. All findings of the 'factual findings report' of the External Auditor to be incorporated in this report.	Complied with.
h. A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance.	Complied with. See Annual Report of the Board of Directors
i. A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the bank to address such concerns.	The Monetary Board has not required any disclosure to be made.

Independent Assurance

The External Auditors have performed procedures set out in Sri Lanka Related Services Practice Statement 4750 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

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 177 to 275 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 from the financial year ended 31 March 2013. Accordingly, the financial statements of DFCC Bank and the Group have been prepared in conformity with the requirements of new accounting standards, the Banking Act and other applicable statutory and regulatory requirements.

The revised LKAS 19 - 'Employee Benefits' became applicable during the current financial year ended 31 March 2014. Consequent to adoption of the revised LKAS - 19 'Employee Benefits' the equity of DFCC Bank as at the beginning of the previous financial year has been restated from LKR 31,135 million to LKR 31,253 million as a result of recognising the total actuarial gains/losses.

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.

Profit and Appropriations

Year ended 31 March 2014	LKR 000
Profit for the year	2,587,450
Other comprehensive income for the year, net of tax	1,364,244
Total comprehensive income for the year	3,951,694
Appropriations	
Transfer to:	
Reserve Fund (statutory requirement)	95,000
Investment Fund (statutory requirement)	280,623
First and final dividend recommended for financial year ended 31 March 2014	1,458,037
Unappropriated profit for the year	2,118,034

Accounting Policies

The accounting policies adopted in the preparation of the financial statements of DFCC Bank and the Group are stated on pages 187 to 203 of the Annual Report. There were no changes to the accounting policies of the Bank in the year under review other than in consequence to a revision in LKAS-19 'Employee Benefits' which became effective commencing this financial year.

Auditor's Report

The Auditor's Report on the financial statements, which is unqualified, is given on page 176.

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 2015. 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.

The Board of Directors

The Board of Directors of DFCC Bank consist of eight 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 21 to 23 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 Director

Ms H M N S Gunawardana - Government Director

Independent Non-Executive Directors

Mr C R Jansz - Chairman

Dr L P Chandradasa

Mr G K Dayasri

Mr P M B Fernando

Mr J E A Perumal

Mr R B Thambiayah

Ms S R Thambiayah - Alternate to Mr R B Thambiayah

Executive Director

Mr A R Fernando - CEO and Ex-Officio Director

Ms Gunawardana does not meet the criteria set out in the Direction to be designated an Independent Director since she represents a specific stakeholder.

Retirement, Appointment and Re-election of Directors

Mr A N Fonseka relinquished his duties as the Chief Executive Officer with effect from 30 September 2013.

Mr A S Abeyewardene retired from the Board with effect from 13 March 2014 upon reaching the age of 70 and Mr J M S Brito retired from the Board with effect from 21 March 2014 having served a period of 9 years as a Director of the Bank.

The Directors' record their appreciation for the contribution made by them during their tenure as a Director.

Mr A R Fernando assumed duties as the Chief Executive Officer/ Ex-Officio Director with effect from 1 October 2013.

Mr P M B Fernando was appointed as a Director with effect from 1 July 2013. Mr P M B Fernando will retire in terms of Regulation No. 90 of the DFCC Regulations and is offering himself for re-election at the Annual General Meeting. The Nomination Committee has recommended his re-election and the Board having concluded that he is a fit and proper person to be a Director in terms of the Provision of the Banking Act unanimously endorsed the recommendation of the Nomination Committee.

The Director retiring by rotation in Terms of Regulation No. 87 of the DFCC Regulations is Mr R B Thambiayah 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 Directors' remuneration for the financial year ended 31 March 2014 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 129 of the Annual Report.

Directors' Interests in Shares

	No. of Shares as at 31.03.2014	No. of Shares[1] as at 31.03.2013
Abeyewardene, A S[2]	–	10,380
Brito, J M S[2]	–	38,760
Chandradasa, L P	500	500
Dayasri, G K	1,036	1,036
Fernando A R[3]	4,470	–
Fernando, P M B[3]	1,000	–
Fonseka, A N[2]	–	42,006
Gunawardana, Ms H M N S	Nil	Nil
Jansz, C R	1,000	1,000
Perumal, J E A	42,475	42,475
Thambiayah, R B	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 2014.

[3]Not a Director as at 31 March 2013.

Directors' Interests in Debentures

	31.03.2014 LKR 000	31.03.2013 LKR 000
Fernando, A R	5,000	–

No Director directly or indirectly holds options 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.

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 2014 is as follows:

	LKR 000
Mr A S Abeyewardene	
Ceylon Hospitals PLC	
Aggregate amount of credit facilities approved	150,000
Mr J M S Brito	
Aitken Spence Travels (Pvt) Limited	
Elevators (Pvt) Limited	
Aggregate amount of payments made for services	531
Mr A N Fonseka	
Mrs R D Fonseka	
Aggregate amount of payments made for rent	1,050
Mr C R Jansz	
Lanka Bell (Pvt) Limited	
Lanka Milk Foods (CWE) PLC	
Aggregate amount of payments made for services	37
Mr R B Thambiayah	
Royal Ceramics Lanka PLC	
Royal Porcelain (Pvt) Ltd.	
Aggregate amount of payments made for supplies	1,161

Messrs J M S Brito, A N Fonseka and A R Fernando 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 58.2 to 58.4 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 P M B Fernando - Chairman

Ms H M N S Gunawardana

Mr J E A Perumal

Credit Committee

Mr C R Jansz - Chairman

Ms H M N S Gunawardana

Mr J E A Perumal

Human Resources and Remuneration Committee

Mr C R Jansz - Chairman

Dr L P Chandradasa

Mr G K Dayasri

Mr J E A Perumal

Nomination Committee

Mr R B Thambiayah - Chairman

Mr C R Jansz

Mr J E A Perumal

Integrated Risk Management Committee

Mr C R Jansz - Chairman

Mr P M B Fernando

Mr R B Thambiayah

Mr A R Fernando - 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.

Dividend

The Directors have recommended for approval by shareholders at the Annual General Meeting the payment of a first and final dividend of LKR 5.50 per share, (final dividend paid in the previous year, LKR 5/- per share). The total dividend for the year will amount to approximately LKR 1,458 million (LKR 1,325 million in the previous year), which amounts to 66% 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 135 million of which intangible assets amounted to LKR 4 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 32,694 million.

Market Value of Freehold Properties

The information on market value of freehold properties are given in Note 39.1.2 to the financial statements.

Share Capital and Subordinated Debentures

The total share capital as at 31 March 2014 was LKR 2,651 million consisting of 265,097,688 shares of LKR 10/- each. Further information is given on pages 246 and 247.

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 on page 7 of the Annual Report and also contains information pertaining to the share trading during that period.

Shareholders

As at 31 March 2014, there were 8,874 registered shareholders and the distribution is indicated on page 288 The 20 largest shareholders as at 31 March 2014 are listed on page 289.

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.

Proposed Consolidation of Banking Business

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

Events occurring after the Reporting Period

Subsequent to the date of the reporting period no circumstances have arisen which would require adjustments to the accounts. Significant events occurring after the reporting date which in the opinion of Directors require disclosure are described in Note 61 to the financial statements.

Corporate Governance

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

The Directors' have obtained External Auditor's assurance on effectiveness of the internal control mechanism and compliance with the Direction 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 127 to 148.

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

The Table below provides cross references to facilitate easy reference.

Reference to Rule	Requirement	Reference to Annual Report
3 (8) (i)	Financial statements on prescribed format	Financial statements on pages 177 to 275
3 (8) (ii) (a)	Affirmative assurance of compliance with accounting standards and requirements	Directors' Responsibility Statement on page 174
3 (8) (ii) (b)	Affirmative assurance of the integrity of financial reporting system	Directors Responsibility Statement on page 174
3 (8) (ii) (c)	Information on Directors	Pages 21 to 23
3 (8) (ii) (d)	Remuneration of Directors	Notes on the financial statements on page 208
3 (8) (ii) (e)	Net accommodation granted to each category of related party	Corporate Governance Report. Table on page 148
3 (8) (ii) (f)	Compensation and other transactions with key management personnel	Notes on the financial statements on page 252
3 (8) (ii) (h)	Compliance with prudential requirements and regulations	This report

For and on behalf of the Board of Directors

C R Jansz
Chairman

A R Fernando
Ex-Officio Director and Chief Executive

Ms A Withana
Secretary to the Board

28 May 2014

REPORT OF THE AUDIT COMMITTEE

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

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

Composition

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

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

- Mr P M B Fernando - Chairman since March 2014
- Mr A S Abeywardene - Chairman up to March 2014
- Mr J E A Perumal
- Ms H M N S Gunawardana

Mr P M B Fernando was appointed a member with effect from 31 July 2013 in place of Ms H M N S Gunawardana who served the Audit Committee. Mr A S Abeywardene retired from the Board of Directors on reaching the age of 70 years with effect from March 2014 at which point Ms H M N S Gunawardana was reappointed to the Audit Committee. Subsequently Mr P M B Fernando was appointed as the Chairman of the Audit Committee. 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 2014, thirteen Audit Committee meetings were held. Proceedings of the Audit Committee meetings are reported regularly to the Board.

Attendance by the Committee members at the meetings is given in the table on page 129 of the Annual Report.

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

Mandate and Role

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

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

Financial Reporting

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

The Committee reviewed all quarterly non-audited interim financial statements and financial statements for the year ended 31 March 2014 together with supporting information that included significant assumptions and judgments made in the preparation of financial statements. The Committee also took into consideration the internal audit reports, management letter issued by the External Auditor and the responsibility statements in relation to the financial statements issued by the Executive Vice-President (Finance) and Chief Executive in making an overall assessment on the integrity of the Financial Reporting system.

The Annual Report of the Directors for this financial year to 31 March 2014 includes a separate report on internal controls on page 162 This report is issued pursuant to Rule 3 (8) (ii) (b) of the Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks and includes inter alia an affirmative assurance on the integrity of Financial Reporting System to produce reliable financial statements that are true and fair.

The Committee confirms that to the best of its knowledge and belief the financial statements issued for external purposes by DFCC Bank complied with generally accepted principles of accounting as enunciated in Sri Lanka Accounting Standards and complies with the statutory provisions of DFCC Bank Act No. 35 of 1955, Banking Act No. 30 of 1988 and 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 two firms of Chartered Accountants to supplement the 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.

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 Central Bank of Sri Lanka.

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

In the context of determining the independence of the Auditor, the Committee reviewed the statements issued by the External Auditor pursuant to Section 163 (3) of the Companies Act No. 07 of 2007. As per this declaratory statement the Auditors have 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 2014 for both audit and permitted non-audit services.

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

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

Regulatory Compliance

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

Evaluation

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

Reappointment of Auditor

The Audit Committee having evaluated the quality of audit service provided by the current Auditor has recommended to the Board of Directors that KPMG be reappointed as Auditors for the year ending 31 March 2015, subject to the approval of shareholders at the Annual General meeting at a fee to be determined by the Board.

P M B Fernando
Chairman - Audit Committee

28 May 2014

REPORT OF THE HUMAN RESOURCES AND REMUNERATION COMMITTEE

The Composition

The Human Resources and Remuneration Committee appointed by the Board of Directors, presently consists of four Non-Executive Directors. Mr C R Jansz is the Chairman of the Committee and Messrs G K Dayasri, J E A Perumal, and Dr L P Chandradasa are the other members.

Mr J M S Brito served as the Chairman of the Committee until his retirement and Mr C R Jansz was appointed in place of Mr Brito with effect from 19 March 2014.

Dr L P Chandradasa was appointed as an additional member with effect from 19 March 2014.

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

The Mandate

The Committee has adopted as its mandate the tasks specified in Section 3 (6) (iii) of Direction No. 12 of 2007 of the Central Bank of Sri Lanka on Corporate Governance for licensed specialised 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 organisation 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.

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 re-organisation of the staffing structure of the lending divisions with a view to optimise resources and be better aligned with the business needs. The Committee periodically assesses the succession plan for key management positions and took appropriate steps to induct external skills to strengthen the management of the banking business of DFCC Group where it was deemed necessary.

Meetings

The Committee held five meetings during the financial year to carry out its task. The attendance by members is given on page 129 of the Annual Report.

C R Jansz
Chairman - Human Resources and Remuneration Committee

28 May 2014

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 C R Jansz and J E A Perumal serving as members.

Mr J M S Brito served as the Chairman of the Committee until his retirement and Mr C R Jansz was appointed to the Committee in place of Mr Brito with effect from 19 March 2014.

The Chief Executive 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.

Meetings

Nominations Committee meetings are conducted by physical presence of members or via electronic communications. Three meetings were held during the financial year. During the year the Committee considered and recommended to the Board the appointment of one new Director. The Committee also reviewed the list of Key Management Personnel and assessed the fitness and propriety of Directors and Key Management Personnel in terms of the requirements of the Banking Act. Individual Committee members do not participate in discussions in matters relating to them. The attendance by Directors at meetings is given on page 129 of the Annual Report. The Committee has recommended the re-election of the Directors offering themselves for re-election at the Annual General Meeting.

R B Thambiayah
Chairman - Nominations Committee

28 May 2014

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

Composition of Board Integrated Risk Management Committee

The Board Integrated Risk Management Committee (BIRMC) of DFCC consisted of the 3 Non-Executive Directors, 1 Executive Director and 6 Non-Voting Members, as at 31 March 2014. The Group Chief Risk Officer functions as the Secretary to the Committee and a voting member. Non-voting members represent key functional areas such as lending, finance, treasury and operations. The membership of the Committee as at 31 March 2014, was as follows:

- Mr C R Jansz - Non-Executive Director/Chairman of the Committee
- Mr P M B Fernando - Non-Executive Director
- Mr R B Thambiayah - Non-Executive Director
- Mr A Fernando - Chief Executive/Director
- Mr T Fernandopulle - Group Chief Risk Officer/Secretary to the Committee
- Ms A Withana - EVP/Finance
- Mr P Gamage - EVP/Operations
- Mr T de Silva - EVP/Lending
- Mr K Nanayakkara - SVP/Treasury
- Ms M Gunawardhena - SVP/Corporate Banking & Resource Mobilisation
- Mr N Bandara - SVP/Internal Audit

Mr J M S Brito - former Chairman of the Committee and Mr A N Fonseka - former Chief Executive retired from the BIRMC in March 2014 in parallel to their retirement from the Board of Directors.

Charter and the Responsibilities of the BIRMC

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

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

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

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

d. The 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.

e. Review the adequacy and effectiveness of the management committees through a set of defined tools.

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

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

BIRMC Meetings

BIRMC meets on a quarterly basis. During the year, DFCC convened four BIRMC meetings. The attendance of members is listed on page 129 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 achieved by the Committee:

a. Close monitoring of Bank's risk exposures and relevant timely decision-making facilitated by the overall risk limits system and the monthly key risk indicators report which cover all key risk areas.

b. Setting quantitative ceilings on required credit ratings grades and review of the portfolio segmentation in order to maintain the portfolio quality and improve the quality of the credit risk management.

c. Review and approve the Internal Capital Adequacy Assessment Process (ICAAP) of the Bank and the Group which includes capital goals, capital targets and capital augmentation plan in relation to both regulatory and internal capital assessment approaches.

d. Review of the implementation of the Basel II road map for DBB.

e. Review of the credit approval workflow while redefining the scope of the Quality Assurance Unit and the Credit Risk Appraisal Department. These tasks focused on strengthening the quality of the credit appraisal function in DBB and proactive management of credit risk.

f. Review and approve features and hedging mechanism for DFCC's debut international bond placement.

g. Review of the risk capital position of the Bank and the Group, and recommend necessary actions in accordance.

Several new risk management policies and guidelines were introduced during the year while relevant existing risk policies and practices were reviewed by the Committee in line with the Bank's specific requirements, industry dynamics and regulatory specifications. The Committee reviewed the periodical stress testing results of DFCC conducted on a bank-wide basis under the assumed stress conditions 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.

C R Jansz
Chairman

28 May 2014

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.

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 155.
- The Board Integrated Risk Management Committee (BIRMC) is established by the Board to assist the Board to oversee the overall management of principal areas of risk of the Bank. The BIRMC includes representation from all key business and operations areas of the Bank and assists the Board in the implementation of policies, procedures and controls identified by the BIRMC.
- Operational committees have also been established with appropriate mandates to ensure effective management and supervision of the Bank's core areas of business operations. These committees include the Management Committee, the Credit Committee, the Asset/Liability Committee, the Asset Quality Review Committee, Investment Committee, Special Loan 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 (SLSAE) - 3050 issued by The Institute of Chartered Accountants of Sri Lanka.

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

The risk-based Internal Audit Plan implemented by the Internal Audit Department in consultation with the Board Audit Committee, 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 previous financial year, 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 this year too continues to be made based on excel software application. However during the year, the documentation of the process followed by the Bank for quantification of adjustments was improved based on feedback received from the external auditors, regulators and the internal audit. The testing of such process by the internal audit was carried out during the year. These processes will be further improved on an ongoing basis.

Management Information

The comments made by the external auditors in connection with internal control system in the financial year to 31 March 2013 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 2014 in connection with the internal control system will be addressed in future.

Annexes Financial Reports Supplementary Financial Information Stewardship Recognition Management Discussion Business Model Messages and Management Profiles

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

This assessment of internal control process is confined only to the Bank and did not include its subsidiaries. However, the Board of Directors of the 99.17% owned commercial banking subsidiary, DFCC Vardhana Bank PLC (DVB) issued an affirmative assurance in their Statement 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 2013. 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 2014 and their Independent Assurance Report is on page 165 of the Annual Report.

By Order of the Board,

P M B Fernando
Chairman - Audit Committee

C R Jansz
Chairman - Board of Directors

A R Fernando
Chief Executive/Director

28 May 2014

INDEPENDENT ASSURANCE REPORT

KPMG
(Chartered Accountants)
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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 2014, as set out on pages 162 to 164 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.

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

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

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

(c) Related the Statement made by the directors to our knowledge of the Bank obtained during the audit of the financial statements.

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

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

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

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

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

Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the Annual Report on pages 162 to 164 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

28th May 2014
Colombo

Supplementary Financial Information

Teams Scorecard & Stats

CONSOLIDATED INCOME STATEMENT OF DFCC AND 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 on page 171.

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

For the year ended 31 March	**2014 LKR 000**	2013 LKR 000
Income	20,214,370	17,837,031
Interest income	18,466,668	16,085,307
Interest expenses	10,598,761	9,190,110
Net Interest income	7,867,907	6,895,197
Fee and commission income	820,969	657,264
Less: Fee and commission expenses	6,442	8,284
Net Fee and commission Income	814,527	648,980
Net gain from trading	212,306	96,707
Net loss from financial instruments at fair value through profit or loss	(323,943)	(501,212)
Net gain from financial investments	1,230,939	1,064,602
Other operating income (net)	(192,569)	434,363
Total operating income	9,609,167	8,638,637
Impairment for loans and other losses	1,221,722	671,740
Net Operating income	8,387,445	7,966,897
Less: Operating expenses		
Personnel expenses	1,829,807	1,659,883
Other expenses	1,998,603	1,618,182
Operating profit before value added tax	4,559,035	4,688,832
Value added tax (VAT) on financial services	577,103	394,461
Profit before tax	3,981,932	4,294,371
Tax expenses	879,585	847,592
Profit for the Year	3,102,347	3,446,779

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF DFCC AND 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 on page 171.

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	**31.03.2014 LKR 000**	31.03.2013 LKR 000
Assets		
Cash and cash equivalents	**2,932,492**	3,679,665
Balances with Central Bank	**2,870,492**	2,620,510
Placements with banks	**3,113,437**	7,493,817
Derivative assets held for risk management	**183,892**	119,642
Other financial assets held-for-trading	**1,971,915**	403,716
Loans to and receivables from banks	**5,445,963**	3,767,261
Loans to and receivables from other customers	**112,172,881**	98,637,547
Financial investments - Available-for-sale	**39,901,586**	27,573,595
Financial investments - Held-to-maturity	**1,073,703**	75,022
Investments in subsidiaries	**145,536**	128,536
Investments in associates	**35,270**	35,270
Investments in joint ventures	**655,000**	655,000
Due from subsidiaries	**4,368**	5,066
Investment properties	**–**	7,080
Property, plant and equipment	**1,009,522**	917,343
Intangible assets	**236,627**	259,202
Goodwill on consolidation	**146,602**	146,602
Government grant receivable	**276,878**	–
Prepayments	**35,833**	36,920
Other assets	**2,138,363**	2,224,611
Total assets	**174,350,360**	148,786,405

CONSOLIDATED STATEMENT OF FINANCIAL POSITION DFCC AND DVB (DBB)

As at	**31.03.2014 LKR 000**	31.03.2013 LKR 000
Liabilities		
Due to banks	**6,671,569**	8,033,620
Derivative liabilities held for risk management	**227,994**	307,094
Due to other customers	**81,230,336**	63,191,087
Other borrowing	**27,782,493**	35,807,582
Debt securities issued	**14,009,017**	558,257
Current tax liability	**239,096**	175,722
Deferred tax liability	**553,223**	460,980
Government grant-deferred income	**295,628**	–
Other liabilities	**2,076,341**	2,172,714
Due to subsidiaries	**–**	29,197
Subordinated term debt	**1,609,674**	1,609,690
Total liabilities	**134,695,371**	112,345,943
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	**2,381,648**	2,006,025
Retained earnings	**6,177,658**	7,185,735
Other reserves	**26,314,252**	22,487,878
Total equity attributable to equity holders of the Bank	**39,589,372**	36,395,452
Non-controlling interests	**65,617**	45,010
Total equity	**39,654,989**	36,440,462
Total equity and liabilities	**174,350,360**	148,786,405

KEY PERFORMANCE INDICATORS OF CONSOLIDATED BANKING BUSINESS (DBB)

The key ratios of performance are derived from the consolidated income and statement of financial position of DFCC Bank and DFCC Vardhana Bank PLC.

	2014	2013
Net interest income/interest income, %	**42.6**	42.9
Non-interest expenses/operating income, %	**39.8**	38.4
Impairment allowance/Impaired loans, %	**85.8**	87.2
Impaired loans/Total loans, %	**6.4**	6.3
Interest margin - Net interest income/Average interest earning assets, %	**5.9**	6.2
Common branches as at 31 March	**19**	18
DVB only branches as at 31 December	**54**	41
Employees - 31 March	**1,371**	1,262

RECONCILIATION WITH GROUP FINANCIAL STATEMENTS

1. Consolidated Income Statement

For the year ended 31 March	**2014 LKR 000**	2013 LKR 000
Profit for the period - DBB	**3,102,347**	3,446,779
Dividend from subsidiaries and JV accounted in DBB	**(77,951)**	(49,574)
WHT on dividend received	**(5,718)**	(4,902)
Reversal of provision for fall in value of investments in subsidiary	**–**	9,135
	3,018,678	3,401,438
Add: Profit attributable to equity holders of DFCC Bank from:		
Other subsidiaries	**99,909**	123,252
Joint venture	**125,295**	47,831
Associate	**5,793**	1,887
Profit for the period - Group	**3,249,675**	3,574,408

Composition of the Joint Venture Profit

For the year ended 31 March	**2014 LKR 000**	2013 LKR 000
Joint venture and its subsidiaries	**6,963**	25,568
Associates of joint venture and its subsidiaries	**118,332**	22,263
	125,295	47,831

2. Consolidated Equity

As at	**2014 LKR 000**	2013 LKR 000
Equity of DBB	**39,589,372**	36,395,452
Equity of other subsidiaries	**166,091**	181,525
Proportionate equity of joint venture	**504,599**	377,311
Elimination of 50% of the profits on the sale of subsidiary to joint venture	**(184,688)**	(184,688)
Consolidation adjustment for loss in value of a subsidiary	**26,502**	26,502
Share of post acquisition reserves - associate	**18,894**	18,197
Equity attributable to equity holders of the Bank	**40,120,770**	36,814,299

Financial Reports

The Scoreboard

Financial Calendar - 2013/14

LKR 5.00 per share Final Dividend for 2013 paid on	09 July 2013
Audited financial statements signed on	28 May 2014
58th Annual General Meeting to be held on	30 June 2014
LKR 5.50 per share Final Dividend for 2014 payable on*	09 July 2014
1st Quarter Interim Results released on	12 August 2013
2nd Quarter Interim Results released on	11 November 2013
3rd Quarter Interim Results released on	13 February 2014

Proposed Financial Calendar - 2014/15

1st Quarter Interim Results to be released in	August 2014
2nd Quarter Interim Results to be released in	November 2014
3rd Quarter Interim Results to be released in	February 2015
59th Annual General Meeting to be held in	June 2015

** 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 2014 and the comparative periods have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS).

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

The Board appointed Audit Committee chaired by an Independent Non-Executive Director who possesses qualifications and experience in accountancy and audit assists the Directors to discharge their responsibility on the integrity of financial reporting system and monitoring the effectiveness and adequacy of internal control system. This Committee has made an independent assessment of the financial reporting system of the Bank and confirmed that to the best of its knowledge and belief the financial statements issued for external purposes by the Bank complies with Sri Lanka Accounting Standards and complies with the statutory provisions of 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 155 to 157.

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 175.

By Order of the Board,

Ms A Withana
Secretary to the Board

Colombo
28 May 2014

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. 07 of 2007 and Banking Act No. 30 of 1988 as amended and Directions issued thereunder relating to financial statements formats and disclosure of information.

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

The financial statements of the Group and Joint Venture Company were audited by KPMG. National Asset Management Limited an associate Company 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 these auditors perform their responsibilities, and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the Independent External Auditors and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

A R Fernando
Ex Officio Director and Chief Executive

Ms A Withana
Executive Vice President (Finance)

Colombo
28 May 2014

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 2014, 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 177 to 275 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 2014 and the financial statements give a true and fair view of the financial position of the Bank as at 31st March 2014, 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 2014, 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

28th May 2014
Colombo

INCOME STATEMENT

For the year ended 31 March	Notes	Page No.	BANK 2014 LKR 000	BANK 2013 LKR 000 Restated	GROUP 2014 LKR 000	GROUP 2013 LKR 000 Restated
Income	10	204	**10,480,950**	10,433,029	**20,607,141**	18,197,260
Interest income			**9,529,636**	9,278,511	**18,602,116**	16,142,549
Interest expense			**4,894,390**	5,022,539	**10,556,433**	9,141,661
Net interest income	11	204	**4,635,246**	4,255,972	**8,045,683**	7,000,888
Fee and commission income			**115,296**	82,132	**920,001**	719,924
Fee and commission expenses			**–**	–	**6,442**	8,284
Net fee and commission income	12	205	**115,296**	82,132	**913,559**	711,640
Net gain from trading	13	205	**33,565**	2,937	**239,351**	102,000
Net loss from financial instruments at fair value through profit or loss	14	205	**(386,281)**	(388,778)	**(323,943)**	(501,212)
Net gain from financial investments	15	206	**1,211,493**	1,090,454	**1,154,361**	1,097,694
Other operating (loss)/income (net)	16	206	**(22,759)**	367,773	**15,255**	636,305
Total operating income			**5,586,560**	5,410,490	**10,044,266**	9,047,315
Impairment charge for loans and other losses	17	206	**323,524**	168,674	**1,221,722**	662,605
Net operating income			**5,263,036**	5,241,816	**8,822,544**	8,384,710
Operating expenses						
Personnel expenses	18	207	**906,496**	890,960	**2,086,917**	1,811,339
Other expenses	19	208	**737,901**	626,373	**2,098,201**	1,747,200
Operating profit before value added tax			**3,618,639**	3,724,483	**4,637,426**	4,826,171
Value added tax (VAT) on financial services	20	208	**408,069**	232,299	**577,103**	394,461
Operating profit after value added tax			**3,210,570**	3,492,184	**4,060,323**	4,431,710
Share of profits of associates			**–**	–	**124,125**	24,150
Profit before tax			**3,210,570**	3,492,184	**4,184,448**	4,455,860
Tax expense	21	208	**623,120**	570,828	**934,773**	881,452
Profit for the year			**2,587,450**	2,921,356	**3,249,675**	3,574,408
Profit attributable to:						
- Equity holders of the Bank			**2,587,450**	2,921,356	**3,151,400**	3,493,961
- Non-controlling interests			**–**	–	**98,275**	80,447
Profit for the year			**2,587,450**	2,921,356	**3,249,675**	3,574,408
Basic earnings per ordinary share (LKR)	22	209	**9.76**	11.02	**11.89**	13.18
Dividend per share (LKR)			**5.50**	5.00	**5.50**	5.00

The notes to the financial statements from pages 187 to 275 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March	BANK		GROUP	
	2014 LKR 000	2013 LKR 000 Restated	**2014 LKR 000**	2013 LKR 000 Restated
Profit for the year	**2,587,450**	2,921,356	**3,249,675**	3,574,408
Other comprehensive income net of tax				
Net change in fair value of available-for-sale financial assets	**1,436,644**	1,805,833	**1,528,850**	1,823,406
Net amount transferred to income statement on disposal of available-for-sale financial assets	**(160,754)**	(69,600)	**(160,754)**	(70,967)
Actuarial gains and losses on defined benefit plans	**88,186**	(77,867)	**86,723**	(79,853)
Share of profits of associates	**–**	–	**363**	4,322
Transferred to income on disposal - associate	**–**	–	**–**	(986)
Tax expense relating to components of other comprehensive income	**168**	1,084	**573**	1,640
Other comprehensive income for the year, net of tax	**1,364,244**	1,659,450	**1,455,755**	1,677,562
Total comprehensive income for the year	**3,951,694**	4,580,806	**4,705,430**	5,251,970
Total comprehensive income attributable to:				
- Equity holders of the Bank	**3,951,694**	4,580,806	**4,600,203**	5,172,084
- Non-controlling interests		–	**105,227**	79,886
Total comprehensive income for the year	**3,951,694**	4,580,806	**4,705,430**	5,251,970

The notes to the financial statements from pages 187 to 275 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at	Notes	Page No.	BANK 31.03.2014 LKR 000	BANK 31.03.2013 LKR 000 Restated	BANK 01.04.2012 LKR 000 Restated	GROUP 31.03.2014 LKR 000	GROUP 31.03.2013 LKR 000 Restated	GROUP 01.04.2012 LKR 000 Restated
Assets								
Cash and cash equivalents	24	213	**545,388**	597,456	83,210	**2,966,148**	3,976,892	1,458,363
Balances with Central Bank	25	214	**–**	–	–	**2,870,689**	2,620,790	1,596,066
Placements with banks	26	214	**2,681,779**	6,128,245	3,505,346	**3,140,735**	7,541,088	3,545,159
Derivative assets held for risk management	27	214	**1,630**	45,145	243,001	**183,892**	119,642	341,662
Other financial assets held-for-trading	28	215	**1,017,980**	377,800	58,510	**3,553,660**	593,408	548,419
Non-current assets held-for-sale	29	215	**–**	–	–	**–**	2,875	2,875
Loans to and receivables from banks	30	216	**1,233,617**	1,822,838	1,955,604	**5,958,055**	5,633,902	4,132,131
Loans to and receivables from other customers	31	216	**61,341,469**	58,844,767	53,026,219	**112,364,247**	98,399,443	85,427,447
Financial investments - available-for-sale	32	220	**25,073,488**	19,222,842	16,276,691	**40,135,705**	27,659,665	24,597,428
Financial investments - held-to-maturity	33	226	**535,958**	75,022	–	**1,146,523**	157,963	82,028
Investments in subsidiaries	34	228	**5,968,564**	3,755,953	3,760,540	**–**	–	–
Investments in associates	35	228	**35,270**	35,270	35,270	**607,415**	415,251	373,227
Investments in joint venture	36	230	**655,000**	655,000	655,000	**–**	–	–
Due from subsidiaries	37	230	**43,028**	39,204	41,597	**–**	–	–
Investment properties	38	231	**–**	–	–	**183,281**	169,485	147,981
Property, plant and equipment	39	232	**453,015**	438,259	431,606	**1,110,469**	1,027,655	936,250
Intangible assets	40	234	**60,378**	80,078	29,978	**239,387**	261,668	203,861
Goodwill on consolidation	41	235	**–**	–	–	**226,411**	226,411	226,411
Government grant receivable	42	235	**276,878**	–	–	**276,878**	–	–
Deferred tax asset	43	236	**–**	–	–	**2,707**	834	5,583
Income tax refund due			**–**	–	139,574	**34,658**	28,148	161,208
Prepayments			**35,833**	36,920	43,810	**35,833**	36,920	43,810
Other assets	44	237	**982,007**	1,005,307	910,554	**2,296,716**	2,322,253	1,776,601
Total assets			**100,941,282**	93,160,106	81,196,510	**177,333,409**	151,194,293	125,606,510
Liabilities								
Due to banks	45	238	**5,153,754**	6,399,595	7,356,266	**7,105,310**	8,040,422	11,139,181
Derivative liabilities held for risk management	27	214	**55,609**	190,922	–	**227,994**	307,094	104,754
Due to other customers	46	238	**16,630,363**	15,548,067	12,444,554	**80,826,117**	62,750,266	45,678,683
Other borrowing	47	239	**25,434,080**	33,846,282	27,805,261	**29,347,292**	37,530,202	30,924,126
Debt securities issued	48	240	**14,009,017**	558,257	718,513	**14,009,017**	558,257	718,513
Current tax liability			**157,615**	85,937	–	**302,005**	179,826	56,665
Deferred tax liability	43	236	**433,071**	378,560	324,618	**553,226**	455,684	372,185
Government grant - deferred income	42	235	**295,628**	–	–	**295,628**	–	–

As at	Notes	Page No.	BANK 31.03.2014 LKR 000	BANK 31.03.2013 LKR 000 Restated	BANK 01.04.2012 LKR 000 Restated	GROUP 31.03.2014 LKR 000	GROUP 31.03.2013 LKR 000 Restated	GROUP 01.04.2012 LKR 000 Restated
Other liabilities	49	240	**752,695**	758,717	684,967	**2,309,513**	2,436,204	1,924,252
Due to subsidiaries	50	246	**–**	525	222	**–**	–	–
Subordinated term debt	51	246	**609,373**	609,373	609,373	**1,609,674**	1,609,690	1,644,503
Total liabilities			**63,531,205**	58,376,235	49,943,774	**136,585,776**	113,867,645	92,562,862
Equity								
Share capital			**2,650,977**	2,650,977	2,650,977	**2,650,977**	2,650,977	2,650,977
Share premium			**2,064,837**	2,064,837	2,064,837	**2,064,837**	2,064,837	2,064,837
Stated capital	52	247	**4,715,814**	4,715,814	4,715,814	**4,715,814**	4,715,814	4,715,814
Statutory reserves	53	247	**2,381,648**	2,006,025	1,485,215	**2,381,648**	2,006,025	1,485,215
Retained earnings	54	248	**4,089,601**	3,114,908	1,840,816	**9,163,494**	7,594,136	5,676,436
Other reserves	55	248	**26,223,014**	24,947,124	23,210,891	**23,859,814**	22,498,324	20,741,563
Total equity attributable to equity holders of the Bank			**37,410,077**	34,783,871	31,252,736	**40,120,770**	36,814,299	32,619,028
Non-controlling interests			**–**	–	–	**626,863**	512,349	424,620
Total equity			**37,410,077**	34,783,871	31,252,736	**40,747,633**	37,326,648	33,043,648
Total equity and liabilities			**100,941,282**	93,160,106	81,196,510	**177,333,409**	151,194,293	125,606,510
Contingent liabilities and commitments	56	248	**30,234,047**	16,069,720	18,695,153	**57,788,965**	39,280,376	40,922,680
Net asset value per share, LKR			**141.12**	130.92	117.45	**151.34**	138.59	122.61

The notes to the financial statements from pages 187 to 275 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.

Ms A Withana
Executive Vice President (Finance)

For and on behalf of the Board of Directors,

C R Jansz
Chairman

A R Fernando
Ex Officio Director and Chief Executive

Colombo
28 May 2014

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 reserve LKR 000	Retained earnings LKR 000	Total equity LKR 000
Bank								
Balance as at 31.03.2012 as previously stated	2,650,977	2,064,837	1,135,000	350,215	9,431,052	13,779,839	1,723,107	31,135,027
Impact of adopting LKAS 19 - 'Employee Benefits' (Revised)	–	–	–	–	–	–	117,709	117,709
Restated balance as at 01.04.2012	2,650,977	2,064,837	1,135,000	350,215	9,431,052	13,779,839	1,840,816	31,252,736
Total comprehensive income for the year								
Profit for the year	–	–	–	–	–	–	2,921,356	2,921,356
Other comprehensive income	–	–	–	–	1,736,233	–	(76,783)	1,659,450
Total comprehensive income for the year	–	–	–	–	1,736,233	–	2,844,573	4,580,806
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	3,114,908	34,783,871
Total comprehensive income for the year								
Profit for the year	–	–	–	–	–	–	2,587,450	2,587,450
Other comprehensive income	–	–	–	–	1,275,890	–	88,354	1,364,244
Total comprehensive income for the year	–	–	–	–	1,275,890	–	2,675,804	3,951,694
Transfers	–	–	95,000	280,623	–	–	(375,623)	–
Transactions with equity holders, recognised directly in equity								
Final dividend approved on 28.06.2013	–	–	–	–	–	–	(1,325,488)	(1,325,488)
Total contributions from and distribution to equity holders	–	–	–	–	–	–	(1,325,488)	(1,325,488)
Balance as at 31.03.2014	2,650,977	2,064,837	1,380,000	1,001,648	12,443,175	13,779,839	4,089,601	37,410,077

For the years ended 31 March	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 31.03.2012 as previously stated	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
Impact of adopting LKAS 19 - 'Employee Benefits'	–	–	–	–	–	–	115,982	115,982	(15)	115,967
Restated balance as at 01.04.2012	2,650,977	2,064,837	1,135,000	350,215	6,961,724	13,779,839	5,676,436	32,619,028	424,620	33,043,648
Total comprehensive income for the year										
Profit for the year	–	–	–	–	–	–	3,493,961	3,493,961	80,447	3,574,408
Other comprehensive income net of tax	–	–	–	–	1,756,761	–	(78,638)	1,678,123	(561)	1,677,562
Total comprehensive income for the year	–	–	–	–	1,756,761	–	3,415,323	5,172,084	79,886	5,251,970
Transfers	–	–	150,000	370,810	–	–	(520,810)	–	–	–
Transactions with equity holders, recognised directly in equity										
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)
Deemed disposal gain-join venture	–	–	–	–	–	–	74,807	74,807	67,107	141,914
Dividend distributed to non-controlling interest by subsidiaries	–	–	–	–	–	–	–	–	(56,667)	(56,667)
Total contributions from and distribution to equity holders	–	–	–	–	–	–	(976,813)	(976,813)	7,843	(968,970)
Balance as at 31.03.2013	2,650,977	2,064,837	1,285,000	721,025	8,718,485	13,779,839	7,594,136	36,814,299	512,349	37,326,648

For the years ended 31 March	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.)										
Total comprehensive income for the year										
Profit for the year	–	–	–	–	–	–	3,151,400	3,151,400	98,275	3,249,675
Other comprehensive income net of tax	–	–	–	–	1,361,490	–	87,313	1,448,803	6,952	1,455,755
Total comprehensive income for the year	–	–	–	–	1,361,490	–	3,238,713	4,600,203	105,227	4,705,430
Transfers	–	–	95,000	280,623	–	–	(375,623)	–	–	–
Transactions with equity holders, recognised directly in equity										
Share issue expenses written off - Subsidiary	–	–	–	–	–	–	(10,954)	(10,954)	(97)	(11,051)
Right issue by subsidiary	–	–	–	–	–	–	–	–	18,309	18,309
Increase in ownership interest by the Bank that does not result in change of control	–	–	–	–	–	–	(956)	(956)	(2,698)	(3,654)
Restatement of opening balance by a subsidiary of joint venture	–	–	–	–	–	–	4,207	4,207	654	4,861
Final dividend approved on 28.06.2013	–	–	–	–	–	–	(1,325,488)	(1,325,488)	–	(1,325,488)
Deemed disposal gain-join venture	–	–	–	–	–	–	39,459	39,459	64,125	103,584
Dividend distributed to non-controlling interest by subsidiaries	–	–	–	–	–	–	–	–	(71,006)	(71,006)
Total contributions from and distribution to equity holders	–	–	–	–	–	–	(1,293,732)	(1,293,732)	9,287	(1,284,445)
Balance as at 31.03.2014	2,650,977	2,064,837	1,380,000	1,001,648	10,079,975	13,779,839	9,163,494	40,120,770	626,863	40,747,633

The notes to the financial statements from pages 187 to 275 form part of these financial statements.

CASH FLOW STATEMENT

For the year ended 31 March	BANK 2014 LKR 000	BANK 2013 LKR 000 Restated	GROUP 2014 LKR 000	GROUP 2013 LKR 000 Restated
Cash flow from operating activities				
Interest receipts	**8,031,204**	7,866,593	**15,656,472**	13,875,532
Interest payments	**(4,771,971)**	(4,803,007)	**(10,169,877)**	(8,592,679)
Recoveries on loans previously written-off	**75,467**	71,087	**80,030**	73,223
Receipts from other operating activities	**286,418**	313,458	**1,231,466**	905,411
Cash payments to employees and suppliers	**(1,521,416)**	(1,536,083)	**(3,814,797)**	(3,280,489)
Value added tax	**(408,069)**	(232,299)	**(602,508)**	(395,414)
Other taxes and levies	**(53,355)**	–	**(56,614)**	–
Operating cash flow before changes in operating assets and liabilities	**1,638,278**	1,679,749	**2,324,172**	2,585,584
(Increase)/decrease in operating assets:				
Deposits held for regulatory or monetary control purposes	**–**	–	**(249,983)**	(1,024,915)
Funds advanced to customers	**(2,113,890)**	(4,390,245)	**(13,108,614)**	(10,713,304)
Others	**(411,745)**	(116,657)	**(231,103)**	(454,148)
Increase/(decrease) in operating liabilities:				
Deposits from customers	**1,142,696**	3,189,540	**17,431,906**	16,686,820
Negotiable certificates of deposit	**–**	–	**157,885**	194,683
Others	**(113,978)**	187,894	**(202,307)**	395,639
Net cash flow from operating activities before income tax	**141,361**	550,281	**6,121,956**	7,670,359
Income tax paid	**(437,112)**	(247,718)	**(648,864)**	(364,053)
Net cash flow used in/from operating activities	**(295,751)**	302,563	**5,473,092**	7,306,306
Cash flow from investing activities				
Dividend received	**1,180,769**	1,048,955	**1,122,145**	944,714
Interest received	**850,068**	691,337	**1,017,921**	1,086,632
Government securities - Net	**(5,891,816)**	(1,813,085)	**(11,642,253)**	(6,654,890)
Proceeds from sale and redemption of securities	**799,270**	691,925	**799,270**	691,925
Purchase of equity securities	**(825,716)**	(1,046,930)	**(854,027)**	(1,012,490)
Investment in associates by joint venture	**–**	–	**(126,136)**	(20,000)
Investment in additional shares of subsidiaries - DFCC Vardhana Bank PLC	**(2,195,611)**	(4,546)	**–**	(4,546)
- Synapsys Limited	**(17,000)**	–	**–**	–
Purchase of property, equipment, intangibles and investment property	**(134,731)**	(185,044)	**(442,348)**	(506,752)
Proceeds from sale of equipment and investment property	**23,014**	3,086	**36,999**	32,043
Net cash flow used in investing activities	**(6,211,753)**	(614,302)	**(10,088,429)**	(5,443,364)

For the year ended 31 March	BANK		GROUP	
	2014 LKR 000	2013 LKR 000 Restated	**2014 LKR 000**	2013 LKR 000 Restated
Cash flow from financing activities				
Issue of new shares by subsidiary	–	–	**14,655**	–
Issue of new shares by subsidiary of joint venture	–	–	**101,758**	291,913
Redemption of debentures	–	(157,600)	–	(157,600)
Share issue expenses	–	–	**(11,051)**	–
Borrowing, medium and long-term	**13,477,741**	13,524,738	**13,474,943**	14,749,693
Other borrowing - Net	**(556,250)**	3,521,750	**742,068**	909,201
Repayment of borrowing, medium and long-term	**(9,411,130)**	(12,179,341)	**(10,710,770)**	(12,180,124)
Dividends paid	**(1,319,694)**	(1,056,071)	**(1,390,700)**	(1,112,739)
Net Cash flow from financing activities	**2,190,667**	3,653,476	**2,220,903**	2,500,344
Net increase/(decrease) in cash and cash equivalents	**(4,316,837)**	3,341,737	**(2,394,434)**	4,363,286
Cash and cash equivalents/(overdraft - net) at the beginning of period	**7,558,956**	4,217,219	**12,347,546**	7,984,260
Cash and cash equivalents at the end of period	**3,242,119**	7,558,956	**9,953,112**	12,347,546
Reconciliation of cash and cash equivalents with items reported in the statement of financial position				
Cash and cash equivalents (Note 24)	**545,388**	597,456	**2,966,148**	3,976,892
Placements with banks (Note 26)	**2,681,779**	6,128,245	**3,140,735**	7,541,088
Government securities - less than 3 months	**14,952**	833,255	**3,846,229**	829,566
	3,242,119	7,558,956	**9,953,112**	12,347,546

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.

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

	BANK		GROUP	
For the year ended 31 March	**2014 LKR 000**	2013 LKR 000 Restated	**2014 LKR 000**	2013 LKR 000 Restated
Profit for the year	**2,587,450**	2,921,356	**3,249,675**	3,574,408
Add/(deduct) items not using (providing) cash:	**547,362**	749,323	**1,454,289**	1,366,260
Depreciation - Property, equipment and investment property	**113,066**	106,492	**266,188**	250,132
Amortisation - Intangible assets	**23,920**	21,799	**91,089**	82,461
Unrealised gain on treasury bills and bonds	**(33,565)**	(2,937)	**(69,566)**	(8,282)
Net loss from financial instruments at fair value through profit or loss - Others	**(91,799)**	388,778	**(154,137)**	501,212
- CBSL Swap	**478,080**	–	**478,080**	–
Amortisation of deferred income on government grant	**(459,330)**	–	**(459,330)**	–
Foreign exchange loss	**257,756**	108,830	**406,550**	38,487
Impairment for loans and other losses	**323,524**	168,674	**1,221,722**	662,605
Notional tax credit on treasury bills and bonds	**(64,290)**	(42,313)	**(202,182)**	(136,205)
Share of profits of associates	**–**	–	**(124,125)**	(24,150)
Deduct items reported gross under investing activities:	**(1,198,371)**	(1,086,042)	**(1,042,729)**	(988,411)
Dividend income	**(991,912)**	(962,840)	**(832,629)**	(853,140)
Gains on sale of financial investment	**(186,135)**	(120,008)	**(186,135)**	(127,567)
Gains on sale of equipment and investment property	**(20,324)**	(3,194)	**(23,965)**	(7,704)
Add/(deduct) changes in operating assets and liabilities:	**(2,232,192)**	(2,282,074)	**1,811,857**	3,354,049
Increase in accounts receivables	**(964,722)**	(1,621,777)	**(2,665,426)**	(2,789,377)
Decrease in accounts payables	**43,437**	146,331	**393,593**	541,521
Increase in income tax payable	**131,331**	268,083	**190,070**	427,510
Increase in deferred tax	**54,679**	54,757	**95,837**	89,620
(Increase) in operating assets	**(2,525,635)**	(4,506,901)	**(13,589,700)**	(12,192,367)
Increase in operating liabilities	**1,028,718**	3,377,433	**17,387,483**	17,277,142
Net cash flow used in/from operating activities	**(295,751)**	302,563	**5,473,092**	7,306,306

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.

A joint venture company, Acuity Partners (Pvt) Limited which is equally owned by the Bank and Hatton National Bank PLC.

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

Total employee population of the Bank and the Group on 31 March 2014 was 477 and 1,576 respectively (31 March 2013 - 461 and 1,460 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.

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 Accounting Standards (SLFRS and LKAS) 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.

2.2 Approval of Financial Statements by Directors

The financial statements are authorised for issue by the Board of Directors on 28 May 2014.

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/asset for defined benefit pension obligations is recognised as the present value of the defined benefit pension obligation less the net total of the pension assets maintained in DFCC Bank Pension Fund, a trust separate from the Bank.

iv. The liability for defined benefit statutory end of service gratuity obligations is recognised as the present value of the defined benefit gratuity obligation.

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

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

2.5 Materiality and Aggregation

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

2.6 Critical Accounting Estimates and Judgments

2.6.1 General

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

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

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

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

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

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

2.6.2 Accounting Estimates

2.6.2.1 Loan Losses

The assessment of loan loss as set out in Note 31.2 involves considerable judgment and estimation. Judgment is required firstly to determine whether there are indications that a loss may already have been incurred in individually significant loans and secondly to determine the recoverable amount.

2.6.2.2 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 49.9.

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 49.9.

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 loans. The estimation process by the Bank includes seeking expert advice where appropriate and the payment of the current tax liability is on self-assessment basis. In the event, an additional assessment is issued the additional income tax and deferred tax adjustment, will be recognised in the period in which the assessment is issued if so warranted.

2.6.2.5 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.

2.7 Changes in Accounting Policy

2.7.1 Defined Benefit Plans

The Group adopted Sri Lanka Accounting Standard LKAS 19 - ‘Employee Benefits’ (Revised 2013) which became effective from 1 January 2013 as part of its mandatory application and changed its basis for determining the income or expense related to defined benefit plan.

As a result of the change, Bank now determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual reporting period taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contributions and benefit payments and recognised in full the actuarial gains and losses .

The net interest on the net defined benefit liability (asset) comprises:

- Interest cost on the defined benefit obligation; and
- Interest income on plan assets

Previously, the Group determined interest income on plan assets based on their long-term rate of expected return and recognised only a portion of the actuarial gains and losses to the extent to which the unrecognised gains or losses at the end of the previous reporting period exceeded 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets.

2.7.1.1 Impact on Change in Accounting Policy

The change in accounting policy has been applied retrospectively as per the Sri Lanka Accounting Standard - LKAS 8 ‘Accounting Policies, Changes in Accounting Estimates and Errors’.

The impact to the total comprehensive income statement and the statement of financial position is disclosed in Note 62.

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.

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. Changes in accounting policies are made only if the Sri Lanka Accounting Standards require such changes or when a change results in providing more relevant information. New policies are formulated as appropriate to new products and services provided by the bank or new obligations incurred by the Bank.

5.1 Revenue and Expense Recognition

5.1.1 Interest Income and Expense

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

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

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

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

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

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

5.1.2 Fees and Commission

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

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

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

5.1.3 Net Gain/(Loss) from Trading

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

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

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

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

5.1.5 Net Gain/(Loss) from Financial Investments

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

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

Dividend income is recognised when the right to receive payment is established. Dividend income are presented in net gains/(loss) from trading and net gains/(loss) from financial investment, based on underlying classification of the equity investment.

5.1.6 Foreign Exchange Gain/(Loss)

Items included in the financial statements of the Bank are measured in Sri 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 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 effective tax rate 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 suffers a 10% deduction at source and is not available for set off against the tax liability of the Bank. Thus, the withholding tax deducted at source is added to the tax expense of the subsidiary company and the associate company in the group financial statements as a consolidation adjustment.

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.

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

5.2 Financial Assets

5.2.1 Recognition and Measurement

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

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

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

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

5.2.2 Classification

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

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

5.2.3 Reclassification

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

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

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

5.2.4 Derecognition of Financial Assets

Financial assets are derecognised when the contractual right to receive cash flows from the asset has expired; or when Bank has transferred its contractual right to receive the cash flows of the financial assets, and either:

- substantially all the risks and rewards of ownership have been transferred; or
- Bank has neither retained nor transferred substantially all the risks and rewards, but has not retained control of the financial asset.

5.2.5 Fair Value Measurement

Fair value is the 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 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 Collective Assessment

This includes:

For the Bank -

- All loans to small and medium-scale enterprise customers granted by the branches and loans of a smaller value to commercial customers.
- All finance leases

For DFCC Vardhana Bank PLC -

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

In assessing collective impairment the Bank uses statistical modelling of historical trends of the default rates, the timing of recoveries and the amount of loss incurred, adjusted for experience adjustment by the management where current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Default rates, loss rates and the expected timing of future recoveries will be regularly benchmarked against actual outcomes to ensure that they remain appropriate.

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

Impairment allowance on loans and advances and held-to-maturity investment securities measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

5.2.6.1.3 Reversals of Impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written-back by reducing the loan impairment allowance accordingly. The write-back is recognised in the income statement.

5.2.6.1.4 Renegotiated Loans

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as up-to-date loans for measurement purposes once a minimum number of payments required have been received.

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired. The carrying amounts of loans that have been classified as renegotiated retain this classification until maturity or derecognition.

5.2.6.1.5 Write-off of Loans and Advances

Loans (and the related impairment allowance) are normally written-off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

5.2.6.1.6 Asset-Backed-Securities

These are included in loans and advances. When assessing for objective evidence of impairment, Bank considers the performance of underlying collateral.

5.2.6.2 Available-for-Sale Financial Assets

At each date of statement of financial position an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

5.2.6.3 Available-for-Sale Debt Securities

When assessing available-for-sale debt securities for objective evidence of impairment at the reporting date, Bank considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial recognition, or the disappearance of an active market for the debt security.

These types of specific events and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

5.2.6.4 Available-for-Sale Equity Securities

Objective evidence of impairment for available-for-sale equity securities may include specific information about the issuer and information about significant changes in technology, markets, economics or the law that provide evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, a decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement. If there is no longer objective evidence that the debt security is impaired, the impairment loss is also reversed through the income statement.
- For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses recognised on the equity security are not reversed through the income statement. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

5.2.6.5 Impairment of Intangible Assets - Computer Application Software and Goodwill on Consolidation

The Bank reviews on the date of the statement of financial position whether the carrying amount of computer application software is lower than the recoverable amount. In such event, the carrying amount is reduced to the recoverable amount and the reduction being an impairment loss is recognised immediately in the income statement. The recoverable amount is the value in use.

Similar criterion is used to assess impairment in goodwill on consolidation.

5.2.7 Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under SLAS or for gains and losses arising from a group of similar transaction.

5.2.8 Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with three months or less than three months' maturity from the date of acquisition.

Cash and cash equivalents include cash and short-term Treasury Bills with maximum three months' maturity from date of acquisition.

5.2.9 Derivative Financial Instruments Held-for-Risk Management Purposes

Derivative assets held-for-risk management purposes include all derivative assets that are not classified as trading assets and are measured at fair value in the statement of financial position.

Bank has not designated any derivative held-for-risk management purposes as a qualifying hedge relationship and therefore the Bank has not adopted hedge accounting.

Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

5.2.10 Government Grant Receivable

Government grants are recognised initially as deferred income at fair value when there is a reasonable assurance that they will be received and Group will comply with the conditions associated with the grant, and are then recognised in profit or loss as other income on a systematic basis in the period in which the expenses (losses) are recognised.

5.2.11 Loans and Advances to Banks and Customers

Loans and advances to banks and customers include loans and advances and finance lease receivables originated by the Bank. The carrying amount includes interest receivable from the customers and banks on these loans. This also includes investment by the Bank in any debentures, bonds, commercial paper or any other debt instrument which is not listed in the Colombo Stock Exchange or in any recognised market. The amount includes the principal amount and interest due and/or accrued on the date of the statement of financial position.

Principal amount of loans and advances (for example, over drawn balances in current account) are recognised when cash is advanced to a borrower. They are derecognised when either the borrower repays its obligations, or the loans are written-off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less any reduction for impairment or uncollectibility.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risk and rewards incidental to the ownership of the asset to the lessee the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

5.2.12 Financial Investments - Available-for-Sale

Available-for-sale investments are non-derivative investments that were designated as available-for-sale or not classified as another category of financial assets. These include Treasury Bills, Bonds, debt securities and unquoted and quoted equity securities. They are carried at fair value except for unquoted equity securities whose fair value cannot reliably be measured and therefore carried at cost.

Interest income is recognised in profit or loss using the effective interest method. Dividend income was recognised in profit or loss when the Bank become entitled to the dividend.

Fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

5.2.13 Financial Investments - Held-to-Maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Bank positively intends, and is able, to hold to maturity. Held-to-maturity investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses.

A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all investment securities as available-for-sale for the current and the subsequent two financial years.

However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- Sales or reclassifications after the Bank has collected substantially all of the asset's original principal; and
- Sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

5.2.14 Subsidiaries, Associates and Joint Ventures

Bank's investments in subsidiaries are stated at cost less impairment losses. Reversals of impairment losses are recognised in the income statement if there has been a change in the estimates used to determine the recoverable amount of the investment.

Investments in 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.

5.2.15 Property, Plant and Equipment

5.2.15.1 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.

5.2.15.2 Subsequent Costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance costs are expensed as incurred.

5.2.15.3 Depreciation

Items of property 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

5.2.16 Investment Properties

Investment property of the Group (held by subsidiary Lanka Industrial Estates Limited) is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business. The Group has chosen the cost model instead of fair value model and therefore investment property is measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the income statement.

5.2.17 Goodwill or Negative Goodwill on Consolidation

Goodwill arises on the acquisition of subsidiaries, when the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest and the fair value of any previously held equity interest in the acquiree exceed the amount of the identifiable assets and liabilities acquired. If the amount of the identifiable assets and liabilities acquired is greater, the difference is recognised immediately in the income statement. Goodwill arises on the acquisition of interests in joint ventures and associates when the cost of investment exceeds Bank's share of the net fair value of the associate's or joint venture's identifiable assets and liabilities.

5.2.18 Intangible Assets - Computer Application Software

All software licensed for use by the Bank, not constituting an integral part of related hardware are included in the statement of financial position under the category intangible assets and carried at cost less cumulative amortisation and any impairment losses.

The initial acquisition cost comprises licence fee paid at the inception, import duties, non-refundable taxes and levies, cost of customising the software to meet the specific requirements of the Bank and other directly attributable expenditure in preparing the asset for its intended use.

The initial cost is enhanced by subsequent expenditure incurred by further customisation to meet ancillary transaction processing and reporting requirements tailor-made for the use of the Bank constituting an improvement to the software.

The cost is amortised using the straight-line method, at the rate of 20% per annum commencing from the date the application software is available-for-use. The amortised amount is based on the best estimate of its useful life, such that the cost is amortised fully at the end of the useful life during which the Bank has legal right of use. The amortisation cost is recognised as an expense.

5.3 Financial liabilities

5.3.1 Recognition and Initial Measurement

Deposits, borrowing from foreign multilateral, bilateral sources and domestic sources, debt securities issued and subordinated liabilities are initially recognised on the date at which they are originated.

A financial liability is measured initially at fair value plus, transaction costs that are directly attributable to its acquisition or issue.

Subsequent measurement of financial liability is at amortised cost.

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

5.3.2 Derecognition of Financial Liabilities

Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

5.3.3 Due to Banks, Customers, Debt Securities Issued and Other Borrowing

Financial liabilities are recognised when Group enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurement of financial liabilities is at amortised cost, using the effective interest method to amortise the difference between proceeds received, net of directly attributable transaction costs incurred, and the redemption amount over the expected life of the instrument.

5.3.4. Deferred Tax Liabilities/Assets

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred income tax assets are recognised for tax losses carry-forwards, unused withholding tax credits and specific provisions for bad and doubtful loans that exceed 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.

5.3.5 Pension Liability Arising from Defined Benefit Obligations

5.3.5.1 Description of the Plan and Employee Groups Covered

The Bank established a trust fund in May 1989, for payment of pension which operates the pension scheme approved by the Commissioner General of Inland Revenue. The fund of the scheme is managed by trustees appointed by the Bank and is separate from the Bank. The scheme provides for payment of pension to retirees, spouse and minor children of deceased retirees based on pre-retirement salary. All members of the permanent staff who joined prior to 1 May 2004 are covered by this funded pension scheme subject to fulfilment of eligibility conditions prescribed by the Bank.

The scheme was amended on 31 August 1998 and the amended plan will apply to all members of the permanent staff who joined the Bank on or after this date and prior to 1 May 2004. The amendment reduced the scope of the benefit in the interest of long-term sustainability of the pension plan as advised by the independent actuary.

The defined benefit pension plan does not permit any post-retirement increases in pension nor any other benefit (e.g. medical expenses reimbursement).

5.3.5.2 Funding Arrangement

The Bank's contributions to the trust fund are made annually based on the recommendation of an independent actuary. The employees make no contributions to qualify for the basic pension, which is therefore a non-contributory benefit to the employees. Eligible employees who desire to provide for the payment of pension to spouse and minor children, who survive them are however, required to contribute monthly, an amount based on a percentage of gross emoluments, excluding bonus, if they joined the Bank on or after 31 August 1998 and prior to 1 May 2004.

5.3.5.3 Recognition of Actuarial Gains and Losses

The net actuarial gains or losses arising in a financial year is due to increases or decreases in either the present value of the promised pension benefit obligation or the fair value of pension assets. The causes for such gains or losses include changes in the discount rate, differences between the actual return and the expected return on pension assets and changes in the estimates of actual employee turnover, mortality rates and increases in salary.

The Bank recognises the total actuarial gains and losses that arise in calculating the Bank's obligation in respect of the plan in other comprehensive income and the expense under personnel expenses in the income statement during the period in which it occurs.

5.3.5.4 Recognition of Past Service Cost

Past service cost arises when a defined benefit plan is introduced for the first time or subsequent changes are made to the benefits payable under an existing defined benefit plan. Bank will recognise past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent the benefits are already vested following the introduction of or changes to a defined benefit plan, the Bank will recognise past service cost immediately.

5.3.6 Provision for End of Service Gratuity Liability under a Defined Benefit Plan

5.3.6.1 Description of the Plan and Employee Groups Covered

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

5.3.6.2 Funding Arrangement

The Bank and the subsidiaries adopt a pay-as-you-go method whereby the employer makes a lump sum payment only on termination of employment by resignation, retirement at the age of 55 years or death.

5.3.6.3 Recognition of Actuarial Gains and Losses

The Bank recognises the total actuarial gains and losses in the other comprehensive income during the period in which it occurs.

5.3.6.4 Recognition of Past Service Cost

Since end of service gratuity defined benefit is a statutory benefit, the recognition of past service cost will arise only if the Payment of Gratuity Act No. 12 of 1983 is amended in future to increase the promised benefit on termination of employment. In such event, the Bank will adopt the accounting policy currently used for defined benefit pension plan.

5.3.7 Defined Contribution Plans

This provides for a lump sum payment on termination of employment by resignation, retirement at the age of 55 years or death while in service.

Lump sum payment is by an outside agency to which contributions are made.

All employees of the Bank are members of the Mercantile Service Provident Society and the Employees' Trust Fund to which the Bank contributes 15% and 3% respectively of such employee's consolidated salary.

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

5.3.8 Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation.

5.3.9 Contingent Liabilities and Commitments

Contingent liabilities, which include guarantees are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

5.3.9.1 Financial Guarantees

Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee received or receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

5.3.10 Sale and Repurchase Agreements

When securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the statement of financial position and a liability is recorded in respect of the consideration received.

Securities purchased under commitments to sell ('reverse repos') are not recognised on the statement of financial position and the consideration paid is recorded in 'loans and advances to banks', 'loans and advances to customers' as appropriate. The difference between the sale and repurchase price is treated as interest and recognised over the life of the agreement for loans and advances to banks and customers.

5.3.11 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 Effective

9.1 SLFRS Applicable for Financial Periods beginning on or after 1 January 2014

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.

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 SLFRS 9 - Financial Instruments

The objective of this SLFRS is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. An entity shall apply this SLFRS to all items within the scope of LKAS 39 - Financial Instruments: Recognition and Measurement.

The application of this standard has been currently deferred by The Institute of Chartered Accountants of Sri Lanka, consequent to the International Accounting Standard Board's (IASB) decision to defer the mandatory effective date of IFRS 9. However, SLFRS 9 will be available for early adoption.

9.2 Possible Impact on the Application of the new SLFRS on the Group's Financial Statements

The Bank has not yet assessed the impact on the application of the above standards.

For the year ended 31 March	BANK 2014 LKR 000	BANK 2013 LKR 000	GROUP 2014 LKR 000	GROUP 2013 LKR 000

10 Income

Interest Income	**9,529,636**	9,278,511	**18,602,116**	16,142,549
Fee and commission income	**115,296**	82,132	**920,001**	719,924
Net gain from trading	**33,565**	2,937	**239,351**	102,000
Net loss from financial instruments at fair value through profit or loss	**(386,281)**	(388,778)	**(323,943)**	(501,212)
Net gain from financial investments	**1,211,493**	1,090,454	**1,154,361**	1,097,694
Other operating (loss)/income (net)	**(22,759)**	367,773	**15,255**	636,305
	10,480,950	10,433,029	**20,607,141**	18,197,260

11 Net Interest Income

Interest income				
Cash and cash equivalents	**–**	3,714	**–**	3,719
Placements with banks	**343,002**	305,592	**464,465**	331,549
Loans to and receivables from banks	**176,869**	150,996	**287,090**	196,045
Loans to and receivables from other customers	**8,414,216**	8,419,659	**16,128,252**	14,332,011
Other financial assets held-for-trading	**22,020**	67,822	**125,338**	103,002
Financial investments - held-to-maturity	**30,318**	172	**52,554**	21,253
Financial investments - available-for-sale	**542,459**	329,480	**1,543,487**	1,142,063
Others	**752**	1,076	**930**	12,907
Total interest income	**9,529,636**	9,278,511	**18,602,116**	16,142,549
Interest expenses				
Due to banks	**463,975**	1,004,269	**636,642**	1,182,782
Due to other customers	**1,688,643**	2,037,165	**7,060,207**	5,833,349
Other borrowing	**2,570,089**	1,817,291	**2,570,089**	1,842,988
Debt securities issued	**171,683**	163,814	**289,462**	282,542
Others	**–**	–	**33**	–
Total interest expenses	**4,894,390**	5,022,539	**10,556,433**	9,141,661
Net interest income	**4,635,246**	4,255,972	**8,045,683**	7,000,888
Interest income on Sri Lanka Government Securities	**612,312**	**415,525**	**1,889,078**	**1,245,065**

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

For the year ended 31 March	BANK 2014 LKR 000	BANK 2013 LKR 000	GROUP 2014 LKR 000	GROUP 2013 LKR 000

12 Net Fee and Commission Income

Fee and commission income	**115,296**	82,132	**920,001**	719,924
Fee and commission expenses	–	–	**6,442**	8,284
Net fee and commission income	**115,296**	82,132	**913,559**	711,640
Comprising:				
Loans and advances	**61,001**	50,240	**318,963**	199,992
Credit Cards	–	–	**10,096**	7,262
Trade and remittances	–	–	**339,964**	276,373
Investment banking/brokerage income	–	–	**56,766**	45,074
Corporate finance	–	–	**10,243**	73,313
Guarantees	**28,727**	20,434	**119,937**	91,274
Management and consulting fees	**25,568**	11,458	**57,590**	18,352
Net fee and commission income	**115,296**	82,132	**913,559**	711,640

13 Net Gain from Trading

Foreign exchange from banks	–	–	**165,006**	93,718
Fixed income	**33,565**	2,937	**74,345**	8,282
	33,565	2,937	**239,351**	102,000

14 Net loss from Financial Instruments at Fair Value through Profit or Loss

Forward exchange fair value changes - contracts with commercial banks	**91,799**	(388,778)	**154,137**	(501,212)
- contract with CBSL (Note 42.1)	**(478,080)**	–	**(478,080)**	–
	(386,281)	(388,778)	**(323,943)**	(501,212)

	BANK		GROUP	
For the year ended 31 March	**2014 LKR 000**	2013 LKR 000	**2014 LKR 000**	2013 LKR 000

15 Net Gain from Financial Investments

Assets available-for-sale				
Gain on sale of equity securities	**186,135**	120,008	**186,135**	127,567
Gain on sale of Govt. securities	**2,860**	–	**2,860**	–
Dividend income	**815,352**	834,412	**832,629**	853,140
Dividend income from subsidiaries, joint venture and associate	**176,560**	128,428	**–**	–
Net gain from repurchase transactions	**30,586**	7,606	**132,737**	116,987
	1,211,493	1,090,454	**1,154,361**	1,097,694

16 Other Operating (Loss)/Income (Net)

Premises rental income	**60,931**	53,999	**200,755**	175,376
Gain on sale of investment properties	**–**	–	**2,321**	1,918
Gain on sale of property, plant and equipment	**20,324**	3,194	**21,644**	5,786
Foreign exchange (loss)/gain	**(651,397)**	215,519	**(800,191)**	299,696
Recovery of loans written-off	**75,467**	71,087	**80,030**	73,223
Amortisation of deferred Income on Government grant (Note 42.2)	**459,330**	–	**459,330**	–
Loss from sale of non-current assets held-for-sale	**–**	–	**(390)**	–
Others	**12,586**	23,974	**51,756**	80,306
	(22,759)	367,773	**15,255**	636,305

17 Impairment for Loans and Other Losses

Loans to and receivables from other customers				
Specific allowance for impairment (Note 31.2.1)	**11,308**	104,388	**569,034**	417,218
Collective allowance for impairment (Note 31.2.2)	**281,123**	52,988	**621,595**	243,222
Charge/(recoveries) of other impairment losses	**6,002**	(2,744)	**6,002**	(2,744)
Impairment charge - Investment in subsidiaries	**–**	9,133	**–**	–
Write-offs - Loans to and receivables from other customers	**5,555**	409	**5,555**	409
Write-offs - Financial investments	**19,536**	4,500	**19,536**	4,500
	323,524	168,674	**1,221,722**	662,605

	BANK		GROUP	
For the year ended 31 March	**2014 LKR 000**	2013 LKR 000	**2014 LKR 000**	2013 LKR 000

18 Personnel Expenses

Salaries and other benefits	**721,522**	720,123	**1,791,266**	1,555,500
Provision for staff retirement benefits (Note 18.1)	**184,974**	170,837	**295,651**	255,839
	906,496	890,960	**2,086,917**	1,811,339

18.1 Provision for Staff Retirement Benefits

18.1.1 Funded Pension Liability

Current service cost	**67,107**	65,622	**67,107**	65,622
Interest on obligation	**157,589**	134,540	**157,589**	134,540
Expected return on pension assets	**(162,026)**	(142,260)	**(162,026)**	(142,260)
	62,670	57,902	**62,670**	57,902

18.1.2 Unfunded Pension Liability

Current service cost	**6,464**	6,453	**6,464**	6,453
Interest on obligation	**7,190**	5,864	**7,190**	5,864
	13,654	12,317	**13,654**	12,317

18.1.3 Unfunded end of Service Gratuity Liability

Current service cost	**7,191**	5,773	**16,409**	12,879
Interest on obligation	**3,709**	2,853	**7,666**	6,243
Provision for gratuities computed on formula method	**–**	–	**9,404**	1,368
	10,900	8,626	**33,479**	20,490
Total defined benefit plans	**87,224**	78,845	**109,803**	90,709

18.1.4 Defined Contribution Plan

Employer's contribution to employees' provident fund	**81,458**	76,647	**154,254**	137,105
Employer's contribution to employees' trust fund	**16,292**	15,345	**31,594**	28,025
Total defined contribution plans	**97,750**	91,992	**185,848**	165,130
	184,974	170,837	**295,651**	255,839

For the year ended 31 March	BANK		GROUP	
	2014 LKR 000	2013 LKR 000	**2014 LKR 000**	2013 LKR 000

19 Other Expenses

Directors' remuneration	**48,711**	47,838	**103,275**	94,325
Auditors' remuneration				
Audit fees and expenses	**3,753**	3,547	**6,754**	6,075
Audit related fees and expenses*	**7,343**	1,687	**8,842**	3,300
Fees for non-audit services	**936**	1,235	**1,502**	1,552
Depreciation - Investment property	**–**	–	**9,613**	8,834
- Property, plant and equipment	**113,066**	106,492	**256,575**	241,298
Amortisation - Intangible assets	**23,920**	21,799	**91,089**	82,461
Expenses on litigation	**–**	–	**151**	1,643
Premises equipment and establishment expenses	**222,692**	208,049	**797,909**	567,526
Other overhead expenses	**317,480**	235,726	**822,491**	740,186
	737,901	626,373	**2,098,201**	1,747,200

** This includes fee in connection with the Comfort letter for USD 100 million note issue.*

20 Value Added Tax on Financial Services

Current tax	**408,069**	416,741	**577,103**	578,903
Prior year refund	**–**	(184,442)	**–**	(184,442)
	408,069	232,299	**577,103**	394,461

21 Tax Expenses

21.1 Composition

Current tax	**569,318**	520,713	**882,999**	792,334
Adjustment for prior years	**(877)**	(4,911)	**(44,468)**	(771)
Deferred tax - origination and reversal of temporary differences	**54,679**	55,026	**96,242**	89,889
	623,120	570,828	**934,773**	881,452

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 Reconciliation of Effective Tax Rate with Income Tax Rate

	BANK				GROUP			
For the year ended 31 March	**2014**		2013		**2014**		2013	
	%	**LKR 000**	%	LKR 000	**%**	**LKR 000**	%	LKR 000
Tax using 28% tax rate on profit before tax (PBT) (2013 PBT under previous GAAP)	**28.00**	**898,960**	28.00	976,449	**28.00**	**1,171,641**	28.00	1,251,459
Non-deductible expenses	**5.24**	**168,393**	2.12	73,947	**9.07**	**378,980**	3.92	174,983
Allowable deductions	**(12.43)**	**(399,187)**	(2.64)	(92,037)	**(11.11)**	**(465,144)**	(2.73)	(122,221)
Dividend income	**(10.15)**	**(325,750)**	(9.23)	(321,777)	**(7.79)**	**(325,809)**	(9.97)	(445,530)
Tax incentives	**(2.87)**	**(92,238)**	(4.05)	(141,209)	**(4.28)**	**(179,137)**	(1.21)	(54,030)
Taxable timing difference from capital allowances on assets	**9.94**	**319,140**	0.73	25,340	**7.70**	**322,156**	0.95	42,536
Tax losses from prior year	**–**	**–**	–	–	**(0.34)**	**(14,240)**	(0.18)	(7,826)
Taxed at different rates	**–**	**–**	–	–	**(0.13)**	**(5,448)**	(1.05)	(47,037)
Current tax expense	**17.73**	**569,318**	14.93	520,713	**21.12**	**882,999**	17.73	792,334

21.3 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets.

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 holders of the bank by the weighted average number of shares in issue during the financial year.

	BANK		GROUP	
For the year ended 31 March	**2014**	2013	**2014**	2013
Profit attributable to equity holders of the Bank - LKR 000	**2,587,450**	2,921,356	**3,151,400**	3,493,961
Weighted average number of ordinary shares	**265,097,688**	265,097,688	**265,097,688**	265,097,688
Basic earnings per ordinary share - LKR	**9.76**	11.02	**11.89**	13.18

23 Analysis of Financial Instruments by Measurement Basis

23.1 Bank

As at 31 March 2014	Fair value through profit or loss - mandatory LKR 000	Fair value-held-for-trading LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Held-to-maturity LKR 000	Total LKR 000
Financial Assets						
Cash and cash equivalents	–	–	–	545,388	–	545,388
Placements with banks	–	–	–	2,681,779	–	2,681,779
Derivative assets held for risk management	1,630	–	–	–	–	1,630
Other financial assets held-for-trading	–	1,017,980	–	–	–	1,017,980
Loans to and receivables from banks	–	–	–	1,233,617	–	1,233,617
Loans to and receivables from other customers	–	–	–	61,341,469	–	61,341,469
Financial investments	–	–	25,073,488	–	535,958	25,609,446
Government grant receivable (Note 42)	276,878	–	–	–	–	276,878
	278,508	1,017,980	25,073,488	65,802,253	535,958	92,708,187
Financial Liabilities						
Due to banks	–	–	–	5,153,754	–	5,153,754
Derivative liabilities held for risk management	55,609	–	–	–	–	55,609
Due to other customers	–	–	–	16,630,363	–	16,630,363
Other borrowing	–	–	–	25,434,080	–	25,434,080
Debt securities issued	–	–	–	14,009,017	–	14,009,017
Subordinated term debt	–	–	–	609,373	–	609,373
	55,609	–	–	61,836,587	–	61,892,196

As at 31 March 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

23.2 Bank

Financial Assets						
Cash and cash equivalents	–	–	–	597,456	–	597,456
Placement 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
	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
	190,922	–	–	56,961,574	–	57,152,496

As at 31 March 2014	Fair value through profit or loss - mandatory LKR 000	Fair value-held-for-trading LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Held-to-maturity LKR 000	Total LKR 000
23.3 Group						
Financial Assets						
Cash and cash equivalents	–	–	–	2,966,148	–	2,966,148
Balances with Central Bank	–	–	–	2,870,689	–	2,870,689
Placements with banks	–	–	–	3,140,735	–	3,140,735
Derivative assets held for risk management	183,892	–	–	–	–	183,892
Other financial assets held-for-trading	–	3,553,660	–	–	–	3,553,660
Loans to and receivables from banks	–	–	–	5,958,055	–	5,958,055
Loans to and receivables from other customers	–	–	–	112,364,247	–	112,364,247
Financial investments	–	–	40,135,705	–	1,146,523	41,282,228
Government grant receivable (Note 42)	276,878	–	–	–	–	276,878
	460,770	3,553,660	40,135,705	127,299,874	1,146,523	172,596,532
Financial Liabilities						
Due to banks	–	–	–	7,105,310	–	7,105,310
Derivative liabilities held for risk management	227,994	–	–	–	–	227,994
Due to other customers	–	–	–	80,826,117	–	80,826,117
Other borrowing	–	–	–	29,347,292	–	29,347,292
Debt securities issued	–	–	–	14,009,017	–	14,009,017
Subordinated term debt	–	–	–	1,609,674	–	1,609,674
	227,994	–	–	132,897,410	–	133,125,404

As at 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
23.4 Group						
Financial Assets						
Cash and cash equivalents	–	–	–	3,976,892	–	3,976,892
Balances with Central Bank	–	–	–	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
	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 borrowings	–	–	–	37,530,202	–	37,530,202
Debt securities issued	–	–	–	558,257	–	558,257
Subordinated term debts	–	–	–	1,609,690	–	1,609,690
	307,094	–	–	110,488,837	–	110,795,931

24 Cash and Cash Equivalents

	BANK		GROUP	
As at	**31.03.2014 LKR 000**	31.03.2013 LKR 000	**31.03.2014 LKR 000**	31.03.2013 LKR 000
Cash in hand	**511**	300	**1,747,737**	2,114,790
Balances with banks	**544,877**	428,411	**1,218,411**	1,588,507
Money at call and short notice	**–**	168,745	**–**	273,595
	545,388	597,456	**2,966,148**	3,976,892

As at	GROUP	
	31.03.2014 LKR 000	31.03.2013 LKR 000

25 Balances with Central Bank

Statutory balances with Central Bank of Sri Lanka	**2,870,689**	2,620,790

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 6% from July 2013 (from 29 April 2011 to 30 June 2013 - 8%). There are no reserve requirement for deposit liabilities of the Foreign Currency Banking Unit and foreign currency deposit liabilities in the Domestic Banking Unit.

As at	BANK		GROUP	
	31.03.2014 LKR 000	31.03.2013 LKR 000	**31.03.2014 LKR 000**	31.03.2013 LKR 000

26 Placements with Banks

Fixed deposits	**2,681,779**	6,028,141	**3,140,735**	6,075,412
Placements	**–**	100,104	**–**	1,465,676
	2,681,779	6,128,245	**3,140,735**	7,541,088

27 Derivatives Held for Risk Management

27.1 Assets

Forward foreign exchange contracts	- currency swaps	**1,630**	45,145	**154,224**	74,093
	- Others	**–**	–	**29,668**	45,549
		1,630	45,145	**183,892**	119,642

27.2 Liabilities

Forward foreign exchange contracts	- currency swaps	**55,609**	183,394	**199,630**	211,314
	- Others	**–**	7,528	**28,364**	95,780
		55,609	190,922	**227,994**	307,094

As at	BANK		GROUP	
	31.03.2014 LKR 000	31.03.2013 LKR 000	**31.03.2014 LKR 000**	31.03.2013 LKR 000
28 Other Financial Assets held for Trading				
Government of Sri Lanka treasury bills	**12,546**	377,800	**2,159,308**	589,730
Government of Sri Lanka treasury bonds	**1,005,434**	–	**1,394,352**	3,678
Total	**1,017,980**	377,800	**3,553,660**	593,408

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

As at	GROUP	
	31.03.2014 LKR 000	31.03.2013 LKR 000
29 Non-Current Assets Held-for-Sale		
Land acquired by Acuity Partners (Pvt) Limited	–	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 based on the valuation carried out by Messrs K C P Condegama AIV (Sri Lanka). 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. This said property was disposed during 2013 and 50% of the resultant loss of LKR 0.39 million is disclosed in Note 16.

	BANK		GROUP	
As at	**31.03.2014 LKR 000**	31.03.2013 LKR 000	**31.03.2014 LKR 000**	31.03.2013 LKR 000

30 Loans to and Receivables from Banks

Gross loans and receivables	**1,233,617**	1,822,838	**5,958,055**	5,633,902
Specific allowance for impairment	**–**	–	**–**	–
Net loans and receivables	**1,233,617**	1,822,838	**5,958,055**	5,633,902

30.1 Analysis

30.1.1 By Product

Securities purchased under resale agreements	**–**	133,124	**2,604,098**	1,999,765
Refinanced Loans - Plantation development project	**946,446**	1,279,047	**946,446**	1,279,047
KFW* DFCC (V) SME in the North and East	**287,171**	410,667	**287,171**	410,667
Sri Lanka development bonds	**–**	–	**2,120,340**	1,944,423
Gross total	**1,233,617**	1,822,838	**5,958,055**	5,633,902

** KFW - Kreditanstalt Fur Wiederaufbau*

30.1.2 By Currency

Sri Lankan Rupee	**1,233,617**	1,822,838	**3,837,715**	3,689,479
United States Dollar	**–**	–	**2,120,340**	1,944,423
Gross total	**1,233,617**	1,822,838	**5,958,055**	5,633,902

31 Loans to and Receivables from Other Customers

Gross loans and receivables	**64,733,749**	62,191,645	**119,256,015**	104,396,499
Specific allowance impairment (Note 31.2.1)	**(1,486,838)**	(1,477,986)	**(3,794,550)**	(3,229,925)
Collective allowance impairment (Note 31.2.2)	**(1,905,442)**	(1,868,892)	**(3,097,218)**	(2,767,131)
Net loans and receivables	**61,341,469**	58,844,767	**112,364,247**	98,399,443

	BANK		GROUP	
As at	**31.03.2014 LKR 000**	31.03.2013 LKR 000	**31.03.2014 LKR 000**	31.03.2013 LKR 000

31.1 Analysis

31.1.1 By Product

Overdrafts	**–**	–	**19,506,108**	15,677,995
Trade finance	**–**	–	**13,099,299**	10,299,298
Lease rentals receivable (Note 31.1.1.1)	**8,109,397**	9,487,857	**9,611,637**	10,722,720
Credit cards	**–**	–	**114,956**	62,118
Pawning	**–**	–	**3,426,803**	3,625,272
Staff loans	**533,093**	424,505	**891,735**	710,586
Term loans	**51,382,876**	47,775,100	**66,802,719**	57,835,048
Commercial papers and asset back notes	**2,321,850**	1,079,531	**2,321,850**	1,079,531
Debenture loans	**886,132**	1,096,741	**886,132**	1,096,741
Preference shares unquoted	**1,500,401**	1,792,405	**1,369,290**	1,642,405
Securities purchased under resale agreements	**–**	535,506	**1,225,486**	1,644,785
Gross total	**64,733,749**	62,191,645	**119,256,015**	104,396,499

31.1.1.1 Lease Rentals Receivable

Gross investment in leases:				
Lease rentals receivable				
- within one year	**4,584,057**	4,677,898	**5,286,947**	5,176,069
- one to five years	**5,209,795**	6,963,422	**6,406,794**	8,046,570
	9,793,852	11,641,320	**11,693,741**	13,222,639
Less: Deposit of rentals	**13,894**	20,496	**19,934**	25,411
Unearned income on rentals receivable				
- within one year	**962,466**	1,095,508	**1,154,964**	1,251,059
- one to five years	**708,095**	1,037,459	**907,206**	1,223,449
	8,109,397	9,487,857	**9,611,637**	10,722,720

	BANK		GROUP	
As at	**31.03.2014 LKR 000**	31.03.2013 LKR 000	**31.03.2014 LKR 000**	31.03.2013 LKR 000

31.1.2 By Currency

Sri Lankan Rupee	**60,620,392**	58,956,494	**109,177,810**	96,217,211
United States Dollar	**4,113,357**	3,235,151	**9,682,794**	7,857,067
Great Britain Pound	–	–	**305,380**	201,688
Australian Dollar	–	–	**19,706**	32,715
Euro	–	–	**70,325**	87,818
Gross total	**64,733,749**	62,191,645	**119,256,015**	104,396,499

31.1.3 By Industry

Agriculture and fishing	**2,653,397**	3,102,545	**11,340,488**	8,954,768
Manufacturing	**18,229,030**	19,433,879	**30,274,534**	28,744,509
Tourism	**4,931,548**	4,197,261	**5,864,832**	4,829,044
Transport	**3,382,023**	3,377,612	**4,410,181**	4,280,827
Construction	**7,811,247**	6,442,708	**11,472,648**	9,013,997
Traders	**10,983,060**	10,470,977	**24,784,405**	21,660,919
Financial and business services	**7,298,096**	6,348,209	**8,173,064**	6,801,409
Infrastructure	**4,330,762**	4,282,366	**6,345,743**	6,155,533
Other services	**4,750,608**	4,189,711	**6,928,916**	5,603,459
Consumer durables	–	–	**7,062,375**	6,209,668
New economy	**79,025**	116,864	**1,067,778**	803,573
Others	**284,953**	229,513	**1,531,051**	1,338,793
Gross total	**64,733,749**	62,191,645	**119,256,015**	104,396,499

As at	BANK 31.03.2014 LKR 000	BANK 31.03.2013 LKR 000	GROUP 31.03.2014 LKR 000	GROUP 31.03.2013 LKR 000
31.2 Movement in Specific and Collective Allowance for Impairment				
31.2.1 Specific Allowance for Impairment				
Balance as at 1 April	**1,477,986**	1,383,599	**3,229,925**	2,812,113
Charge to income statement	**11,308**	104,388	**569,034**	417,218
Effect of foreign currency movements	**–**	–	**5,563**	10,595
Effect of discounting	**(2,456)**	(10,001)	**(2,456)**	(10,001)
Write-off loans & receivables	**–**	–	**(7,516)**	–
Balance on 31 March	**1,486,838**	1,477,986	**3,794,550**	3,229,925
31.2.2 Collective Allowance for Impairment				
Balance as at 1 April	**1,868,892**	2,093,397	**2,767,131**	2,896,612
Charge to income statement	**281,123**	52,988	**621,595**	243,222
Effect of foreign currency movements	**–**	–	**718**	2,295
Transfer to dues on terminated leases	**(15,460)**	(38,702)	**(15,460)**	(38,702)
Write-off of loans & receivables	**(229,113)**	(238,791)	**(276,766)**	(336,296)
Balance on 31 March	**1,905,442**	1,868,892	**3,097,218**	2,767,131
Total	**3,392,280**	3,346,878	**6,891,768**	5,997,056

31.3 Loans Granted from Investment Fund Account

The details of loans granted from Investment Fund Account which were outstanding as at 31 March 2014 are as follows:

Sector	Interest Rate %	No. of Loans	**Balance on 31.03.2014 LKR 000**
Agriculture	11.4 - 18.6	19	**109,678**
Factory/Mills modernisation	11.4 - 18.6	30	**141,552**
Small and medium enterprises	11.4 - 18.6	74	**333,176**
Infrastructure development	11.6 - 17	5	**45,496**
Education	16.1 - 16.5	2	**1,306**
Construction of hotels and for related purposes	11.4 - 17.7	18	**87,022**
			718,230

As at	BANK 31.03.2014 LKR 000	BANK 31.03.2013 LKR 000	GROUP 31.03.2014 LKR 000	GROUP 31.03.2013 LKR 000

32 Financial Investments - Available-for-Sale

Sri Lanka Government Securities				
Government of Sri Lanka treasury bills	**4,659,319**	2,501,246	**18,674,581**	10,846,584
Government of Sri Lanka treasury bonds	**2,490,393**	19,143	**3,297,815**	19,143
Equity securities				
Quoted ordinary shares (Note 32.1)	**17,261,361**	16,038,566	**17,265,259**	16,042,210
Unquoted ordinary shares (Note 32.2)	**141,959**	144,459	**287,636**	163,231
Unquoted preference shares (Note 32.3)	**500**	500	**64,944**	45,475
Quoted units in Unit Trust (Note 32.4)	**218,525**	194,680	**218,525**	194,680
Unquoted units in Unit Trust (Note 32.5)	**301,431**	324,248	**326,945**	348,342
Total	**25,073,488**	19,222,842	**40,135,705**	27,659,665

All the financial investments are carried at fair value except for unquoted equity securities and irredeemable preference shares held by the Bank whose fair value cannot reliably be measured is carried at cost.

	31.03.2014 Number of ordinary shares	31.03.2014 Cost LKR 000	31.03.2014 Fair value LKR 000	31.03.2013 Number of ordinary shares	31.03.2013 Cost LKR 000	31.03.2013 Fair value LKR 000

32.1 Quoted Ordinary Shares

Banks, Finance & Insurance						
A I A Insurance Lanka PLC	–	–	–	12,000	2,013	4,200
Ceylinco Insurance PLC - voting	–	–	–	24,100	10,808	24,100
Ceylinco Insurance PLC - non-voting	–	–	–	43,971	11,118	13,987
Commercial Bank of Ceylon PLC - voting	**117,951,857**	**2,862,295**	**14,390,127**	116,009,375	2,642,795	13,109,059
Commercial Bank of Ceylon PLC - non-voting	**219,963**	**17,039**	**21,336**	215,650	16,620	20,918
Hatton National Bank PLC - non-voting	–	–	–	715,947	35,431	93,790
HNB Assurance PLC	–	–	–	39,332	1,320	1,876
Janashakthi Insurance PLC	–	–	–	250,000	3,000	3,075
Nations Trust Bank PLC	**22,865,356**	**1,329,712**	**1,483,962**	22,865,356	1,329,713	1,394,787
National Development Bank PLC	**2,000,000**	**352,369**	**358,000**	2,000,000	352,369	331,400
Sampath Bank PLC	–	–	–	292,435	22,493	66,061
		4,561,415	**16,253,425**		4,427,680	15,063,253

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

	31.03.2014			31.03.2013		
	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	159,421	150,967	8,520	118,358
Distilleries Company of Sri Lanka PLC	1,087,200	181,846	220,702	1,087,200	181,846	181,562
		190,366	380,123		190,366	299,920
Chemicals & Pharmaceuticals						
Chemical Industries (Colombo) PLC - voting	247,900	14,131	11,279	247,900	17,674	15,370
Chemical Industries (Colombo) PLC - non-voting	389,400	15,577	14,525	389,400	23,135	18,146
Haycarb PLC	–	–	–	38,330	4,139	6,746
		29,708	25,804		44,948	40,262
Construction & Engineering						
Access Engineering PLC	400,000	8,010	9,000	400,000	8,010	7,960
Colombo Dockyard PLC	200,000	28,306	34,640	200,000	28,306	42,800
Millenium Housing Developers Limited **	1,500,000	2,500	9,600	–	–	–
		38,816	53,240		36,316	50,760
Diversified Holdings						
Carson Cumberbatch PLC	46,967	13,635	17,143	46,967	13,635	20,665
Hayleys PLC	7,333	2,225	2,090	7,333	2,225	2,163
Hemas Holdings PLC	620,700	20,371	23,462	620,700	20,371	16,759
John Keells Holdings PLC	157,823	12,600	35,905	197,780	12,895	48,852
John Keells Holdings PLC - Warrants	14,028	–	974	–	–	–
Richard Pieris & Co. PLC	1,000,000	8,234	6,600	1,000,000	8,234	6,600
Vallibel One PLC	–	–	–	52,500	1,009	856
		57,065	86,174		58,369	95,895
Healthcare						
Ceylon Hospitals PLC - voting	100,000	2,306	11,500	100,000	2,305	10,000
Ceylon Hospitals PLC - non-voting	300,000	5,208	23,100	300,000	5,208	22,530
		7,514	34,600		7,513	32,530

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

*** Transfer from unquoted investments.*

	31.03.2014			31.03.2013		
	Number of ordinary shares	**Cost LKR 000**	**Fair value LKR 000**	Number of ordinary shares	Cost LKR 000	Fair value LKR 000
Hotels & Travels						
Dolphin Hotels PLC	**500,000**	**4,822**	**21,100**	818,800	7,896	27,020
		4,822	**21,100**		7,896	27,020
Investment Trusts						
Ceylon Guardian Investment Trust PLC	**277,000**	**10,324**	**49,306**	275,000	10,001	44,000
Ceylon Investment PLC	**765,000**	**24,556**	**56,993**	735,000	22,148	58,800
		34,880	**106,299**		32,149	102,800
Footwear & Textiles						
Odel PLC	–	–	–	7,400	111	156
Telecommunications						
Dialog Axiata PLC	**2,050,000**	**18,860**	**18,450**	2,050,000	27,296	18,655
Manufacturing						
ACL Cables PLC	–	–	–	51,000	3,070	3,341
Ceylon Grain Elevators PLC	**48,997**	**1,297**	**1,715**	48,997	1,297	2,450
Chevron Lubricants Lanka PLC	**588,000**	**19,588**	**155,408**	609,400	20,301	132,240
Piramal Glass Ceylon PLC	**7,500,000**	**21,036**	**25,500**	11,290,852	31,668	68,874
Royal Ceramics Lanka PLC	**139,800**	**16,996**	**11,044**	139,800	16,996	13,980
Tokyo Cement Company (Lanka) PLC - non-voting	**2,471,700**	**46,142**	**71,679**	2,247,000	46,142	40,221
		105,059	**265,346**		119,474	261,106
Power & Energy						
Lanka IOC PLC	–	–	–	508,300	10,166	10,369
Vallibel Power Erathna PLC	**3,000,000**	**8,000**	**16,800**	6,400,000	17,067	35,840
		8,000	**16,800**		27,233	46,209
Total Quoted Shares - Bank		**5,056,505**	**17,261,361**		4,979,351	16,038,566
Investment in quoted ordinary shares by joint venture		**580**	**3,898**		580	3,644
Total Quoted Shares - Group		**5,057,085**	**17,265,259**		4,979,931	16,042,210

	31.03.2014			31.03.2013		
	Number of ordinary shares	Cost LKR 000	Fair value LKR 000	Number of ordinary shares	Cost LKR 000	Fair value LKR 000
32.1.1 Investment in Quoted Ordinary Shares by Joint Venture						
Banks, Finance & Insurance						
Central Finance Company PLC	16	0*	3	3	0**	3
Diversified Holdings						
Hayleys PLC	7,491	558	2,195	7,491	558	2,269
John Keells Holdings PLC	7,230	22	1,643	6,240	22	1,372
John Keells Holdings PLC - Warrants	660	–	57	–	–	–
		580	3,895		580	3,641
		580	3,898		580	3,644

** Less than LKR 500.*

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

32.2 Unquoted Ordinary Shares

	31.03.2014		31.03.2013	
	Number of ordinary shares	Cost* LKR 000	Number of ordinary Shares	Cost* LKR 000
Credit Information Bureau of Sri Lanka	8,884	888	8,884	888
Durdans Medical & Surgical Hospital (Pvt) Limited	1,273,469	16,029	1,273,469	16,029
Fitch Ratings Lanka Limited	62,500	625	62,500	625
Millenium Housing Developers Limited **	–	–	1,500,000	2,500
Plastipak Lanka Limited	240,000	2,400	240,000	2,400
Sampath Centre Limited	1,000,000	10,000	1,000,000	10,000
Samson Reclaim Rubbers (Pvt) Limited	116,700	2,334	116,700	2,334
Sinwa Holdings Limited	460,000	9,200	460,000	9,200
Sun Tan Beach Resorts (Pvt) Limited	9,059,013	90,433	9,059,013	90,433
The Video Team (Pvt) Limited	30,000	300	30,000	300
Wayamba Plantations (Pvt) Limited	2,750,000	9,750	2,750,000	9,750
Total unquoted ordinary shares - Bank		141,959		144,459
Investments in unquoted ordinary shares by subsidiaries and joint venture		145,677		18,772
Total unquoted ordinary share - Group		287,636		163,231

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

*** Transferred to quoted investment.*

	31.03.2014		31.03.2013	
	Number of ordinary shares	**Cost* LKR 000**	Number of ordinary Shares	Cost* LKR 000
32.2.1 Investments in Unquoted Ordinary Shares by Subsidiaries and Joint Venture				
Investments in Unquoted Ordinary Shares by Subsidiaries				
Credit Information Bureau of Sri Lanka	**300**	**30**	300	30
Lankaclear (Pvt) Limited	**100,000**	**1,000**	100,000	1,000
Lanka Financial Services Bureau Limited	**100,000**	**1,000**	100,000	1,000
Society for Worldwide Interbank Financial Telecommunication	**6**	**3,385**	6	3,385
		5,415		5,415
Investments in Unquoted Ordinary Shares by Joint Venture				
Durdans Medical and Surgical Hospitals (Pvt) Limited	**1,061,225**	**12,562**	1,061,225	13,357
Raj Lanka Power Company Limited	**7,860,000**	**127,700**	–	–
	8,921,225	**140,262**		13,357
		145,677		18,772

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

	31.03.2014			31.03.2013		
	Number of ordinary shares	**Cost LKR 000**	**Fair value LKR 000**	Number of ordinary shares	Cost LKR 000	Fair value LKR 000
32.3 Unquoted Irredeemable Preference Shares						
Arpico Finance Company PLC	**50,000**	**500**	**500**	50,000	500	500
Total investments in unquoted irredeemable preference shares - Bank		**500**	**500**		500	500
Investment in unquoted irredeemable preference shares by joint venture		**16,490**	**64,444**		16,490	44,975
Total investments in unquoted irredeemable preference shares - Group		**16,990**	**64,944**		16,990	45,475
32.3.1 Investments in Unquoted Irredeemable Preference Shares by Joint Venture						
Nividhu (Pvt) Limited	**1,640,000**	**16,490**	**64,444**	1,640,000	16,490	44,975
		16,490	**64,444**		16,490	44,975

	31.03.2014			31.03.2013		
	Number of Units	Cost LKR 000	Fair Value LKR 000	Number of Units	Cost LKR 000	Fair Value LKR 000
32.4 Quoted Units in Unit Trust						
NAMAL Acuity Value Fund	3,018,300	151,528	218,525	3,018,300	151,528	194,680
Total quoted units - Bank		151,528	218,525		151,528	194,680
Investments in unit trusts by subsidiaries		–	–		–	–
Total investments in quoted Unit Trusts - Group		151,528	218,525		151,528	194,680
32.5 Unquoted Units in Unit Trust						
NAMAL Growth Fund	155,000	1,539	16,647	295,000	2,929	26,515
NAMAL Income Fund	14,012,129	143,059	164,222	16,712,129	170,625	187,343
NAMAL Money Market Fund	10,030,193	101,241	105,317	9,316,128	93,866	97,260
National Equity Fund	500,000	5,313	15,245	500,000	5,313	13,130
Total investments in unquoted Unit Trusts - Bank		251,152	301,431		272,733	324,248
Investment in Unit Trusts by joint venture		22,500	25,514		22,500	24,094
Total investments in unquoted Unit Trusts - Group		273,652	326,945		295,233	348,342
32.5.1 Investments in Unit Trusts by Joint Venture						
Guardian Acuity Fixed Income Fund	2,250,000	22,500	25,514	2,250,000	22,500	24,094
		22,500	25,514		22,500	24,094

32.6 Equity Securities

32.6.1 Composition*

32.6.1.1 Bank

	Ordinary Shares		Preference Shares	Unit Trusts		Total	
	Quoted LKR 000	Unquoted LKR 000	Unquoted LKR 000	Quoted LKR 000	Unquoted LKR 000	**31.03.2014 LKR 000**	31.03.2013 LKR 000
Performing investments	17,261,361	39,376	500	218,525	284,784	**17,804,546**	16,519,937
Non-performing investments	–	102,583	–	–	16,647	**119,230**	182,516
Total	17,261,361	141,959	500	218,525	301,431	**17,923,776**	16,702,453

32.6.1.2 Group

	Ordinary Shares		Preference Shares	Unit Trusts		Total	
	Quoted LKR 000	Unquoted LKR 000	Unquoted LKR 000	Quoted LKR 000	Unquoted LKR 000	**31.03.2014 LKR 000**	31.03.2013 LKR 000
Performing investments	17,265,259	180,668	64,944	218,525	310,298	**18,039,694**	16,598,065
Non-performing investments	–	106,968	–	–	16,647	**123,615**	195,873
Total	17,265,259	287,636	64,944	218,525	326,945	**18,163,309**	16,793,938

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

33 Financial Investments -Held-To-Maturity

	BANK		GROUP	
As at	**31.03.2014 LKR 000**	31.03.2013 LKR 000	**31.03.2014 LKR 000**	31.03.2013 LKR 000
Quoted debentures (Note 33.1)	**535,958**	75,022	**1,077,911**	79,314
Unquoted debentures (Note 33.2)	**–**	–	**68,612**	78,649
	535,958	75,022	**1,146,523**	157,963

	31.03.2014		31.03.2013	
	Number of Debentures	**Amortised Cost LKR 000**	Number of Debentures	Amortised Cost LKR 000
33.1 Quoted Debentures				
Abans Limited	**2,500,000**	**258,784**	–	–
Central Finance Company PLC - Type A	**134,400**	**13,871**	–	–
Central Finance Company PLC - Type C	**1,793,900**	**185,362**	–	–
People's Leasing & Finance PLC	**748,500**	**77,941**	748,500	75,022
Investments in quoted debentures - Bank		**535,958**		75,022
Investments in quoted debentures by Subsidiaries				
People's Leasing and Finance PLC	**2,000,000**	**225,599**	–	–
Lion Brewery (Ceylon) PLC	**71,000**	**73,347**	–	–
Alliance Finance Company PLC	**1,500,000**	**155,781**	–	–
HDFC Bank	**532,200**	**54,645**	–	–
Central Finance PLC	**281,800**	**28,373**	–	–
		537,745	–	–
Investments in quoted debentures by Joint Venture				
Bank of Ceylon	**40,000**	**4,208**	40,000	4,292
		4,208		4,292
Total investments in quoted debentures - Group		**1,077,911**		79,314

33.2 Unquoted Debentures

Investment in unquoted debentures - Bank	**–**	**–**	–	–
Investment in unquoted debentures - joint venture				
Ceylon Hospitals PLC	**4,312,500**	**43,125**	5,000,000	50,000
Hatton National Bank PLC	**–**	**–**	67,500	7,056
Neluwa Cascade Hydro Power (Pvt) Limited	**2,000,000**	**25,487**	2,000,000	21,593
Total investments in unquoted debentures - Group		**68,612**		78,649

	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 31.03.2014 LKR 000	BANK 31.03.2013 LKR 000

34 Investments in Subsidiaries

	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 31.03.2014 LKR 000	BANK 31.03.2013 LKR 000
Balance at as at 1 April	5,000	3,627,417	97,036	53,000	**3,782,453**	3,777,907
Investment in right issue		2,195,611		17,000	**2,212,611**	–
Purchase from non-controlling interest	–		–	–	**–**	4,546
Balance before impairment	5,000	5,823,028	97,036	70,000	**5,995,064**	3,782,453
Less: Allowance for impairment					**26,500**	26,500
Balance net of impairment					**5,968,564**	3,755,953

35 Investments in Associates

35.1 Unquoted

35.1.1 Associate held by the Bank

As at	BANK 31.03.2014 LKR 000	BANK 31.03.2013 LKR 000	GROUP 31.03.2014 LKR 000	GROUP 31.03.2013 LKR 000
Balance as at 1 April	**35,270**	35,270	**53,467**	53,706
Share of profit after tax*	**–**	–	**5,794**	1,885
Share of other comprehensive income	**–**	–	**363**	4,322
Dividend received - elimination on consolidation	**–**	–	**(5,460)**	(5,460)
Other movements in changes in equity - Transferred to income on disposal	**–**	–	**–**	(986)
Balance on 31 March	**35,270**	35,270	**54,164**	53,467

35.1.2 Investments in Associates held through Joint Venture

As at	BANK 31.03.2014 LKR 000	BANK 31.03.2013 LKR 000	GROUP 31.03.2014 LKR 000	GROUP 31.03.2013 LKR 000
Balance as at 1 April			**361,784**	319,521
Investment at cost			**126,136**	42,263
Share of profit after tax*			**118,331**	–
Dividend received - elimination on consolidation			**(53,000)**	–
Balance on 31 March			**553,251**	361,784
Investment in associates held by Group			**607,415**	415,251

** Share of profit after tax net of WHT on dividend.*

For the year ended 31 March	**2014** **LKR 000**	2013 LKR 000

35.2 Summarised Financial Information of Associates

35.2.1 Associate Held by the Bank

National Asset Management Limited (Ownership 30%)

Revenue	**89,928**	73,190
Expenses	**67,890**	63,247
Tax expense	**925**	1,856
Profit after tax	**21,113**	8,087

As at	**31.03.2014** **LKR 000**	31.03.2013 LKR 000
Current assets	**35,251**	22,156
Non-current assets	**156,148**	169,075
Total assets	**191,399**	191,231
Current liabilities	**8,568**	11,234
Non-current liabilities	**2,336**	1,828
Total liabilities	**10,904**	13,062

35.2.2 Associates Held through Joint Venture - Acuity Partners (Pvt) Limited

	Unit Energy Lanka (Pvt) Limited		Hayleys Hydro Energy (Pvt) Limited		Pavan Danavi (Pvt) Limited		Nala Danavi (Pvt) Limited
For the year ended 31 March	**2014** **LKR 000**	2013 LKR 000	**2014** **LKR 000**	2013 LKR 000	**2014** **LKR 000**	2013 LKR 000	**2014** **LKR 000**
Revenue	**57,166**	87,085	**71,772**	58,450	**845,674**	104,996	**194,917**
Expenses	**72,009**	71,963	**50,912**	43,192	**367,983**	21,377	**103,706**
Tax expense/(refund)	**4,882**	4,883	**(2,353)**	(2,398)	**–**	–	**2,492**
Profit/(loss) after tax	**(19,725)**	10,239	**23,213**	17,656	**477,691**	83,619	**88,719**
As at 31 March							
Current assets	**59,124**	29,485	**39,357**	15,600	**230,089**	140,618	**143,566**
Non-current assets	**435,821**	451,792	**328,280**	343,398	**2,630,881**	2,650,748	**1,415,599**
Total assets	**494,945**	481,277	**367,637**	358,998	**2,860,970**	2,791,366	**1,559,165**
Current liabilities	**114,857**	91,037	**93,007**	59,496	**359,185**	310,268	**103,469**
Non-current liabilities	**144,825**	137,082	**110,000**	158,704	**1,151,422**	1,320,670	**871,976**
Total liabilities	**259,682**	228,119	**203,007**	218,200	**1,510,607**	1,630,938	**975,445**

The above companies are Associates of Lanka Ventures PLC which is a Subsidiary of Acuity Partners (Pvt) Limited.

	BANK	
As at	**31.03.2014 LKR 000**	31.03.2013 LKR 000

36 Investments in Joint Venture

Unquoted		
Acuity Partners (Pvt) Limited (ownership 50%)		
Balance on 31 March	**655,000**	655,000
Bank's Interest in Acuity Partners (Pvt) Limited include -		

For the year ended 31 March	**2014 LKR 000**	2013 LKR 000
Revenue	**353,811**	246,504
Expenses	**195,642**	187,415
Income tax	**32,873**	11,258
Profit after tax	**125,296**	47,831

As at	**31.03.2014 LKR 000**	31.03.2013 LKR 000
Current assets	**2,866,708**	2,720,419
Non-current assets	**951,746**	633,090
Total assets	**3,818,454**	3,353,509
Current liabilities	**2,180,707**	1,856,751
Non-current liabilities	**185,014**	261,650
Total liabilities	**2,365,721**	2,118,401

	BANK	
As at	**31.03.2014 LKR 000**	31.03.2013 LKR 000

37 Due from Subsidiaries

DFCC Consulting (Pvt) Limited	**4**	–
DFCC Vardhana Bank PLC	**37,970**	34,137
Synapsys Limited	**5,054**	5,067
	43,028	39,204

	GROUP	
As at	**31.03.2014 LKR 000**	31.03.2013 LKR 000

38 Investment Properties

Cost		
Balance as at 1 April	**257,058**	230,638
Acquisition	**30,489**	56,664
Disposals	**(7,080)**	(22,807)
Transfers	**–**	(7,437)
Balance on 31 March	**280,467**	257,058
Less: Accumulated Depreciation		
Balance as at 1 April	**87,573**	82,657
Charge for the year	**9,613**	8,834
Transfers	**–**	(3,918)
Balance on 31 March	**97,186**	87,573
Net book value	**183,281**	169,485

As at 31 March 2014	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	280,467	97,186	183,281	755,750

The fair value of investment property situated at Pattiwela Road, Sapugaskanda, Makola was based on market valuations carried out in April 2012 by Mr P B Kalugalagedara, fellow member of Institute of Valuers (Sri Lanka), Chartered Valuer.

Investment property situated at 44/7, School Lane, Nawala was disposed during the year and the gain is disclosed in Note 16.

Rental income from investment property of Group for 2014 - LKR 161 million (2013 - LKR 141 million).
Operating expenses on investment property of Group for 2014 - LKR 12 million (2013 - LKR 10 million).

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 31.03.2013	293,650	630,198	254,410	241,569	1,419,827
Acquisitions	8,287	75,091	15,685	31,448	130,511
Less: Disposals/write-off*	2,421	90,543	28,322	33,927	155,213
Cost as at 31.03.2014	**299,516**	**614,746**	**241,773**	**239,090**	**1,395,125**
Accumulated depreciation as at 31.03.2013	158,129	538,081	141,137	144,221	981,568
Depreciation for the year	13,043	41,707	23,077	35,239	113,066
Less: Disposals/write-off*	2,421	90,392	28,248	31,463	152,524
Accumulated depreciation as at 31.03.2014	**168,751**	**489,396**	**135,966**	**147,997**	**942,110**
Net book value as at 31.03.2014	**130,765**	**125,350**	**105,807**	**91,093**	**453,015**
Net book value as at 31.03.2013	135,521	92,117	113,273	97,348	438,259

**Retired assets with no Salvage Value.*

39.1.1 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	82,174	55,403	26,771
5, Deva Veediya, Kandy	4,600	12.54	16,195	6,753	9,442
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	191,268	106,595	84,673
4 A, 4th Cross Lane, Borupana, Ratmalana	0	20.00	2,600	–	2,600
			299,516	168,751	130,765

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

	LKR '000	Date of valuation
39.1.2 Market Value of Properties		
73/5, Galle Road, Colombo 3	946,000	31.03.2014
5, Deva Veediya, Kandy	72,000	31.03.2014
73, W A D Ramanayake Mawatha, Colombo 2	440,000	31.03.2014
4 A, 4th Cross Lane, Borupana, Ratmalana	10,000	31.03.2014

(Valued by Mr A A M Fathihu - Fellow member of The Institute of Valuers Sri Lanka)

39.2 Fully Depreciated Property, Plant and Equipment -Bank

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

	31.03.2014 LKR 000	31.03.2013 LKR 000
Building	**58,571**	46,469
Office equipment	**399,005**	446,013
Furniture & fittings	**6,897**	30,127
Motor vehicles	**47,606**	70,304
	512,079	592,913

	Land & building LKR 000	Office equipment LKR 000	Furniture & fittings LKR 000	Motor vehicles LKR 000	Capital work-in-progress LKR 000	Total LKR 000
39.3 Composition: Group						
Cost as at 31.03.2013	519,351	1,192,966	677,447	337,160	–	2,726,924
Acquisitions	19,439	207,859	57,823	31,448	26,482	343,051
Less: Disposals/write-off	2,421	92,810	29,688	37,527	–	162,446
Cost as at 31.03.2014	**536,369**	**1,308,015**	**705,582**	**331,081**	**26,482**	**2,907,529**
Accumulated depreciation as at 31.03.2013	264,150	917,138	330,694	187,287	–	1,699,269
Depreciation for the year	20,422	116,747	67,311	52,095	–	256,575
Less: Disposal/write-off	2,421	92,601	28,699	35,063	–	158,784
Accumulated depreciation as at 31.03.2014	**282,151**	**941,284**	**369,306**	**204,319**	**–**	**1,797,060**
Net book value as at 31.03.2014	**254,218**	**366,731**	**336,276**	**126,762**	**26,482**	**1,110,469**
Net book value as at 31.03.2013	255,201	275,828	346,753	149,873	–	1,027,655

40 Intangible Assets

	BANK		GROUP	
As at	**31.03.2014 LKR 000**	31.03.2013 LKR 000	**31.03.2014 LKR 000**	31.03.2013 LKR 000
Cost as at 1 April	**392,489**	320,402	**1,059,649**	919,725
Acquisitions	**4,220**	71,761	**68,808**	140,517
Transfers	**–**	326	**–**	326
Less: Write-off*	**13,484**	–	**13,484**	919
Cost as at 31 March	**383,225**	392,489	**1,114,973**	1,059,649
Accumulated amortisation as at 1 April	**312,411**	290,424	**797,981**	715,864
Amortisation for the year	**23,920**	21,799	**91,089**	82,461
Transfers	**–**	188	**–**	188
Less: Write-off*	**13,484**	–	**13,484**	532
Accumulated amortisation as at 31 March	**322,847**	312,411	**875,586**	797,981
Net book value as at 31 March	**60,378**	80,078	**239,387**	261,668

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

	GROUP	
As at	**31.03.2014 LKR 000**	31.03.2013 LKR 000

41 Goodwill on Consolidation

DFCC Vardhana Bank PLC	**146,602**	146,602
Acquisition of Lanka Ventures PLC by joint venture	**70,186**	70,186
Lanka Industrial Estates Limited	**9,623**	9,623
	226,411	226,411

	BANK		GROUP	
As at	**31.03.2014 LKR 000**	31.03.2013 LKR 000	**31.03.2014 LKR 000**	31.03.2013 LKR 000

42 Government Grant

42.1 Government Grant - Receivable

Fair value on the contract date	**754,958**	–	**754,958**	–
Change in fair value for the period (Note 14)	**(478,080)**	–	**(478,080)**	–
Fair value on 31 March	**276,878**	–	**276,878**	–

42.2 Government Grant - Deferred Income

Fair value on the contract date (Note 42.1)	**754,958**	–	**754,958**	–
Change in fair value for the period	**(478,080)**	–	**(478,080)**	–
Foreign exchange gain on revaluation	**18,750**	–	**18,750**	–
Amortisation of deferred income on government grant (Note 16)	**(459,330)**	–	**(459,330)**	–
Fair value on 31 March	**295,628**	–	**295,628**	–

DFCC Bank in October 2013 raised USD 100 million by Issue of Notes abroad repayable in October 2018. The proceeds of this note issue are to be deployed predominantly in LKR denominated monetary assets. In order to hedge the resulting net open foreign currency liability position, DFCC Bank has entered in to a currency SWAP arrangement with Central Bank of Sri Lanka (CBSL) for 75% of the US Dollar (USD) denominated liability.

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

Although USD denominated notes are repayable at the end of 5 years, the currency SWAP arrangement contract is renewed annually up to the date of repayment of the notes so as to exchange cash flow arising from movement in USD/LKR spot exchange rate that occurs at the time of renewal of the annual contract.

The currency SWAP arrangement with CBSL provides for SWAP of LKR to USD at the end of the contract at the same spot rate as the initial SWAP of USD to LKR at the commencement of the annual contract. (i.e. CBSL SWAP arrangement amounts to a full discount to USD LKR spot rate at the end of the contract).

The hedging instrument for currency swap is deemed to be a derivative asset recognised at the fair value at the inception of the contract.

The fair value of this derivative asset is measured by reference to forward exchange quotes for USD purchase contracts by commercial banks, who are the normal market participants. Thus the fair value gain at the inception of the contract is the full amount of the forward premium quote at the end of one year.

The subsequent change in fair value is recognised in the income statement.

CBSL normally does not enter in to forward exchange contracts with market participants providing 100% discount to the USD LKR spot rate at the time of the maturity of the contract. Thus this arrangement has features of both derivative instrument and Government grant through the agency of CBSL.

The initial gain by reference to forward price of an equivalent forward exchange dollar purchase contract is recognised as a Government grant and deferred income.

The deferred income is amortised on a systematic basis over the period in which the Bank recognises the fall in value of derivative which the grant is intended to compensate.

	BANK			GROUP		
As at	**31.03.2014 LKR 000**	31.03.2013 LKR 000	01.04.2012 LKR 000	**31.03.2014 LKR 000**	31.03.2013 LKR 000	01.04.2012 LKR 000

43 Deferred Tax Asset/Liability

43.1 Deferred Tax Liability

Balance at beginning	**388,943**	332,604	278,490	**498,413**	387,616	323,806
Increase	**56,423**	56,339	54,114	**91,597**	110,797	63,810
Balance on 31 March	**445,366**	388,943	332,604	**590,010**	498,413	387,616
Transferred from deferred tax asset	**(12,295)**	(10,383)	(7,986)	**(36,784)**	(42,729)	(15,431)
	433,071	378,560	324,618	**553,226**	455,684	372,185

43.2 Deferred Tax Asset

Balance at the beginning	**10,383**	7,986	6,790	**43,563**	21,014	14,372
Increase/(decrease)	**1,912**	2,397	1,196	**(4,072)**	22,549	6,642
Balance on 31 March	**12,295**	10,383	7,986	**39,491**	43,563	21,014
Offset against deferred tax liability	**(12,295)**	(10,383)	(7,986)	**(36,784)**	(42,729)	(15,431)
	–	–	–	**2,707**	834	5,583

As at	BANK				GROUP			
	31.03.2014		31.03.2013		**31.03.2014**		31.03.2013	
	Assets LKR 000	**Liabilities LKR 000**	Assets LKR 000	Liabilities LKR 000	**Assets LKR 000**	**Liabilities LKR 000**	Assets LKR 000	Liabilities LKR 000
43.3 Recognised Deferred Tax Assets and Liabilities								
Gratuity liability	**12,295**		10,383		**29,035**		43,563	
Unutilised tax losses	**–**	**–**	–	–	**10,456**	**–**	–	–
Property, equipment and software		**39,224**		33,472		**114,590**		98,971
Finance leases		**406,142**		355,471		**475,420**		399,442
	12,295	**445,366**	10,383	388,943	**39,491**	**590,010**	43,563	498,413
Net liability reported in the statement of financial position		**433,071**		378,560		**550,519**		454,850

As at	GROUP	
	31.03.2014 LKR 000	Tax effect 28% LKR 000
43.4 Unrecognised Deferred Tax Assets		
Taxable Losses		
DFCC Consulting (Pvt) Limited - Subsidiary	**2,418**	677
Acuity Partners (Pvt) Limited - Joint Venture*	**125,063**	35,018
	127,481	35,695

** 50% of loss, proportionate consolidation.*

As at	BANK			GROUP		
	31.03.2014 LKR 000	31.03.2013 LKR 000	01.04.2012 LKR 000	**31.03.2014 LKR 000**	31.03.2013 LKR 000	01.04.2012 LKR 000

44 Other Assets

Refundable deposits & advances	**92,191**	206,301	78,049	**313,745**	403,776	184,615
Dividend due	**474,219**	499,593	409,040	**479,719**	499,593	388,521
Debtors	**254,367**	229,391	311,327	**1,342,022**	1,348,862	1,091,327
Defined benefit asset (Note 49.3)	**161,230**	70,022	112,138	**161,230**	70,022	112,138
Total	**982,007**	1,005,307	910,554	**2,296,716**	2,322,253	1,776,601

	BANK		GROUP	
As at	**31.03.2014 LKR 000**	31.03.2013 LKR 000	**31.03.2014 LKR 000**	31.03.2013 LKR 000

45 Due to Banks

Balances with foreign banks	**–**	–	**996,008**	1,423
Borrowing - Local banks	**–**	–	**943,840**	1,598,892
Borrowing - Other local sources	**2,351,249**	6,399,595	**2,351,249**	6,399,595
Securities sold under repurchase (Repo) agreements	**2,802,505**	–	**2,814,213**	40,512
Total	**5,153,754**	6,399,595	**7,105,310**	8,040,422

46 Due to Other Customers

Total amount due to other customers	**16,630,363**	15,548,067	**80,826,117**	62,750,266

46.1 Analysis

46.1.1 By Product

Demand deposits (current accounts)		–	**1,908,923**	1,438,658
Savings deposits		–	**12,981,665**	10,005,848
Fixed deposits	**16,630,363**	15,548,067	**64,699,410**	50,803,415
Certificate of deposits		–	**586,707**	370,833
Other deposits		–	**649,412**	131,512
Total	**16,630,363**	15,548,067	**80,826,117**	62,750,266

46.1.2 By Currency

Sri Lanka Rupee	**16,616,195**	14,151,819	**72,383,340**	52,829,299
United States Dollar	**14,168**	760,187	**4,550,791**	5,816,060
Great Britain Pound	**–**	456,589	**864,487**	2,465,352
Others	**–**	179,472	**3,027,499**	1,639,555
Total	**16,630,363**	15,548,067	**80,826,117**	62,750,266

As at	BANK 31.03.2014 LKR 000	BANK 31.03.2013 LKR 000	GROUP 31.03.2014 LKR 000	GROUP 31.03.2013 LKR 000

47 Other Borrowing

Repayable in foreign currency				
Borrowing sourced from				
Multilateral Institutions	**3,861,237**	3,960,347	**3,861,237**	3,960,348
Bilateral Institutions	**5,029,913**	11,032,296	**5,029,913**	11,032,295
	8,891,150	14,992,643	**8,891,150**	14,992,643
Repayable in Rupees				
Borrowing sourced from				
Multilateral institutions	**13,965,219**	15,473,232	**13,965,219**	15,473,232
Bilateral institutions	**1,991,105**	2,880,402	**1,991,105**	3,849,912
Central Bank of Sri Lanka - refinance loans (secured)	**586,606**	500,005	**586,606**	502,075
Securities sold under repurchase (Repo) agreements	**–**	–	**3,913,212**	2,712,340
	16,542,930	18,853,639	**20,456,142**	22,537,559
Total	**25,434,080**	33,846,282	**29,347,292**	37,530,202

47.1 Supplementary Information

(As required under DFCC Act No. 35 of 1955)

As at 31 March 2014, 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.

47.2 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	586,606

	Face value LKR 000	Interest rate, %	Tenure	Issue date	Maturity date	BANK 31.03.2014 LKR 000	BANK 31.03.2013 LKR 000	GROUP 31.03.2014 LKR 000	GROUP 31.03.2013 LKR 000

48 Debt Securities Issued

	Face value LKR 000	Interest rate, %	Tenure	Issue date	Maturity date	BANK 31.03.2014 LKR 000	BANK 31.03.2013 LKR 000	GROUP 31.03.2014 LKR 000	GROUP 31.03.2013 LKR 000
Issued by bank									
ii. Debenture issue (LKR)	36,400	16.00	2 Years	22 Jan. 2013	22 Jan. 2015	**37,436**	37,436	**37,436**	37,436
	506,000	16.50	3 Years	22 Jan. 2013	22 Jan. 2016	**525,974**	520,821	**525,974**	520,821
iii. Notes issue (USD)	13,075,000	9.625	5 Years	31 Oct. 2013	31 Oct. 2018	**13,445,607**	–	**13,445,607**	–
						14,009,017	558,257	**14,009,017**	558,257
Due within one year						**37,436**	–	**37,436**	–
Due after one year						**13,971,581**	558,257	**13,971,581**	558,257
						14,009,017	558,257	**14,009,017**	558,257

Carrying values are the discounted amounts of principal and interest.

49 Other Liabilities

As at	BANK **31.03.2014 LKR 000**	BANK 31.03.2013 LKR 000	BANK 01.04.2012 LKR 000	GROUP **31.03.2014 LKR 000**	GROUP 31.03.2013 LKR 000	GROUP 01.04.2012 LKR 000
Accruals	**49,089**	64,263	58,277	**52,508**	67,427	97,611
Prior year's dividend	**33,176**	27,382	33,784	**34,972**	27,382	33,784
Security deposit for leases	**4,065**	4,065	4,065	**12,954**	41,806	25,284
Prepaid loan and lease rentals	**88,601**	95,292	89,427	**88,601**	95,292	89,427
Account payables	**267,917**	256,170	237,039	**1,636,953**	1,768,449	1,273,001
Provision for staff retirement benefits (Note 49.1)	**112,660**	116,984	93,678	**196,936**	179,378	144,441
Other provisions (Note 49.2)	**197,187**	194,561	168,697	**286,589**	256,470	260,704
	752,695	758,717	684,967	**2,309,513**	2,436,204	1,924,252

	BANK			GROUP		
As at	**31.03.2014 LKR 000**	31.03.2013 LKR 000	01.04.2012 LKR 000	**31.03.2014 LKR 000**	31.03.2013 LKR 000	01.04.2012 LKR 000

49.1 Provision for Staff Retirement Benefits

49.1.1 Unfunded Pension

Present value of defined benefit pension obligations on 1 April	**79,893**	65,147	47,888	**79,893**	65,147	47,888
Current service cost	**6,464**	6,453	5,320	**6,464**	6,453	5,320
Interest on obligation	**7,190**	5,864	4,788	**7,190**	5,864	4,788
Benefit payments during the year	**(23,902)**	–	–	**(23,902)**	–	–
Actuarial (gain)/loss	**(905)**	2,429	7,151	**(905)**	2,429	7,151
Present value of defined benefit pension obligations on 31 March	**68,740**	79,893	65,147	**68,740**	79,893	65,147

49.1.2 Unfunded End of Service Gratuity

Present value of defined benefit pension obligations on 1 April	**37,091**	28,531	19,176	**99,485**	79,294	54,420
Current service cost	**7,191**	5,773	3,582	**16,409**	12,879	8,742
Interest on obligation	**3,709**	2,853	2,276	**7,666**	6,243	4,769
Provisions made for gratuities computed on formula method				**9,404**	1,368	8,841
Benefit payments during the year	**(4,671)**	(3,936)	(2,351)	**(6,831)**	(6,155)	(4,275)
Actuarial loss	**600**	3,870	5,848	**2,063**	5,856	6,797
Present value of defined benefit pension obligations on 31 March	**43,920**	37,091	28,531	**128,196**	99,485	79,294
	112,660	116,984	93,678	**196,936**	179,378	144,441

49.2 Other Provisions

Balance at beginning	**194,561**	168,697	136,000	**256,470**	260,704	186,518
Provisions for the financial year	**203,937**	194,561	168,697	**301,346**	262,157	263,142
Provisions used during the year	**(178,794)**	(169,046)	(122,755)	**(245,378)**	(251,101)	(169,477)
Provisions reversed during the year	**(22,517)**	349	(13,245)	**(25,849)**	(15,290)	(19,479)
Balance as at 31 March	**197,187**	194,561	168,697	**286,589**	256,470	260,704

	BANK		
	31.03.2014 LKR 000	31.03.2013 LKR 000	01.04.2012 LKR 000
49.3 Funded Pension Liability/(Asset)			
Present value of defined benefit pension obligations	**1,866,434**	1,750,987	1,494,887
Fair value of pension assets	**(2,027,664)**	(1,821,009)	(1,607,025)
Defined benefit asset (Note 44)	**(161,230)**	(70,022)	(112,138)
49.3.1 Movement in Defined Pension Obligations			
Present value of defined benefit pension obligations on 1 April	**1,750,987**	1,494,887	1,367,956
Current service cost	**67,107**	65,622	55,958
Interest on obligation	**157,589**	134,540	128,152
Benefit payments during the year	**(88,672)**	(93,318)	(93,624)
Actuarial experience gain	**(20,577)**	149,256	36,445
Present value of defined benefit pension obligations on 31 March	**1,866,434**	1,750,987	1,494,887
49.3.2 Movement in Pension Assets			
Pension assets on 1 April	**1,821,009**	1,607,025	1,497,559
Expected return on pension assets	**162,026**	142,260	103,262
Employer's contribution	**65,999**	87,355	43,454
Benefits paid	**(88,672)**	(93,318)	(93,624)
Actuarial experience gain	**67,302**	77,687	56,374
Pension assets on 31 March	**2,027,664**	1,821,009	1,607,025

	BANK	
	31.03.2014 LKR 000	31.03.2013 LKR 000
49.4 Plan Assets - Composition		
Debenture investments	**338,116**	245,440
Government securities	**1,206,726**	1,094,019
Fixed deposits	**473,907**	418,338
Others	**8,915**	63,212
	2,027,664	1,821,009

49.5 The Expected Benefit Payout in the Future Years to the Defined Benefit Obligation - Bank

	Unfunded Pension Liability* 31.03.2014 LKR 000	Unfunded End of Service Gratuity* 31.03.2014 LKR 000	Funded Pension Liability* 31.03.2014 LKR 000
Within next 12 months	583	6,451	76,797
Between 2 and 5 years	2,332	40,057	517,412
Beyond 5 years	2,915	123,260	802,380

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

49.6 Unfunded Pension Liability

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

49.7 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 2014.

49.8 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.

49.9 Principal Actuarial Assumptions

	Pension benefit (%)	End of service gratuity (%)
Discount rate as at 31 March 2014, 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	9.0	–
Actual rate of return on pension assets	12.5	–
Mortality	UP 1984 mortality table	UP 1984 mortality table
Retirement age	55 years	55 years
Normal form of payment	lump sum commuted pension payment followed by reduced pension for 10 years (25% reduction) (for new entrants recovery period is 15 years)	lump sum
Turnover rate -		
Age		
20	10.0	10.0
25	10.0	10.0
30	10.0	10.0
35	7.5	7.5
40	5.0	5.0
45	2.5	2.5
50/55	1.0	1.0

The principle actuarial assumptions in the previous year has not changed. The discount rate is the yield rate on 31 March 2014 with a term equalling the estimated period for which all benefit payments will continue. This period is approximately 25 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.

49.10 Sensitivity of Assumptions Used in the Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions used with all other variables held constant in the employment benefit liability measurement. The effect in the income statement and the statement of financial position with the assumed changes in the discount rate and the salary increment rate is given below:

	Effect on Income Statement Increase/(Decrease) LKR 000	Effect on Defined Benefit Obligation Increase/(Decrease) LKR 000
Funded Pension Liability		
Discount rate		
Increase by 1%	228,448	(228,448)
Decrease by 1%	(268,539)	268,539
Salary Increment Rate		
Increase by 1%	(55,737)	55,737
Decrease by 1%	51,765	(51,765)
Unfunded Pension Liability*		
Discount rate		
Increase by 1%	4,967	(4,967)
Decrease by 1%	(5,727)	5,727
Unfunded End of Service Gratuity		
Discount rate		
Increase by 1%	4,174	(4,174)
Decrease by 1%	(4,914)	4,914
Salary Increment Rate		
Increase by 1%	(4,774)	4,774
Decrease by 1%	4,142	(4,142)

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

49.11 Historical Information

As at 31 March	2013 LKR 000	2012 LKR 000	2011 LKR 000	2010 LKR 000	2009 LKR 000
Present value of the defined benefit obligation	**1,750,987**	**1,494,887**	1,367,956	**1,317,586**	1,194,916
Fair value of plan assets	**1,821,009**	**1,607,025**	1,497,559	**1,416,019**	1,187,818
(Surplus)/deficit in the plan	**(70,022)**	**(112,138)**	(129,603)	**(98,433)**	7,098

	BANK	
As at	**31.03.2014 LKR 000**	31.03.2013 LKR 000

50 Due to Subsidiaries

DFCC Consulting (Pvt) Limited	–	525

51 Subordinated Term Debt

Year of issuance	Face value LKR 000	Interest rate	Tenure	Issue date	Maturity date	BANK **31.03.2014 LKR 000**	BANK 31.03.2013 LKR 000	GROUP **31.03.2014 LKR 000**	GROUP 31.03.2013 LKR 000
Issued by Bank									
i. Listed debentures	590,000	14.00%	10 Years	26 Sep. 2006	26 Sep. 2016	**609,373**	609,373	**609,373**	609,373
Issued by Subsidiaries									
i. Listed debentures	833,333	11.50%	5 Years	26 Sep. 2011	7 Sep. 2016	–	–	**833,589**	833,589
ii. Listed debentures	166,667	6 Months gross TB+1.5%	5 Years	26 Sep. 2011	7 Sep. 2016	–	–	**166,712**	166,728
Total						**609,373**	609,373	**1,609,674**	1,609,690
Due within one year						–	–	**301**	317
Due after one year						**609,373**	609,373	**1,609,373**	1,609,373
						609,373	609,373	**1,609,674**	1,609,690

51.1 Bank's Listed Subordinated Term Debt

Subordinated debentures listed in the Colombo Stock Exchange are redeemable at maturity. Fixed interest at 14% p.a. is payable annually. On 31 March 2014 interest rate of comparative Government Securities was 8.79% p.a. (gross).

Ratios	**31.03.2014**	31.03.2013
Debt equity ratio	**1.1**	1.7
Interest cover (times)	**1.3**	1.4
Quick asset ratio (%)	**77.5**	52.8

As at	BANK 31.03.2014 LKR 000	BANK 31.03.2013 LKR 000	GROUP 31.03.2014 LKR 000	GROUP 31.03.2013 LKR 000

52 Stated Capital

Share capital (Note 52.1)	**2,650,977**	2,650,977	**2,650,977**	2,650,977
Share premium	**2,064,837**	2,064,837	**2,064,837**	2,064,837
Total	**4,715,814**	4,715,814	**4,715,814**	4,715,814

52.1 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
Issued share capital				
265,097,688 ordinary shares of LKR 10/– each	**2,650,977**	2,650,977	**2,650,977**	2,650,977

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.

53 Statutory Reserves

	BANK		GROUP	
As at	**31.03.2014 LKR 000**	31.03.2013 LKR 000	**31.03.2014 LKR 000**	31.03.2013 LKR 000
Reserve Fund	**1,380,000**	1,285,000	**1,380,000**	1,285,000
Investment Fund Account	**1,001,648**	721,025	**1,001,648**	721,025
Balance on 31 March	**2,381,648**	2,006,025	**2,381,648**	2,006,025

53.1 Reserve Fund

Five percent of profit after tax until the amount of the reserve fund was equal to 50% of the equity capital and thereafter 2% of profit after tax was transferred to the reserve fund as per Direction issued by Central Bank of Sri Lanka under Section 76 (j) (1) of the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 33 of 1995.

53.2 Investment Fund Account

This represents cumulative savings of financial services VAT and income tax. The amount is appropriated from profits. The amount of the reserve will be utilised only for the purpose prescribed by the Central Bank of Sri Lanka.

As per the paper notice published by the Department of Inland Revenue (IRD) on 26 December 2013 in Daily News, the requirement to transfer an amount equal to the tax savings on VAT on financial services was withdrawn with effect from 1 January 2014.

As at	BANK 31.03.2014 LKR 000	BANK 31.03.2013 LKR 000	BANK 01.04.2012 LKR 000	GROUP 31.03.2014 LKR 000	GROUP 31.03.2013 LKR 000	GROUP 01.04.2012 LKR 000

54 Retained Earnings

Balance on 31 March	**4,089,601**	3,114,908	1,840,816	**9,163,494**	7,594,136	5,676,436

This represents cumulative net earnings, inclusive of proposed dividend amounting to LKR 1,458 million payable on approval by the shareholders at the Annual General Meeting on 30 June 2014. The balance is retained and reinvested in the business of the Bank.

As at	BANK 31.03.2014 LKR 000	BANK 31.03.2013 LKR 000	GROUP 31.03.2014 LKR 000	GROUP 31.03.2013 LKR 000

55 Other Reserves

General reserve	**13,779,839**	13,779,839	**13,779,839**	13,779,839
Fair value reserve	**12,443,175**	11,167,285	**10,079,975**	8,718,485
	26,223,014	24,947,124	**23,859,814**	22,498,324

These are distributable reserves.

56 Contingent Liabilities and Commitments

Guarantees issued to -				
Banks in respect of indebtedness of customers of the Bank	–	–	–	30,200
Companies in respect of indebtedness of customers of the Bank	**1,886,883**	928,639	**8,044,336**	4,045,422
Principal collector of customs (duty guarantees)	**2,000**	2,000	**79,087**	131,310
Shipping guarantees	–	–	**906,439**	657,537
Documentary credit	–	–	**3,469,836**	6,916,405
Bills for collection	–	–	**2,101,303**	1,708,714
Performance bonds	**48,627**	51,901	**1,856,664**	1,470,368
Forward exchange contracts (net)	**14,851,956**	6,516,214	**14,851,956**	6,516,214
Commitments in Ordinary Course of Business				
Commitments for unutilised credit facilities	**13,399,472**	8,498,348	**25,953,560**	16,969,282
Capital expenditure approved by the Board of Directors				
Contracted	**18,106**	29,166	**62,433**	52,365
Not Contracted	**27,003**	43,452	**463,351**	782,559
Total	**30,234,047**	16,069,720	**57,788,965**	39,280,376

57 Litigation

Bank

57.1 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 will be defending the case before the District Court.

57.2 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.

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

58 Related Party Transactions

58.1 The Group's related parties include associates, subsidiaries Trust established by the Bank for post-employment retirement plan, joint venture, key management personnel, close family members of key management personnel and entities which are controlled, jointly controlled or significantly influenced for which significant voting power is held by key management personnel or their close family members.

As at	**31.03.2014 LKR 000**	31.03.2013 LKR 000
58.2 Transactions with Subsidiaries		
58.2.1 Statement of Financial Position		
Assets		
Cash and cash equivalents	**543,284**	428,201
Placements with banks	**1,375,545**	430,154
Other financial assets held for trading	**–**	133,000
Loans to and receivable from other customers	**5,687**	7,380
	1,924,516	998,735
Liabilities		
Due to other customers	**73,508**	65,807

For the year ended 31 March	**2014 LKR 000**	2013 LKR 000

58.2.2 Income Statement

Interest income	**20,611**	63,652
Interest expense	**14,589**	26,733
Operating income	**28,452**	25,448
Net gain from financial investments - Dividend received	**150,076**	122,968
Other overhead expenses	**79,665**	161,693
Personnel expenses - Reimbursed expenses	**220,260**	186,577
- Seconded expenses	**4,085**	4,626

As at	**31.03.2014 LKR 000**	31.03.2013 LKR 000

58.3. Transactions with Joint Venture

58.3.1 Statement of Financial Position

Assets		
Other financial assets held for trading	–	35,033

For the year ended 31 March	**2014 LKR 000**	2013 LKR 000

58.3.2 Income Statement

Interest Income	**522**	1,238
Interest expense	–	6,564
Other overhead expenses	**88**	267
Net gain from financial investments - Dividend received	**21,026**	–

58.4 Transactions with Associates

58.4.1 Income Statement

For the year ended 31 March	**2014 LKR 000**	2013 LKR 000
Net gain from financial investments - Dividend received	5,459	5,460
Other overhead expenses	1,092	1,095

As at	**31.03.2014 LKR 000**	31.03.2013 LKR 000

58.5 Transactions with entities in which Directors of the Bank have Significant Influence without Substantial Shareholding

58.5.1 Statement of Financial Position

Assets		
Loans to and receivables from other customers	**1,187,793**	1,545,647
Financial investments - available-for-sale	**181,846**	198,842
	1,369,639	1,744,489
Liabilities		
Due to other customers	**1,317,529**	1,403,990
Debt securities issued	**25,000**	25,000
	1,342,529	1,428,990

For the year ended 31 March	**2014 LKR 000**	2013 LKR 000

58.5.2 Income Statement

Interest income	**139,577**	210,674
Interest expense	**185,604**	243,992
Operating income	**3,100**	3,390
Other overhead expense	**531**	789

58.6 Transactions with Key management Personnel

58.6.1 Key Management Personnel

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

		BANK		GROUP	
For the year ended 31 March		**31.03.2014 LKR 000**	31.03.2013 LKR 000	**31.03.2014 LKR 000**	31.03.2013 LKR 000
58.6.2 Compensation of Directors and Other Key Management Personnel					
Number of persons		**15**	16	**71**	61
Short-term employment benefits		**162,403**	128,998	**240,313**	217,495
Post-employment benefits	- Pension	**19,110**	18,639	**19,110**	18,639
	- Others	**20,126**	15,056	**27,706**	20,514
		201,639	162,693	**287,129**	256,648

As at	**31.03.2014 LKR 000**	31.03.2013 LKR 000

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

58.6.3.1 Statement of Financial Position

Assets

Number of KMPs	**3**	1
Loans and advances	**7,076**	1,928

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

Liabilities

Number of KMPs	**1**	1
Due to other Customers	**15,595**	12,469
Number of KMPs	**2**	3
Debt Securities Issued	**26,524**	42,676
	42,119	55,145

For the year ended 31 March	**2014 LKR 000**	2013 LKR 000
58.6.3.2 Income Statement		
Interest income	**214**	345
Expenses - Interest	**6,126**	2,667
- Rent	**2,100**	2,100

58.6.4 Transactions with DFCC Bank Pension Fund - Trust

DFCC Bank Pension Fund constituted as a Trust was established by the DFCC Bank to discharge defined benefit pension liability of eligible employees of the Bank.

As at	**31.03.2014 LKR 000**	31.03.2013 LKR 000
58.6.4.1 Transactions with DFCC Bank Pension Fund - Trust		
Contributions prepaid as at 1 April	**70,022**	112,138
Contribution due for the financial year recognised as expense in profit or loss	**(62,670)**	(57,902)
Recognition of actuarial gains/(losses) in the other comprehensive income	**87,879**	(71,569)
Contributions paid by bank	**65,999**	87,355
Contribution pre-paid as at 31 March (Note 49.3)	**161,230**	70,022

58.6.4.2 The contribution prepaid on 31 March 2014 LKR 161.3 million arising from remeasurement of net benefit asset due to change of accounting policy necessitated by revision of LKS 19 - ‘Employee Benefits’ (Revised 2013).

Financial impact of change in Accounting Policy is as follows:

	LKR 000
Contribution prepaid on 1 April 2012 as previously reported	(24,197)
Previously unrecognised actuarial gain	136,335
Year to 31 March 2013	
Restated contribution due recognised in profit or loss	(57,902)
Actuarial loss recognised in other comprehensive income	(71,569)
Contribution paid	87,355
Contribution prepaid as at 31 march 2013	70,022
Year to 31 March 2014	
Restated contribution due recognised in profit or loss	(62,670)
Actuarial gain recognised in other comprehensive income	87,879
Contribution paid	65,999
Contribution prepaid as at 31 march 2014	161,230

58.7 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 decisions of the Bank and by extension to participate in the financial and operating policy decisions of the Bank. However, in fact this power was not exercised.

Paragraph 25 of Sri Lanka Accounting Standards 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 shareholder approval.

58.7.1 Individually Significant Transactions Included in the Statement of Financial Position

As at	**31.03.2014 LKR 000**	31.03.2013 LKR 000
58.7.1.1 Statement of Financial Position		
Assets		
Loans to and receivables from other customers	**1,845,443**	318,902
Placements with banks	**1,306,634**	2,524,733
Other financial assets held-for-trading	**1,017,980**	377,800
Financial investments available-for-sale	**7,149,712**	2,520,389
Government grant receivable	**276,878**	–
	11,596,647	5,741,824
Liabilities		
Due to banks	**2,200,402**	6,109,000
Due to other customers	**591,369**	571,092
Other borrowing - Credit lines	**20,432,918**	18,579,048
Government grant deferred income	**295,628**	–
	23,520,317	25,259,140
Commitments		
Unutilised Credit facilities	**1,239,808**	1,929,772
	1,239,808	1,929,772

For the year ended 31 March	**2014 LKR 000**	2013 LKR 000
58.7.1.2 Income Statement		
Interest income Loans and receivables to other customers	**118,633**	15,933
- Placements with banks	**259,223**	239,145
- Financial investments	**434,482**	357,996
- Interest expense	**1,610,818**	1,531,255
- Due to banks	**421,733**	853,485
- Due to other customers	**79,390**	68,066

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

58.8 Pricing Policy and Terms for Transactions with Related Parties

Bank enters into transactions with related parties in the ordinary course of business on terms similar to comparable transactions with an unrelated comparable counterparty with the exception of accommodation granted to Key Management Personnel under approved schemes uniformly applicable to all or specific categories of employees. The terms include pricing for loans, deposits and services, collateral obtained for loans where appropriate.

59 Business Segment Information

For the year ended 31 March 2014	Lending LKR 000	Finance leasing LKR 000	Investing in equity LKR 000	Commercial banking LKR 000	Other LKR 000	Unallocated LKR 000	Eliminations LKR 000	Total LKR 000
Revenue								
Interest income	8,169,118	1,575,227	–	8,773,840	212,779	–	(128,848)	18,602,116
Net fees and commission income	103,998	12,902	–	697,627	255,873	–	(156,841)	913,559
Net gain from trading	–	–	–	178,741	27,045	33,565	–	239,351
Net gain from financial instruments at fair value through profit or loss	–	–	–	62,338	–	(386,281)	–	(323,943)
Net gain from financial investments	–	–	1,211,493	118,056	1,372	–	(176,560)	1,154,361
Other operating income (net)	41,262	–	(31,297)	(141,527)	209,300	(32,724)	(29,759)	15,255
	8,314,378	1,588,129	1,180,196	9,689,075	706,369	(385,440)	(492,008)	20,600,699
Percentage*	40	8	6	47	3	(2)	(2)	100
Expenses								
Segment losses	357,304	(46,295)	13,786	896,927	–	–	–	1,221,722
Depreciation	–	–	–	182,549	31,557	–	–	214,106
Other operating & interest expense	3,510,902	566,624	–	7,689,330	518,470	–	(315,448)	11,969,878
	3,868,206	520,329	13,786	8,768,806	550,027	–	(315,448)	13,405,706
Result	4,446,172	1,067,800	1,166,410	920,269	156,342	–		7,194,993
Unallocated expenses								2,557,567
Value added tax on financial services								577,103
								4,060,323
Share of profits of associates								124,125
Profit before tax								4,184,448
Income tax on profit on ordinary activities								934,773
Profit after tax								3,249,675

For the year ended 31 March 2014	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
Other comprehensive income net of tax			1,296,603	70,814	88,338			1,455,755
Total comprehensive income								4,705,430
Non-controlling interests								105,227
Profit attributable to equity holders of the Bank								4,600,203
Assets	61,615,401	9,617,324	24,547,340	78,429,809	4,580,186	5,539,329	(7,603,395)	176,725,994
Percentage*	35	5	14	44	3	3	(4)	100
Investments in associates								607,415
								177,333,409
Liabilities	47,429,081	7,298,457	–	72,016,398	2,530,344	8,761,637	(1,450,142)	136,585,775
Capital expenditure – additions				194,563	17,977	130,511		343,051

* *Net of eliminations.*

For the year ended 31 March 2013	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	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 gain from trading	–	–	–	93,770	5,294	2,936	–	102,000
Net gain from financial instruments at fair value through profit or loss	–	–	–	(112,434)	–	(388,778)	–	(501,212)
Net gain from financial investments	–	–	1,082,848	53,191	82,478	7,605	(128,428)	1,097,694
Other operating income (net)	71,086	–	186,364	91,549	205,026	131,410	(49,130)	636,305
	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)	(4)	100

For the year ended 31 March 2013	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
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 expense	4,359,162	817,937	–	5,786,788	421,855	–	(315,320)	11,070,422
	4,531,268	804,594	13,633	6,453,257	459,063	–	(324,453)	11,937,362
Result	3,495,308	757,128	1,255,579	952,893	177,783	–	–	6,251,614
Unallocated expenses								1,425,443
Value added tax on financial services								394,461
								4,431,710
Share of profits of associates								24,150
Profit before tax								4,455,860
Income tax on profit on ordinary activities								881,452
Profit after tax								3,574,408
Other comprehensive income net of tax			1,736,345	18,986	(77,769)	–	–	1,677,562
Total comprehensive income								5,251,470
Non-controlling interests								79,886
Profit attributable to the equity holders of the Bank								5,172,084
Assets	53,591,385	10,569,913	21,113,405	58,492,636	4,078,017	8,684,967	(5,751,281)	150,779,042
Percentage*	36	7	14	39	3	6	(5)	100
Investments in associates								415,251
								151,194,293
Liabilities	45,710,013	8,539,071	–	54,434,141	2,251,416	4,273,331	(1,340,327)	113,867,645
Capital expenditure – additions				194,481	21,815	113,283		329,579

* *Net of eliminations.*

59.1 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.

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

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

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

60 Proposed Consolidation of Banking Business

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

61 Events Occurring after the Reporting Period

61.1 Proposed Dividend

The Directors have recommended the payment of a final dividend of LKR 5.50 per share for the year ended 31 March 2014, which require the approval of the shareholders at the Annual General Meeting to be held on 30 June 2014. 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.

62 Restatement of Comparative Figures

The Group adopted Sri Lanka Accounting Standards LKAS 19 - 'Employee Benefits' (Revised 2013) which became effective from 1 January 2013. The change in accounting policy has been applied respectively as per the Sri Lanka Accounting Standards LKAS 8 - 'Accounting Policies, Changes in Accounting Estimates and Errors'. The impact of this change to the Income Statement and the Statement of Financial Position is summarised below:

		BANK			GROUP		
	Note	As reported LKR 000	Restated LKR 000	Impact LKR 000	As reported LKR 000	Restated LKR 000	Impact LKR 000
Statement of Financial Position as at 31 March 2012							
Other assets	44	798,416	910,554	112,138	1,664,463	1,776,601	112,138
Other liabilities	49	687,117	684,967	(2,150)	1,923,982	1,924,252	270
Deferred tax liability	43	328,039	324,618	(3,421)	376,284	372,185	(4,099)
Retained earnings	54	1,723,107	1,840,816	117,709	5,560,454	5,676,436	115,982
Non-controlling interest					424,635	424,620	(15)
Statement of Financial Position as at 31 March 2013							
Other assets	44	935,285	1,005,307	70,022	2,252,231	2,322,253	70,022
Other liabilities	49	761,826	758,717	(3,109)	2,434,907	2,436,204	1,297
Deferred tax liability	43	382,796	378,560	(4,236)	461,154	455,684	(5,470)
Retained earnings	54	3,037,541	3,114,908	77,367	7,519,913	7,594,136	74,223
Non-controlling interest					512,377	512,349	(28)
Income Statement for the year ended 31 March 2013							
Personnel expenses	18	927,670	890,960	(36,710)	1,848,049	1,811,339	(36,710)
Tax expense	21	570,559	570,828	269	881,183	881,452	269
Earnings per share	22	11.02	10.89	(0.13)	13.18	13.04	(0.14)
Other Comprehensive Income for the year ended 31 March 2013							
Actuarial gains/(losses) on defined benefit plans		–	(76,783)	(76,783)	–	(78,213)	(78,213)

63 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.

64 Fair Value Measurement

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 5.2.5. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. The Group's accounting policy on fair value measurements is discussed in Note 5.2.5. The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. prices) or indirectly (i.e. derived from prices).

This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like government securities, interest rate and currency swaps that use mostly observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and Equity Securities, Government Securities and simple over the counter derivatives like forward exchange contracts and interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Management judgments and estimations are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

64.1 Financial Instruments Carried at Fair Value by Level of Hierarchy - Bank

As at 31 March 2014	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial Assets					
Derivative assets held for risk management	27				
Forward foreign exchange contracts			1,630		1,630
Other financial assets held-for-trading	28				
Government of Sri Lanka Treasury Bills and Bonds			1,017,980		1,017,980
Financial investments available for sale	32				
Quoted shares		17,261,361			17,261,361
Unit Trust - Quoted		218,525			218,525
Unit Trust - Unquoted			301,431		301,431
Unquoted shares				142,459	142,459
Government of Sri Lanka Treasury Bills and Bonds			7,149,712		7,149,712
Government grant receivable	42		276,878		276,878
Total financial assets		17,479,886	8,747,631	142,459	26,369,976
Financial Liabilities					
Derivative liabilities held for risk management	27				
Forward foreign exchange contracts			55,609		55,609
Government grant deferred income	42		295,628		295,628
Total financial liabilities		–	351,237	–	351,237

There were no transfers between Level 1, Level 2 and Level 3 during financial year ended 31 March 2014.

As at 31 March	2014	
	Carrying amount LKR 000	Fair value LKR 000

64.2 Financial Instruments Carried at Amortised Cost - Bank

	Carrying amount LKR 000	Fair value LKR 000
Assets		
Cash and cash equivalents	**545,388**	**545,388**
Placements with banks	**2,681,779**	**2,681,779**
Loans to and receivables from banks	**1,233,617**	**1,233,617**
Loans to and receivables from other customers	**61,341,469**	**61,341,541**
Financial Investments - Held-to-maturity	**535,958**	**550,696**
Total	**66,338,211**	**66,353,021**
Liabilities		
Due to banks	**5,153,754**	**5,153,754**
Due to other customers	**16,630,363**	**16,962,343**
Other borrowing	**25,434,080**	**25,434,080**
Debt securities issued	**14,009,017**	**14,320,815**
Subordinated term debt	**609,373**	**649,578**
Total	**61,836,587**	**62,520,570**

The above table summarises the carrying amounts and the Bank's estimate of fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at fair value. The fair values in the table above may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions which are not observable in the market.

Given below is the basis adopted by the Bank in order to establish the fair values of the financial instruments which are shown above.

64.2.1 Cash and Cash Equivalents and Placements with Banks

Carrying amounts of cash and cash equivalents and placements with banks approximates their fair value as these balances have a remaining maturity of less than three months from the reporting date.

64.2.2 Loans to and Receivables from Banks and Other Customers

64.2.2.1 Lease Rentals Receivable

The estimated fair value of lease rentals receivable is the present value of future cash flows expected to be received from such finance lease facilities calculated based on current interest rates for similar type of facilities. The finance lease portfolio is at fixed interest rates and the fair value calculated on this basis as at 31 March 2014 was LKR 8,181 million as against a carrying value of LKR 8,109 million.

64.2.2.2 Other Loans

Composition:

	%
Floating rate loan portfolio	82
Fixed rate loans	
- With remaining maturity less than one year	5
- Others	13
Total	100

Since the floating rate loans can be repriced monthly, quarterly and semi annually in tandem with market rates fair value of these loans is approximately same as the carrying value. Carrying amount of fixed rate loans with a remaining maturity of less than one year approximates the fair value.

Based on the results of the fair value computed on the lease rentals receivable, it is estimated that the fair value of the other loans at fixed interest rates with maturity of more than one year is not materially different to its carrying value as at the reporting date.

64.2.3 Financial Investments - Held to Maturity

Fair value of the fixed rate debentures are based on prices quoted in the Colombo Stock Exchange.

64.2.4 Due to Banks

Carrying value of amounts due to banks approximates their fair value as these balances have a remaining maturity of less than one year from the reporting date.

64.2.5 Due to Other Customers

The carrying value of deposits with a remaining maturity of less than one year approximates the fair value.

Fair values of deposits with a remaining maturity of more than one year is estimated using discounted cash flows applying current interest rates offered for deposits of similar remaining maturities.

64.2.6 Other Borrowing

This consists of borrowings sourced from multilateral and bilateral institutions. 70% of these borrowing are repriced either monthly, quarterly or semi annually and rates are revised in line with changes in market rates. Hence the carrying value of these borrowings approximates the fair value.

The others at fixed rates which relates to borrowings on credit lines are based on interest rates which are specific to each refinancing arrangement and as such there are no comparable market rates. Hence, the fair value approximates the carrying value.

64.2.7 Debt Securities Issued

Debts issued comprise the USD notes issues and LKR debentures. The USD notes issued and the fair value of these notes are determined by reference to the bid and ask price quoted in the Singapore Stock Exchange. The LKR debentures are fair valued by reference to current Government Treasury Bond rates with a risk premium.

64.2.8 Subordinated Term Debt

These are fair valued by reference to current Government Treasury Bond rates with a risk premium since there is no active market for listed debentures.

65 Financial Risk Management

65.1 Introduction and Overview

Bank has exposure to following key risks from financial instruments:

- Credit Risk
- Liquidity Risk
- Operational Risk
- Market Risk

This note presents information about the Bank's exposure to each of the above risks, the objectives, policies and processes for measuring and managing such risk.

Risk Management Framework

The Board of Directors has the overall responsibility for the establishment and oversight of the Bank's risk management framework. It has set up an Integrated Risk Management Committee (BIRMC) with three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories that include credit, liquidity market risk, and strategic 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 risks faced by the Bank, to set appropriate risk limits and controls and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

65.2 Credit Risk

65.2.1 Qualitative Disclosures

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Bank's loans and advances to customers and other banks and investment in debt securities.

Management of credit risk includes the following elements:

1. Formulating credit policies in consultation with business units covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
2. Establishing the authorisation structure for the approval and renewal of credit facilities.
3. Limiting concentration of exposures to counterparties and industries.
4. Developing and maintaining Bank's risk grading models in order to categorise exposures according to the degree of risk of financial loss and to focus management on the attendant risks.
5. Reviewing compliance through regular audits by internal audit.

65.2.2 Quantitative Disclosures

	BANK		GROUP	
	31.03.2014 LKR 000	31.03.2013 LKR 000	**31.03.2014 LKR 000**	31.03.2013 LKR 000
65.2.2.1 Loans to and Receivables from Other Customers				
Individually Impaired				
Gross amount	**1,849,169**	1,594,993	**4,735,558**	3,728,764
Allowance for impairment	**(1,486,838)**	(1,477,986)	**(3,794,550)**	(3,229,925)
Carrying amount	**362,331**	117,007	**941,008**	498,839
Collectively Impaired				
Gross amount	**1,938,512**	2,110,281	**3,293,778**	3,145,616
Allowance for impairment	**(1,905,442)**	(1,868,892)	**(3,097,218)**	(2,767,131)
Carrying amount	**33,070**	241,389	**196,560**	378,485
Past Due But Not Impaired				
Gross amount	**14,761,765**	13,239,139	**29,580,747**	24,902,715
Allowance for impairment	**–**	–	**–**	–
Carrying amount	**14,761,765**	13,239,139	**29,580,747**	24,902,715
Neither Past Due Nor Impaired				
Gross amount	**46,184,303**	45,247,232	**81,645,932**	72,619,404
Allowance for impairment	**–**	–	**–**	–
Carrying amount*	**46,184,303**	45,247,232	**81,645,932**	72,619,404
Carrying Amount - Amortised Cost	**61,341,469**	58,844,767	**112,364,247**	98,399,443
65.2.2.2 Loans to and Receivables from Banks				
Neither Past Due Nor Impaired				
Gross amount	**1,233,617**	1,822,838	**5,958,055**	5,633,902
Allowance for impairment	**–**	–	**–**	–
Carrying amount	**1,233,617**	1,822,838	**5,958,055**	5,633,902

** Carrying amount of the Bank's loans an advances includes accounts with renegotiated terms of which the capital outstanding as at 31 March 2014 amounts to LKR 717 million (31 March 2013 - LKR 957 million).*

65.2.2.3 Analysis of Security Values of Loans and Advances to Customers

	BANK				GROUP	
	31.03.2014		31.03.2013		31.03.2014	
	Gross Loan Balance LKR 000	Security Value LKR 000	Gross Loan Balance LKR 000	Security Value LKR 000	Gross Loan Balance LKR 000	Security Value LKR 000
Against Individually Impaired						
Mortgages over property, plant and machinery	1,439,652	1,267,319	1,495,368	1,214,125	2,322,796	2,005,606
Unsecured	409,517	–	99,625	–	2,412,762	–
Against Collectively Impaired						
Mortgages over property, plant and machinery	1,535,650	2,065,911	1,647,419	1,922,456	2,050,397	3,132,019
Others	6,400	2,207	8,650	8,190	226,893	56,868
Unsecured	198,216	–	165,861	–	816,351	–
Against Past Due But Not Impaired						
Mortgages over property, plant and machinery	8,739,258	23,525,015	6,949,883	18,313,695	14,481,279	38,208,361
Others	266,667	114,215	259,796	148,917	6,425,987	2,471,142
Unsecured	2,725,752	–	2,417,476	–	5,096,332	–
Against Neither Past Due Nor Impaired						
Mortgages over property, plant and machinery	17,835,288	41,406,004	18,847,079	48,428,909	26,988,462	86,085,688
Treasury guarantee	1,172,632	1,172,632	318,902	318,902	1,172,632	1,172,632
Debt securities	1,500,401	1,500,401	535,506	825,123	1,369,290	1,500,401
Equity	449,487	1,278,574	704,650	1,545,149	449,487	1,278,574
Others	5,942,691	3,341,951	2,928,731	920,075	23,126,683	11,224,012
Unsecured	14,402,741	–	16,324,842	–	22,705,027	–
Total	56,624,352	75,674,229	52,703,788	73,645,541	109,644,378	147,135,303
Leases	8,109,397		9,487,857		9,611,637	
Total	64,733,749	75,674,229	62,191,645	73,645,541	119,256,015	147,135,303

65.3 Liquidity Risk

65.3.1 Qualitative Disclosures

Liquidity risk is the risk that the Bank will not have sufficient financial resources to meet bank's obligations as they fall due. This risk arises from mismatches in the timing of cash flows.

Management of liquidity risk includes the following elements:

a. Taking steps to ensure, as far as possible, that it will always have sufficient financial resources to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the bank's reputation.

b. The Asset and Liability Committee (ALCO) is mandated to execute liquidity management policies, procedures and practices approved by the Board of Directors, effectively.

c. Monitoring of potential liquidity requirements and availability using the maturity analysis.

d. Monitoring the Group's liquidity through the Liquid Assets Ratio (statutory minimum is currently 20%) using a flow approach.

e. Effecting threshold limits relevant for liquidity management.

At 31 March	**2014** **%**	2013 %

65.3.2 Quantitative Disclosures

65.3.2.1 Liquidity Risk Position

65.3.2.1.1 DFCC Bank

Liquid Asset Ratio as at 31 March	**77.5**	52.8
Average for the year	**67.5**	40.3
Minimum for the year	**34.2**	32.3
Maximum for the Year	**110.2**	52.8

65.3.2.1.2 DFCC Vardhana Bank PLC

Liquid Asset Ratio of Domestic Banking Unit as at 31 March	**39.3**	28.8
Average for the year	**30.5**	27.1
Maximum for the year	**39.3**	29.9
Minimum for the year	**24.6**	23.9
Gross Advances to deposit ratio	**77.0**	87.6

65.3.2.2 Maturity Profile of Financial Liabilities of the Bank

For the year ended 31 March 2014	Carrying Amount	Total	Up to 3 months		3 to 12 months		1 to 3 years		3 to 5 years		>5 years	
	LKR 000	LKR 000	LKR 000	%	LKR 000	%	LKR 000	%	LKR 000	%	LKR 000	%
Liabilities with Contractual Maturity (Interest Bearing Liabilities)												
Due to banks	5,153,754	5,153,754	5,153,754	100	–	–	–	–	–	–	–	–
Due to other customers	16,630,363	16,706,722	5,660,308	34	8,895,774	53	914,895	5	1,234,541	7	1,204	0
Other borrowings	25,434,080	25,435,821	1,885,086	7	2,229,647	9	6,880,993	27	6,021,513	24	8,418,582	33
Debt securities issued	14,009,017	14,009,694	519,249	4	32,840	0	437,128	3	13,020,477	93	–	–
Subordinated term debt	609,373	610,367	–	–	20,367	3	590,000	97	–	–	–	–
	61,836,587	61,916,358	13,218,397	21	11,178,628	18	8,823,016	14	20,276,531	33	8,419,786	14
Other Liabilities (Non-interest Bearing Liabilities)												
Derivative liabilities held for risk management	55,609	55,609	3,539	6	52,070	94	–	–	–	–	–	–
Other liabilities	752,695	724,822	724,822	100	–	–	–	–	–	–	–	–
	808,304	780,431	728,361	93	52,070	7	–	–	–	–	–	–

65.3.2.3 Maturity Profile of Financial Liabilities of the Group

For the year ended 31 March 2014	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	%
Interest Bearing Liabilities												
Due to banks	7,089,369	7,312,723	6,067,854	83	65,771	1	360,238	5	325,661	4	493,199	7
Due to other customers	78,898,701	79,244,426	29,454,680	37	28,822,655	36	4,635,454	6	4,629,356	6	11,702,281	15
Other Borrowings	29,347,292	29,349,298	5,560,530	19	2,467,680	8	6,880,993	23	6,021,513	21	8,418,582	29
Debt securities issued	14,009,017	14,009,694	519,249	4	32,840	0	437,128	3	13,020,477	93	–	–
Subordinated term debt	1,609,674	1,610,676	–	–	20,676	1	1,590,000	99	–	–	–	–
	130,954,053	131,526,817	41,602,313	32	31,409,622	24	13,903,813	10	23,997,007	18	20,614,062	16
Non-interest Bearing Liabilities												
Due to banks	15,941	15,941	15,941	100	–	–	–	–	–	–	–	–
Derivative liabilities held for risk management	227,994	227,994	43,603	19	184,391	81	–	–	–	–	–	–
Due to other customers	1,927,416	1,927,416	775,854	40	674,141	35	–	–	–	–	477,421	25
Other liabilities	2,309,513	2,238,823	1,993,405	89	134,213	6	748	0	–	–	110,457	5
	4,480,864	4,410,174	2,828,803	64	992,745	23	748	0	–	–	587,878	12

65.4 Market Risk

65.4.1 Qualitative Disclosures

Market risk is the risk that changes in market variables, such as interest rates, equity prices, foreign exchange rates and commodity prices. This will affect the Group's income or the value of its holdings of financial instruments. DFCC was not exposed to direct commodity prices risk since it does not take positions on exchange traded commodities. The objective of the Group's market risk management is to manage and control market risk exposures within acceptable parameters, in order to ensure the Group's solvency, while optimising the return on risk.

65.4.1.1 Management of Market Risks

The following policy frameworks stipulate the policies and practices for management, monitoring and reporting of market risk.

a. Market risk management framework
b. ALCO charter
c. Treasury trading guidelines and limits system
d. Treasury manual
e. Guidelines for managing
f. New product development policy

Overall authority for managing market risk is vested with the Board of Directors through the Board Integrated Risk Management Committee (BIRMC). The operational authority for managing market risk is vested with ALCO. Foreign exchange risk is managed within approved limits and segregation of reporting responsibilities of Treasury Front Office, Middle Office and Back Office.

Exposure to market risk arises from two sources viz trading portfolios from positions arising from market-making activities, and non-trading portfolios from positions arising from financial investments designated as available-for-sale (AFS) and held-to-maturity and from derivatives held for risk management purposes.

65.4.2 Quantitative Disclosures

In the case of interest and forex risk the following analysis is in respect of DFCC Bank and DFCC Vardhana Bank PLC (collectively referred to as DBB) since these two entities have the most impact on these risks.

65.4.2.1 Interest Rate Risk - DBB

65.4.2.1.1 Duration Analysis as at 31 March 2014

Portfolio	Face value LKR 000	Marked-to-market value LKR 000	Duration	Interpretation of duration
Government securities trading portfolio	2,038,413	1,971,915	0.53	Portfolio value will decline approximately by 0.53% as a result of 1% increase in the interest rates.
Treasury securities AFS portfolio	22,408,364	21,972,395	0.46	Portfolio value will decline approximately by 0.46% as a result of 1% increase in the interest rates.

Market risk exposure for interest rate risk in the trading portfolio is nominal. This level of exposure for market risk for interest rates in the trading portfolio indicates that in case the current market interest rates increase (parallel upward shift in the yield curve) by 1%, the Treasury securities trading portfolio will decline in marked-to-market value by approximately by only LKR 10.45 million.

Market risk exposure for interest rate risk in the AFS portfolio as at 31 March 2014 is depicted by duration of 0.46%. This level of interest rate risk exposure in the AFS portfolio can be interpreted as a possible potential loss in the marked-to-market value amounting to LKR 101.07 million, as at 31 March 2014 in case, the market interest rates mark a parallel upward shift of 1%.

65.4.2.1.2 Potential Impact to NII of DBB Due to Change in Market Interest Rates

Overall up to the 12-month time bucket, DBB carried an asset sensitive position. This asset sensitivity will vary for each time bucket up to the 12 month period. The interest rate risk exposure as at 31 March 2014 is quantified based on the assumed change in the interest rates for each time period and is given in table below:

	0 to 1 month LKR 000	Over 1 - up to 3 months LKR 000	Over 3 - up to 6 months LKR 000	Over 6 - up to 12 months LKR 000
Total interest-bearing assets	62,421,255	23,793,292	8,651,990	13,723,777
Total interest-bearing liabilities	28,570,064	28,854,556	21,938,244	7,078,258
Net rate sensitive assets (liabilities)	33,851,191	(5,061,264)	(13,286,254)	6,645,519
Assumed change in interest rates (%)	0.5	1.0	1.5	2.0
Impact	169,256	(46,395)	(149,470)	66,455
Total net impact if interest rates increase				39,846
Total net impact if interest rates decline				(39,846)

We have assumed that the assets and liabilities are re-priced at the beginning of each time bucket and have also taken into account the remaining time from the re-pricing date up to one year.

65.4.2.2 Forex Risk in Net Open Position (NOP)/Unhedged Position of DBB

The following table indicates the DBB's exchange rate risk exposure based on its size of the NOP/unhedged positions in the foreign currency assets/liabilities. By 31 March 2014, DBB carried a USD equivalent net open/unhedged 'Oversold' position of LKR 19.2 million. The impact of exchange rate risk is given below:

	Amount
Net exposure - USD equivalent	(19,205)
Value of position in LKR million	(2,511,101)
Exchange rate (USD/LKR) as at 31 March 2014	130.75
Possible potential loss to DBB - LKR million -	
If Exchange rate (USD/LKR) depreciates by 1%	25,111
If exchange rate depreciates by 10%	251,110
If exchange rate depreciates by 15%	376,665

The estimated potential exchange loss is off set by the interest gain due to interest differential between LKR and the respective foreign currencies.

65.4.2.3 Equity Prices Risk

Equity prices risk is part of market risk which is defined as the risk of possible losses arising from the equity market investments due to changes in the market prices of the invested shares. Group is exposed to equity prices risk through its investments in the equity market which has been shown in the AFS portfolio.

Parameter	**Position as at 31 March 2014 LKR 000**	Position as at 31 March 2013 LKR 000
Marked-to-market value of the total quoted equity portfolio	**17,265,259**	16,042,210
Value-at-risk (under 99% probability for a quarterly time horizon)	**21.5%**	26.1%
Maximum possible loss of value in the marked-to market value of the portfolio as indicated by the VAR over a quarterly period	**3,712,031**	4,187,016
Unrealised gains in the AFS equity portfolio reported in the fair value reserve	**9,708,818**	8,562,922

Equity prices risk is quantified using the Value at Risk (VAR) approach based on the Historical Loss method. Historical two-year portfolio returns, is adopted to compute VAR as a measure of the equity prices risk exposure by DBB. This VAR computation for the equity AFS portfolio considers a quarterly time horizon. The quantified VAR accounts for 38.2% of the fair value reserve in the AFS equity portfolio.

65.4.2.4 Market Risk Exposures of DFCC Group for Regulatory Capital Assessment as at 31 March 2014

Under the Standardised Approach of Basel II with effect from January 2008, market risk exposures are quantified for regulatory capital purposes. The computation results as at 31 March 2014 are as follows:

	Risk weighted assets LKR 000	Quantified Possible exposure LKR 000
Interest rate risk	375,600	37,560
Equity prices risk	96,050	9,605
Foreign exchange & gold risk	2,597,780	259,778
Total	3,069,430	306,943

65.5 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with DBB relating to processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements.

DBB's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the DBB's reputation with overall cost effectiveness whilst avoiding control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk lies with IRMD whilst implementation is assigned to senior management within each business unit. This responsibility is supported by the development of overall DBB's standards for management of operational risk in the following areas:

a. Requirements for appropriate segregation of duties, including independent authorisation of transactions,
b. Requirements for reconciliation and monitoring of transactions,
c. Compliance with regulatory and other legal requirements,
d. Documentation of controls and procedures,
e. Requirements for periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified,
f. Requirements for reporting of operational losses and proposed remedial action,
g. Development of contingency plans,
h. Training and professional development,
i. Ethical and business standards, and
j. Insurance covering risk due to threats arising from external and other events.

Compliance with DBB's standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management.

65.6 Capital Management

65.6.1 Qualitative Disclosures

DFCC Bank manages its capital at Bank and Group level considering both regulatory and economic capital. Its regulatory capital position is analysed by the BIRMC on a quarterly basis and recommendations and decisions are made accordingly. The Group capital management goals are as follows:

a. Ensure regulatory minimum capital adequacy requirements are not compromised.
b. Bank to maintain its international and local credit rating and to ensure that no downgrading occurs as a result of deterioration of risk capital of the Bank.
c. Ensure above industry average Capital Adequacy Ratio for the banking sector is maintained.
d. Ensure maintaining of quality capital.
e. Ensure capital impact of business decisions are properly assessed and taken into consideration during product planning and approval process.
f. Ensure capital consumption by business actions are adequately priced.
g. Ensure Bank's average long-term dividend pay-out ratio is maintained.

Central Bank of Sri Lanka sets and monitors regulatory capital requirement on both consolidated and solo basis.

The Group is required to comply with the provisions of the Basel II framework in respect of regulatory capital. The Group currently uses the standardised approach for credit risk and basic indicator approach for operational and for market risk.

Regulatory capital comprises Tier One capital and Tier Two capital. The Group's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence to sustain future development of the business.

DFCC Bank and its subsidiary DFCC Vardhana Bank PLC engaged in commercial banking business, have complied with the minimum capital requirements imposed by the Central Bank of Sri Lanka throughout the period.

65.6.2 Quantitative Disclosures

As as	Note	31.03.2014 Basel II LKR '000
Tier 1 capital		
Ordinary share capital	52	2,650,977
Share premium		2,064,837
Statutory reserve fund	53	1,380,000
Retained earnings	54	9,163,494
General and other reserves		14,781,487
Non-controlling interests		626,863
Less: deductions		
Goodwill	41	226,411
Net deferred tax asset	43	2,707
Intangible assets	40	239,387
50% investments in the capital of other banks and financial institutions		3,632,718
Total Tier 1 capital		**26,566,435**
Tier 2 capital		
Qualifying subordinated liabilities		954,000
General provision		523,458
Less: deductions		
50% investments in the capital of other banks and financial institutions		3,632,718
Total regulatory capital		**24,411,175**

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.	210
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	193
	ii. Reclassifications of financial instruments from one category to another.	Significant Accounting Policies: Note 5.2.3 - Reclassification of Financial Instruments	193
	iii. Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Note 26 - Placements with banks	214
	iv. Reconciliation of the allowance account for credit losses by class of financial assets.	Notes to the Financial Statements: Note 31.2 - Movement in specific and collective for Allowance Impairment	219
	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:	204-209
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	204
	ii. Fee income and expense.	Note 12 to the Financial Statements: Net fees and commission income	205
	iii. Amount of impairment losses by class of financial assets.	Note 17 to the Financial Statements: Impairment for loans and others losses.	206
	iv. Interest income on impaired financial assets.		

Disclosure Requirements		Description	Page No.
1.3	**Other Disclosures**		
1.3.1	Accounting policies for financial instruments.	Significant Accounting Policies: Note 5.2.5 - Financial instruments - initial recognition, classification and subsequent measurement.	194
1.3.2	Information on hedge accounting.	The Bank does not adopt hedge accounting.	
1.3.3	Information about the fair values of each class of financial asset and financial liability, along with:		
	i. Comparable carrying amounts.	Notes to the Financial Statements: Note 64 - Fair value measurement	261
	ii. Description of how fair value was determined.	Notes to the Financial Statements: Note 64.2.1 to 64.2.7	263
	iii. The level of inputs used in determining fair value.	Notes to the Financial Statements: Note 64.2.1 to 64.2.7	263
	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.	262
	v. Information if fair value cannot be reliably measured.	Notes to the Financial Statements: Note 64.2.6	264
2. Information about the Nature and Extent of Risks Arising from Financial Instruments			
2.1	**Qualitative Disclosures**		
2.1.1	Risk exposures for each type of financial instrument.	Please refer the report on Integrated Risk Management.	
2.1.2	Management's objectives, policies, and processes for managing those risks.	Please refer the section relating to Integrated Risk Managements objectives, policies and processes.	
2.1.3	Changes from the prior period.	Notes to the Financial Statements: Note 62 - Restatement of comparative figures	260

Disclosure Requirements		Description	Page No.
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.	218
	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 65.2.2.1 & 64.2.2.3 on loans and advances and impairment analysis.	218 266
	c. Information about collateral or other credit enhancements obtained or called.	Note 65.2.2 Analysis of fair value of loans and advances.	266
	d. For other disclosures, please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	The section on 'Integrated Risk Management'.	
	ii. Liquidity Risk		
	a. A maturity analysis of financial liabilities.	Notes to the Financial Statements: Note 65.3.2.2 Maturity analysis of financial liabilities.	269
	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'.	

Disclosure Requirements	Description	Page No.
iii. Market Risk		
a. A sensitivity analysis of each type of market risk to which the entity is exposed.	Notes to the Financial Statements: Note 65.4 - Market risk	270
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).	Notes to the Financial Statements: Note 65.5 - Operational risk	273
v. Equity Risk in the Banking Book		
a. Qualitative Disclosures		
• Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.	Notes to the Financial Statements: Note 65.4.2.3 - Equity price risk	273
• Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.		
b. Quantitative Disclosures ▪ Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value. ▪ The types and nature of investments. ▪ The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period.	Notes to the Financial Statements: Note 32 - Financial investments - Available-for-sale Note 34 - Investments in Subsidiaries Note 35 - Investments in Associates Note 15 - Net gain/loss from Financial Investments	 220 228 228 177

Disclosure Requirements		Description	Page No.
	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' and Note 65.4.2.1 Level of interest rate risk exposure in the banking book of DFCC is given in the interest rate sensitivity statement in the report on "Integrated Risk Management. Based on the interest rate sensitivity position of DFCC as at 31st March 2014 (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.	271
2.2.3	Information on concentrations of risk.	Please refer the section on 'Integrated Risk Management'.	
3. Other Disclosures			
3.1	**Capital**		
3.1.1	Capital Structure i. Qualitative Disclosures.		
	Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.	Notes to the Financial Statements: Note 65.6.2	275

Disclosure Requirements		Description	Page No.
	ii. Quantitative Disclosure		
	a. The amount of Tier 1 capital, with separate disclosure of: ▪ Paid-up share capital/common stock ▪ Reserves ▪ Non-controlling interests in the equity of subsidiaries ▪ Innovative instruments ▪ Other capital instruments ▪ Deductions from Tier 1 capital b. The total amount of Tier 2 and Tier 3 capital c. Other deductions from capital d. Total eligible capital	Notes to the Financial Statements: Note 65.6.2 - Financial Risk Management	275
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'.	

Annexes

Pads & Gloves

Statement of Value Added - Bank

For the year ended 31 March	**2014**			2013		
	LKR million	**LKR million**	**%**	LKR million	LKR million	%
Value Added						
Gross Income		**10,481**			10,433	
Cost of borrowing and support services		**(5,495)**			(5,521)	
Impairment for bad debts and investments		**(324)**			(169)	
		4,662			4,743	
Value Allocated						
To employees						
Salaries, wages and other benefits		**906**	**20**		891	19
To providers of capital						
Dividends to shareholders		**1,325**	**28**		1,060	22
To Government						
Income tax on profits	**623**			570		
Value added tax on financial services	**408**	**1,031**	**22**	232	802	17
To expansion and growth						
Retained income	**1,263**			1,862		
Depreciation	**137**	**1,400**	**30**	128	1,990	42
		4,662	**100**		4,743	100

SOURCES AND DISTRIBUTION OF INCOME - BANK

For the year ended 31 March LKR Million	2010	2011	2012	2013	**2014**
Sources of Income					
Interest income	7,416	6,206	6,133	9,279	**9,530**
Income from investments	1,138	2,911	1,148	1,090	**1,211**
Other gains and losses	289	5,074	371	64	**(260)**
	8,843	14,191	7,652	10,433	**10,481**
Distribution of Income					
To employees as emoluments	715	791	804	891	**906**
To lenders as interest	4,224	2,786	2,898	5,023	**4,894**
To providers of supplies and services	383	487	512	497	**601**
To government as taxation	1,348	2,629	767	803	**1,031**
To shareholders as dividends	794	2,649	795	1,060	**1,325**
Retained in the business					
Depreciation set aside	104	117	127	128	**137**
Provision for losses	356	244	91	169	**324**
Reserves	919	4,488	1,658	1,862	**1,263**
	8,843	14,191	7,652	10,433	**10,481**

TEN YEAR SUMMARY

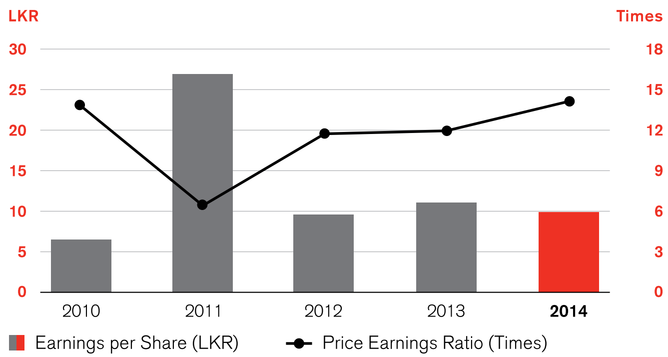
Year ended 31 March LKR million	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
	Based on Previous GAAP							Based on Current SLFRS		
Bank										
Operating Results										
Total income	4,641	5,387	6,887	9,636	9,888	8,843	14,191	7,652	10,433	**10,481**
Profit before tax	1,512	1,652	1,865	1,983	2,006	2,402	7,876	2,883	3,492	**3,211**
Income tax	404	472	740	665	646	689	739	430	570	**623**
Profit after tax	1,108	1,180	1,125	1,318	1,360	1,713	7,137	2,453	2,921	**2,587**
Balance Sheet										
Assets										
Cash and short-term funds	2,778	4,928	7,935	8,124	8,415	10,472	11,991	3,646	7,103	**4,245**
Dealing securities	–	14	26	18	10	56	85	–	–	**–**
Receivables	1,641	946	1,611	1,684	1,348	930	803	1,126	1,127	**1,339**
Loans to and receivables from banks and other customers	30,984	37,772	47,226	46,703	41,917	38,660	41,512	58,460	64,015	**65,967**
Impairment	(995)	(937)	(946)	(1,179)	(1,670)	(1,979)	(2,168)	(3,478)	(3,347)	**(3,392)**
Net of impairments	29,989	36,835	46,280	45,524	40,247	36,681	39,344	54,982	60,668	**62,575**
Financial investments - Equity Securities	1,731	1,340	1,260	1,680	1,918	1,999	4,032	16,277	19,298	**25,609**
Investment in associate, joint venture and subsidiary companies	2,636	3,057	3,350	5,829	6,064	5,845	3,132	4,451	4,446	**6,659**
Other assets	487	493	479	500	483	433	539	602	518	**514**
Total assets	39,262	47,613	60,941	63,359	58,485	56,416	59,926	81,084	93,160	**100,941**
Liabilities										
Equity	8,207	9,091	9,494	13,761	14,491	15,723	20,219	31,135	34,784	**37,410**
Other borrowings	25,507	32,837	35,897	42,480	36,710	33,530	32,261	36,489	41,605	**45,262**
Customer deposits	3,780	4,017	13,573	5,112	5,308	5,124	3,688	12,445	15,548	**16,630**
	29,287	36,854	49,470	47,592	42,018	38,654	35,949	48,934	57,153	**61,892**
Other liabilities	1,768	1,668	1,977	2,006	1,976	2,039	3,758	1,015	1,223	**1,639**
Total equity and liabilities	39,262	47,613	60,941	63,359	58,485	56,416	59,926	81,084	93,160	**100,941**
Return on equity, %	14.2	13.6	12.1	11.3	9.6	11.3	39.7	9.6	8.9	**7.2**
Return on total assets, %	3.0	2.7	2.1	2.1	2.2	3.0	12.3	3.5	3.4	**2.7**
Earnings per share, LKR*	4.57	4.87	4.63	5.09	5.17	6.48	26.95	9.62	11.02	**9.76**
Market value per share, LKR*	55.34	52.75	69.78	62.45	33.78	90.23	171.8	112.6	131.5	**143.9**
Price earnings ratio, times*	12.1	10.8	15.1	12.3	6.5	13.9	6.4	11.7	11.9	**14.7**
Earnings yield, %*	8.3	9.3	6.6	8.1	15.4	7.2	15.6	8.5	8.4	**6.8**
Dividend per share, LKR	5.5	6.00	5.00	5.00	5.00	6.00	10.00	4.00	5.00	**5.50**
Dividend cover, times	3.5	3.4	2.5	2.0	2.1	2.2	2.7	3.1	2.8	**2.0**
Gross dividend, LKR million	315.8	345.5	454.4	653.7	653.7	794.3	2,649	795	1,060	**1,325**
Liquid assets to liabilities (as specified in the Banking Act No. 30 of 1998), %	38	48	79	31	145	214	295	52	52.8	**77.46**
No of employees	340	374	422	419	419	427	451	466	461	**476**

**Adjusted for bonus issue*

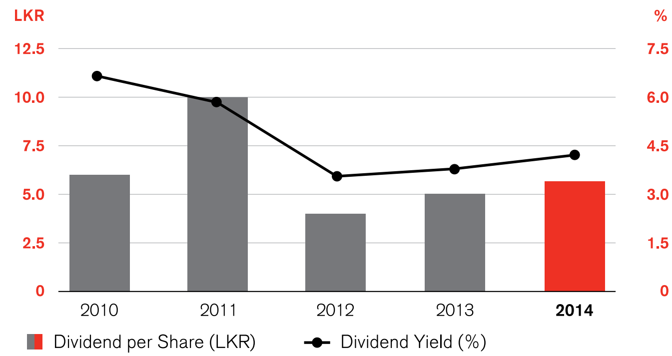
DFCC Bank Share Price Information for Period 1 April 2013 - 31 March 2014

Year ended 31 March	**2014**	2013
Price Indices		
ASPI	**5968.31**	5735.68
S&P SL20	**3279.92**	3293.57
Share Prices		
Lowest price (LKR)	**115.0 (15.11.2013)**	103.00 (07.06.12)
Highest price (LKR)	**154.0 (13.01.2014)**	131.80 (28.03.13)
Closing price (LKR)	**143.9 (31.03.2014)**	131.10 (28.03.13)
Market Capitalisation		
Value (LKR million)	**38,148**	34,754
% of total market cap	**1.53**	1.58
Rank	**13**	13
Value of Shares Traded		
Value (LKR million)	**906**	1,315
% of total trade	**0.46**	0.69
Rank	**45**	26
Days Traded		
Number of days traded	**241**	239
Total number of market days	**243**	239
% of market days traded	**99.2**	100.0
Frequency of Shares Traded		
Number of transactions	**5,444**	5,171
% of total frequency	**0.37**	0.32
Rank	**82**	99

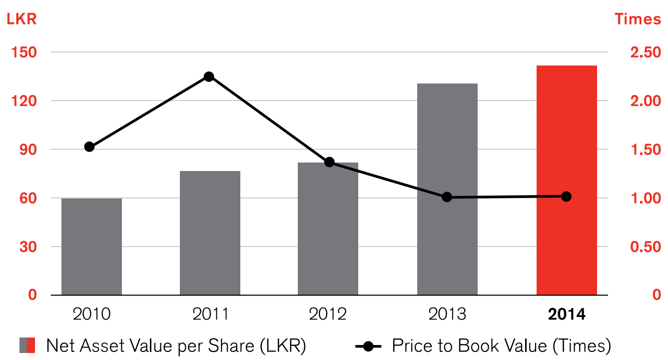
Earnings Per Share and Price Earnings Ratio



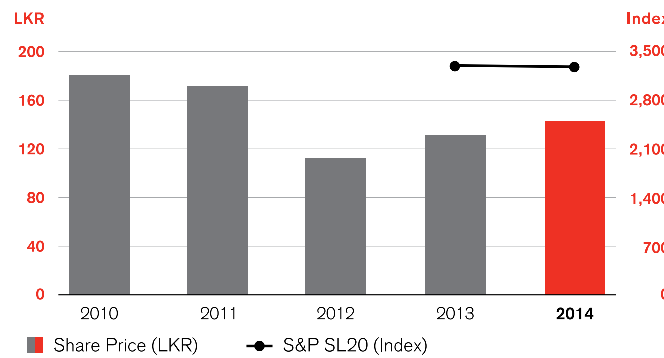
Dividend per Share and Dividend Yield



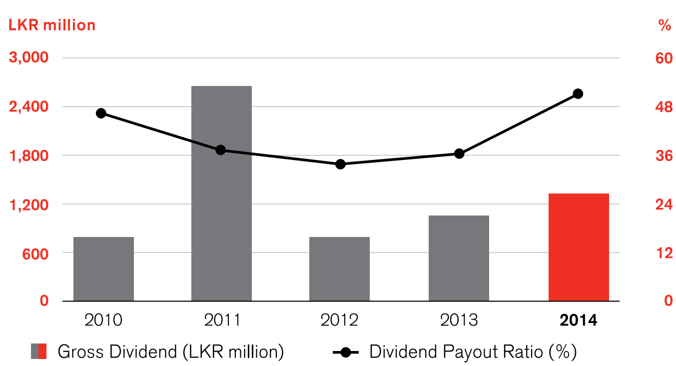
Net Asset Value per Share and Price to Book Value



Share Price Movement Relative to S&P SL20 Index



Gross Dividend and Dividend Payout Ratio



As at	31.03.2014			31.03.2013		
Shareholding %	**Foreign**	**Local**	**Total**	Foreign	Local	Total
Individuals	**8.97**	**6.99**	**15.96**	8.76	7.49	16.25
Institutions	**20.06**	**63.98**	**84.04**	19.99	63.76	83.75
Total	**29.03**	**70.97**	**100.00**	28.75	71.25	100

As per the Rule No. 7.6 (iv) of the Colombo Stock Exchange, percentage of public holding as at 31.03.2014 was 63.31% (63.26% as at 30.03.2013).

Size-wise Distribution of Shareholding

	31.03.2014			31.03.2013		
Share Range	**No. of holders**	**Total Holding**	**%**	No. of Holders	Total Holding	%
01 - 1,000	**5,585**	**1,854,888**	**0.70**	5,858	2,005,469	0.76
1,001 - 5,000	**2,562**	**5,231,427**	**1.97**	2,753	5,672,155	2.14
5,001 - 10,000	**325**	**2,339,949**	**0.88**	347	2,483,946	0.94
10,001 - 50,000	**291**	**6,181,813**	**2.34**	304	6,442,131	2.43
50,001 - 100,000	**40**	**2,754,277**	**1.04**	48	3,360,221	1.27
100,001 - 500,000	**39**	**8,067,312**	**3.05**	37	7,224,131	2.72
500,001 - 1,000,000	**8**	**4,942,029**	**1.86**	8	5,009,356	1.89
1,000,001 & above	**24**	**233,725,993**	**88.16**	24	232,900,279	87.85
Total	**8,874**	**265,097,688**	**100.00**	9,379	265,097,688	100.00

Twenty Major Shareholders of the Bank as at 31 March 2014

Name of Shareholder/Company Name	2014		2013	
	No. of Shares	**%**	No. of Shares*	%
Bank of Ceylon - No. 2 A/C	**38,039,994**	**14.35**	38,039,994	14.35
Hatton National Bank PLC - A/C No. 1	**32,396,140**	**12,22**	32,396,140	12,22
Sri Lanka Insurance Corporation Limited - Life Fund	**26,509,832**	**10.00**	26,509,832	10.00
Employees' Provident Fund	**24,368,995**	**9.19**	24,368,995	9.19
Mr M A Yaseen	**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**	5,620,164	2.12
Renuka Hotels Limited	**4,073,360**	**1.54**	4,073,360	1.54
HSBC Intl. Nominees Limited - BP2S London - Aberdeen Asia Smaller Companies Investment Trust	**3,889,870**	**1.47**	3,889,870	1.47
HSBC Intl. Nominees Limited - BP2S Luxembourg - Aberdeen Global Frontier Markets Equity Fund	**3,287,584**	**1.24**	3,133,300	1.18
Employees' Trust Fund Board	**2,408,991**	**0.91**	2,474,528	0.93
Cargo Boat Development Company PLC	**2,098,200**	**0.79**	2,098,200	0.79
HSBC Intl. Nominees Limited - 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
Renuka Consultants & Services Limited	**1,097,992**	**0.41**	1,097,992	0.41
Total of the 20 Major Shareholders	**229,542,512**	**86.61**		
Other Shareholders	**35,555,176**	**13.39**		
Total	**265,097,688**	**100.00**		

**Shareholdings as at 31 March 2013 of the twenty largest shareholders as at 31 March 2014.*

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063-2224222
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Anuradhapura
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025-2236463
Fax: 025-2223418

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Badulla
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Fax: 055-2230163

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Bandarawela
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Kalutara South
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034-2236363
Fax: 034-2236364

Kandy
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Kandy
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081-2237455
Fax: 081-2228460

Kurunegala
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Kurunegala
Telephone: 037-2224142/
037-2224461/2
Fax: 037-2229195

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9, Athurugiriya Road
Malabe
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Matara
5, Hakmana Road
Matara
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Fax: 041-2222585

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Rajagiriya
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Fax: 011-2880887

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46, Bandaranayake Mawatha
Ratnapura
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Fax: 045-2223670

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246, Ehamparam Road,
Trincomalee
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Fax: 026-2225566/99

Vavuniya
7B, Horowpathana Road,
Vavuniya
Telephone: 024-
2226666/22/33
Fax: 024-2226699

GRI CONTENT INDEX
FOR 'IN ACCORDANCE' - CORE

General Standard Disclosures

Indicator	Description	Report Section	Page No.
Strategy and Analysis			
G4-1	Statement from the most senior decision maker	Chairman's Message	8 - 13
		Chief Executive Report	14 - 18
Organisation Profile			
G4-3	Name of the organisation	Corporate Information	Back cover flap
G4-4	Primary brands, products and/or services	DFCC Banking Business	32
G4-5	Location of organisation's headquarters	Corporate Information	Back cover flap
G4-6	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the Report	About the Bank	4
G4-7	Nature of ownership and legal form	Corporate Information	Back cover flap
G4-8	Markets served	DFCC Banking Business	32
G4-9	Scale of the reporting organisation	DFCC Banking Business	32
G4-10	Total workforce by employment type, employment contract, and region, broken down by gender	Human Capital	76
G4-11	Percentage of employees covered by collective bargaining agreements	Human Capital	85
G4-12	Organisation's supply chain	Business Partner Capital	75
G4-13	Significant changes during the reporting period regarding size, structure, ownership or supply chain	About this Report	5
G4-14	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	Corporate Governance	130
G4-15	Externally developed economic, environmental and social charters and principles, or other initiatives to which the organisation subscribes or endorses	Corporate Governance	133
G4-16	Memberships in associations and/or national/international advocacy organisations	Corporate Governance	133
Identified Material Aspects and Boundaries			
G4-17	Organisation's entities covered by the Report and entities not covered by the Report	About this Report	5
G4-18	Process for defining Report Content and the Aspect Boundaries	Material Aspects & Boundaries	40
G4-19	Material Aspects identified for Report Content	Material Aspects & Boundaries	40
G4-20	Aspect Boundary for identified Material Aspects within the organisation	Material Aspects & Boundaries	40 - 42
G4-21	Aspect Boundary for identified Material Aspects outside the organisation	Material Aspects & Boundaries	40 - 42
G4-22	Explanation of the effect of any re-statement of information provided in earlier reports and the reason for such re-statement	About this Report	5
G4-23	Significant changes from previous reporting periods in the Scope, Aspect boundaries in the Report	About this Report	5

General Standard Disclosures

Indicator	Description	Report Section	Page No.
Stakeholder Engagement			
G4-24	List of stakeholder groups engaged by the organisation	Stakeholders	39
G4-25	Basis for identification and selection of stakeholders with whom to engage	Stakeholders	39
G4-26	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	Corporate Governance	134 & 135
G4-27	Key topics and concerns raised through stakeholders engagement and how the organisation responded to them	Corporate Governance	134 & 135
Report Profile			
G4-28	Reporting period	About the Report	5
G4-29	Date of most recent previous report	About the Report	5
G4-30	Reporting cycle	About the Report	5
G4-31	Contact point for questions regarding the Report or its Contents	About the Report	5
G4-32	Compliance with GRI G4 Guidelines, GRI Content Index and the External Assurance Report	About the Report GRI Content Index	5 291 - 296
G4-33	Policy and current practice with regard to seeking external assurance for the Report	About the Report	5
Governance			
G4-34	Governance structure of the organisation, including committees under the highest governance body responsible for decision-making on economic, environment and social impacts	Corporate Governance	128
Ethics and Integrity			
G4-56	The values, principles, standards and norms of behaviour	Vision, Mission and Values Institutional Capital	6 61

Specific Standard Disclosures

DMA and Indicators	Description	Report Section	Page No.
Category: Economic			
Material Aspect:	**Economic Performance**		
G4-DMA		Material Aspects & Boundaries	41
G4-EC1	Direct economic value generated, distributed and retained	Value Added & Distributed	283
G4-EC3	Coverage of the organisation's defined benefit plan obligations	Notes to the Financial Statements	189
G4-EC4	Financial assistance received from Government	Financial Capital	58
Material Aspect:	**Market Presence**		
G4-DMA		Material Aspects & Boundaries	41
G4-EC6	Proportion of senior management hired from the local community at significant locations of operation	Human Capital	76
Material Aspect:	**Indirect Economic Impact**		
G4-DMA		Material Aspects & Boundaries	41
G4-EC7	Development and impact of infrastructure investments and services supported	Social Capital	88 - 90
G4-EC8	Significant indirect economic impacts including the extent of impacts	Social Capital	88 - 90
Category: Environment			
Material Aspect:	**Emissions**		
G4-DMA		Material Aspects & Boundaries	41
G4-EN15	Direct Greenhouse Gas (GHG) emissions (Scope 1)	Environmental Capital	91 & 92
G4-EN16	Indirect Greenhouse Gas (GHG) emmissions (Scope 2)	Environmental Capital	91 & 92
G4-EN17	Other indirect Greenhouse Gas (GHG) emissions (Scope 3)	Environmental Capital	91 & 92
G4-EN18	Greenhouse Gas (GHG) emissions intensity	Environmental Capital	91 & 92
Material Aspect:	**Products and Services**		
G4-DMA		Material Aspects & Boundaries	41
G4-EN27	Extent of impact mitigation of environmental impacts of products and services	Environmental Capital	92

Specific Standard Disclosures

DMA and Indicators	Description	Report Section	Page No.
Category: Social			
Sub-Category: Labour Practices and Decent Work			
Material Aspect:	**Employment**		
G4-DMA		Material Aspects & Boundaries	41
G4-LA1	Total number and rate of new employee hires and employee turnover by age group, gender, and region	Human Capital	80
G4-LA3	Return to work and retention rates after parental leave, by gender	Human Capital	87
Material Aspect:	**Occupational Health and Safety**		
G4-DMA		Material Aspects & Boundaries	85
G4-LA5	Percentage of total workforce represented in formal joint management - worker health and safety committees	Employee Capital	85
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days and absenteeism, and total number of work-related fatalities, by region and by gender	Employee Capital	85
Material Aspect:	**Training and Education**		
G4-DMA		Material Aspects & Boundaries	41
G4-LA9	Average hours of training per year per employee by gender, and by employee category	Human Capital	83
G4-LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Human Capital	84
G4-LA11	Percentage of employees receiving regular performance and career development reviews by gender and employee category	Human Capital	84
Material Aspect:	**Diversity and Equal Opportunity**		
G4-DMA		Material Aspects & Boundaries	42
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity	Human Capital	77, 87
Material Aspect:	**Equal Remuneration for Women and Men**		
G4-DMA		Material Aspects & Boundaries	42
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	Human Capital	86

Specific Standard Disclosures

DMA and Indicators	Description	Report Section	Page No.
Material Aspect:	**Labour Practices and Grievance Mechanisms**		
G4-DMA		Material Aspects & Boundaries	42
G4-LA16	Number of grievances about labour practices filed, addressed and resolved through formal grievance mechanisms	Human Capital	85
Sub-Category: Human Rights			
Material Aspect:	**Investment**		
G4-DMA		Material Aspects & Boundaries	42
G4-HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including % of employees trained	Human Capital	83
Material Aspect:	**Non-Discrimination**		
G4-DMA		Material Aspects & Boundaries	42
G4-HR3	Total number of incidents of discrimination and corrective actions taken	Human Capital	84
Material Aspect:	**Human Rights Grievance Mechanisms**		
G4-DMA		Material Aspects & Boundaries	42
G4-HR12	Number of grievances about human rights impacts filed, addressed and resolved through formal grievance mechanisms	Human Capital	85
Sub-Category: Society			
Material Aspect:	**Local Communities**		
G4-DMA		Material Aspects & Boundaries	42
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments and development programmes	Social Capital	88 & 89
Material Aspect:	**Anti-Corruption**		
G4-DMA		Material Aspects & Boundaries	42
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	Social Capital	90
Material Aspect:	**Compliance**		
G4-DMA		Material Aspects & Boundaries	42
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Material Aspects & Boundaries	42

Specific Standard Disclosures

DMA and Indicators	Description	Report Section	Page No.
Sub-Category: Product Responsibility			
Material Aspect:	**Product and Service Labelling**		
G4-DMA		Material Aspects & Boundaries	42
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling by type of outcomes	Customer Capital	64
Material Aspect:	**Marketing Communications**		
G4-DMA		Material Aspects & Boundaries	42
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes	Customer Capital	64
Material Aspect:	**Customer Privacy**		
G4-DMA		Material Aspects & Boundaries	42
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Customer Capital	64
Material Aspect:	**Compliance**		
G4-DMA		Material Aspects & Boundaries	42
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	Material Aspects & Boundaries	42

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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
The AGM will be held at the Cinnamon Lakeside Colombo, Sir Chittampalam A Gardiner Mawatha, Colombo 2, on 30 June 2014. 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 Secretary to the Board
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 Secretary to the Board to update the mailing list if you are receiving more than one copy of the Annual Report.

Secretary to the Board
Ms A Withana

Auditors
KPMG
Chartered Accountants

Bankers
DFCC Vardhana Bank PLC

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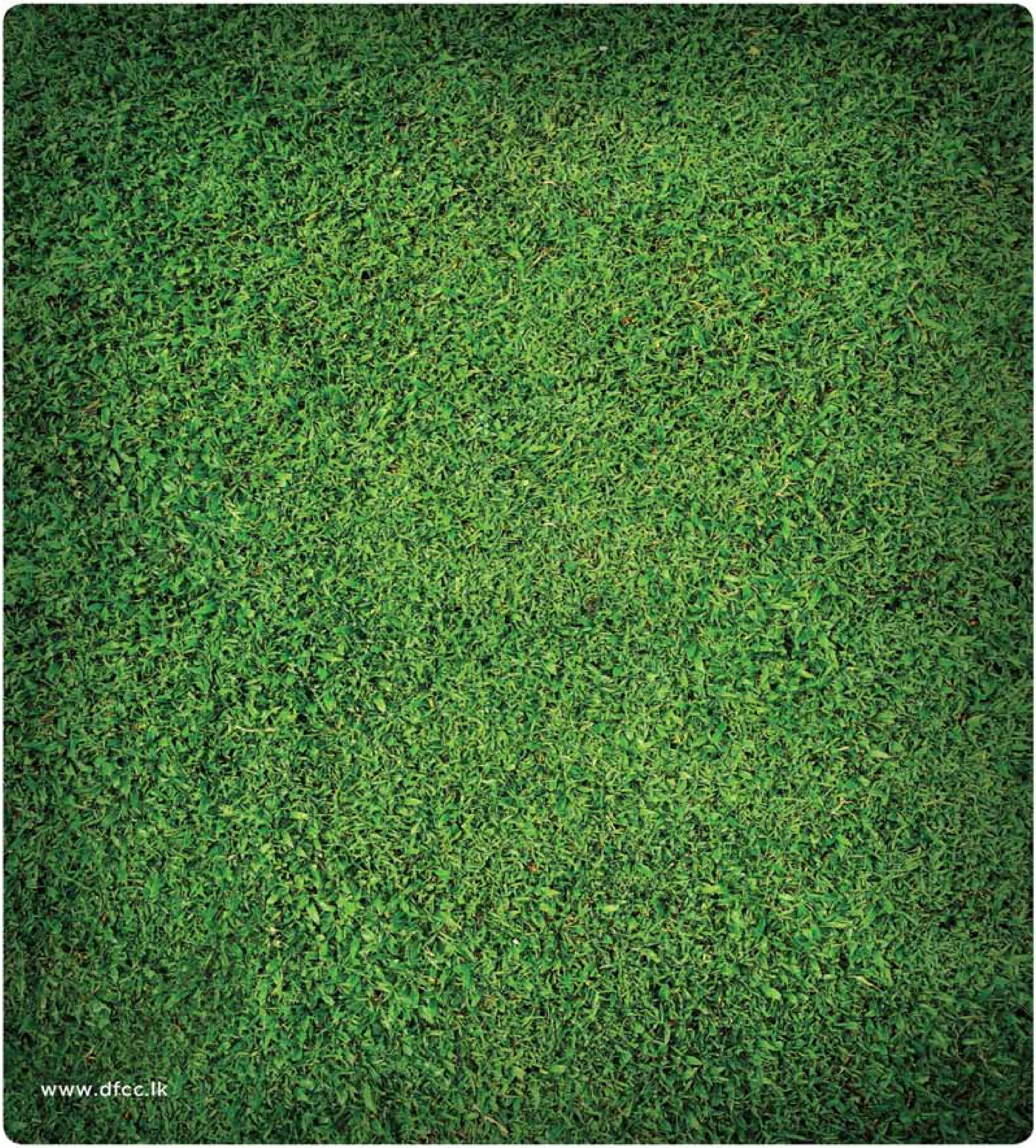
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