



Message from the Chairman

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

Dear Shareholders,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

C R Jansz
Chairman

24 February 2016