Notes to the Financial Statements

1 Reporting Entity

DFCC Bank PLC ('Bank') is a limited liability public company incorporated and domiciled in Sri Lanka.

The Bank was incorporated in 1955 under DFCC Bank Act, No. 35 of 1955 as a limited liability public company and the ordinary shares of the Bank were listed in the Colombo Stock Exchange.

Consequent to the enactment of the DFCC Bank (Repeal and Consequential Provisions) Act, No. 39 of 2014, the DFCC Bank Act, No. 35 of 1955 was repealed and the Bank was incorporated under the Companies Act, No. 07 of 2007 as a public limited company listed in the Colombo Stock Exchange with the name 'DFCC Bank PLC' with effect from 6 January 2015.

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

DFCC Bank PLC (DFCC) also obtained a commercial banking license from the Monetary Board of the Central Bank of Sri Lanka in terms of the Banking Act, No. 30 of 1988, as amended, and accordingly upon the amalgamation now operates as a licensed commercial bank.

The registered office of the Bank is at 73/5, Galle Road, Colombo 3.

The Bank does not have a parent company.

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

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

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

Total employee population of the Bank and the Group on 31 December 2015 was 1,445 and 1,659 respectively (31 March 2015 - 495 and 1,611 respectively).

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

DFCC Bank PLC

Range of financial services such as accepting deposits, corporate credit and retail banking, personal financial services, project financing, investment banking, foreign currency operations, trade finance and dealing in Government Securities and treasury related products.

DFCC Consulting (Pvt) Limited

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

Lanka Industrial Estates Limited

Leasing of land and buildings to industrial enterprises.

Synapsys Limited

Information technology services and information technology enabled services.

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 Group during the financial period under review.

2 Basis of Preparation

2.1 Statement of Compliance

The consolidated financial statements of the Bank (Group) and the separate financial statements of the Bank (Bank), which comprise the statement of financial position, income statement, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and notes thereto, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act, No. 07 of 2007 and the Banking Act, No. 30 of 1988 and amendments thereto.

2.2 Approval of Financial Statements by Directors

The financial statements are authorised for issue by the Board of Directors on 24 February 2016.

2.3 Consolidated and Separate Financial Statements

DFCC Bank PLC as the parent of subsidiaries under its control is required to present only the consolidated financial statements as per Sri Lanka Accounting Standard LKAS 27 – 'Consolidated and Separate Financial Statements'. However, in addition to the consolidated financial statements, separate financial statements are also presented as per the Companies Act, No. 07 of 2007 and Banking Act, No. 30 of 1988 and amendments thereto.

2.4 Common Control Transactions

All common control transactions are accounted using book value accounting. This is on the basis that the entities are part of a larger economic group, and that the figures from that larger group are the relevant ones. The assets and liabilities of the combined entity is accounted using the existing book values of pre merged entities. No new goodwill is recognised as a result of the merger. The only goodwill that is recognised is any existing goodwill relating to either of the combining entities. Any difference between the book values is reflected within equity.

2.5 Basis of Measurement

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

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

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

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

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

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

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

2.6 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.

2.7 Critical Accounting Estimates and Judgments

2.7.1 General

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

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

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

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

2.7.2 Loan Losses

The assessment of loan loss as set out in Note 32.2 involves considerable judgment and estimation. Judgment is required firstly to determine whether there are indications that a loss may already have been incurred in individually significant loans and secondly to determine the recoverable amount.

2.7.3 Pension Liability

The estimation of this liability determined by an independent, qualified actuary, necessarily involves long-term assumptions on future changes to salaries, future income derived from pension assets, life expectancy of covered employees, etc. Key assumptions are disclosed in Note 50.1.3.8.

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

2.7.4 End of Service Gratuity Liability

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

Key assumptions are disclosed in Note 50.1.3.8.

2.7.5 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.

2.7.6 Impairment of Tangible and Intangible Assets

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

2.8 Changes in Accounting Policies

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

2.8.1 Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax

As per the provisions of Part III of the Finance Act, No. 10 of 2015 which was certified on 30 October 2015, the Bank is liable for Super Gain Tax of LKR 777 million. According to the Act, the Super Gain Tax shall be deemed to be an expenditure in the financial statements relating to the year of assessment which commenced on 1 April 2013. The Act supersedes the requirements of the Sri Lanka Accounting Standards, hence the expense of Super Gain Tax is accounted in accordance with the requirements of the said Act as recommended by the Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax issued by The Institute of Chartered Accountants of Sri Lanka, dated 24 November 2015.

This SoAT supersedes paragraph 46 of LKAS 12 – ‘Income Taxes’. Further, this SoAT must be applied by all companies who are liable to pay Super Gain Tax as required under Part III of the Finance Act, No. 10 of 2015 without any option.

As per the SoAT, Super Gain Tax expense is deemed to be an expenditure for the year ended 31 March 2014, it should be recorded as an adjustment to the opening retained earnings reported in statement of changes in equity as at 1 April 2015.

3 Basis of Consolidation

3.1 General

The consolidated financial statements are the financial statements of the Group, prepared by consistent application of consolidation procedures, which include amalgamation of the financial statements of the parent and subsidiaries and accounting for the investments in associate company and joint venture company on the basis of reported results and net assets of the investee instead of the direct equity interest.

Thus, the consolidated financial statements present financial information about the Group as a single economic entity, distinguishing the equity attributable to the parent (controlling interest) and attributable to minority shareholders with non-controlling interest.

3.2 Transactions Eliminated on Consolidation

Intra-group balances and transactions, including income, expenses and dividend are eliminated in full.

3.3 Financial Statements of Subsidiaries, Associate Company and Joint Venture Company included in the Consolidated Financial Statements

Audited financial statements are used for consolidation of companies which has a similar financial year end, as the Bank and for other a special review is performed.

Financial statements of DFCC Consulting (Pvt) Limited and Lanka Industrial Estates Limited included in the consolidation have financial years ending 31 March.

The financial statements of Acuity Partners (Pvt) Limited Synapsys Limited and National Asset Management Limited included in the consolidation have financial years ending on 31 December.

3.4 Significant Events and Transactions during the period between Date of Financial Statements of the Subsidiaries, Associate Company and Joint Venture Company and the Date of Financial Statements of the Bank

No adjustments to the results of subsidiaries, associate company and joint venture company have been made as there were no significant events or transactions.

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

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

3.6 Taxes on the Undistributed Earnings of Subsidiaries, Associate Company and Joint Venture Company

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

4 *Scope of Consolidation*

All subsidiaries have been consolidated.

4.1 Subsidiary Companies

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

Acquisition method of accounting is used when subsidiaries are acquired by the Bank. Cost of acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of exchange. Acquisition-related costs are recognised as an amount of the expense in the profit or loss in the period of which they are incurred. The acquirees identifiable assets, liabilities and contingent liabilities are generally measured at their fair value at the date of acquisition.

Goodwill is measured as the excess of the aggregate consideration transferred, the amount of non-controlling interest and the fair value of banks previously held equity interest if any, over the net of the amount of the identifiable assets acquired and the liabilities assumed.

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

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

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

Note 35 contains the financial information relating to subsidiaries.

4.2 Associate Company

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

Note 36 contains financial information relating to associate company.

4.3 Joint Venture Company

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

Note 37 contains the financial information relating to joint venture company.

5 *Principal Accounting Policies*

Accounting policies are the specific principles, bases, conventions, rules and practices applied consistently by the Bank in presenting and preparing the financial statements. Changes in accounting policies are made, only if the Sri Lanka Accounting Standards require such changes or when a change results in providing more relevant information. New policies are formulated as appropriate to new products and services provided by the Bank or new obligations incurred by the Bank.

5.1 Revenue and Expense Recognition

5.1.1 Interest Income and Expense

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

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

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

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

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

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

5.1.2 Fees and Commission

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

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

Fees for guarantees and trade related commissions are recognised on a straight line basis over the period of the contract. Other fees and commission expense relate mainly to transaction and service fees, which are expensed, as the services are received.

5.1.3 Net Gain/(Loss) from Trading

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

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

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

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

5.1.5 Net Gain/(Loss) from Financial Investments

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

Where the dividend clearly represents a recovery of part of the cost of the investment, it is presented in other comprehensive income. Dividend income is recognised when the right to receive payment is established. Dividend income are presented in net gains/(loss) from trading and net gains/(loss) from financial investment, based on underlying classification of the equity investment.

5.1.6 Foreign Exchange Gain/(Loss)

Items included in the financial statements of the Bank are measured in Sri Lankan Rupees denoted as LKR which is the currency of the primary economic environment in which the Bank operates ('the functional currency') as well as the presentation currency.

Transactions in foreign currencies are recorded in the functional currency at the average exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the average exchange rate ruling at the reporting date (viz. date of the statement of financial position) and consequently recognised in the 'other operating income' in the income statement of the Bank. The average exchange rate used is the middle rates quoted by commercial banks for purchase or sale of the relevant foreign currency.

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

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

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

ii. Foreign exchange income or loss on derivatives held-for-risk management purposes and mandatorily measured at fair value through profit or loss is recognised as net gain/(loss) from financial instruments at fair value through profit or loss (Note 15).

The Bank does not have any foreign operation that is a subsidiary, associate, joint venture or a branch and therefore, there is no exchange differences recognised in other comprehensive income.

5.1.7 Premises Rental Income

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

5.1.8 Value Added Tax on Financial Services (VAT)

VAT on financial services is calculated in accordance with Value Added Tax Act, No. 14 of 2002 and subsequent amendments thereto.

The value base for computation of VAT is the operating profit before value added tax and nation building tax on financial services adjusted for emoluments of employees and depreciation computed as per prescribed rates.

5.1.9 Nation Building Tax on Financial Services (NBT)

NBT on financial services is calculated in accordance with Nation Building Tax Act, No. 09 of 2009 and subsequent amendments thereto. NBT is chargeable on the same base used for calculation of VAT on financial services as explained in Note 5.1.8 above.

5.1.10 Withholding Tax on Dividend Distributed by Subsidiaries, Associate Company and Joint Venture Company

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

5.1.11 Tax Expense

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

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

5.1.12 Other Expenses

All other expenses are recongised on an accrual basis.

5.2 Financial Assets

5.2.1 Recognition and Measurement

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

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

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

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

5.2.2 Classification

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

- **Loans and receivables** – at amortised cost.
- **Held-to-maturity** – non-derivative financial assets with fixed or determinable payments and fixed maturity (for example, bonds, debentures and debt instruments listed in the Colombo Stock Exchange) that the Bank has the positive intent and ability to hold to maturity are measured at amortised cost.
- **Held-for-trade** – financial assets held-for-trade measured at fair value with changes in fair value recognised in the income statement.
- **Designated at fair value** – this is an option to deal with accounting mismatches and currently the Bank has not exercised this option.

- **Available-for-sale** – this is measured at fair value and is the residual classification with fair value changes recognised in other comprehensive income.
- **Derivative assets** – are mandatorily measured at fair value with fair value changes recognised in the income statement.

5.2.3 Reclassification

- Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be reclassified out of the fair value through profit or loss category, in the following circumstances:
- Financial assets that would have met the definition of loans and receivables at initial recognition (if the financial asset had not been required to be classified as held-for-trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity;
  and
- Financial assets except financial assets that would have met the definition of loans and receivables at initial recognition may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

5.2.4 Derecognition of Financial Assets

Financial assets are derecognised when the contractual right to receive cash flows from the asset has expired; or when Bank has transferred its contractual right to receive the cash flows of the financial assets, and either –

- Substantially all the risks and rewards of ownership have been transferred;
  or
- Bank has neither retained nor transferred substantially all the risks and rewards, but has not retained control of the financial asset.

5.2.5 Fair Value Measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active, if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

5.2.6 Identification and Measurement of Impairment

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

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

Objective evidence that loans and advances and held-to-maturity investment securities (e.g., debt instruments quoted in the Colombo Stock Exchange, Treasury Bills and Bonds) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group or economic conditions that correlate with defaults in the Group.

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

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

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

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

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

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

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

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

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

Impairment allowance on loans and advances and held-to-maturity investment securities measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

5.2.6.1.2 Collective Assessment, this includes:

All loans and advances of smaller value where there is no evidence of impairment and those individually assessed for which no evidence of impairment has been specifically identified on an individual basis.

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

These loans and advances are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective impairment.

In assessing collective impairment, the Bank uses statistical modelling of historical trends of the default rates, the timing of recoveries and the amount of loss incurred, adjusted for experience adjustment by the management, where current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Default rates, loss rates and the expected timing of future recoveries will be regularly benchmarked against actual outcomes to ensure that they remain appropriate.

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

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

5.2.6.3 Available-for-Sale Debt Securities

When assessing available-for-sale debt securities for objective evidence of impairment at the reporting date, Bank considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial recognition, or the disappearance of an active market for the debt security.

These types of specific events and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

5.2.6.4 Available-for-Sale Equity Securities

Objective evidence of impairment for available-for-sale equity securities may include specific information about the issuer and information about significant changes in technology, markets, economics or the law that provide evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

Once an impairment loss has been recognised on an available-for- sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, a decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement. If there is no longer objective evidence that the debt security is impaired, the impairment loss is also reversed through the income statement.

- For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated asa 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.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

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 Grants 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 are classification adjustment.

5.2.13 Financial Investments –Held-to-Maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Bank positively intends, and is able, to hold to maturity. Held-to-maturity investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses.

A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all investment securities as available-for-sale for the current and the subsequent two financial years.

However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- Sales or reclassifications after the Bank has collected substantially all of the asset's original principal; and
- Sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

5.2.14 Subsidiaries, Associates and Joint Ventures

Bank's investments in subsidiaries are stated at cost less impairment losses. Reversals of impairment losses are recognised in the income statement, if there has been a change in the estimates used to determine the recoverable amount of the investment.

Investments in associate and joint venture are recognised using the equity method, initially stated at cost, including attributable goodwill, and are adjusted thereafter for the post-acquisition change in Bank's share of net assets.

Unrealised gains on transactions between Bank and its associates and joint ventures are eliminated to the extent of Bank's interest in the respective associate or joint venture. Unrealised losses are also eliminated to the extent of Bank's interest in the associate or joint venture.

5.2.15 Property, Plant and Equipment

5.2.15.1 Recognition and Measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the income statement.

5.2.15.2 Subsequent Costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance costs are expensed as incurred.

5.2.15.3 Depreciation

Items of property, plant and equipment are depreciated from the month they are available-for-use. Depreciation is calculated to write-off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods of significant items of property, plant and equipment are as follows:

	Years
Buildings	20
Office equipment and motor vehicles	5
Fixtures and fittings	10

5.2.15.4 De-recognition

The carrying amount of property and equipment is de-recognised on disposal or when non future economic benefits are expected from its use of the gain or loss arising from the de-recognition (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the income statement.

5.2.16 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.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use and subsequent disposal.

5.2.19 Balances with Central Bank of Sri Lanka

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain cash deposits with the Central bank of Sri Lanka as a reserve against all deposit liabilities denominated in Sri Lankan Rupees. The details of reserve requirements are given in Note 27. There are no reserves requirement for deposit liabilities of the Foreign Currency Banking Unit and foreign currency deposit liabilities in the Domestic Banking Unit.

5.2.20 Fiduciary Assets

Assets held in a fiduciary capacity are not reported in these financial statements as they do not belong to the Bank.

5.3 Financial Liabilities

5.3.1 Recognition and Initial Measurement

Deposits, borrowing from foreign multilateral, bilateral sources and domestic sources, debt securities issued and subordinated liabilities are initially recognised on the date at which they are originated.

A financial liability is measured initially at fair value plus, transaction costs that are directly attributable to its acquisition or issue.

Subsequent measurement of financial liability is at 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, and impairment allowances that exceed 1% of the loans and advances on date of the statement of financial position only to the extent that the realisation of related tax benefit through future taxable profits is probable.

5.3.5 Pension Liability Arising from Defined Benefit Obligations

5.3.5.1 Description of the Plan and Employee Groups Covered

The Bank established a trust fund in May 1989, for payment of pension which operates the pension scheme approved by the Commissioner General of Inland Revenue. The fund of the scheme is managed by trustees appointed by the Bank and is separate from the Bank. The scheme provides for payment of pension to retirees, spouse and minor children of deceased retirees based on pre-retirement salary. All members of the permanent staff who joined prior to 1 May 2004 are covered by this funded pension scheme subject to fulfilment of eligibility conditions prescribed by the Bank.

The scheme was amended on 31 August 1998 and the amended plan will apply to all members of the permanent staff who joined the Bank on or after this date and prior to 1 May 2004. The amendment reduced the scope of the benefit in the interest of long-term sustainability of the pension plan as advised by the independent actuary.

The defined benefit pension plan does not permit any post-retirement increases in pension nor any other benefit (e.g. medical expenses reimbursement).

5.3.5.2 Funding Arrangement

The Bank's contributions to the trust fund are made annually based on the recommendation of an independent actuary. The employees make no contributions to qualify for the basic pension, which is therefore a non-contributory benefit to the employees.

Eligible employees who desire to provide for the payment of pension to spouse and minor children, who survive them are however, required to contribute monthly, an amount based on a percentage of gross emoluments, excluding bonus, if they joined the Bank on or after 31 August 1998 and prior to 1 May 2004.

5.3.5.3 Recognition of Actuarial Gains and Losses

The net actuarial gains or losses arising in a financial year is due to increases or decreases in either the present value of the promised pension benefit obligation or the fair value of pension assets.

The causes for such gains or losses include changes in the discount rate, differences between the actual return and the expected return on pension assets and changes in the estimates of actual employee turnover, mortality rates and increases in salary.

The Bank recognises the total actuarial gains and losses that arise in calculating the Bank's obligation in respect of the plan in other comprehensive income and the expense under personnel expenses in the income statement during the period in which it occurs.

5.3.5.4 Recognition of Past Service Cost

Past service cost arises when a defined benefit plan is introduced for the first time or subsequent changes are made to the benefits payable under an existing defined benefit plan. Bank will recognise past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent the benefits are already vested following the introduction of or changes to a defined benefit plan, the Bank will recognise past service cost immediately.

5.3.6 Provision for End of Service Gratuity Liability under a Defined Benefit Plan

5.3.6.1 Description of the Plan and Employee Groups Covered

The Bank provides for the gratuity payable under the Payment of Gratuity Act, No. 12 of 1983 as amended for all employees who do not qualify under the pension scheme. Therefore, this applies to employees recruited to the permanent cadre on or after 1 May 2004 on tenured or fixed term contract employment in the Bank. The subsidiary companies, which do not have a non-contributory pension scheme provide for the gratuity payable under the Payment of Gratuity Act, No. 12 of 1983 for all employees. The promised benefit is half a month pre-termination salary for each completed year of service, provided a minimum qualifying period of 5 years is served prior to termination of employment.

The Bank however, recognises the liability by way of a provision for all employees in tenured employment from the date they joined the permanent cadre, while fixed term employees liability is recognised only if the fixed term contract of service provides for unbroken service of 5 years or more either singly or together with consecutive contracts.

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 while in service.

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 the Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

5.3.9.1 Financial Guarantees

Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee received or receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

5.3.10 Sale and Repurchase Agreements

When securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the statement of financial position and a liability is recorded in respect of the consideration received.

Securities purchased under commitments to sell ('reverse repos') are not recognised on the statement of financial position and the consideration paid is recorded in 'loans and advances to banks', 'loans and advances to customers' as appropriate. The difference between the sale and repurchase price is treated as interest and recognised over the life of the agreement for loans and advances to banks and customers.

5.3.11 Stated Capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets.

6 Cash Flow

The cash flow has been prepared by using the 'Direct Method'. Cash and cash equivalents include cash balances, time deposits and Treasury Bills of three months' maturity at the time of issue. For the purpose of cash flow statement, cash and cash equivalents are presented net of bank overdrafts.

7 Business Segment Reporting

Business segment results include items directly attributable to a business segment as well as those that can be allocated on a reasonable basis. Unallocated items include corporate assets, head office expenses, and tax assets and liabilities.

8 Directors' Responsibility

The Directors acknowledge the responsibility for true and fair presentation of the financial statements in accordance with Sri Lanka Accounting Standards.

9 New SLFRS Issued and Not Yet Effective

9.1 SLFRS Applicable for Financial Periods beginning on or after 1 January 2016

9.1.1 SLFRS 9 – 'Financial Instruments'

SLFRS 9 - 'Financial Instruments' replaces the existing guidance in LKAS 39 - 'Financial Instrument: Recognition and Measurement'. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets.

SLFRS 9 is effective for annual period beginning on or after 1 January 2018 with early adoption permitted.

9.1.2 SLFRS 15 – 'Revenue from Contracts with Customers'

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 – 'Revenue' and LKAS 11 – 'Construction Contracts' and IFRIC 13 Customer Loyalty Programmes.

SLFRS 15 is effective for annual period beginning on or after 1 January 2018 with early adoption permitted.

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.

10 The Effect to the Period Results of the Group Due to Change in Financial Year End

DFCC Bank PLC had an annual year end of 31 March up to financial year ended 31 March 2015, and its subsidiaries, DFCC Vardhana Bank PLC, Synapsis Limited, Joint venture Acuity Partners (Pvt) Limited and associate company National Asset Management Limited, year end as at 31 December. Accordingly, each year the consolidated financial statements were prepared using financial information as at 31 December for the subsidiaries with 31 December year end, adjusted for any significant transactions from 1 January to 31 March.

As explained in Note 62.1, DFCC Bank PLC changed its financial year end to 31 December. Accordingly, the consolidated financial statements for period ended 31 December 2015 include the results of the DFCC Bank PLC and subsidiaries with year ending 31 March for the nine months to 31 December 2015, and results of 31 December financial year ending subsidiaries, associate and joint venture company for 12 months to 31 December 2015.

	BANK		GROUP	
	9 months ended 31 December 2015 LKR 000	Year ended 31 March 2015 LKR 000	**9 months ended 31 December 2015 LKR 000**	Year ended 31 March 2015 LKR 000

11 Income

	BANK 9 months ended 31 December 2015 LKR 000	BANK Year ended 31 March 2015 LKR 000	GROUP 9 months ended 31 December 2015 LKR 000	GROUP Year ended 31 March 2015 LKR 000
Interest income	**8,918,343**	8,010,024	**15,308,568**	16,098,667
Fee and commission income	**371,590**	167,995	**1,151,029**	1,137,267
Net gain from trading	**87,062**	146,679	**215,575**	479,988
Net (loss)/gain from financial instruments at fair value through profit or loss	**(330)**	656,512	**74,583**	678,217
Net gain from financial investments	**640,637**	2,150,427	**507,528**	2,201,070
Other operating income/(loss) – net	**18,978**	(737,552)	**245,585**	(501,498)
	10,036,280	10,394,085	**17,502,868**	20,093,711

12 Net Interest Income

Interest income

	BANK 9 months ended 31 December 2015 LKR 000	BANK Year ended 31 March 2015 LKR 000	GROUP 9 months ended 31 December 2015 LKR 000	GROUP Year ended 31 March 2015 LKR 000
Placements with banks	**37,700**	82,130	**42,536**	52,860
Loans to and receivables from banks	**79,630**	88,969	**190,431**	205,776
Loans to and receivables from other customers	**7,843,674**	7,235,442	**13,498,498**	14,240,041
Other financial assets held-for-trading	**101,665**	93,128	**211,877**	140,765
Financial investments – available-for-sale	**466,404**	388,312	**748,920**	1,331,350
Financial investments – held-to-maturity	**388,080**	118,039	**615,116**	123,871
Others	**1,190**	4,004	**1,190**	4,004
	8,918,343	8,010,024	**15,308,568**	16,098,667

	BANK		GROUP	
	9 months ended 31 December 2015 LKR 000	Year ended 31 March 2015 LKR 000	**9 months ended 31 December 2015 LKR 000**	Year ended 31 March 2015 LKR 000
Interest expenses				
Due to banks	**404,237**	110,795	**628,280**	189,818
Due to other customers	**2,665,807**	1,485,318	**5,584,815**	6,026,658
Other borrowing	**879,155**	1,341,627	**879,155**	1,341,627
Debt securities issued	**1,611,155**	1,737,707	**1,830,993**	1,849,481
	5,560,354	4,675,447	**8,923,243**	9,407,584
Net interest income	**3,357,989**	3,334,577	**6,385,325**	6,691,083
Interest income on Sri Lanka Government Securities	**733,936**	494,982	**1,487,117**	1,742,249

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

13 *Net Fee and Commission Income*

	BANK 9 months ended 31 December 2015	BANK Year ended 31 March 2015	GROUP 9 months ended 31 December 2015	GROUP Year ended 31 March 2015
Fee and commission income	**371,590**	167,995	**1,151,029**	1,137,267
Fee and commission expenses	**1,208**	–	**9,914**	17,303
Net fee and commission income	**370,382**	167,995	**1,141,115**	1,119,964
Comprising:				
Loans and advances	**173,721**	100,212	**374,073**	503,530
Credit cards	**958**	–	**22,634**	24,641
Trade and remittances	**34,248**	–	**319,599**	326,306
Guarantees	**66,992**	27,743	**139,268**	145,090
Management and consulting fees	**94,463**	40,040	**285,541**	120,397
Net fee and commission income	**370,382**	167,995	**1,141,115**	1,119,964

14 *Net Gain from Trading*

	BANK 9 months ended 31 December 2015	BANK Year ended 31 March 2015	GROUP 9 months ended 31 December 2015	GROUP Year ended 31 March 2015
Foreign exchange from banks	**(8,496)**	–	**118,916**	144,429
Fixed income securities	**95,558**	146,679	**96,659**	335,559
	87,062	146,679	**215,575**	479,988

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

	BANK 9 months ended 31 December 2015	BANK Year ended 31 March 2015	GROUP 9 months ended 31 December 2015	GROUP Year ended 31 March 2015
Forward exchange fair value changes				
– Contracts with commercial banks	**(14,368)**	81,577	**60,545**	96,819
– Contract with CBSL (Note 43.1)	**14,038**	574,935	**14,038**	574,935
Realised gain on gold put option	**–**	–	**–**	6,463
	(330)	656,512	**74,583**	678,217

	BANK		GROUP	
	9 months ended 31 December 2015 LKR 000	Year ended 31 March 2015 LKR 000	**9 months ended 31 December 2015 LKR 000**	Year ended 31 March 2015 LKR 000

16 Net Gain from Financial Investments

Assets available-for-sale				
Gain on sale of equity securities	**37,018**	1,135,054	**37,018**	1,135,054
Gain on sale of Government Securities	**424**	–	**774**	4,909
Dividend income	**218,249**	777,536	**218,569**	777,803
Dividend income from subsidiaries, joint venture and associate	**318,027**	214,422	**–**	–
Net gain from repurchase transactions	**66,919**	23,415	**251,167**	283,304
	640,637	2,150,427	**507,528**	2,201,070

17 Other Operating Income/(Loss)-Net

Premises rental income	**41,577**	62,820	**162,661**	205,997
Gain on sale of property, plant and equipment	**2,654**	1,717	**3,050**	1,077
Foreign exchange gain/(loss)	**17,139**	(500,677)	**77,984**	(465,807)
Recovery of loans written-off	**23,267**	42,471	**31,463**	46,244
Amortisation of deferred income on Government grant – CBSL Swap (Note 43.2)	**(130,288)**	(376,185)	**(130,288)**	(376,185)
Others	**64,629**	32,302	**100,715**	87,176
	18,978	(737,552)	**245,585**	(501,498)

18 Impairment Charge/(Write Back) for Loans and Other Losses

Loans to and receivables from other customers				
Specific allowance for impairment (Note 32.2.1)	**325,635**	556,493	**757,051**	1,143,903
Collective allowance for impairment (Note 32.2.2)	**(104,907)**	(887,547)	**23,483**	(957,842)
Impairment (recoveries)/charge - other debts	**(3,034)**	8,355	**918**	11,775
Impairment charge – Investment in subsidiaries (Note 35.1)	**1,681**	11,000	**–**	–
Write-offs – Loans to and receivables from other customers	**5,564**	4,135	**13,875**	48,720
	224,939	(307,564)	**795,327**	246,556

19 Personnel Expenses

Salaries and other benefits	**1,012,764**	752,623	**2,237,739**	1,900,124
Provision for staff retirement benefits (Note 19.1)	**199,777**	190,418	**321,611**	312,476
	1,212,541	943,041	**2,559,350**	2,212,600

	BANK		GROUP	
	9 months ended 31 December 2015 LKR 000	Year ended 31 March 2015 LKR 000	**9 months ended 31 December 2015 LKR 000**	Year ended 31 March 2015 LKR 000

19.1 Provision for Staff Retirement Benefits

19.1.1 Amount Recognised as Expense

19.1.1.1 Funded Pension Liability

Current service cost	**58,048**	77,397	**58,048**	77,397
Interest on obligation	**144,561**	167,979	**144,561**	167,979
Expected return on pension assets	**(139,779)**	(177,105)	**(139,779)**	(177,105)
	62,830	68,271	**62,830**	68,271

19.1.1.2 Unfunded Pension Liability

Interest on obligation	**4,569**	6,187	**4,569**	6,187
	4,569	6,187	**4,569**	6,187

19.1.1.3 Unfunded end of Service Gratuity Liability

Current service cost	**12,404**	8,221	**28,636**	23,359
Interest on obligation	**6,960**	4,392	**14,517**	10,965
	19,364	12,613	**43,153**	34,324
Total defined benefit plans	**86,763**	87,071	**110,552**	108,782

19.1.1.4 Defined Contribution Plan

Employer's contribution to Employees' Provident Fund	**94,178**	86,123	**175,314**	169,192
Employer's contribution to Employees' Trust Fund	**18,836**	17,224	**35,745**	34,502
Total defined contribution plans	**113,014**	103,347	**211,059**	203,694
Total expense recognised in the income statement	**199,777**	190,418	**321,611**	312,476

20 Other Expenses

Directors' remuneration	**48,690**	45,398	**95,107**	87,502
Auditors' remuneration				
Audit fees and expenses	**4,723**	4,032	**6,270**	6,023
Audit related fees and expenses	**1,733**	2,389	**2,145**	4,334
Fees for non-audit services	**–**	455	**–**	479
Depreciation – Investment property	**–**	–	**9,706**	11,285
– Property, plant and equipment	**114,781**	116,673	**237,528**	268,614
Amortisation- Intangible assets	**42,538**	23,682	**102,158**	100,232
Expenses on litigation	**2,254**	–	**2,379**	179
Premises, equipment and establishment expenses	**401,246**	219,355	**960,535**	823,994
Other overhead expenses	**489,510**	314,643	**735,099**	760,254
	1,105,475	726,627	**2,150,927**	2,062,896

	BANK		GROUP	
	9 months ended 31 December 2015 LKR 000	Year ended 31 March 2015 LKR 000	**9 months ended 31 December 2015 LKR 000**	Year ended 31 March 2015 LKR 000

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

21.1 Value Added Tax on Financial Services

Financial services VAT – Current period	**294,804**	499,986	**493,857**	741,924
– (Over)/under provision in respect of previous year	**(4,732)**	106	**6,236**	7,353
	290,072	500,092	**500,093**	749,277

21.2 Nation Building Tax on Financial Services

Nation building tax on financial services - Current period	**53,601**	85,152	**90,412**	134,795
- Over provision in respect of previous year	**(1,175)**	–	**(1,175)**	–
	52,426	85,152	**89,237**	134,795
	342,498	585,244	**589,330**	884,072

22 Tax Expense

22.1 Composition

Current tax	**341,911**	449,555	**624,801**	841,269
Under provision in previous years	**11,070**	22,868	**16,885**	54,183
Deferred tax - origination and reversal of temporary differences	**167,934**	58,519	**270,156**	81,906
	520,915	530,942	**911,842**	977,358

22.2 Current Tax

Current tax is the amount of income tax payable in respect of the taxable profit for the nine months ended 31 December 2015. Taxable profit is determined in accordance with the provisions of Inland Revenue Act, No. 10 of 2006 as amended.

22.2.1. Reconciliation of Effective Tax Rate with Income Tax Rate

	BANK				GROUP			
	9 months ended 31 December 2015		Year ended 31 March 2015		**9 months ended 31 December 2015**		Year ended 31 March 2015	
	%	**LKR 000**	%	LKR 000	**%**	**LKR 000**	%	LKR 000
Tax using 28% tax rate on profit before tax (PBT)	**28.00**	**444,994**	28.00	1,055,962	**28.00**	**714,972**	28.00	1,516,472
Non-deductible expenses	**17.78**	**282,581**	7.16	270,050	**18.18**	**464,095**	9.65	522,895
Allowable deductions	**(8.89)**	**(141,310)**	(3.93)	(148,355)	**(13.50)**	**(344,652)**	(7.30)	(395,287)
Dividend income	**(10.06)**	**(159,887)**	(8.11)	(305,851)	**(5.15)**	**(131,526)**	(5.65)	(305,851)
Tax incentives	**(7.76)**	**(123,382)**	(10.32)	(389,159)	**(5.13)**	**(131,092)**	(7.53)	(407,895)
Taxable timing difference from capital allowances on assets	**(6.27)**	**(99,645)**	(0.88)	(33,092)	**(1.67)**	**(42,566)**	(0.61)	(33,100)
Tax losses from prior year	**(2.66)**	**(42,320)**	–	–	**(1.67)**	**(42,591)**	(0.01)	(507)
Taxed at different rates	**–**	**–**	–	–	**–**	**–**	0.08	4,237
Adjustments	**11.38**	**180,880**	–	–	**5.41**	**138,161**	(1.10)	(59,695)
Current tax expense	**21.51***	**341,911**	11.92	449,555	**24.47**	**624,801**	15.53	841,269

** Effective tax rate is computed including the additional tax arising on financial year change.*

22.3 Deferred Tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled. Deferred tax assets and liabilities are offset, if there is a legally enforceable right to offset current tax liabilities and assets.

As proposed in the budget 2016 current income tax rate of 28% will be increased to 30%. However, the Bank has considered tax rate at 28% as at 31 December 2015 as the new rate is not substantially enacted.

22.4 Super Gain Tax

	BANK		GROUP	
	9 months ended 31 December 2015 LKR 000	Year ended 31 March 2015 LKR 000	**9 months ended 31 December 2015 LKR 000**	Year ended 31 March 2015 LKR 000
Related to the taxable profits for the year of assessment 2013/2014	**776,593**	–	**811,368**	–

As per the provisions of part III of finance Act, No. 10 of 2015 which was certified on 30 October 2015, the Bank and Group were liable for Super Gain Tax. The method of accounting is explained in Note 2.8.1.

23 Basic Earnings per Ordinary Share

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

Basic group earnings per share has been calculated by dividing the profit after income tax attributable to the equity holders of the Bank by the number of shares as at 31 December 2015.

	BANK		GROUP	
	9 months ended 31 December 2015	Year ended 31 March 2015	**9 months ended 31 December 2015**	Year ended 31 March 2015
Profit attributable to equity holders of the Bank (LKR '000)	**1,068,350**	3,240,348	**1,592,303**	4,362,256
Number of ordinary shares (Note 53)	**265,097,688**	265,097,688	**265,097,688**	265,097,688
Basic earnings per ordinary share – LKR	**4.03**	12.22	**6.01**	16.46

24 Dividend per Share

Dividend per share (LKR)	**2.50**	6.00	**2.50**	6.00

The Board of Directors of the Bank has approved the payment of a first and final dividend of LKR 2.50 per share for the nine months ended 31 December 2015.

25 Analysis of Financial Instruments by Measurement Basis

25.1 Bank

As at 31 December 2015	Fair value through profit or loss mandatory LKR 000	Fair value held-for-trading LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Held-to-maturity LKR 000	Total LKR 000
Financial Assets						
Cash and cash equivalents	–	–	–	**4,305,247**	–	**4,305,247**
Balances with Central Bank of Sri Lanka	–	–	–	**5,553,809**	–	**5,553,809**
Derivative assets held-for-risk management	**198,776**	–	–	–	–	**198,776**
Loans to and receivables from banks	–	–	–	**4,574,319**	–	**4,574,319**
Loans to and receivables from other customers	–	–	–	**160,345,530**	–	**160,345,530**
Financial investments	–	–	**48,957,015**	–	**17,903,885**	**66,860,900**
Government grant receivable	**539,758**	–	–	–	–	**539,758**
Other assets	–	–	–	**1,705,379**	–	**1,705,379**
	738,534	–	**48,957,015**	**176,484,284**	**17,903,885**	**244,083,718**
Financial Liabilities						
Due to banks	–	–	–	**24,364,403**	–	**24,364,403**
Derivative liabilities held-for-risk management	**85,333**	–	–	–	–	**85,333**
Due to other customers	–	–	–	**110,890,685**	–	**110,890,685**
Other borrowing	–	–	–	**35,955,297**	–	**35,955,297**
Debt securities issued	–	–	–	**23,292,660**	–	**23,292,660**
Subordinated term debt	–	–	–	**3,767,081**	–	**3,767,081**
Other liabilities	–	–	–	**2,977,560**	–	**2,977,560**
	85,333	–	–	**201,247,686**	–	**201,333,019**

As at 31 March 2015	Fair value through profit or loss mandatory LKR 000	Fair value held-for-trading LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Held-to-maturity LKR 000	Total LKR 000
25.2 Bank						
Financial Assets						
Cash and cash equivalents	–	–	–	110,576	–	110,576
Placements with banks	–	–	–	716,622	–	716,622
Derivative assets held-for-risk management	29,335	–	–	–	–	29,335
Other financial assets held-for-trading	–	1,469,166	–	–	–	1,469,166
Loans to and receivables from banks	–	–	–	484,067	–	484,067
Loans to and receivables from other customers	–	–	–	73,448,705	–	73,448,705
Financial investments	–	–	27,823,496	–	2,085,921	29,909,417
Government grant receivable	483,727	–	–	–	–	483,727
Other assets	–	–	–	717,125	–	717,125
	513,062	1,469,166	27,823,496	75,477,095	2,085,921	107,368,740
Financial Liabilities						
Due to banks	–	–	–	1,928,867	–	1,928,867
Derivative liabilities held-for-risk management	1,737	–	–	–	–	1,737
Due to other customers	–	–	–	22,484,652	–	22,484,652
Other borrowing	–	–	–	24,361,797	–	24,361,797
Debt securities issued	–	–	–	19,445,924	–	19,445,924
Subordinated term debt	–	–	–	609,373	–	609,373
Other liabilities	–	–	–	595,469	–	595,469
	1,737	–	–	69,426,082	–	69,427,819

As at 31 December 2015	Fair value through profit or loss mandatory LKR 000	Fair value held-for-trading LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Held-to-maturity LKR 000	Total LKR 000
25.3 Group						
Financial Assets						
Cash and cash equivalents	–	–	–	**4,314,777**	–	**4,314,777**
Balances with Central Bank of Sri Lanka	–	–	–	**5,553,809**	–	**5,553,809**
Placements with banks	–	–	–	**1,718**	–	**1,718**
Derivative assets held-for-risk management	**198,776**	–	–	–	–	**198,776**
Loans to and receivables from banks	–	–	–	**4,602,263**	–	**4,602,263**
Loans to and receivables from other customers	–	–	–	**160,343,155**	–	**160,343,155**
Financial investments	–	–	**48,957,015**	–	**17,903,885**	**66,860,900**
Government grant receivable	**539,758**	–	–	–	–	**539,758**
Other assets	–	–	–	**1,765,199**	–	**1,765,199**
	738,534	–	**48,957,015**	**176,580,921**	**17,903,885**	**244,180,355**
Financial Liabilities						
Due to banks	–	–	–	**24,365,653**	–	**24,365,653**
Derivative liabilities held-for-risk management	**85,333**	–	–	–	–	**85,333**
Due to other customers	–	–	–	**110,551,220**	–	**110,551,220**
Other borrowing	–	–	–	**35,955,297**	–	**35,955,297**
Debt securities issued	–	–	–	**23,292,660**	–	**23,292,660**
Subordinated term debt	–	–	–	**3,767,081**	–	**3,767,081**
Other liabilities	–	–	–	**3,083,161**	–	**3,083,161**
	85,333	–	–	**201,015,072**	–	**201,100,405**

As at 31 March 2015	Fair value through profit or loss mandatory LKR 000	Fair value held-for-trading LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Held-to-maturity LKR 000	Total LKR 000
25.4 Group						
Financial Assets						
Cash and cash equivalents	–	–	–	4,060,820	–	4,060,820
Balances with Central Bank of Sri Lanka	–	–	–	2,616,406	–	2,616,406
Placements with banks	–	–	–	1,324,892	–	1,324,892
Derivative assets held-for-risk management	89,861	–	–	–	–	89,861
Other financial assets held-for-trading	–	1,469,166	–	–	–	1,469,166
Loans to and receivables from banks	–	–	–	3,563,647	–	3,563,647
Loans to and receivables from other customers	–	–	–	135,322,723	–	135,322,723
Financial investments	–	–	45,826,878	–	10,872,287	56,699,165
Government grant receivable	483,727	–	–	–	–	483,727
Other assets	–	–	–	2,088,401	–	2,088,401
	573,588	1,469,166	45,826,878	148,976,889	10,872,287	207,718,808
Financial Liabilities						
Due to banks	–	–	–	5,972,567	–	5,972,567
Derivative liabilities held-for-risk management	37,153	–	–	–	–	37,153
Due to other customers	–	–	–	92,711,793	–	92,711,793
Other borrowing	–	–	–	38,846,172	–	38,846,172
Debt securities issued	–	–	–	19,445,924	–	19,445,924
Subordinated term debt	–	–	–	1,609,664	–	1,609,664
Other liabilities	–	–	–	2,239,917	–	2,239,917
	37,153	–	–	160,826,037	–	160,863,190

	BANK		GROUP	
As at	**31.12.2015 LKR 000**	31.03.2015 LKR 000	**31.12.2015 LKR 000**	31.03.2015 LKR 000

26 *Cash and Cash Equivalents*

	BANK		GROUP	
Cash in hand	**2,330,722**	378	**2,330,827**	1,752,387
Balances with banks	**1,550,457**	110,198	**1,559,882**	2,308,433
Money at call and short notice	**424,068**	–	**424,068**	–
	4,305,247	110,576	**4,314,777**	4,060,820

27 *Balances with Central Bank of Sri Lanka*

	BANK		GROUP	
Statutory balances with Central Bank of Sri Lanka	**5,553,809**	–	**5,553,809**	2,616,406

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 Sri Lankan Rupee deposit liabilities is prescribed as a percentage of Sri Lankan Rupee deposit liabilities. Applicable minimum rate was 6%. There are no reserve requirement for deposit liabilities of the Foreign Currency Banking Unit and foreign currency deposit liabilities in the Domestic Banking Unit.

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000

28 Placements with Banks

Placements with Banks	–	716,622	**1,718**	1,324,892
	–	716,622	**1,718**	1,324,892

29 Derivatives Held-for-Risk Management

29.1 Assets

Forward foreign exchange contracts - Currency Swaps	**143,233**	28,672	**143,233**	83,271
- Others	**55,543**	663	**55,543**	6,590
	198,776	29,335	**198,776**	89,861

29.2 Liabilities

Forward foreign exchange contracts - Currency Swaps	**13,377**	124	**13,377**	29,204
- Others	**71,956**	1,613	**71,956**	7,949
	85,333	1,737	**85,333**	37,153

30 Other Financial Assets Held-for-Trading

Government of Sri Lanka Treasury Bonds	–	1,469,166	–	1,469,166
	–	1,469,166	–	1,469,166

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

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000

31 Loans to and Receivables from Banks

Gross loans and receivables	**4,574,319**	484,067	**4,602,263**	3,563,647
Allowance for impairment	–	–	–	–
Net loans and receivables	**4,574,319**	484,067	**4,602,263**	3,563,647

31.1 Analysis

31.1.1 By Product

Securities purchased under resale agreements	–	–	**27,944**	281,234
Refinanced loans – Plantation development project	**142,593**	314,517	**142,593**	314,517
KFW* DFCC (V) SME in the North and the East	**59,535**	169,550	**59,535**	169,550
Sri Lanka Development Bonds	**4,372,191**	–	**4,372,191**	2,798,346
Gross loans and receivables	**4,574,319**	484,067	**4,602,263**	3,563,647

** KFW – Kreditanstalt Fur Wiederaufbau*

31.1.2 By Currency

Sri Lankan Rupee	**202,128**	484,067	**230,072**	765,301
United States Dollar	**4,372,191**	–	**4,372,191**	2,798,346
Gross loans and receivables	**4,574,319**	484,067	**4,602,263**	3,563,647

32 Loans to and Receivables from Other Customers

Gross loans and receivables	**166,511,168**	76,350,160	**166,508,793**	141,332,579
Specific allowance for impairment (Note 32.2.1)	**(4,240,756)**	(1,932,635)	**(4,240,756)**	(4,001,868)
Collective allowance for impairment (Note 32.2.2)	**(1,924,882)**	(968,820)	**(1,924,882)**	(2,007,988)
Net loans and receivables	**160,345,530**	73,448,705	**160,343,155**	135,322,723

32.1 Analysis

32.1.1 By Product

Overdrafts	**24,272,954**	–	**24,272,954**	20,426,827
Trade finance	**18,742,710**	–	**18,742,710**	15,317,135
Lease rentals receivable (Note 32.1.1.1)	**15,436,155**	8,250,091	**15,433,780**	10,962,838
Credit cards	**204,406**	–	**204,406**	172,537
Pawning	**1,532,181**	–	**1,532,181**	1,720,937
Staff loans	**1,241,687**	583,621	**1,241,687**	1,028,735
Term loans	**102,135,760**	63,282,363	**102,135,760**	86,715,802
Commercial papers and asset back notes	**1,934,126**	2,385,756	**1,934,126**	2,385,756
Debenture loans	**71,189**	577,347	**71,189**	577,347
Preference shares unquoted	**940,000**	1,270,982	**940,000**	1,270,982
Securities purchased under resale agreements	–	–	–	753,683
Gross loans and receivables	**166,511,168**	76,350,160	**166,508,793**	141,332,579

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000

32.1.1.1 Lease Rentals Receivable

Gross investment in leases:				
Lease rentals receivable				
- within one year	**6,756,288**	4,062,394	**6,756,288**	5,239,805
- one to five years	**11,546,339**	5,733,058	**11,543,964**	7,879,730
	18,302,627	9,795,452	**18,300,252**	13,119,535
Less: Deposit of rentals	**15,932**	7,297	**15,932**	15,272
Unearned income on rentals receivable				
- within one year	**1,371,442**	796,299	**1,371,442**	1,079,721
- one to five years	**1,479,098**	741,765	**1,479,098**	1,061,704
	15,436,155	8,250,091	**15,433,780**	10,962,838

32.1.2 By Currency

Sri Lankan Rupee	**152,436,592**	70,819,394	**152,434,217**	128,625,376
United States Dollar	**13,399,942**	5,530,766	**13,399,942**	12,257,859
Great Britain Pound	**495,468**	–	**495,468**	324,472
Australian Dollar	**20,568**	–	**20,568**	14,688
Euro	**158,598**	–	**158,598**	110,184
Gross loans and receivables	**166,511,168**	76,350,160	**166,508,793**	141,332,579

32.1.3 By Industry

Agriculture and fishing	**17,644,788**	3,738,938	**17,644,788**	12,504,037
Manufacturing	**39,710,497**	21,971,033	**39,710,497**	36,744,877
Tourism	**8,905,273**	6,911,685	**8,905,273**	8,560,968
Transport	**5,723,242**	3,315,608	**5,723,242**	4,939,098
Construction	**15,699,860**	9,145,886	**15,699,860**	13,193,926
Trading	**35,994,005**	11,774,943	**35,994,005**	30,172,954
Financial and business services	**7,440,214**	6,347,630	**7,437,839**	7,349,374
Infrastructure	**10,855,351**	6,973,946	**10,855,351**	8,464,095
Other services	**15,751,910**	5,788,567	**15,751,910**	9,644,160
Consumer durables	**4,211,387**	–	**4,211,387**	7,705,195
New economy	**1,257,448**	72,782	**1,257,448**	991,070
Others	**3,317,193**	309,142	**3,317,193**	1,062,825
Gross loans and receivables	**166,511,168**	76,350,160	**166,508,793**	141,332,579

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000

32.2 Movement in Specific and Collective Allowance for Impairment

32.2.1 Specific Allowance for Impairment

Balance as at 1 April	**1,932,635**	1,486,838	**4,001,868**	3,794,550
Balance transferred on amalgamation	**2,278,723**	–	–	–
Charge to income statement	**325,635**	556,493	**757,051**	1,143,903
Effect of foreign currency movement	**7,471**	–	**22,591**	1,884
Write-off loans and receivables	**(303,708)**	(110,696)	**(540,754)**	**(938,469)**
Balance on 31 December/March	**4,240,756**	1,932,635	**4,240,756**	4,001,868

32.2.2 Collective Allowance for Impairment

Balance as at 1 April	**968,820**	1,905,442	**2,007,988**	3,097,218
Balance transferred on amalgamation	**1,114,051**	–	–	–
(Write-back)/charge to income statement	**(104,907)**	(887,547)	**23,483**	(957,842)
Effect of foreign currency movement	**791**	–	**1,155**	(53)
Transfer to dues on terminated leases	**(16,037)**	(17,016)	**(16,037)**	(17,016)
Write-off of loans and receivables	**(37,836)**	(32,059)	**(91,707)**	(114,319)
Balance on 31 December/March	**1,924,882**	968,820	**1,924,882**	2,007,988
Total	**6,165,638**	2,901,455	**6,165,638**	6,009,856

33 Financial Investments – Available-for-Sale

Government of Sri Lanka Treasury Bills	**20,856,663**	4,051,126	**20,856,663**	20,030,203
Government of Sri Lanka Treasury Bonds	**8,833,930**	1,497,382	**8,833,930**	3,516,272
Equity securities				
Quoted ordinary shares (Note 33.1)	**18,123,603**	21,136,695	**18,123,603**	21,136,695
Unquoted ordinary shares (Note 33.2)	**147,374**	141,959	**147,374**	147,374
Preference shares (Note 33.3)	**500**	500	**500**	500
Quoted units in Unit Trusts (Note 33.4)	**197,759**	190,153	**197,759**	190,153
Unquoted units in Unit Trusts (Note 33.5)	**797,186**	805,681	**797,186**	805,681
	48,957,015	27,823,496	**48,957,015**	45,826,878

All the financial investments are carried at fair value except for unquoted equity securities and irredeemable preference shares whose fair value cannot be reliably measured, is carried at cost

As at	31.12.2015			31.03.2015		
	Number of ordinary shares	Cost* LKR 000	Fair value LKR 000	Number of ordinary Shares	Cost* LKR 000	Fair value LKR 000
33.1 Quoted Ordinary Shares						
Banks, Finance and Insurance						
Commercial Bank of Ceylon PLC – voting	121,005,515	3,290,259	17,001,276	119,806,122	3,074,609	19,887,816
Commercial Bank of Ceylon PLC – non-voting	227,045	17,838	27,949	224,143	17,434	29,408
National Development Bank PLC	2,000,000	352,369	392,000	2,000,000	352,369	497,000
		3,660,466	17,421,225		3,444,412	20,414,224
Beverages, Food and Tobacco						
Ceylon Tobacco Company PLC	59,532	3,360	59,234	59,532	3,360	59,472
Distilleries Company of Sri Lanka PLC	417,485	69,829	102,701	417,485	69,829	100,405
		73,189	161,935		73,189	159,877
Chemicals and Pharmaceuticals						
Chemical Industries (Colombo) PLC – voting	247,900	14,131	24,864	247,900	14,131	18,840
Chemical Industries (Colombo) PLC – non-voting	389,400	15,577	31,619	389,400	15,577	22,391
		29,708	56,483		29,708	41,231
Construction and Engineering						
Access Engineering PLC	400,000	8,010	9,280	400,000	8,010	7,680
Colombo Dockyard PLC	160,000	22,645	24,480	160,000	22,645	26,480
		30,655	33,760		30,655	34,160
Diversified Holdings						
Carson Cumberbatch PLC	46,967	13,635	16,204	46,967	13,635	17,847
Hayleys PLC	7,333	2,225	2,262	7,333	2,225	2,200
Hemas Holdings PLC	496,560	16,297	46,131	496,560	16,297	36,994
John Keells Holdings PLC	144,294	10,080	25,756	126,258	10,080	25,138
John Keells Holdings PLC – Warrants	8,016	–	258	14,028	–	374
Richard Pieris & Co PLC	1,000,000	8,234	8,500	1,000,000	8,234	7,300
		50,471	99,111		50,471	89,853

Sector classification and fair value per share are based on the list published by Colombo Stock Exchange, as at the reporting date.

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

As at	31.12.2015			31.03.2015		
	Number of ordinary shares	Cost* LKR 000	Fair value LKR 000	Number of ordinary Shares	Cost* LKR 000	Fair value LKR 000
Healthcare						
Ceylon Hospitals PLC – voting	**100,000**	**2,306**	**10,100**	100,000	2,306	11,500
Ceylon Hospitals PLC – non-voting	**240,000**	**4,167**	**18,072**	240,000	4,167	18,024
		6,473	**28,172**		6,473	29,524
Hotels and Travels						
Dolphin Hotels PLC	**100,000**	**964**	**5,420**	**400,000**	**3,857**	22,760
		964	**5,420**		**3,857**	22,760
Investment Trusts						
Ceylon Guardian Investment Trust PLC	**152,308**	**5,918**	**26,639**	150,688	5,616	27,727
Ceylon Investment PLC	**288,309**	**9,429**	**22,921**	485,592	15,587	44,189
		15,347	**49,560**		21,203	71,916
Telecommunications						
Dialog Axiata PLC	**2,050,000**	**18,860**	**21,935**	2,050,000	18,860	21,730
Manufacturing						
Ceylon Grain Elevators PLC	**48,997**	**1,297**	**4,483**	48,997	1,297	1,862
Chevron Lubricants Lanka PLC	**330,814**	**11,020**	**114,131**	330,814	11,020	130,010
Piramal Glass Ceylon PLC	**7,500,000**	**21,036**	**45,750**	7,500,000	21,036	42,750
Royal Ceramics Lanka PLC	**139,800**	**16,996**	**15,518**	139,800	16,996	15,797
Tokyo Cement Company (Lanka) PLC – non-voting	**1,127,096**	**21,040**	**44,520**	1,127,096	21,040	42,041
		71,389	**224,402**		71,389	232,460
Power and Energy						
Vallibel Power Erathna PLC	**2,400,000**	**6,400**	**21,600**	2,400,000	6,400	18,960
		6,400	**21,600**		6,400	18,960
Total Quoted Ordinary Shares – Bank/Group		3,963,922	18,123,603		3,756,617	21,136,695

Sector classification and market value per share are based on official valuations list published by Colombo Stock Exchange, as at the reporting date.
**Cost is reduced by write-off of diminution in value other than temporary in respect of Investments.*

As at	31.12.2015		31.03.2015	
	Number of ordinary shares	Cost* LKR 000	Number of ordinary Shares	Cost* LKR 000
33.2 Unquoted Ordinary Shares				
Credit Information Bureau of Sri Lanka	**9,184**	**918**	8,884	888
Durdans Medical and Surgical Hospital (Private) Limited	**1,273,469**	**16,029**	1,273,469	16,029
Fitch Ratings Lanka Limited	**62,500**	**625**	62,500	625
Lanka Clear (Private) Limited	**100,000**	**1,000**	–	–
Lanka Financial Services Bureau Limited	**100,000**	**1,000**	–	–
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 Rubber Limited	**116,700**	**2,334**	116,700	2,334
Sinwa Holdings Limited	**460,000**	**9,200**	460,000	9,200
Society for Worldwide Interbank Financial Telecommunication	**6**	**3,385**	–	–
Sun Tan Beach Resorts Limited	**9,059,013**	**90,433**	9,059,013	90,433
The Video Team (Private) Limited	**30,000**	**300**	30,000	300
Wayamba Plantations (Private) Limited	**2,750,000**	**9,750**	2,750,000	9,750
Total unquoted ordinary shares – Bank		**147,374**		141,959
Investments in unquoted ordinary shares by subsidiaries (Note 33.2.1)		**–**		5,415
Total unquoted ordinary shares – Group		**147,374**		147,374

As at	31.12.2015		31.03.2015	
	Number of ordinary shares	Cost* LKR 000	Number of ordinary Shares	Cost* LKR 000
33.2.1 Investments in Unquoted Ordinary Shares by Subsidiaries				
Credit Information Bureau of Sri Lanka	**–**	**–**	300	30
Lanka Clear (Private) Limited	**–**	**–**	100,000	1,000
Lanka Financial Services Bureau Limited	**–**	**–**	100,000	1,000
Society for Worldwide Interbank Financial Telecommunication	**–**	**–**	6	3,385
				5,415

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

As at	31.12.2015			31.03.2015		
	Number of ordinary shares	Cost LKR 000	Fair value LKR 000	Number of ordinary shares	Cost LKR 000	Fair value LKR 000
33.3 Unquoted Irredeemable Preference Shares						
Arpico Finance Company PLC	**50,000**	**500**	**500**	50,000	500	500
Total investments in unquoted irredeemable preference shares – Bank/Group		**500**	**500**		500	500
33.4 Quoted Units in Unit Trusts						
NAMAL Acuity Value Fund	**2,112,810**	**106,070**	**197,759**	2,112,810	106,070	190,153
Total investments in quoted units – Bank/Group		**106,070**	**197,759**		106,070	190,153

As at	31.12.2015			31.03.2015		
	Number of units	Cost LKR 000	Fair value LKR 000	Number of units	Cost LKR 000	Fair value LKR 000
33.5 Unquoted Units in Unit Trusts						
NAMAL Growth Fund	**2,125,766**	**251,539**	**272,481**	155,000	251,539	266,465
NAMAL Income Fund	**11,162,129**	**113,961**	**139,080**	14,012,129	143,059	169,687
NAMAL Money Market Fund	**11,085,879**	**112,239**	**116,512**	10,030,193	107,391	111,723
National Equity Fund	**250,000**	**2,657**	**8,495**	500,000	5,313	16,315
Guardian Acuity Equity Fund	**9,052,504**	**150,000**	**155,341**	9,052,504	150,000	147,917
JB Vantage Value Equity Fund	**5,224,660**	**100,000**	**105,277**	5,224,660	100,000	93,574
Total investments in unquoted Unit Trusts – Bank/Group		**730,396**	**797,186**		757,302	805,681

	Ordinary Shares		Preference	Unit Trusts		Total	
	Quoted LKR 000	Unquoted LKR 000	Unquoted LKR 000	Quoted LKR 000	Unquoted LKR 000	**31.12.2015 LKR 000**	31.03.2015 LKR 000
33.6 Equity Securities							
33.6.1 Composition*							
33.6.1.1 Bank							
Performing investments	18,123,603	44,491	500	197,759	524,705	**18,891,058**	21,664,149
Non-performing investments	–	102,883	–	–	272,481	**375,364**	610,839
	18,123,603	147,374	500	197,759	797,186	**19,266,422**	22,274,988
33.6.1.2 Group							
Performing investments	18,123,603	44,491	500	197,759	524,705	**18,891,058**	21,666,179
Non-performing investments	–	102,883	–	–	272,481	**375,364**	614,224
	18,123,603	147,374	500	197,759	797,186	**19,266,422**	22,280,403

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

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000

34 Financial Investments – Held-to-Maturity

Quoted debentures (Note 34.1)	5,356,587	2,085,921	5,356,587	3,124,755
Sri Lanka Government Securities				
Treasury Bills	–	–	–	6,977,913
Treasury Bonds	12,547,298	–	12,547,298	769,619
	17,903,885	2,085,921	17,903,885	10,872,287

As at	31.12.2015 Number of debentures	31.12.2015 Cost of investment LKR 000	31.03.2015 Number of debentures	31.03.2015 Cost of investment LKR 000

34.1 Quoted Debentures

Abans PLC – Type B	2,500,000	268,053	2,500,000	258,631
Access Engineering PLC	2,500,000	252,958	–	–
Alliance Finance Company PLC – Type B	1,500,000	162,099	–	–
Alliance Finance Company PLC – Type C	4,221,693	461,737	4,221,693	431,682
Central Finance Company PLC – Type A	134,400	14,325	134,400	13,864
Central Finance Company PLC – Type B	281,800	30,062	–	–
Central Finance Company PLC – Type C	1,793,900	191,663	1,793,900	185,263
Commercial Credit & Finance PLC	4,500,000	461,549	–	–
HDFC Bank	532,200	55,232	–	–
Hemas Holdings PLC - Type A	827,900	85,080	827,900	87,330
Lanka ORIX Leasing Company PLC	3,000,000	306,805	–	–
Lion Brewery (Ceylon) PLC – Type C	1,412,500	144,049	1,412,500	144,712
Lion Brewery (Ceylon) PLC – Type F	21,300	22,025	–	–
Lion Brewery (Ceylon) PLC – Type G	21,300	22,038	–	–
Lion Brewery (Ceylon) PLC – Type H	28,400	29,402	–	–
People's Leasing & Finance PLC – Type B	748,500	81,203	748,500	77,878
People's Leasing & Finance PLC – Type B	577,800	76,698	328,800	33,633
People's Leasing & Finance PLC – Type C	2,000,000	234,000	–	–
People's Leasing & Finance PLC – Type C	10,000,000	999,469	–	–
Richard Pieris and Company PLC – Type A	1,201,000	123,347	1,201,000	126,536
Singer (Sri Lanka) PLC – Type C	2,533,900	274,386	1,267,000	129,200
Singer (Sri Lanka) PLC – Type C	3,941,900	411,090	–	–
Siyapatha Finance Limited	2,000,000	217,809	2,000,000	204,242
Softlogic Finance PLC – Type A	706,500	72,479	418,200	42,851
Vallibel Finance PLC	3,500,000	359,029	3,500,000	350,099
Total investments in quoted debentures – Bank		5,356,587		2,085,921

As at	31.12.2015		31.03.2015	
	Number of debentures	**Cost of investment LKR 000**	Number of debentures	Cost of investment LKR 000
Investments in quoted debentures by subsidiaries:				
People's Leasing and Finance PLC	–	–	2,249,000	259,528
Lion Brewery (Ceylon) PLC	–	–	71,000	73,347
Alliance Finance Company PLC	–	–	1,500,000	161,654
HDFC Bank	–	–	532,200	55,128
Central Finance Company PLC	–	–	281,800	30,004
Lanka ORIX Leasing Company PLC	–	–	3,000,000	302,704
Singer (Sri Lanka) PLC	–	–	1,266,900	126,938
Softlogic Finance PLC	–	–	288,300	29,531
		–		1,038,834
Total investments in quoted debentures – Group		5,356,587		3,124,755

35 *Investments in Subsidiaries*

	DFCC Consulting (Pvt) Limited Ownership 100% LKR 000	DFCC Vardhana Bank PLC Ownership* 99.17% LKR 000	Lanka Industrial Estates Limited Ownership 51.16% LKR 000	Synapsys Limited Ownership 100% LKR 000	**BANK** **31.12.2015 LKR 000**	BANK 31.03.2015 LKR 000
Balance at beginning	5,000	5,823,028	97,036	70,000	**5,995,064**	5,995,064
Adjustment on amalgamation	–	(5,823,028)	–	–	**(5,823,028)**	–
Balance before impairment	5,000	–	97,036	70,000	**172,036**	5,995,064
Less: Allowance for impairment (Note 35.1)				39,181	**39,181**	37,500
Balance net of impairment	5,000	–	97,036	30,819	**132,855**	5,957,564

35.1 Movement in Impairment Allowance

	31.12.2015	31.03.2015
Balance at beginning	**37,500**	26,500
Charge to income statement	**1,681**	11,000
Balance on 31 December/March	**39,181**	37,500

**Amalgamated on 1 October 2015.*

35.2 Non-Controlling Interest (NCI) in Subsidiaries

	Percentage of Ownership Interest held by NCI	Percentage of Voting Rights held by NCI	Share of Total Comprehensive Income of NCI for the Period ended		NCI as at		Dividends Paid to NCI for the period ended	
	31.12.2015 %	31.03.2015 %	**31.12.2015 LKR 000**	31.03.2015 LKR 000	**31.12.2015 LKR 000**	31.03.2015 LKR 000	**31.12.2015 LKR 000**	31.03.2015 LKR 000
DFCC Vardhana Bank PLC	–	0.83	**5,642**	8,777	–	73,217	**2,119**	1,176
Lanka Industrial Estates Limited	**48.84**	48.84	**43,024**	67,153	**252,426**	280,665	**54,599**	54,600
			48,666	75,930	**252,426**	353,882	**56,718**	55,776

35.3 Summarised Financial Information of Subsidiaries

Lanka Industrial Estates Limited

As at	**31.12.2015 LKR 000**	31.03.2015 LKR 000
Assets	**629,868**	674,782
Liabilities	**113,071**	100,169
Equity	**516,797**	574,613
For the period ended		
Revenue	**191,567**	210,734
Profit after tax	**88,085**	137,314
Other comprehensive income	**–**	170
Total comprehensive income	**88,085**	137,484

	BANK		GROUP	
As at	**31.12.2015 LKR 000**	31.03.2015 LKR 000	**31.12.2015 LKR 000**	31.03.2015 LKR 000

36 Investments in Associate (Unquoted)

National Asset Management Limited (Ownership 30%)				
Balance at beginning	**35,270**	35,270	**63,960**	54,164
Share of profit after tax	**–**	–	**12,032**	14,967
Share of other comprehensive (expenses)/income	**–**	–	**(12)**	829
Dividend received – Elimination on consolidation	**–**	–	**(9,000)**	(6,000)
Balance on 31 December/March	**35,270**	35,270	**66,980**	63,960

As at	**31.12.2015 LKR 000**	31.03.2015 LKR 000

36.1 Summarised Financial Information of Associate

National Asset Management Limited		
Assets	**241,052**	247,641
Liabilities	**17,837**	34,494
Equity	**223,215**	213,147
For the year ended		
Revenue	**133,565**	141,886
Profit after tax	**40,107**	49,890
Other comprehensive (expenses)/income	**(39)**	2,763
Total comprehensive income	**40,068**	52,653

As at	31.12.2015 Cost of Investment LKR 000	31.03.2015 Cost of Investment LKR 000

37 Investments in Joint Venture (unquoted)

37.1 Investments in joint venture – Bank

Acuity Partners (Pvt) Limited (Ownership 50%)	**655,000**	655,000
	655,000	655,000

As at	31.12.2015 LKR 000	31.03.2015 LKR 000

37.2 Investment in Joint Venture – Group

Share of identifiable asset and liabilities of joint venture as at the beginning of the period	**1,308,713**	1,159,599
Share of unrealised profit on disposal of investments	**(184,688)**	(184,688)
Balance at beginning	**1,124,025**	974,911
Share of profit net of tax	**66,661**	138,303
Share of other comprehensive income	**17,041**	8,378
Change in holding – through subsidiary of joint venture	**9,830**	28,632
Preference share dividend paid by the subsidiary of joint venture	**(6,576)**	–
Dividend received during the period	**(30,162)**	(26,199)
Group's share of net assets	**1,180,819**	1,124,025

37.3 Summarised Financial Information of Joint Venture – Acuity Partners (Pvt) Limited

For the year ended	31.12.2015 LKR 000	31.03.2015 LKR 000
Revenue	**576,723**	916,313
Depreciation	**34,163**	30,958
Income tax expense	**68,748**	70,658
Profit after tax	**305,979**	448,246
Other comprehensive income	**64,450**	19,345
Total comprehensive income	**370,430**	467,591

As at	31.12.2015 LKR 000	31.03.2015 LKR 000
Current assets	**5,487,054**	7,000,804
Non-current assets	**3,629,739**	3,299,730
Current liabilities	**4,348,748**	5,915,668
Non-current liabilities	**945,056**	575,605

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000

38 Due from Subsidiaries

DFCC Consulting (Pvt) Limited	**452**	–
DFCC Vardhana Bank PLC	–	122,712
Synapsys Limited	**16,942**	12,379
	17,394	135,091

As at	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000

39 Investment Property

Cost		
Balance at beginning	**294,541**	280,467
Acquisitions	**19,368**	14,074
Cost as at 31 December/March	**313,909**	294,541
Less: Accumulated Depreciation		
Balance at beginning	**108,471**	97,186
Charge for the year	**9,706**	11,285
Accumulated depreciation as at 31 December/March	**118,177**	108,471
Net book value as at 31 December/March	**195,732**	**186,070**

39.1 Details of Investment Property

As at 31 December 2015	Buildings Sq. Ft.	Extent of land Perches*	Cost LKR 000	Accumulated depreciation/ impairment LKR 000	Net Book value LKR 000	Fair value LKR 000
Pattiwila Road, Sapugaskanda, Makola	293,680	20,000	313,909	118,177	195,732	1,096,558
			313,909	118,177	195,732	1,096,558

1 Pearch = 25.2929m^2; 1 sq. ft. = 0.0929m^2

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

Rental income from investment property of Group for the 9 months ended 31 December 2015 – LKR 137 million (year ended 31 March 2015 – LKR 173 million).

Operating expenses on investment property of Group for the 9 months ended 31 December 2015– LKR 15 million (year ended 31 March 2015 – LKR 18 million).

40 Property, Plant and Equipment

40.1 Composition: Bank

	Land & buildings LKR 000	Office equipment LKR 000	Furniture & fittings LKR 000	Motor vehicles LKR 000	**Total 31.12.2015 LKR 000**	Total 31.03.2015 LKR 000
Cost as at 1 April	299,610	627,469	243,744	239,113	**1,409,936**	1,395,125
Balance transferred on amalgamation	165,000	769,636	503,996	40,843	**1,479,475**	–
Acquisitions	3,211	44,065	35,253	–	**82,529**	14,940
Less: Disposals	–	19,180	–	4,863	**24,043**	129
Cost as at 31 December/March	467,821	1,421,990	782,993	275,093	**2,947,897**	1,409,936
Accumulated depreciation as at 1 April	181,150	532,514	158,767	186,298	**1,058,729**	942,110
Balance transferred on amalgamation	3,107	546,519	270,193	35,438	**855,257**	–
Depreciation for the period	11,054	51,607	27,111	25,009	**114,781**	116,673
Less: Accumulated depreciation on disposals	–	19,024	–	4,863	**23,887**	54
Accumulated depreciation as at 31 December/March	195,311	1,111,616	456,071	241,882	**2,004,880**	1,058,729
Net book value as at 31 December/ March	272,510	310,374	326,922	33,211	**943,017**	351,207

40.1.1 List of Freehold Land and Buildings

As at 31 December 2015	Buildings Sq. Ft.	Extent of land Perches*	Cost LKR 000	Accumulated depreciation/ impairment LKR 000	Net Book value LKR 000
73/5, Galle Road, Colombo 3	57,200	104.45	85,478	65,217	20,261
5, Deva Veediya, Kandy	4,600	12.54	16,195	7,059	9,136
73, W A D Ramanayake Mawatha, Colombo 2	21,400	45.00	191,268	118,374	72,894
4 A, 4th Cross Lane, Borupana, Ratmalana	–	20.00	2,600	–	2,600
454, Main Street, Negombo	19,087	29.00	165,001	4,661	160,340
259/30, Kandy Road, Bambarakelle, Nuwara-Eliya	–	28.72	7,279	–	7,279
			467,821	195,311	272,510

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

40.1.2 Market Value of Properties

	LKR million	Date of valuation
73/5, Galle Road, Colombo 3	946	31.03.2014
5, Deva Veediya, Kandy	72	31.03.2014
73, W A D Ramanayake Mawatha, Colombo 2	440	31.03.2014
4 A, 4th Cross Lane, Borupana, Ratmalana	10	31.03.2014
454, Main Street, Negombo	250	05.05.2015
259/30, Kandy Road, Bambarakelle, Nuwara-Eliya	80	26.05.2015

(Valued by A A M Fathihu – Former Government Chief Valuer and J S M I B Karunatilaka Associate Member of the Institute of Valuers of Sri Lanka.)

40.1.3 Fully Depreciated Property, Plant and Equipment – Bank

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

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000
Land & buildings	**58,571**	58,571
Office equipment	**813,158**	425,422
Furniture & fittings	**102,096**	21,064
Motor vehicles	**187,386**	47,606
	1,161,211	552,663

	Land & buildings LKR 000	Office equipment LKR 000	Furniture & fittings LKR 000	Motor vehicles LKR 000	Capital work-in-progress LKR 000	Total 31.12.2015 LKR 000	Total 31.03.2015 LKR 000
40.2 Composition: Group							
Cost as at 1 April	568,065	1,371,719	719,213	316,783	80,341	**3,056,121**	2,827,190
Acquisitions	45,813	95,459	78,196	9,255	–	**228,723**	232,093
Transfers	65,095	13,169	2,077	–	(80,341)	–	–
Less: Disposals	–	20,625	3,523	5,958	–	**30,106**	3,162
Cost as at 31 December/March	678,973	1,459,722	795,963	320,080	–	**3,254,738**	3,056,121
Accumulated depreciation as at 1 April	303,343	1,042,210	411,887	246,749	–	**2,004,189**	1,738,002
Depreciation for the period	22,399	118,217	63,184	33,728	–	**237,528**	268,614
Less: Accumulated depreciation on disposal	–	20,466	2,856	5,958	–	**29,280**	2,427
Accumulated depreciation as at 31 December/March	325,742	1,139,961	472,215	274,519	–	**2,212,437**	2,004,189
Net book value as at 31 December/March	353,231	319,761	323,748	45,561	–	**1,042,301**	1,051,932

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000
41 Intangible Assets				
Cost as at 1 April	**426,807**	383,225	**1,246,674**	1,105,782
Balance transferred on amalgamation	**851,004**	–	–	–
Acquisitions	**36,005**	45,834	**69,907**	143,144
Less: Write-off*	–	2,252	–	2,252
Cost as at 31 December/March	**1,313,816**	426,807	**1,316,581**	1,246,674
Accumulated amortisation as at 1 April	**344,427**	322,847	**966,478**	868,348
Balance transferred on amalgamation	**679,736**	–	–	–
Amortisation for the period	**42,538**	23,682	**102,158**	100,232
Less: Write-off*	–	2,102	–	2,102
Accumulated amortisation as at 31 December/March	**1,066,701**	344,427	**1,068,636**	966,478
Net book value as at 31 December/March	**247,115**	82,380	**247,945**	280,196

** Software not in use.*

As at		GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000

42 Goodwill on Consolidation

	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000
DFCC Vardhana Bank PLC	**146,603**	146,603
Lanka Industrial Estates Limited	**9,623**	9,623
	156,226	156,226

In accordance with the provisions of part VIII of the Companies Act, DFCC Vardhana Bank PLC (DVB) has been amalgamated with DFCC Bank PLC with effect from 1 October 2015. The amalgamation between two entities is considered as a common control transaction, as DFCC Bank continues to control the operations of DVB after amalgamation. Thus the results of amalgamation of two entities are economically the same before and after the amalgamation as the entity will have identical net assets. Therefore DFCC will continue to record carrying values including the remaining goodwill that resulted from the original acquisition of DVB in the consolidated financial status.

43 Government Grant Receivable/Deferred Income – CBSL Swap

	BANK		GROUP	
As at	**31.12.2015 LKR 000**	31.03.2015 LKR 000	**31.12.2015 LKR 000**	31.03.2015 LKR 000
43.1 Government Grant – Receivable				
Fair value at the beginning of the period	**483,727**	276,878	**483,727**	276,878
Change in fair value on the renewal of contract	**41,993**	(368,086)	**41,993**	(368,086)
Change in fair value during the period (Note 15)	**14,038**	574,935	**14,038**	574,935
Fair value as at 31 December/March	**539,758**	483,727	**539,758**	483,727
43.2 Government Grant – Deferred Income				
Fair value at the beginning of the period	**303,727**	295,628	**303,727**	295,628
Change in fair value on the renewal of contract	**41,993**	(368,086)	**41,993**	(368,086)
Change in fair value during the period	**14,038**	574,935	**14,038**	574,935
Foreign exchange gain/(loss) on revaluation	**116,250**	(198,750)	**116,250**	(198,750)
Amortisation of deferred income on Government grant – CBSL Swap (Note 17)	**130,288**	376,185	**130,288**	376,185
Fair value as at 31 December/March	**476,008**	303,727	**476,008**	303,727

DFCC Bank PLC in October 2013 raised USD 100 million by Issue of Notes abroad repayable in October 2018. The proceeds of this Note Issue are to be deployed predominantly in LKR denominated monetary assets. In order to hedge the resulting net open foreign currency liability position, DFCC Bank PLC has entered into a annually renewable currency SWAP arrangement with Central Bank of Sri Lanka (CBSL) for 75% of the US Dollar (USD) denominated liability. Accordingly, this contract was renewed in November 2015.

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-à-vis USD or appreciation of LKR vis-à-vis USD respectively.

Although, USD denominated Notes are repayable at the end of 5 years, the currency SWAP arrangement contract is renewed annually up to the date of repayment of the Notes so as to exchange cash flow arising from movement in USD/LKR spot exchange rate that occurs at the time of renewal of the annual contract.

The currency SWAP arrangement with CBSL provides for SWAP of LKR to USD at the end of the contract at the same spot rate as the initial SWAP of USD to LKR at the commencement of the annual contract (i.e., CBSL SWAP arrangement amounts to a full discount to USD LKR spot rate at the end of the contract).

The hedging instrument for currency SWAP is deemed to be a derivative asset recognised at the fair value at the inception of the contract. The fair value of this derivative asset is measured by reference to forward exchange quotes for USD purchase contracts by commercial banks, who are the normal market participants. Thus, the fair value gain at the inception of the contract is the full amount of the forward premium quote at the end of one year.

The subsequent change in fair value is recognised in the income statement.

CBSL normally does not enter into forward exchange contracts with market participants, providing 100% discount to the USD LKR spot rate at the time of the maturity of the contract. Thus, this arrangement has features of both derivative instrument and Government grant through the agency of CBSL.

The initial gain by reference to forward price of an equivalent forward exchange Dollar purchase contract is recognised as a Government grant and deferred income.

The deferred income is amortised on a systematic basis over the period in which the Bank recognises the fall in value of derivative which the grant is intended to compensate.

	BANK		GROUP	
As at	**31.12.2015 LKR 000**	31.03.2015 LKR 000	**31.12.2015 LKR 000**	31.03.2015 LKR 000

44 *Deferred Tax Asset/Liability*

Deferred tax liability (Note 44.1)	**880,490**	486,855	**880,490**	642,021
Deferred tax asset (Note 44.2)	**–**	–	**1,536**	1,562
Net total	**880,490**	486,855	**878,954**	640,459

44.1 Deferred Tax Liability

Balance at beginning	**506,553**	445,367	**742,729**	589,884
Balance transferred on amalgamation	**394,498**	–	**–**	–
Recognised in income statement	**120,693**	61,024	**309,571**	134,953
Recognised in other comprehensive income	**360**	163	**(30,108)**	17,892
	1,021,744	506,554	**1,022,192**	742,729
Transferred from deferred tax asset	**(141,614)**	(19,699)	**(141,702)**	(100,708)
	880,490	486,855	**880,490**	642,021

44.2 Deferred Tax Asset

Balance at beginning	**19,699**	12,297	**102,270**	38,947
Balance transferred on amalgamation	**168,044**	–	**–**	–
Recognised in income statement	**(47,241)**	2,504	**39,415**	53,047
Recognised in other comprehensive income	**1,112**	4,898	**1,553**	**10,276**
	–	–	**–**	–
	141,614	19,699	**143,238**	102,270
Offset against deferred tax liability	**(141,614)**	(19,699)	**(141,702)**	(100,708)
	–	–	**1,536**	1,562

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000

44.3 Recognised Deferred Tax Assets and Liabilities

	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000
Assets				
Property, equipment and software	–	–	–	35
Gratuity liability and actuarial losses on defined benefit plans	**50,445**	19,698	**52,429**	44,182
Fair value of available-for-sale financial assets	**12,515**	–	**12,515**	–
Unutilised tax losses – Finance leases	**78,294**	–	**78,294**	–
Excess of 1% ceiling on bad and doubtful debts	–	–	–	24,842
Tax losses on finance leases	–	–	–	33,211
	141,254	19,698	**143,238**	102,270
Liabilities				
Property, equipment and software	**136,954**	41,175	**137,402**	128,431
Finance leases	**884,790**	465,215	**884,790**	596,406
Fair value of available-for-sale financial assets	–	163	–	17,892
	1,021,744	506,553	**1,022,192**	742,729

44.4 Unrecognised Deferred Tax Assets

	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000
Accumulated tax losses		
DFCC Consulting (Pvt) Limited – Subsidiary	**6,022**	16,187
Synapsys Limited – Subsidiary*	**3,968**	21,670
	9,990	37,857

**Tax effect at 10%*

45 *Other Assets*

	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000
Refundable deposits and advances	**169,712**	57,024	**171,501**	211,775
Dividends due	**24,068**	435,050	**24,068**	435,050
Debtors	**565,639**	225,051	**623,670**	513,117
Clearing account balances	**945,960**	–	**945,960**	928,459
	1,705,379	717,125	**1,765,199**	2,088,401

46 *Due to Banks*

	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000
Balances with foreign banks	**75,369**	–	**75,369**	1,003,855
Borrowing – local banks	**13,269,916**	–	**13,271,166**	1,886,673
Borrowing – other local sources	–	1,600,288	–	1,600,288
Securities sold under repurchase (Repo) agreements	**11,019,118**	–	**11,019,118**	1,151,206
Bank overdrafts	–	328,579	–	330,545
	24,364,403	1,928,867	**24,365,653**	5,972,567

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000

47 Due to Other Customers

Balance as at 31 December/March	**110,890,685**	22,484,652	**110,551,220**	92,711,793

47.1 Analysis

47.1.1 By Product

Demand deposits (current accounts)	**3,705,529**	–	**3,705,529**	3,605,464
Savings deposits	**17,374,347**	–	**17,337,514**	15,650,249
Fixed deposits	**88,854,449**	22,484,652	**88,551,817**	72,682,602
Certificate of deposits	**699,080**	–	**699,080**	546,523
Other deposits	**257,280**	–	**257,280**	226,955
	110,890,685	22,484,652	**110,551,220**	92,711,793

47.1.2 By Currency

Sri Lankan Rupee	**100,056,541**	22,484,652	**99,721,458**	84,178,004
United States Dollar	**6,766,779**	–	**6,762,397**	5,096,847
Great Britain Pound	**1,110,474**	–	**1,110,474**	831,443
Others	**2,956,891**	–	**2,956,891**	2,605,499
	110,890,685	22,484,652	**110,551,220**	92,711,793

48 Other Borrowing

Repayable in foreign currency				
Borrowing sourced from				
Multilateral institutions	**3,540,230**	3,645,633	**3,540,230**	3,645,633
Bilateral institutions	**3,124,940**	4,001,694	**3,124,940**	4,001,694
	6,665,170	7,647,327	**6,665,170**	7,647,327
Repayable in Rupees				
Borrowing sourced from				
Multilateral institutions	**18,648,230**	14,814,449	**18,648,230**	14,814,449
Bilateral institutions	**1,036,860**	1,411,145	**1,036,860**	1,411,145
Central Bank of Sri Lanka – refinance loans (secured)	**392,314**	488,876	**392,314**	488,876
Securities sold under repurchase (Repo) agreements	**9,212,723**	–	**9,212,723**	14,484,375
	29,290,127	16,714,470	**29,290,127**	31,198,845
	35,955,297	24,361,797	**35,955,297**	38,846,172

48.1 Assets Pledged as Security

Nature	31.12.2015 LKR 000
Assignment in terms of Section 88 A of the Monetary Law of Loans refinanced by Central Bank of Sri Lanka	392,314

49 Debt Securities Issued

Year of issuance	Face value LKR 000	Interest rate %	Repayment terms	Issue date	Maturity date	BANK/GROUP 31.12.2015 LKR 000	BANK/GROUP 31.03.2015 LKR 000
Issued by Bank							
i. Debenture issue (LKR)							
- Unlisted	506,000	16.50%	3 Years	22-Jan-13	22-Jan-16	**506,212**	**525,638**
- Listed	5,000,000	8.36%	3 years	18-Aug-14	17-Aug-17	**5,122,538**	**5,174,080**
	3,000,000	9.10%	5 Years	10-Jun-15	10-Jun-20	**3,136,376**	–
ii. Notes issue (USD)	13,075,000	9.625%	5 Years	1-Nov-13	31-Oct-18	**14,527,534**	13,746,206
						23,292,660	19,445,924
Due within one year						**506,212**	525,638
Due after one year						**22,786,448**	18,920,286
						23,292,660	19,445,924

Carrying values are the discounted amounts of principal and interest.

49.1 Debt Securities Issued – Listed Debentures

Debenture category	Interest payable frequency	Applicable interest rate %	Interest rate of Comparative Government Securites (Gross) p.a.	Balance as at 31.12.2015 LKR 000	Market price Highest	Market price Lowest	Market price Last Traded	Yield last traded %
Fixed Rate:								
2014/2017	Annually	8.5	8.93%	**3,925,087**	100.34	100.34	100.34	8.30
2014/2017	Semi-annually	8.3	8.93%	**897,238**	100.04	100.04	100.04	8.30
2014/2017	Quarterly	8.24	8.93%	**300,213**	N/T	N/T	N/T	N/T
2015/2020	Annually	9.1	10.36%	**3,136,376**	N/T	N/T	N/T	N/T

N/T - Not Traded

Ratios	31.12.2015	31.03.2015
Debt to equity ratio (times)	**2.04**	1.05
Interest cover (times)	**0.98**	1.38
Liquid asset ratio (%)	**22.5**	47.6

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000

50 *Other Liabilities*

Accruals	**771,039**	47,180	**774,917**	49,508
Prior year's dividend	**39,805**	40,025	**39,805**	40,025
Security deposit for leases	**4,065**	4,065	**41,692**	18,141
Prepaid loan and lease rentals	**85,033**	104,049	**85,033**	104,049
Account payables	**1,747,949**	266,456	**1,812,045**	1,804,536
Provision for staff retirement benefits (Note 50.1)	**305,965**	140,638	**331,818**	242,961
Other provisions (Note 50.2)	**414,702**	237,743	**414,702**	327,707
	3,368,558	840,156	**3,500,012**	2,586,927

50.1 Provision for Staff Retirement Benefits

Defined benefit – unfunded pension (Note 50.1.1)	**66,994**	67,686	**66,994**	67,686
– unfunded end of service gratuity (Note 50.1.2)	**180,163**	70,355	**206,016**	172,678
– funded pension (Note 50.1.3)	**58,808**	2,597	**58,808**	2,597
	305,965	140,638	**331,818**	242,961

As at	BANK/ GROUP 31.12.2015 LKR 000	BANK/ GROUP 31.03.2015 LKR 000

50.1.1 Unfunded Pension Liability

Balance at beginning	**67,686**	68,740
Interest on obligation	**4,569**	6,187
Benefit paid	**(4,664)**	(6,996)
Actuarial experience loss	**(597)**	(245)
Present value of defined benefit pension obligations	**66,994**	67,686

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000
50.1.2 Unfunded End of Service Gratuity				
Balance at beginning	**70,355**	43,920	**172,678**	112,688
Current service cost	**12,404**	8,221	**28,636**	23,359
Interest on obligation	**6,960**	4,392	**14,517**	10,965
Balances transferred on amalgamation	**97,950**	–	–	–
Benefits paid	**(11,477)**	(3,672)	**(15,148)**	(8,054)
Actuarial experience loss	**3,971**	17,494	**5,333**	33,720
Present value of defined benefit pension obligations	**180,163**	70,355	**206,016**	172,678

As at	BANK/GROUP 31.12.2015 LKR 000	BANK/GROUP 31.03.2015 LKR 000
50.1.3 Funded Pension Liability		
Present value of defined benefit pension obligations (Note 50.1.3.1)	**2,296,454**	2,141,649
Fair value of pension assets (Note 50.1.3.2)	**(2,237,646)**	(2,139,052)
Defined benefit liability	**58,808**	2,597
50.1.3.1 Movement in Defined Pension Obligation		
Present value of defined benefit pension obligations on 01 April	**2,141,649**	1,866,434
Current service cost	**58,048**	77,397
Interest on obligation	**144,561**	167,979
Benefits paid	**(125,982)**	(110,448)
Actuarial experience loss	**78,178**	140,287
Present value of defined benefit pension obligations	**2,296,454**	2,141,649
50.1.3.2 Movement in Pension Assets		
Pension assets on 01 April	**2,139,052**	2,027,664
Expected return on pension assets	**139,779**	177,105
Employer's contribution	**106,000**	59,002
Benefits paid	**(125,982)**	(110,448)
Actuarial experience gain	**(21,203)**	(14,271)
Pension assets	**2,237,646**	2,139,052
50.1.3.3 Plan Assets Consist of the Following		
Debentures	**321,754**	337,546
Government Bonds	**1,517,319**	1,289,144
Fixed deposits	**397,209**	512,046
Others	**1,364**	316
	2,237,646	2,139,052

As at	Unfunded Pension Liability* 31.12.2015 LKR 000	Unfunded End of Service Gratuity* 31.12.2015 LKR 000	Funded Pension Liability* 31.12.2015 LKR 000
50.1.3.4 The Expected Benefit Payout in the Future Years to the Defined Benefit Obligation – Bank			
Within next 12 months	6,996	21,040	149,717
Between 2 and 5 years	27,984	108,365	725,807
Beyond 5 years	34,980	210,477	1,137,224

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

50.1.3.5 Unfunded Pension Liability

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

50.1.3.6 Actuarial Valuation

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

50.1.3.7 Actuarial Valuation Method

Projected unit credit method was used to allocate the actuarial present value of the projected benefits earned by employees to date of valuation.

	Pension benefit (%)	End of service gratuity (%)
50.1.3.8 Principal Actuarial Assumptions		
Discount rate as at 31 December 2015, per annum		
Pre-retirement	9.0	9.5
Post-retirement	9.0	not applicable
Future salary increases per annum	10.5	10.0
Expected rate of return on pension assets	9.0	–
Actual rate of return on pension assets	7	–
Mortality	UP 1984 mortality table	RP- 2000 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 have not changed. The discount rate is the yield rate on 31 December 2015, with a term equalling the estimated period for which all benefit payments will continue. This period is approximately 21.4 years for pension and 10.5 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.

50.1.3.9 Sensitivity of Assumptions Used in the Actuarial Valuation

The Following table demonstrates the sensitivity to a reasonably possible change in the key assumptions used with all other variables held constant in the employment benefit liability measurement. The effect in the income statement and the statement of financial position with the assumed changes in the discount rates and salary increment rate are given below:

	Effect on income statement increase/(decrease) LKR 000	Effect on defined benefit obligation increase/(decrease) LKR 000
Funded Pension Liability		
Discount rate		
1%	212,473	(212,473)
-1%	(252,058)	252,058
Salary Increment Rate		
1%	(58,741)	58,741
-1%	54,837	(54,837)
Unfunded Pension Liability*		
Discount rate		
1%	4,685	(4,685)
-1%	(5,373)	5,373
Unfunded End of Service Gratuity		
Discount rate		
1%	18,702	(18,702)
-1%	(22,165)	22,165
Salary Increment Rate		
1%	(21,411)	21,411
-1%	18,459	(18,459)

** Salary increment not applicable for ex-employee*

As at 31 March	2015 LKR 000	2014 LKR 000	2013 LKR 000	2012 LKR 000	2011 LKR 000
50.1.3.10 Historical Information					
Present value of the defined benefit obligation	2,141,649	1,866,434	1,750,987	1,494,887	1,367,956
Fair value of plan assets	2,139,052	2,027,664	1,821,009	1,607,025	1,497,559
Deficit/(surplus) in the plan	2,597	(161,230)	(70,022)	(112,138)	(129,603)

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000
50.2 Other Provisions				
Balance as at 1 April	**237,743**	197,187	**327,707**	274,980
Provisions for the financial period	**308,427**	237,743	**414,702**	329,004
Provisions used during the period	**(234,647)**	(177,343)	**(324,611)**	(256,433)
Provisions reversed during the period	**(3,096)**	(19,844)	**(3,096)**	(19,844)
Balance transferred on amalgamation	**106,275**	–	–	–
Balance as at 31 December/March	**414,702**	237,743	**414,702**	327,707

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000

51 Due to Subsidiaries

DFCC Consulting (Pvt) Limited	–	31

52 Subordinated Term Debt

	Face value LKR 000	Interest rate %	Repayment terms	Issue date	Maturity date	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000
Listed Debentures									
Issued by Bank	590,000	14.00	10 Years	26 Sep 2006	26 Sep 2016	**672,600**	609,373	**672,600**	609,373
Transferred on amalgamation	833,333	11.50	5 Years	26 Sep 2011	7 Sep 2016	**833,584**	–	**833,584**	833,589
	166,667	6 Months gross TB+1.5	5 Years	26 Sep 2011	7 Sep 2016	**166,704**	–	**166,704**	166,702
	2,000,000	9.40	5 Years	10 Jun 2015	10 Jun 2020	**2,094,193**	–	**2,094,193**	–
						3,767,081	609,373	**3,767,081**	1,609,664
Due within one year						**1,672,888**	–	**1,672,888**	291
Due after one year						**2,094,193**	**609,373**	**2,094,193**	**1,609,373**
						3,767,081	**609,373**	**3,767,081**	**1,609,664**

52.1 Subordinated Term Debt – Listed Debentures

Debenture Category	Interest rate frequency %	Applicable Interest rate	Interest rate of Comparative Government Securites (Gross) p.a. %	Balance as at 31.12.2015 LKR 000	Market price Highest	Market price Lowest	Market price Last Traded	Yield last traded %
Fixed Rate								
2006/2016	Annually	14	7.86	672,600	N/T	N/T	N/T	N/T
2011/2016	Semi-annually	11.5	7.86	833,584	N/T	N/T	N/T	N/T
2011/2016	Semi-annually	9.4	7.86	166,704	N/T	N/T	N/T	N/T
2015/2020	Annually	9.4	10.36	2,094,193	101.44	101.44	101.44	9
				3,767,081				

N/T – Not traded

Debt equity ratio, interest cover and liquid asset ratio is given in note 49.1.

As at	BANK/GROUP 31.12.2015 LKR 000	BANK/GROUP 31.03.2015 LKR 000
53 Stated Capital		
Balance as at 31 December/March (Number of shares – 265,097,688)	**4,715,814**	4,715,814

54 Statutory Reserve

54.1 Reserve Fund

Five percent of profit after tax is transferred to the reserve fund, as per Direction issued by the 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.

55 Retained Earnings

This represents cumulative net earnings, inclusive of final dividend approved amounting to LKR 663 million. The balance is retained and reinvested in the business of the Bank.

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000
56 Other Reserves				
General reserve	**13,779,839**	13,779,839	**13,779,839**	13,779,839
Fair value reserve	**14,285,657**	17,512,960	**11,857,655**	15,112,861
Exchange equalisation reserve	**–**	–	**21,910**	2,358
	28,065,496	31,292,799	**25,659,404**	28,895,058

As at	BANK 31.12.2015 LKR 000	BANK 31.03.2015 LKR 000	GROUP 31.12.2015 LKR 000	GROUP 31.03.2015 LKR 000

57 Contingent Liabilities and Commitments

Guarantees issued to -				
Banks in respect of indebtedness of customers of the Bank	**41,122**	–	**41,122**	27,080
Companies in respect of indebtedness of customers of the Bank	**6,855,843**	1,167,264	**6,855,843**	9,675,687
Principal collector of customs (duty guarantees)	**172,090**	–	**172,090**	78,935
Shipping guarantees	**620,806**	–	**620,806**	74,726
Documentary credit	**7,261,732**	–	**7,261,732**	5,514,468
Bills for collection	**2,175,953**	–	**2,175,953**	2,251,076
Performance bonds	**2,066,268**	–	**2,066,268**	2,138,132
Forward exchange contracts (net)	**16,943,219**	14,183,209	**16,943,219**	15,843,573
Commitments in ordinary course of business -				
Commitments for unutilised credit facilities	**39,719,549**	25,572,860	**39,719,549**	39,365,166
Capital expenditure approved by the Board of Directors				
Contracted	**90,030**	29,237	**90,030**	64,653
Not contracted	**68,239**	27,116	**68,239**	39,052
	76,014,851	40,979,686	**76,014,851**	75,072,548

58 Litigation Against the Bank

58.1 A client has filed action against five defendants including the Bank in the District Court of Kurunegala, claiming that a property mortgaged by him to the Bank had been unlawfully transferred to a third party under the parate process to be set aside, and also claiming LKR 6 million as damages from the Bank. The Bank is defending the case before the District Court.

58.2 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 is defending this action.

58.3 There are four cases filed in the District Court of Kandy and one case filed in District Court of Negombo and another case in District Court of Moratuwa, where third parties are claiming ownership of properties acquired by the Bank under recovery action. The Bank is defending the cases before the respective District Courts.

58.4 There are two cases filed in the District Court of Bandarawela, where a third party is claiming ownership of a property mortgaged to the Bank. The Bank is defending the cases before the District Court.

58.5 A client, against whom an eviction order has been obtained by the Bank, has filed a separate Money Recovery action against the Bank claiming damages for the loss caused due to a wrongful seizure of a property. The Bank is defending the case before the District Court.

58.6 The Bank has appealed to the High Court to set aside an award made in favour of an ex-employee by the Labour Tribunal.

58.7 Case filed in the Labour Tribunal by one ex-employee of the Bank, claiming compensation from the Bank.

58.8 Case filed in the Labour Tribunal - Galle by an ex-employee of the Bank, claiming compensation and reinstatement from the Bank.

No material losses are anticipated as a result of the aforesaid actions.

59 Related Party Transactions

59.1 The Group's related parties include associates, subsidiaries, Trust established by the Bank for post-employment retirement plan, joint venture, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced for which significant voting power is held by Key Management Personnel or their close family members.

As at	**31.12.2015 LKR 000**	31.03.2015 LKR 000

59.2 Transactions with Subsidiaries

59.2.1 Statement of Financial Position – Bank

Assets		
Placements with the banks	–	716,624
Loans to and receivable from other customers	**1,960**	3,690
	1,960	720,314
Liabilities		
Due to banks	–	215,485
Due to other customers	**339,901**	–
Other borrowing	**1,334**	–
	341,235	215,485

	9 Months ended 31.12.2015 LKR 000	Year ended 31.03.2015 LKR 000
59.2.2 Income Statement – Bank		
Interest income	**41,266**	82,689
Interest expenses	**32,351**	12,158
Fee and commission income	**37**	–
Other operating income (net)	**16,409**	29,282
Net gain from trading	–	16,651
Net gain from financial instruments at fair value through profit or loss	–	26,439
Net gain from financial investments – dividend received	**279,769**	182,807
Other overhead expenses	**79,236**	84,844
Personnel expenses – reimbursed expenses	**216,793**	287,901
– seconded expenses	–	2,639

	9 Months ended 31.12.2015 LKR 000	Year ended 31.03.2015 LKR 000

59.3 Transactions with Joint Venture

59.3.1 Statement of Financial Position – Bank

Liabilities		
Due to other customers	303	–
Other borrowing	30,005	–
	30,308	–

59.3.2 Income Statement – Bank

Net (loss)/gain from trading	(3,951)	6,011
Interest expenses	2,565	890
Other overhead expenses	–	92
Net gain from financial investments – reverse repo income	73	–
– dividend received	30,130	26,200

As at	31.12.2015 LKR 000	31.03.2015 LKR 000

59.4 Transactions with Associate

59.4.1 Statement of Financial Position – Bank

Liabilities		
Due to other customers	25	–
Other borrowing	5,541	–
	5,566	–

	9 Months ended 31.12.2015 LKR 000	Year ended 31.03.2015 LKR 000

59.4.2 Income Statement – Bank

Interest expenses	1,378	–
Net gain from financial investments – dividend received	8,128	5,415
Other overhead expenses	28	1,104

As at	**31.12.2015 LKR 000**	31.03.2015 LKR 000

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

59.5.1 Statement of Financial Position - Bank

	31.12.2015 LKR 000	31.03.2015 LKR 000
Assets		
Loans to and receivables from other customers	**–**	72,608
Financial investments – available-for-sale	**102,701**	116,203
	102,701	188,811
Liabilities		
Due to other customers	**408,061**	–
	408,061	–

59.5.2 Income Statement – Bank

	9 Months ended 31.12.2015 LKR 000	Year ended 31.03.2015 LKR 000
Interest income	**289**	6,093
Fee and commission income	**793**	–
Net gain from financial investments – dividend received	**1,283**	1,636
Interest expenses	**6,264**	–

59.6 Transactions with Key Management Personnel

59.6.1 Key Management Personnel

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

59.6.2 Compensation of Directors and Other Key Management Personnel

	BANK		**GROUP**	
	9 Months ended 31.12.2015 LKR 000	Year ended 31.03.2015 LKR 000	**9 Months ended 31.12.2015 LKR 000**	Year ended 31.03.2015 LKR 000
Number of persons	**21**	15	**23**	38
Short-term employment benefits	**106,589**	100,299	**180,809**	186,655
Post employment benefits – pension	**6,163**	5,750	**6,163**	5,750
– others	**12,313**	15,586	**22,241**	24,426
	125,065	121,635	**209,213**	216,831

As at	31.12.2015		31.03.2015	
	Number of KMPs	**LKR 000**	Number of KMPs	LKR 000

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

59.6.3.1 Statement of Financial Position – Bank

Assets				
Loans to and receivables from other customers	**7**	**32,387**	2	6,278

As at	31.12.2015		31.03.2015	
	Number of KMPs	**LKR 000**	Number of KMPs	LKR 000
Liabilities				
Due to other customers	**28**	**312,256**	2	17,280
Other borrowing	**4**	**116,204**		–
Debt securities issued	**4**	**31,906**	2	26,028
		460,366		43,308

	9 Months ended 31.12.2015 LKR 000	Year ended 31.03.2015 LKR 000
59.6.3.2 Income Statement – Bank		
Interest income	**2,378**	279
Interest expenses	**17,457**	5,662
Fee and commission income	**55**	–

59.6.4 Accommodation Granted to Directors of the Bank

Disclosure under Section 47 (11A) of the Banking Act, No. 30 of 1988 as amended by amendment Act No. 2 of 2005.

	Limit LKR 000	Type of Facility	Balance as at 31.12.2015 LKR 000	Security Type	Security value LKR 000
C R Jansz	**500**	Credit Card	–		–
L H A L Silva	**500**	Credit Card	–		
L H A L Silva	**2,000**	Overdraft	–	Cash Deposits	2,603
L N De S Wijayarathne	**500**	Credit Card	–		–
A N Fonseka*	**1,500**	Credit Card	238	Cash Deposits	1,133
T Dharmarajah	**500**	Credit Card	–		
A R Fernando	**500**	Credit Card	–		–
A R Fernando	**50,000**	Overdraft	10,515	Cash Deposits	76,965
Ms S R Thambiayah	**500**	Credit Card	–		
			10,753		

The above total is included under loans and advances to Key Management Personnel and their close family members in Note 59.6.3.1.

**This amount was settled in full during January 2016.*

59.6.5 Transactions with DFCC Bank Pension Fund – Trust

DFCC Bank Pension Fund constituted as a Trust was established by the DFCC Bank to discharge defined benefit pension liability of eligible employees of the Bank.

	31.12.2015 LKR 000	31.03.2015 LKR 000
Contribution (payable)/prepaid as at 1 April	**(2,597)**	161,230
Contribution due for the financial period recognised as expense in income statement	**(62,830)**	(68,271)
Recognition of actuarial gains/(losses) in the other comprehensive income	**(99,381)**	(154,558)
Contribution paid by the Bank	**106,000**	59,002
Contribution payable (Note 50.1.3)	**(58,808)**	(2,597)

59.7 Transactions with Government of Sri Lanka (GOSL) and its Related Entities

Entities related to the Government of Sri Lanka (GOSL) by virtue of their aggregate shareholdings has the power to participate in the financial and operating policy decision of the Bank and by extension to participate in the financial and operating policy decisions of the Bank. However, in fact this power was not exercised.

Paragraph 25 of Sri Lanka Accounting Standard – LKAS 24 on 'Related Party Disclosure' has exempted DFCC Bank from the normally applicable disclosure requirements on transactions with GOSL – related entities. In making use of this exemption the Board has determined that the limited disclosure required under paragraph 26 of LKAS 24 is only required to be made for transaction that are individually significant because of their size although these transactions were undertaken on normal market terms in the ordinary course of business and there was no requirement to disclose the transactions to regulatory or supervisory authorities or require shareholder approval.

59.7.1 Individually Significant Transactions Included in the Statement of Financial Position

As at	31.12.2015 LKR 000	31.03.2015 LKR 000
59.7.1.1 Statement of Financial Position – Bank		
Assets		
Cash and cash equivalents	**424,068**	–
Loans and receivables to banks	**4,372,191**	–
Loans to and receivables from other customers	**4,492,981**	3,527,078
Balances with the Central Bank of Sri Lanka	**5,553,809**	–
Other financial assets held-for-trading	**–**	1,469,166
Financial investments – held-to-maturity	**12,547,298**	–
Financial investments – available-for-sale	**29,690,593**	5,548,508
Government grant receivable	**539,758**	483,727
	57,620,698	11,028,479

As at	**31.12.2015 LKR 000**	31.03.2015 LKR 000
Liabilities		
Due to banks	**6,617,554**	–
Due to other customers	**4,753,843**	661,890
Other borrowing	**9,018,778**	–
Other borrowing – credit lines	**21,631,475**	20,354,251
Debt securities issued	**1,038,055**	548,378
Government grant – deferred income	**476,008**	303,727
Subordinated term debt	**1,020,197**	–
	44,555,910	21,868,246
Commitments		
Undrawn credit facilities	**4,727,930**	5,585,860

	09 Months ended 31.12.2015 LKR 000	Year ended 31.03.2015 LKR 000

59.7.1.2 Income Statement – Bank

Interest income	**999,519**	754,303
Net gain from trading	**5,180**	–
Net gain from financial investments	**7,787**	–
Interest expenses	**1,101,554**	1,368,943

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

59.8 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.

60 Business Segment Information

For the period ended 31 December 2015	Banking LKR 000	Finance leasing LKR 000	Investing in equity LKR 000	Other LKR 000	Unallocated LKR 000	Eliminations LKR 000	Total LKR 000
Revenue							
Interest income	13,948,157	1,383,604	–	23,658	–	(46,851)	15,308,568
Net fees and commission income	1,071,067	–	–	247,363	–	(177,315)	1,141,115
Net gain from trading	215,575	–	–	–	–	–	215,575
Net gain from financial instruments at fair value through profit or loss	74,583	–	–	–	–	–	74,583
Net gain/(loss) from financial investments	184,890	–	412,362	–	–	(89,724)	507,528
Other income	71,519	–	–	172,292	18,978	(17,204)	245,585
Total income	15,565,791	1,383,604	412,362	443,313	18,978	(331,094)	17,492,954
Percentage*	89	8	2	3	0	(2)	100
Expenses							
Segment losses	797,597	(589)	–	–	–	(1,681)	795,327
Depreciation	–	–	–	26,555	–	–	26,555
Other operating and interest expense	12,266,942	664,425	–	305,470	–	(241,370)	12,995,467
	13,064,539	663,836	–	332,025	–	(243,051)	13,817,349
Result	2,501,252	719,768	412,362	111,288	18,978	(88,043)	3,675,605
Unallocated expenses							611,498
Value added tax and nation building tax on financial services							589,330
Operating profit after value added tax and nation building tax on financial services							2,474,777
Share of profits of associate and joint venture							78,693
Profit before tax							2,553,470
Income tax on profit on ordinary activities							911,842
Profit for the period							1,641,628
Other comprehensive expenses net of tax							(3,358,430)
Total comprehensive expenses							(1,716,802)
Total comprehensive income - non-controlling interests							48,666
Profit attributable to equity holders of the Bank							(1,765,468)
Assets	197,078,172	15,436,155	19,399,277	733,285	13,706,000	(492,086)	245,860,803
Percentage*	80	6	8	–	6	–	100
Investments in associate and joint venture company							1,247,799
							247,108,602
Liabilities	177,437,981	13,892,540	–	164,792	12,004,395	(359,231)	203,140,477
Capital expenditure – additions	–	–	–	13,528	295,536	–	309,064

* *Net of eliminations.*

For the year ended 31 March 2015	Banking LKR 000	Finance leasing LKR 000	Investing in equity LKR 000	Other LKR 000	Unallocated LKR 000	Eliminations LKR 000	Total LKR 000
Revenue							
Interest income	14,966,126	1,184,139	–	32,536	–	(84,134)	16,098,667
Net fees and commission income	1,039,607	–	–	248,689	–	(168,332)	1,119,964
Net gain or from trading	333,309	–	–	–	146,679	–	479,988
Net gain from financial instruments at fair value through profit or loss	21,705	–	–	–	656,512	–	678,217
Net gain from financial investments	138,224	–	2,127,011	–	23,416	(87,581)	2,201,070
Other income	12,010	–	–	219,708	(703,208)	(30,008)	(501,498)
Total Income	16,510,981	1,184,139	2,127,011	500,933	123,399	(370,055)	20,076,408
Percentage*	82	6	11	2	1	(2)	100
Expenses							
Segment losses	245,193	12,363	–	–	–	(11,000)	246,556
Depreciation	–	–	–	31,426	–	–	31,426
Other operating and interest expenses	11,324,857	505,454	–	306,599	–	(282,474)	11,854,436
	11,570,050	517,817	–	338,025	–	(293,474)	12,132,418
Result	4,940,931	666,322	2,127,011	162,908	123,399	(76,581)	7,943,990
Unallocated expenses							1,797,218
Value added tax and nation building tax on financial services							884,072
							5,262,700
Share of profits of associate and joint venture							153,270
Profit before tax							5,415,970
Income tax on profit on ordinary activities							977,358
Profit for the year							4,438,612
Other comprehensive income net of tax							4,854,824
Total comprehensive income							9,293,436
Total comprehensive income – non-controlling interests							75,930
Profit attributable to equity holders of the Bank							9,217,506
Assets	169,907,680	10,966,528	23,664,438	783,076	5,051,461	(950,869)	209,422,314
Percentage*	81	5	11	–	3	–	100
Investments in associate and joint venture company							1,187,985
							210,610,299
Liabilities	150,590,868	7,425,082	–	151,038	4,801,205	(620,647)	162,347,546
Capital expenditure – additions	–	–	–	42,446	189,647	–	232,093

* *Net of eliminations.*

60.1 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.

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

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

61 Amalgamation of DFCC Vardhana Bank PLC (DVB) with DFCC Bank PLC

DFCC Vardhana Bank PLC, which was a subsidiary of the Group was amalgamated with DFCC Bank PLC on 1 October 2015. Accordingly, on 1 October 2015 the book values of DFCC Vardhana Bank PLC, was amalgamated with that of the DFCC Bank PLC and the investment in subsidiary of LKR 5,945 million recorded in DFCC Bank PLC (including balance payment to minority sharehloders amounting to 122 million), was set off against the equity of DFCC Vardhana Bank PLC.

The following restated statements were prepared as if the amalgamation has taken place prior to 1 April 2014.

Accordingly, the comparative figures of the income statement includes results of DFCC Vardhana Bank PLC and DFCC Bank PLC for the 12 months ended 31 March 2015. Current year results include, results of DFCC Vardhana Bank PLC and DFCC Bank PLC(pre-amalgamation) from 1 April 2015 to 30 September 2015, and the results of the amalgamated entity from 1 October 2015 to 31 December 2015.

The restated statement of financial position, as at 31 March 2015 includes balances of DFCC Vardhana Bank PLC as at 31 March 2015.

61.1 Income Statement – Restated

	BANK	
For the period ended	**9 months ended 31 December 2015 LKR 000**	Year ended 31 March 2015 LKR 000
Income	**14,961,213**	19,814,303
Interest income	**13,327,464**	15,882,931
Interest expenses	**7,942,410**	8,953,743
Net interest income	**5,385,054**	6,929,188
Fee and commission income	**850,390**	1,112,650
Fee and commission expense	**7,783**	15,265
Net fee and commission income	**842,607**	1,097,385
Net gain from trading	**172,238**	496,090
Net gain from financial instruments at fair value through profit or loss	**136,194**	625,145
Net gain from financial investments	**525,306**	2,312,023
Other operating loss – net	**(50,379)**	(614,536)
Total operating income	**7,011,020**	10,845,295
Impairment charge for loans and other losses	**663,938**	112,467
Net operating income	**6,347,082**	10,732,828
Operating expenses		
Personnel expenses	**2,042,871**	2,142,723
Other expenses	**1,840,463**	2,075,443
Operating profit before value added tax and nation building tax on financial services	**2,463,748**	6,514,662
Value added tax and nation building tax on financial services	**501,982**	939,691
Operating profit after value added tax and nation building tax on financial services	**1,961,766**	5,574,971
Share of profits of associate and joint venture	–	–
Profit before tax	**1,961,766**	5,574,971
Tax expense	**722,673**	1,073,732
Profit for the period	**1,239,093**	4,501,239

61.2 Statement of Financial Position – Restated

As at	BANK 31 March 2015 LKR 000
Assets	
Cash and cash equivalents	3,177,949
Balances with Central Bank of Sri Lanka	3,049,109
Placements with banks	662,118
Derivative assets held-for-risk management	29,335
Other financial assets held-for-trading	5,023,879
Loans to and receivables from banks	3,965,176
Loans to and receivables from other customers	138,458,074
Financial investments – available-for-sale	45,827,452
Financial investments – held-to-maturity	10,954,392
Investments in subsidiaries	134,536
Investment in associate	35,270
Investment in joint venture	655,000
Due from subsidiaries	135,091
Property, plant and equipment	934,193
Intangible assets	276,703
Government grant receivable	483,727
Prepayments	26,342
Other assets	2,090,310
Total assets	215,918,656
Liabilities	
Due to banks	8,081,266
Derivative liabilities held-for-risk management	38,239
Due to other customers	91,782,545
Other borrowing	43,609,813
Debt securities issued	19,445,924
Current tax liability	290,321
Deferred tax liability	627,422
Government grant-deferred income	303,727
Other liabilities	2,855,446
Due to subsidiaries	31
Subordinated term debt	1,636,218
Total liabilities	168,670,952
Equity	
Stated capital	4,715,814
Statutory reserve	1,736,241
Retained earnings	9,534,530
Other reserves	31,261,119
Total equity	47,247,704
Total equity and liabilities	215,918,656
Contingent liabilities and Commitments	74,730,756
Net asset value per share, LKR	178.23

61.3 Composition of Assets and Liabilities in the Investments in DFCC Vardhana Bank on the date of amalgamation (as at 1 October 2015)

As at	LKR 000
Assets	
Cash and cash equivalents	**3,324,005**
Balances with Central Bank of Sri Lanka	**3,245,064**
Placements with banks	**505,083**
Derivative assets – held for risk management	**100,235**
Other financial assets held-for-trading	**1,602,425**
Loans to and receivables from banks	**4,256,610**
Loans to and receivables from other customers	**73,867,709**
Financial investments – available-for-sale	**18,279,341**
Financial investments – held-to-maturity	**11,740,405**
Property, plant and equipment	**624,220**
Intangible assets	**171,268**
Other assets	**1,542,739**
Total assets (A)	**119,259,104**
Liabilities	
Due to banks	**15,421,138**
Due to other customers	**74,656,723**
Other borrowing	**11,341,142**
Debt securities issued	**3,081,991**
Current tax liability	**72,460**
Deferred tax liability	**226,453**
Other liabilities	**2,110,985**
Subordinated term debt	**3,084,010**
Total liabilities (B)	**109,994,902**
Total equity (A-B)	**9,264,202**
Investment in DFCC Bank PLC in DVB (including balance payment to NCI LKR 122 million)	**(5,945,436)**
Total equity Balances transferred on amalgamation	**3,318,766**

62 *Comparative Figures*

62.1 Change of year end

DFCC Bank has changed its financial year end from 31 March to 31 December in the year 2015. Accordingly, the current year separate financial statements of DFCC Bank PLC contain the results of nine months from 1 April 2015 to 31 December 2015. However, the comparative figures presented in these financial statements are for the year ended 31 March 2015 and not entirely comparable with the current period.

62.2 Reclassification of comparative figures

The following information has been reclassified to confirm with the current year's classification in order to provide a better presentation.

	GROUP	
	As Disclosed Previously	Current Presentation
	LKR 000	LKR 000
Statement of Financial Position		
Retained earnings	12,755,357	12,752,999
Exchange equalisation reserve	–	2,358

63 Events Occurring After the Reporting Period

63.1 First and Final Dividend

The Directors have approved the payment of a first and final dividend of LKR 2.50 per share for the nine months ended 31 December 2015. The Board of Directors confirms that the Bank has satisfied the solvency test in accordance with Section 57 of the Companies Act No. 07 of 2007 and have obtained the certificate from the Auditors. The dividend exceeds the minimum distribution mandated by the Inland Revenue Act No. 10 of 2006 and therefore the 15% deemed dividend tax, will not be imposed on the Bank.

63.2 Tax Assessment

The Department of Inland Revenue has raised an assessment for LKR 760 million with respect to year of assessment 2010/11 relating to gain on sale of listed shares.

The Bank has successfully appealed against this assessment to the Tax Appeal Commission. The Bank is of the view that the above assessment will not have any material impact to the financial statements.

No other circumstances have arisen which would require disclosure or adjustment to the financial statements.

64 Fair Value Measurement

64.1 Determining Fair Value

The determination of fair value for financial assets and financial liabilities, for which there is no observable market price, requires the use of valuation techniques as described in Note 5.2.5. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. The Group's accounting policy on fair value measurements is discussed in Note 5.2.5. The Group measures fair values, using the following fair value hierarchy that reflects the significance of the inputs used in making measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., prices) or indirectly (i.e., derived from prices).

This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued, based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like government securities, interest rate and currency swaps that use mostly observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, government securities and simple over the counter derivatives like forward exchange contracts and interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Management judgments and estimations are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

64.2 Valuation framework

The established control framework with respect to the measurement of fair values, includes an oversight which is independent of front office management. Treasury Middle office has overall responsibility for independently verifying the results of trading and investment operation.

Specific controls include:

→ Verification of observable pricing

→ Review and approval process for new models and changes to models involving both product control and group market risk

→ Calibration and back testing of models

→ Stress Testing

When third party information, such as broker quotes or pricing services is used to measure fair value, the evidence so obtained to support the conclusion that such valuations meet the requirements of SLFRSs/LKASs is documented.

This includes:

→ Verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument

→ Several quotes obtained from randomly selected brokers for the same financial instrument and the fair value determined on this basis

Any changes to the fair value methodology is reported to the Bank's Audit Committee.

64.3 Fair Value by Level of the Fair Value Hierarchy – Bank

As at 31 December 2015	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial Assets					
Derivative assets held-for-risk management	29				
Forward foreign exchange contracts			198,776		198,776
Other financial assets held-for-trading	30				
Government of Sri Lanka Treasury Bills and Bonds			–		–
Financial investments – available-for-sale	33				
Government of Sri Lanka Treasury Bills and Bonds			29,690,593		29,690,593
Quoted ordinary shares		18,123,603			18,123,603
Units in Unit Trusts – Quoted		197,759			197,759
Units in Unit Trusts – Unquoted			797,186		797,186
Unquoted shares				147,874	147,874
Government grant receivable	43		539,758		539,758
		18,321,362	31,226,313	147,874	49,695,549
Financial Liabilities					
Derivative liabilities held-for-risk management	29				
Forward foreign exchange contracts			85,333		85,333
		–	85,333	–	85,333

As at 31 March 2015	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial Assets					
Derivative assets held-for-risk management	29				
Forward foreign exchange contracts			29,335		29,335
Other financial assets held-for-trading	30				
Government of Sri Lanka Treasury Bills and Bonds			1,469,166		1,469,166
Financial investments – available-for-sale	33				
Government of Sri Lanka Treasury Bills and Bonds			5,548,508		5,548,508
Quoted ordinary shares		21,136,695			21,136,695
Units in Unit Trusts – Quoted		190,153			190,153
Units in Unit Trusts – Unquoted			805,681		805,681
Unquoted shares				142,459	142,459
Government grant receivable	43		483,727		483,727
		21,326,848	8,336,417	142,459	29,805,724
Financial Liabilities					
Derivative liabilities held-for-risk management	29				
Forward foreign exchange contracts			1,737		1,737
		–	1,737	–	1,737

There were no transfers between Level 1, Level 2 and Level 3 during the period 31 March 2015 and 31 December 2015.

64.4 Fair Value by Level of the Fair Value Hierarchy – Group

As at 31 December 2015	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial Assets					
Derivative assets held-for-risk management	29				
Forward foreign exchange contracts			198,776		198,776
Other financial assets held-for-trading	30				
Government of Sri Lanka Treasury Bills and Bonds			–		–
Financial investments – available-for-sale	33				
Government of Sri Lanka Treasury Bills and Bonds			29,690,593		29,690,593
Quoted ordinary shares		18,123,603			18,123,603
Units in Unit Trusts – Quoted		197,759			197,759
Units in Unit Trusts – Unquoted			797,186		797,186
Unquoted shares				147,874	147,874
Government grant receivable	43		539,758		539,758
		18,321,362	31,226,312	147,874	49,695,549
Financial Liabilities					
Derivative liabilities held-for-risk management	29				
Forward foreign exchange contracts			85,333		85,333
		–	85,333	–	85,333

As at 31 March 2015	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial Assets					
Derivative assets held-for-risk management	29				
Forward foreign exchange contracts			89,861		89,861
Other financial assets held-for-trading	30				
Government of Sri Lanka Treasury Bills and Bonds			1,469,166		1,469,166
Financial investments – available-for-sale	33				
Government of Sri Lanka Treasury Bills and Bonds			23,546,475		23,546,475
Quoted ordinary shares		21,136,695			21,136,695
Units in Unit Trusts – Quoted		190,153			190,153
Units in Unit Trusts – Unquoted			805,681		805,681
Unquoted shares				147,874	147,874
Government grant receivable	43		483,727		483,727
		21,326,848	26,394,910	147,874	47,869,632
Financial Liabilities					
Derivative liabilities held-for-risk management	29				
Forward foreign exchange contracts			37,153		37,153
		–	37,153	–	37,153

There were no transfers between Level 1, Level 2 and Level 3 during the period 31 March 2015 and 31 December 2015.

64.5 Fair Value of Financial Instruments Carried at Amortised Cost- Bank

The following table summarises the carrying amounts and the Bank's estimate of fair values of those financial assets and liabilities not presented on the Bank's Statement of Financial Position at fair value. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions which are not observable in the market.

As at 31 December 2015	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Fair value LKR 000	Carrying amount LKR 000
Assets						
Cash and cash equivalents	26		4,305,247		4,305,247	4,305,247
Balances with Central Bank of Sri Lanka	27		5,553,809		5,553,809	5,553,809
Placements with banks	28		–		–	–
Loans to and receivables from banks	31		4,574,319		4,574,319	4,574,319
Loans to and receivables from other customers	32			158,622,894	158,622,894	160,345,530
Financial investments – held-to-maturity	34	3,655,412	14,155,734		17,811,146	17,903,885
Total		3,655,412	28,589,109	158,622,894	190,867,415	192,682,790
Liabilities						
Due to banks	46		24,364,403		24,364,403	24,364,403
Due to other customers	47			110,639,616	110,639,616	110,890,685
Other borrowing	48			35,955,297	35,955,297	35,955,297
Debt securities issued	49		23,331,215		23,331,215	23,292,660
Subordinated term debt	52		3,421,616		3,421,616	3,767,081
		–	51,117,234	146,594,913	197,712,147	198,270,126

As at 31 March 2015	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Fair value LKR 000	Carrying amount LKR 000
Assets						
Cash and cash equivalents	26		110,576		110,576	110,576
Placements with banks	28		716,622		716,622	716,622
Loans to and receivables from banks	31		484,067		484,067	484,067
Loans to and receivables from other customers	32			73,737,898	73,737,898	73,448,705
Financial investments – held-to-maturity	34	2,090,105			2,090,105	2,085,921
Total		2,090,105	1,311,265	73,737,898	77,139,268	76,845,891
Liabilities						
Due to banks	46		1,928,867		1,928,867	1,928,867
Due to other customers	47			22,744,161	22,744,161	22,484,652
Other borrowing	48			24,361,797	24,361,797	24,361,797
Debt securities issued	49		20,293,950		20,293,950	19,445,924
Subordinated term debt	52		640,847		640,847	609,373
		–	22,863,664	47,105,958	69,969,622	68,830,613

64.6 Fair Value of Financial Instruments Carried at Amortised Cost – Group

The following table summarises the carrying amounts and the Group's estimate of fair values of those financial assets and liabilities not presented on the Group's Statement of Financial Position at fair value. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions which are not observable in the market.

As at 31 December 2015	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Fair value LKR 000	Carrying amount LKR 000
Assets						
Cash and cash equivalents	26		4,314,777		4,314,777	4,314,777
Balances with Central Bank of Sri Lanka	27		5,553,809		5,553,809	5,553,809
Placements with banks	28		1,718		1,718	1,718
Loans to and receivables from banks	31		4,602,263		4,602,263	4,602,263
Loans to and receivables from other customers	32			158,620,519	158,620,519	160,343,155
Financial investments – held-to-maturity	34	3,655,412	14,155,734		17,811,146	17,903,885
Total		3,655,412	28,628,301	158,620,519	190,904,232	192,719,607
Liabilities						
Due to banks	46		24,365,653		24,365,653	24,365,653
Due to other customers	47			110,300,151	110,300,151	110,551,220
Other borrowing	48			35,955,297	35,955,297	35,955,297
Debt securities issued	49		23,331,215		23,331,215	23,292,660
Subordinated term debt	52		3,421,616		3,421,616	3,767,081
		–	51,118,484	146,255,448	197,373,934	197,931,911

As at 31 March 2015	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Fair value LKR 000	Carrying amount LKR 000
Assets						
Cash and cash equivalents	26		4,060,820		4,060,820	4,060,820
Balances with Central Bank of Sri Lanka	27		2,616,406		2,616,406	2,616,406
Placements with banks	28		1,324,892		1,324,892	1,324,892
Loans to and receivables from banks	31		3,563,647		3,563,647	3,563,647
Loans to and receivables from other customers	32			135,618,870	135,618,870	135,322,723
Financial investments – held-to-maturity	34	2,090,105	8,818,133		10,908,238	10,872,287
Total		2,090,105	20,383,898	135,618,870	158,092,873	157,760,775
Liabilities						
Due to banks	46		5,972,567		5,972,567	5,972,567
Due to other customers	47			93,124,652	93,124,652	92,711,793
Other borrowing	48			38,846,172	38,846,172	38,846,172
Debt securities issued	49		20,293,950		20,293,950	19,445,924
Subordinated term debt	52		1,668,739		1,668,739	1,609,664
		–	27,935,256	131,970,824	159,906,080	158,586,120

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

64.7 Cash and Cash Equivalents and Placements with Banks

Carrying amounts of cash and cash equivalents and placements with banks approximates their fair value as these balances have a remaining maturity of less than three months from the reporting date.

64.8 Loans to and Receivables from Banks and Other Customers

64.8.1 Lease Rentals Receivable – Bank

The estimated fair value of lease rentals receivable is the present value of future cash flows expected to be received from such finance lease facilities calculated based on current interest rates for similar type of facilities. The finance lease portfolio is at fixed interest rates and the fair value calculated on this basis as at 31 December 2015 was LKR 14,895 million as against a carrying value of LKR 15,436 million. (for the year ended 31 March 2015 - fair value calculated on this basis was LKR 8,539 million as against a carrying value of LKR 8,250 million).

64.8.2 Other Loans

Composition:

	%
Floating rate loan portfolio	65
Fixed rate loans	
- With remaining maturity less than one year	9
- Others	26
Total	100

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

64.9 Financial Investments – Held-to-Maturity

Fair value of the fixed rate debentures are based on prices quoted in the Colombo Stock Exchange, where there is an active market for quoted debentures.

Where there is no active market, fair value of the fixed rate debentures has been determined by discounting the future cash flows by the interest rates derived with reference to Government Treasury Bond rates with adjustments to risk premiums at the time of investment.

64.10 Due to Banks

Carrying value of amounts due to banks approximates their fair value as these balances have a remaining maturity of less than one year from the reporting date.

64.11 Due to Other Customers

The carrying value of deposits with a remaining maturity of less than one year approximates the fair value.

Fair values of deposits with a remaining maturity of more than one year is estimated using discounted cash flows applying current interest rates offered for deposits of similar remaining maturities.

The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the reporting date and the savings account balances are repriced frequently to match with the current market rates. Therefore the demand and saving deposits carrying amounts are reasonable approximation to the fair values as at the reporting date.

64.12 Other Borrowing

This consists of borrowings sourced from multilateral and bilateral institutions. 70% of these borrowing are repriced either monthly, quarterly or semi-annually and rates are revised in-line with changes in market rates. Hence, the carrying value of these borrowings approximates the fair value.

The others at fixed rates which relates to borrowings on credit lines are based on interest rates which are specific to each refinancing arrangement and as such there are no comparable market rates. Hence, the fair value approximates the carrying value.

64.13 Debt Securities Issued

Debts issued comprise the USD Notes Issue and LKR debentures. Fair value of the USD Notes are determined by reference to the bid and ask price quoted in the Singapore Stock Exchange. The LKR debentures are fair valued by reference to current Government Treasury Bond rates with a risk premium.

65 Financial Risk Management

65.1 Introduction and Overview

Bank has exposure to the following key risks from financial instruments:

- Credit Risk
- Liquidity Risk
- Operational Risk
- Market Risk

This note presents information about the Bank's exposure to each of the above risks, the objectives, policies and processes for measuring and managing such risk.

Risk Management Framework

The Board of Directors has the overall responsibility for the establishment and oversight of the Bank's risk management framework. It has set up a Board Integrated Risk Management Committee (BIRMC) with four Non-Executive Directors including the Chairman, one Executive Director and Chief Risk Officer (CRO) as members. CRO represents at the BIRMC the supervision and the management of the broad risk categories including credit, liquidity market risk and strategic risk. As per the Board approved Charter, BIRMC assists the Board to manage these risks prudently. Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set up appropriate risk limits and controls and to monitor risk and adherence to limits. Risk management policies and systems are reviewed at least annually to reflect changes in market conditions, business strategy, products and services offered.

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. Independent risk assessment, monitoring, recommending and reporting by the Integrated Risk Management Department (IRMD).
6. Reviewing compliance through regular audits by internal audit.

65.2.2 Quantitative Disclosures

As at	BANK		GROUP	
	31.12.2015 LKR 000	31.03.2015 LKR 000	31.12.2015 LKR 000	31.03.2015 LKR 000
65.2.2.1 Loans to and Receivables from Other Customers				
Individually impaired				
Gross amount	**5,771,086**	2,507,267	**5,771,086**	5,202,800
Allowance for impairment	**(4,240,756)**	(1,932,635)	**(4,240,756)**	(4,001,868)
Carrying amount	**1,530,330**	574,632	**1,530,330**	1,200,932
Collectively impaired				
Gross amount	**2,782,651**	1,278,835	**2,782,651**	3,455,407
Allowance for impairment	**(1,924,882)**	(968,820)	**(1,924,882)**	(2,007,988)
Carrying amount	**857,769**	310,015	**857,769**	1,447,419
Past due but not impaired				
Gross amount	**41,042,121**	12,073,322	**41,042,121**	29,168,304
Allowance for impairment	**–**	–	**–**	–
Carrying amount	**41,042,121**	12,073,322	**41,042,121**	29,168,304
Neither past due nor impaired				
Gross amount	**116,915,310**	60,490,736	**116,912,935**	103,506,068
Allowance for impairment	**–**	–	**–**	–
Carrying amount*	**116,915,310**	60,490,736	**116,912,935**	103,506,068
Carrying amount – Amortised cost	**160,345,530**	73,448,705	**160,343,155**	135,322,723
65.2.2.2 Loans to and Receivables from Banks				
Neither past due nor impaired				
Gross amount	**4,574,319**	484,067	**4,602,263**	3,563,647
Allowance for impairment	**–**	–	**–**	–
Carrying amount	**4,574,319**	484,067	**4,602,263**	3,563,647

** Carrying amount of the Bank's loans and advances includes accounts with renegotiated terms of which the capital outstanding as at 31 December 2015 amounts to LKR 3,029 million (31 March 2015 - LKR 1,124 million).*

65.2.2.3 Analysis of Security Values of Loans to and Receivables from Other Customers

	BANK				GROUP			
	Gross loan balance 31.12.2015 LKR 000	**Security value 31.12.2015 LKR 000**	Gross loan balance 31.03.2015 LKR 000	Security value 31.03.2015 LKR 000	**Gross loan balance 31.12.2015 LKR 000**	**Security value 31.12.2015 LKR 000**	Gross loan balance 31.03.2015 LKR 000	Security value 31.03.2015 LKR 000
Against Individually Impaired								
Mortgages over property, plant and machinery	**1,622,358**	**1,626,016**	2,070,294	1,264,737	**1,622,358**	**1,626,016**	1,550,604	1,917,899
Others	**770,027**	**9,687**	4,647	757	**770,027**	**9,687**	705,257	3,557
Unsecured	**3,278,338**	–	361,868	–	**3,278,338**	–	2,876,480	–
Against Collectively Impaired								
Mortgages over property, plant and machinery	**1,140,430**	**2,242,249**	674,900	1,685,200	**1,140,430**	**2,242,249**	1,094,448	2,734,422
Others	**321,167**	**78,682**	450	500	**321,167**	**78,682**	813,740	556,150
Unsecured	**1,107,808**	–	458,450	–	**1,107,808**	–	1,369,966	–
Against Past Due But Not Impaired								
Mortgages over property, plant and machinery	**18,215,022**	**40,442,389**	6,839,857	17,019,733	**18,215,022**	**40,442,389**	13,923,918	39,423,628
Others	**11,299,513**	**3,874,642**	335,163	178,422	**11,299,513**	**3,874,642**	6,984,107	2,896,689
Unsecured	**5,790,641**	–	2,018,260	74,343	**5,790,641**	–	4,598,182	74,343
Against Neither Past Due Nor Impaired								
Mortgages over property, plant and machinery	**43,204,836**	**95,750,255**	26,202,035	55,837,996	**43,204,836**	**95,750,255**	38,781,539	101,929,409
Treasury Guarantee	**3,656,813**	**5,235,669**	2,912,507	2,912,507	**3,656,813**	**5,235,669**	2,912,507	2,912,507
Debt securities	**940,000**	**94,000**	1,270,982	1,270,982	**940,000**	**94,000**	1,270,982	1,270,982
Equity	**1,382,047**	**1,465,100**	345,614	993,574	**1,382,047**	**1,465,100**	345,614	993,574
Others	**31,009,977**	**9,237,347**	6,634,476	3,210,494	**31,009,977**	**9,237,347**	28,342,756	11,823,703
Unsecured	**27,336,036**	–	17,970,566	739,821	**27,336,036**	–	24,799,641	739,821
Total	**151,075,013**	**160,056,036**	68,100,069	85,189,066	**151,075,013**	**160,056,036**	130,369,741	167,276,684

The above analysis does not include balances relating to lease rentals receivable.

Note 01

An updated valuation of collateral is generally not carried out unless the credit risk of a loan deteriorates significantly and the loan is monitored more closely. Accordingly the Bank does not routinely update the valuation of collateral held against performing loans. For impaired loans, the Bank usually obtains recent valuations of collaterals as the current value of the collateral may be an input to the impairment measurement.

Note 02

Other include loans secured by gold, bank guarantee, movable equipment and machinery, vehicle mortgages, inventory and book debts, shares, demand promissory notes, personal guarantees, corporate guarantees and trust certificates.

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 and cash flow forecast under normal and stressed conditions using a flow approach.

d. Monitoring the Bank's liquidity through the Liquid Assets Ratio (statutory minimum is currently 20%) using a stock approach.

e. Effecting threshold limits relevant for liquidity management as a part of the overall risk limits system of the Bank.

	6 months ended 30 September 2015 %	Year ended 31 March 2015 %
65.3.2 Quantitative Disclosures		
65.3.2.1 Liquidity Risk Position		
65.3.2.1.1 DFCC Bank PLC – Before Amalgamation		
Liquid Asset Ratio as at reporting date	**55.3**	47.6
Average for the period	**42.6**	42.5
Minimum for the period	**35.0**	30.0
Maximum for the period	**55.3**	55.0

	1 October 2015 to 31 December 2015 %
65.3.2.1.2 DFCC Bank PLC – After Amalgamation	
Liquid Asset Ratio as at 31 December	**22.45**
Average for the period	**22.13**
Minimum for the period	**21.75**
Maximum for the period	**22.45**

DFCC Bank PLC, as a Licensed Specialised Bank computed the liquid assets ratio, only on deposit liabilities, whereas after the amalgamation it is computed on total liabilities.

As at	**31.12.2015 %**
Gross advances to deposit ratio	**150**
Gross advances to deposit ratio (including credit lines and international notes)	**110**

65.3.2.2 Liquidity Coverage Ratios

The liquidity coverage ratio of the Bank as at 31 December 2015 is as follows:

As at	31.12.2015 %
Liquidity coverage ratio – Rupee only	120.57%
Liquidity coverage ratio – all currencies	111.06%

The ratio has been maintained above the statutory limit of 60% throughout the period.

65.3.2.3 Maturity Profile of Financial Liabilities of the Bank

As at 31 December 2015	Carrying Amount	Total*	Up to 3 months		3 to 12 months		1 to 3 years		3 to 5 years		>5 years	
	LKR 000	LKR 000	LKR 000	%	LKR 000	%	LKR 000	%	LKR 000	%	LKR 000	%
Liabilities with Contractual Maturity (Interest-Bearing Liabilities)												
Due to banks	24,349,209	24,352,412	20,236,896	83	115,516	0	4,000,000	17	–	–	–	–
Due to other customers	106,927,875	107,064,645	46,405,797	43	34,465,101	32	5,347,787	5	5,259,384	5	15,586,576	15
Other borrowing	35,955,297	35,956,780	9,655,537	27	3,405,146	9	–	–	13,202,716	37	9,693,381	27
Debt securities issued	23,292,660	23,249,138	536,116	2	446,941	2	4,966,781	21	17,299,300	75	–	–
Subordinated term debt	3,767,081	3,841,393	82,901	2	1,758,492	46	–	–	2,000,000	52	–	–
	194,292,122	194,464,368	76,917,247		40,191,196		14,314,568		37,761,400		25,279,957	
Other Liabilities (Non-Interest-Bearing Liabilities)												
Due to banks	15,194	15,194	15,194	100	–	–	–	–	–	–	–	–
Derivative financial instruments	85,333	91,313	56,714	62	34,599	38	–	–	–	–	–	–
Due to other customers	3,962,810	3,962,809	1,675,172	42	1,361,255	34	–	–	–	–	926,382	23
Other liabilities	3,368,558	3,122,109	1,096,470	35	800,213	26	–	–	–	–	1,225,426	39
	7,431,895	7,191,425	2,843,550		2,196,067		–		–		2,151,808	

65.3.2.4 Maturity Profile of Financial Liabilities of the Group

As at 31 December 2015	Carrying Amount	Total*	Up to 3 months		3 to 12 months		1 to 3 years		3 to 5 years		>5 years	
	LKR 000	LKR 000	LKR 000	%	LKR 000	%	LKR 000	%	LKR 000	%	LKR 000	%
Liabilities with Contractual Maturity (Interest-Bearing Liabilities)												
Due to banks	24,349,208	24,352,412	20,236,896	83	115,516	0	4,000,000	17	–	–	–	–
Due to other customers	106,588,410	106,725,231	46,405,797	43	34,125,686	32	5,347,787	5	5,259,384	5	15,586,577	15
Other borrowing	35,955,297	35,956,780	9,655,537	27	3,405,146	9	–	–	13,202,716	37	9,693,381	27
Debt securities issued	23,292,660	23,249,138	536,116	2	446,941	2	4,966,781	21	17,299,300	75	–	–
Subordinated term debt	3,767,081	3,841,393	82,901	2	1,758,492	46	–	–	2,000,000	52	–	–
	193,952,656	194,124,954	76,917,247		39,851,781		14,314,568		37,761,400		25,279,958	
Other Liabilities (Non-interest-Bearing Liabilities)												
Due to banks	16,445	16,445	16,445	100	–	–	–	–	–	–	–	–
Derivative financial instruments	85,333	91,313	56,714	62	34,599	38	–	–	–	–	–	–
Due to other customers	3,962,810	3,962,809	1,675,172	42	1,361,255	34	–	–	–	–	926,382	23
Other liabilities	3,500,012	3,253,563	1,100,348	35	901,933	26	–	–	–	–	1,251,282	39
	7,564,600	7,324,130	2,848,679		2,297,787		–		–		2,177,664	

**The gross nominal outflow represents the contractual undiscounted cash flows.*

65.4 Market Risk

65.4.1 Qualitative Disclosures

Market risk is the possibility of losses arising from changes in the value of a financial instrument as a result of changes in market variables, such as interest rates, equity prices, foreign exchange rates and commodity prices will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters, in order to ensure the Bank's solvency and the income growth, while optimising the return on risk.

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. Overall risk limits for market risk management
f. New product development policy

Overall authority for managing market risk is vested with the Board of Directors through the Board Integrated Risk Management Committee (BIRMC). The operational authority for managing market risk is vested with ALCO. Foreign exchange risk is managed within approved limits and by segregation of reporting responsibilities of Treasury Front Office, Middle Office and Back Office.

Exposure to market risk arises from two sources viz. trading portfolios from positions arising from marking to market activities, and non-trading portfolios from positions arising from financial investments classified 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 PLC.

65.4.2.1 Interest Rate Risk

65.4.2.1.1 Duration Analysis as at 31 December 2015

Portfolio	Face value LKR 000	Mark-to-market value LKR 000	Duration	Interpretation of duration
Government Securities trading portfolio	–	–	–	
Treasury Securities AFS portfolio	29,764,572	29,690,593	0.45	Portfolio value will decline approximately by 0.45% as a result of 1% increase in the interest rates.

Market risk exposure for interest rate risk in the AFS portfolio for treasury securities as at 31 December 2015 is depicted by duration of 0.45%. This level of interest rate risk exposure in the AFS portfolio can be interpreted as a possible potential loss in the mark-to-market value amounting to LKR 133.61 million, as at 31 December 2015 in case, the market interest rates mark a parallel upward shift of 1%.

65.4.2.1.2 Potential Impact to NII Due to Change in Market Interest Rates

Overall up to the 12-month time bucket, DFCC Bank carried a liability sensitive position. This liability sensitivity will vary for each time bucket up to the 12-month period. The interest rate risk exposure as at 31 December 2015 is quantified based on the assumed change in the interest rates for each time period and is given in the 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	67,899,658	46,728,793	19,075,793	12,014,210
Total interest-bearing liabilities	63,896,346	36,386,835	29,650,890	18,307,288
Net rate sensitive assets (liabilities)	4,003,312	10,341,958	(10,575,097)	(6,293,078)
Assumed change in interest rates (%)	0.5%	1.0%	1.5%	2.0%
Impact	20,017	94,801	(118,970)	(62,931)
Total net impact if interest rates increase				(67,083)
Total net impact if interest rates decline				67,083

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 DFCC Bank

The following table indicates the DFCC Bank's exchange rate risk exposure based on its size of the NOP/unhedged positions in the foreign currency assets/liabilities. By 31 December 2015, DFCC Bank carried a USD equivalent net open/unhedged 'oversold' position of LKR 1.1 billion. The impact of exchange rate risk is given below:

	Amount
Net exposure – USD equivalent	(7,592,000)
Value of position in LKR '000	(1,094,387)
Exchange rate (USD/LKR) as at 31 December 2015	144.15
Possible potential gain/(loss) to DFCC Bank – LKR '000	
If Exchange rate (USD/LKR) depreciates by 1%	(10,944)
If exchange rate depreciates by 10%	(109,439)
If exchange rate depreciates by 15%	(164,158)

The estimated potential exchange loss is off set by the interest gain due to interest differential between Sri Lankan Rupee and the respective foreign currencies.

65.4.2.3 Equity Price Risk

Equity price risk is part of market risk which is defined as the risk of possible loss arising from the equity market investments due to changes in the market prices of the invested shares. The Bank is exposed to equity price risk through its investments in the equity market which has been shown in the AFS portfolio.

Parameter	**Position as at 31 December 2015 LKR 000**	Position as at 31 March 2015 LKR 000
Mark-to-market value of the total quoted equity portfolio	**18,123,603**	21,136,695
Value-at-risk (under 99% probability for a quarterly time horizon)	**16.6%**	27.7%
Maximum possible loss of value in the mark-to-market value of the portfolio as indicated by the VAR over a quarterly period	**3,008,518**	5,854,864
Unrealised gains in the AFS equity portfolio reported in the fair value reserve	**14,159,681**	17,380,078

Equity price risk is quantified using the Value at Risk (VAR) approach based on the Historical Loss method. Historical two-year portfolio returns is adopted to compute VAR as a measure of the equity prices risk exposure by DFCC Bank. This VAR computation for the equity AFS portfolio considers a quarterly time horizon.

65.4.2.4 Market Risk Exposures of DFCC Group for Regulatory Capital Assessment as at 31 December 2015

Under the Standardised Approach of Basel II with effect from January 2008, market risk exposures are quantified for regulatory capital purposes. The computation results as at 31 December 2015 are as follows:

	Risk-weighted assets LKR 000	Quantified possible exposure LKR 000
Interest rate risk	–	–
Equity price risk	5,965	597
Foreign exchange and gold risk	115,828	11,583
Total	121,793	12,180

65.5 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank relating to processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements.

DFCC Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness whilst avoiding control procedures that restrict initiative and creativity.

The following are included in the process of the operational risk management in DFCC Bank.

- Monitoring of the Key Risk Indicators (KRIs) for the departments/functions under the defined threshold limits using a traffic light system. Develop risk and control Self-Assessments to identify the risk exposure of all processes.
- Operational risk incident reporting system and the independent analysis of the incidents by the IRMD, and recognise necessary improvements in the systems, processes and procedures.
- Trend analysis on operational risk incidents and review at the Operational Risk Management Committee (ORMC) and the BIRMC.
- Review of downtime of the critical systems.
- Review of HR attrition and exit interview comments in detail including a trend analysis with the involvement of the IRMD. The key findings of the analysis are evaluated at the ORMC and the BIRMC in an operational risk perspective.
- Establishment of Whistle Blowing process.
- Establishment of the complaint management process of the Bank under the Board approved complaints management policy. In addition to the status reporting on the complaints handling process by the Channels and Service Delivery Unit, IRMD makes periodical evaluations on the effectiveness of the complaints management process and reports to the ORMC and the BIRMC.

The primary responsibility for the development and implementation of controls to address operational risk lies with IRMD whilst implementation is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for management of operational risk in the following areas:

a. Requirements for appropriate segregation of duties, including independent authorisation of transactions,
b. Requirements for reconciliation and monitoring of transactions,
c. Compliance with regulatory and other legal requirements,
d. Documentation of controls and procedures,
e. Requirements for periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified,
f. Requirements for reporting of operational losses and proposed remedial action,
g. Development of contingency plans,
h. Training and professional development,
i. Ethical and business standards, and
j. Insurance covering risk due to threats arising from external and other events.

Compliance with the Bank's Standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management.

65.6 Capital Management

65.6.1 Qualitative Disclosures

DFCC Bank PLC manages its capital at Bank and Group level considering both regulatory requirement and risk exposures. Its regulatory capital position is analysed by the BIRMC on a quarterly basis and recommendations and decisions are made accordingly. The Group capital management goals are as follows:

a. Ensure regulatory minimum capital adequacy requirements are not compromised.

b. Bank to maintain its international and local credit rating and to ensure that no downgrading occurs as a result of deterioration of risk capital of the Bank.

c. Ensure above industry average Capital Adequacy Ratio for the banking sector is maintained.

d. Ensure maintaining of quality capital.

e. Ensure capital impact of business decisions are properly assessed and taken into consideration during product planning and approval process.

f. Ensure capital consumption by business actions are adequately priced.

g. Ensure Bank's average long-term dividend pay-out ratio is maintained.

Central Bank of Sri Lanka sets and monitors regulatory capital requirement on both consolidated and solo basis.

The Bank is required to comply with the provisions of the Basel II and Basel III in respect of regulatory capital. The Bank currently uses the standardised approach for credit risk and basic indicator approach for operational and for market risk.

Regulatory capital comprises Tier I Capital and Tier II Capital. The Bank's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence to sustain future development of the business.

DFCC Bank and its Group have complied with the minimum capital requirements imposed by the Central Bank of Sri Lanka throughout the period.

	Notes	31.12.2015 Basel II LKR 000
65.6.2 Quantitative Disclosures		
Tier I Capital		
Stated capital	53	4,715,814
Statutory reserve fund	54	1,834,275
Retained earnings	55	11,506,206
General and other reserves		13,779,839
Non-controlling interests		252,426
Less: Deductions		
Goodwill	42	156,226
Net deferred tax asset	44	1,536
Intangible assets	41	247,945
50% investments in the capital of other banks and financial institutions		3,188,652
Total Tier I Capital		28,494,201
Tier II Capital		
Qualifying subordinated liabilities		2,318,000
General provision		735,424
Less: deductions		
50% investments in the capital of other banks and financial institutions		3,188,652
Total Regulatory Capital		28,358,973