Value Creation and External Capital Formation

External capital refers to the value of the various stakeholders to the Bank and the Group and comprises lasting relationships and profitable partnerships built over the years through the activities, interactions and linkages with them. Unlike the financial and institutional capitals, external capital 'resides' in the stakeholders – material ones being investors, customers, employees, business partners, society and environment and hence is 'external' to the Bank and the Group. But we have access to and make use of this external capital together with our internal capital in driving our business to deliver value to them and deriving value from them, thereby growing external and internal capitals further. In fact, the greater the external capital we will be able to build, the greater will be the value that we will be able to create for ourselves in future.

INVESTOR CAPITAL

The Bank's investors are persons, both institutional and individual, who provide equity or debt capital with the expectation of a superior return over the short, medium and long term. In turn, the Bank drives future earnings while operating within sound risk management and control frameworks to derive value for itself and to deliver value to its investors.

Shareholder Profile

The Bank had 8,640 shareholders on 31 December 2015 (March 2015: 8,443 shareholders), with the total number of shares in issue remaining unchanged at 265,097,688 ordinary shares. Around 86% of the Bank's share capital is held by institutions. Local shareholders, both institutional and individual, hold about 74% of the total number of shares in issue and account for 98% of all shareholders.

Return to Shareholders

Financial Return

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

Shareholders are primarily rewarded through dividends and share price appreciation. The Bank aims to provide consistently high total shareholder returns through profitable and sustainable performance. Dividends are determined based on growth in profits while taking into account future cash needs and the maintenance of prudent ratios. The Board of Directors has approved a first and final dividend of LKR 2.50 per share for the period under review (FY 2014/15: LKR 6.00).

The DFCC Bank share closed at LKR 168.90 on 31 December 2015. During the period the highest value of LKR 230.00 was recorded on 21 April 2015 and the lowest value was recorded on 3 December 2015 as LKR 155.00. Over the nine month period, the share posted a loss of LKR 36.10 (21.4%). The share price tracked the movement of the All Share Price Index (ASPI) closely during the period under review.

Additional details are given under the section Investor Relations (commencing on page 113).

CUSTOMER CAPITAL

Branch Network and Service Delivery

Details of the branch network are given in the online report [http://dfcc2015.annualreports.lk]

As we write, a lot of changes are taking place in the banking industry. These changes will fundamentally change the role of a bank and transform branch banking and retail service delivery in particular. DFCC Bank is gearing itself to greet these changes and make use of immense opportunities they will bring about, thereby staying relevant and benefiting therefrom. We will develop a much more complete understanding of the future customer and deliver a significantly enhanced customer experience by matching our value proposition with their preferences and offering it through channels of distribution that suit them best. All this calls for the optimal deployment of technology, suitably aligned with our chosen direction and strategic goals while keeping the operational risk low. We are working on it.

In this context, during the period under review, the Bank focused on value added initiatives, to improve customer centric services, centralise and increase efficiency and effectiveness of resource utilisation. As the year progressed, several key initiatives were implemented improving the overall customer experience, leading to cross-selling opportunities and customer retention.

The present day customers are tech-savvy and aspire to have prompt service and information at their fingertips. Conventional banking practices are overshadowed by the evolution of digital innovations.

The appetite for electronic banking continued to grow. The Bank's first ever 'Automated Branch' was established at the newly refurbished premises in Negombo. The Automated Counter is equipped with a personal computer enabled with online banking access, and in addition has a kiosk unit, ATM and courtesy phone. This trend setting practice is to be adopted in more branches in the future with a view to creating fast and easy access transaction capability so that customers can reap the benefits of a traffic free, convenient and speedier service.

In light of the competitive consumer banking environment, the Bank continued to consolidate the branch network with the Sri Lanka Postal unit conversions. The Weligama unit was converted to a fully-fledged branch whilst the Gangodawila and Kottawa units were refurbished in order to create a better ambience. The Negombo branch was relocated to the Bank's own newly constructed building. The Borella building was refurbished and more central processing teams were transferred into this space to enhance efficiency.

The Bank has 79 branches and 58 service points with a geographically dispersed network of 77 ATMs island-wide. The Bank's first off-site ATM was set up at Galpadithanna, Ratnapura in the premises of a tea factory and the Bank is optimistic of setting up a few more at identified areas for wider reach.

The Bank will continue to increase the placement of kiosk machines and the branches that have courtesy phones, currently 30, will be further increased.

The Mobile Teller concept continued to catch on. This is a mechanism used to collect cash deposits and respond to account balance inquiries of selected customers in the vicinity of the branch. An assigned permanent staff member is given a palm-top device and a portable printer in order to complete a transaction. This concept is currently being used by two branches and it will be further expanded.

Work on centralisation progressed during the period under review. The documentation for account opening and maintenance has been moved to an off-site storage facility freeing up space for more productive usage.

The Service Quality unit has engineered many studies of various branches and departments in order to streamline existing processes. The unit has been successful in executing process improvements through focused and gradual review of process flows. The unit studied current processes through which services are offered to customers, critically evaluated strengths and weaknesses, identified ways of improvement, conducted root cause analysis on failures, and redesigned processes to achieve efficiency and effectiveness. Service level agreements with specific turnaround times have been implemented in certain departments so that employee productivity can be improved and staff can be deployed as per the identified staff requirements to serve customers better.

The unit wears many hats from acting as a quality administrator and engaging in inspection of services to providing service related advice. The team conducts regular quality audits, sends out alerts on identified service gaps and reviews department manuals to identify any loopholes and bottlenecks.

In essence, most of the focus and efforts during the period revolved around the amalgamation, where the team spent considerable time planning, executing work assignments, changing processes, communicating changes, educating branches and changing customer facing forms and documents amongst others. All these were delivered well within the required time frames.

Corporate Banking

Following the amalgamation of DFCC Bank and DFCC Vardhana Bank, DFCC Bank's Corporate Banking function now seamlessly offers an all-encompassing range of products spanning development banking and commercial banking. The services offered cater to both the short-term and long-term financial requirements of corporate customers. Besides the broadening of the product range, the amalgamation has also achieved further synergies. Uniquely, it is now a 'One-Stop-Shop' offering a superior value proposition in terms of product and service quality.

Despite the sluggish credit conditions during the year and the general 'wait and see' attitude of the business and investor community, approvals during the period under review amounted to almost LKR 19,782 million. The total domestic loans and advances portfolio also experienced a growth to LKR 49,039 million from LKR 46,316 million during the period April 2015 to December 2015.

DFCC Bank continues to be in the forefront of project financing and despite the relatively low level of long-term investment activity, the Bank was able to grow its corporate project loan portfolio by almost 9%. Power and energy projects continued to account for a significant share of the new approvals accounting for almost 20%, further reinforcing the Bank's status as a leading lender to this sector. The finance and business service industry accounted for approximately 26% of new approvals. The growth in approvals to the finance and business service sectors were notable and due mainly to the issuance of debentures and other securities during the year by several non-banking financial institutions involved in the leasing industry. The Corporate Banking portfolio remained well diversified with the Bank financing other projects across the board in growth sectors such as transportation and logistics, tourism, trade, education and telecommunications.

Corporate Banking continued to pass the benefit of concessionary loan schemes to clients. In particular the European Investment Bank (EIB) credit line made available to the SME sector and the renewable energy sector since 2014 was proactively promoted during the period. The total quantum of loans approved under the EIB scheme by Corporate Banking since its launch amounted to LKR 5,500 million which is almost 50% of the total loan quantum granted under this concessionary scheme by DFCC Bank.

While the commercial banking funded portfolio witnessed a marginal decline of 4%, the non-funded portfolio grew to LKR 9,787 million from LKR 7,269 million during the period. Total approved limits as at 31 December 2015 amounted to LKR 34,603 million of which the utilisation amounted to LKR 20,133 million or 58% compared to 55% utilisation as at the beginning of April 2015. The increased utilisation of limits despite high volatility in short-term interest rates reflects the increasing success of the unit's relationship banking efforts.

As indicated by the insignificant non-performing loan ratio, asset quality continued to be maintained. DFCC Bank places great emphasis on effective appraisal and excellent post disbursement follow up and procedures, including adherence to both internal and external regulatory limits in terms of sector, group and client level exposures and this continues to underpin the high quality of the portfolio.

The low interest rate regime that prevailed during 2015 posed a significant challenge in maintaining interest margins owing to the lag effect in the re-pricing of various sources of funding. Therefore, in order to mitigate the negative impact of the decline in net interest income, a concerted effort was made to grow the non-funded income base and increase fee, commission and other income.

A substantial effort was also made in deposit mobilisation in order to grow the Bank's deposit and CASA base. DFCC Bank's strong corporate relationships and superior service levels enabled the Bank to mobilise a significant quantum of deposits, current and savings accounts within a short span of time.

Way Forward

Driving growth by seizing opportunities in growth sectors in the economy is one of the key strategies for 2016. In particular we see significant potential in the logistics, construction, tourism and agro business sectors as indicative from concessions granted to these sectors in the 2016 Budget and overall Government policy with regard to these industries. Sri Lanka is increasingly being promoted as a global logistics hub which provides significant lending opportunities to this sector. Likewise, the tourism sector which is actively being marketed as a MICE destination is likely to attract investor interest which the Bank is well positioned to harness. The traditional agriculture sector is rapidly transforming into an agro business and promises to be a key growth sector in the medium to long term. Further, Government plans such as developing the Western Province as a Megapolis, as well as rapid urbanisation which has seen a significant increase in condominium development is expected to boost the construction industry in the short to medium term.

Infrastructure development will continue to be a priority and with the Government's emphasis on public-private partnerships and private banks participation in these projects, the Bank sees significant scope to be a part of this development. Having funded a number of large scale infrastructure projects in the recent past DFCC Bank is well poised to take advantage of these opportunities.

We will continue to focus on the renewable energy sector, expanding our presence in areas such as solar, wind power and hydro power. With the Government seeking a contribution of at least 20% from small scale power producers by 2020, we see significant potential in this sector which we are well placed to harness considering our pioneering status.

Off-Shore lending and the growth of the Bank's FCBU clientele are other areas that will be focused on in the light of the Government's renewed emphasis on developing the export sector and attracting more foreign direct investments into the country.

Consolidating DFCC Bank's position as one of the key commercial banks in the country will continue to be a priority in 2016. We will continue to capitalise on our long-term banking relationships and leverage the synergies arising out of the amalgamation to grow the commercial banking portfolio.

Small and Medium Enterprises

Branch Banking

The branch network of DFCC Bank was a hive of activity during 2015 with the unit's involvement in the Bank's Diamond Jubilee Celebrations and the amalgamation of DFCC Vardhana Bank. The Bank's main objective was to make the transfer of operations seamless and hassle-free as far as our valued customers are concerned. Bringing the two operations onto a single IT platform, amalgamation of the customer databases, standardising the credit processing and streamlining the loan repayment and recovery procedures proved to be the critical aspects during the amalgamation. The Branch Banking unit was able to successfully complete the process and commence services as a fully-fledged commercial bank within the stipulated time frame. This would not have been possible without the commitment of the branch staff and the support and guidance extended by the Central Steering Committee and the support Committees.

The branches continued with normal business operations amidst all the energy and excitement. Project and SME financing remained the quintessence of branch lending activities while a substantial effort was made in the deposit mobilisation sphere to sustain the growth momentum experienced by the Bank in the recent past.

Capacity Development of SMEs in Sri Lanka

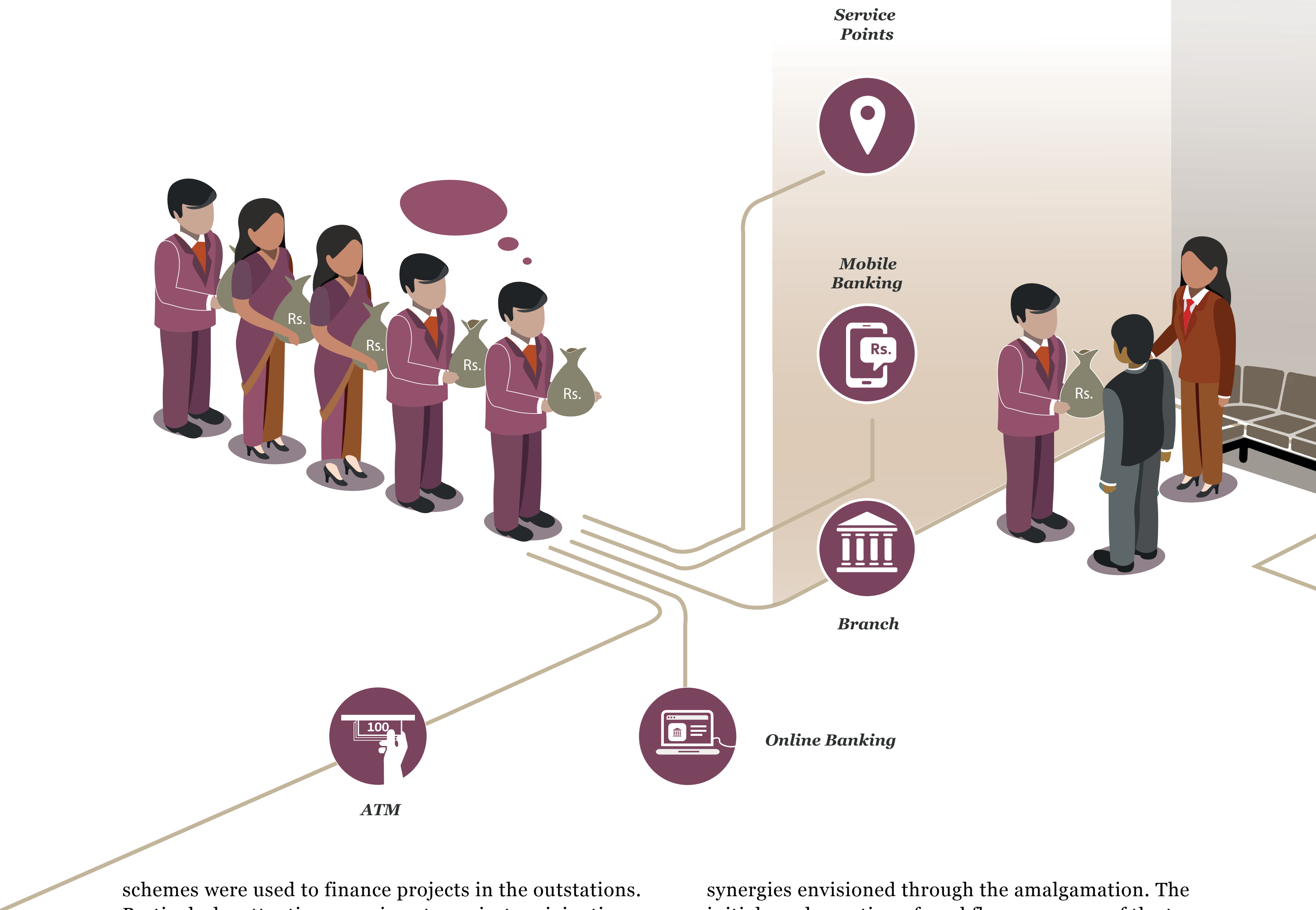
As Sri Lanka's premiere development financial institution, DFCC Bank has a rich heritage of equipping SMEs with the knowledge to face the challenges of a modern business environment. The Bank has been constantly reaching out to this critical sector with capacity development programmes on important areas such as entrepreneurship, management, modern business practices, etc.

Taking into consideration the emphasis placed on sustainability, renewable energy and energy efficiency in the modern globalised business environment, DFCC Bank teamed up with Deutsche Gesellschaft fur Internationale Zusammenarbeit (GIZ) of Germany and DFCC Consulting (Pvt) Limited to develop a framework to inculcate best practices in sustainability and energy efficiency in local SMEs. As part of this effort, the Bank organised nine training programmes for SMEs during the period with the assistance of DFCC Consulting (Pvt) Limited and the branch network. Technical assistance for these workshops was provided by GIZ through German and local energy consultants. Particular attention was given to emerging districts in the Northern, Eastern, Southern and Uva Provinces when selecting locations. Over 300 SMEs directly benefited from this initiative. In the second phase, the Bank will look at nurturing new initiatives by these SMEs, in the areas of sustainable energy and efficiency management, and provide financial assistance and guidance.

Performance During 2015

Branch Banking showed a robust performance during the period ended 31 December 2015. The advances portfolio of the branches increased to LKR 102,189 million from LKR 83,104 million showing a growth of 23%. A strong growth was observed in term loans, working capital loans and finance leases. The focus remained strong towards lending to Small and Medium Enterprises, fulfilling its mandate as the pioneer development bank in the country.

The branches proactively engaged in drawing down from several lines of credit available to the Bank for SME lending. Particular attention was given to the concessionary loan scheme available through the European Investment Bank (EIB). A total of 37 projects were financed by the branches amounting to LKR 2,570 million under this line of credit in 2015. The key sectors supported through the line included leisure, food and beverage, health and education services. Several other lines of credit that included Smile III (RF), *Saubhagya* and the Commercial Scale Dairy Development Loan Scheme were also utilised to finance loans to the SME sector. DFCC Bank's commitment to the development of Small and Medium Enterprises outside the Western Province is noteworthy. A substantial portion of these concessionary loan



schemes were used to finance projects in the outstations. Particularly, attention was given to projects originating from emerging provinces of the country including North, East, Uva and North-Central.

Non-performing advances ratio of the branches improved to 4.2% from 4.7% during the period amidst strong recovery and follow-up framework.

Roadmap for 2016

Branch Banking is highly optimistic about the prospects for 2016 even though the general forecast for the economy is mediocre. The unit has incorporated several new initiatives in the business plan for 2016 to optimise the operational efficiencies in the branch network and to drive business growth. These include:

→ **Restructuring and streamlining processes in the regions**

The transformation to a commercial bank on 1 October 2015 required substantial change to the organisational structure of the Branch Banking operation to reap the synergies envisioned through the amalgamation. The initial amalgamation of workflow processes of the two entities was successfully completed in three regions during the period. Restructuring and streamlining of processes among the balance regions will be completed during the first quarter of 2016.

→ **Expansion of the Branch Network**

DFCC Bank envisions a rapid expansion of its branch network in reaching out to the under-banked segments in the outstations. Thus, the Bank will look to convert outlets that have limited banking operations such as the Sri Lanka Post outlets into fully-fledged branches in stages. In order to optimise the span of control with the proposed expansion, the number of Regional Offices will be increased from the current six to seven in early 2016.

Enhancing project and SME lending capabilities

The Bank's project lending activities are currently concentrated mainly in 20 dedicated SME units. With the amalgamation of operations, the number of potential customer access points through which the Bank can provide SME products has considerably increased, and the Branch Banking unit is eager to enhance the project and SME lending capabilities of these units to reach a wider client base.

Development of specialised credit products

The Bank has identified a dearth in financial products in the market for emerging SMEs, especially those who are in transition stage from micro-scale to small enterprise category. This segment has unique requirements, and lenders need to identify the capabilities of these entrepreneurs in structuring products. DFCC Bank with its six decades of experience in development banking has the capacity to nurture these entrepreneurs. Therefore the Bank is in the process of developing specialised credit products for this segment and intends to launch them in 2016.

Providing comprehensive project financing solutions

The role of the Regional Offices will be enhanced in the future by establishing credit processing units in each Regional Office. These units will be staffed by Relationship Managers with wider experience in SME lending and project financing. The larger credit facilities (Specially project loan facilities) stemming from branches will be appraised through these units. In addition, any special projects or green-field projects tapped by the branches will be routed to a special unit established at the Bank's Head Office. Branch Banking expects to expand its sphere of operations beyond traditional boundaries and provide comprehensive project financing solutions through all its branches using this framework.

Expanding the scope of the Marketing Cell

The Marketing Cell concept introduced in 2014 has brought in rich rewards during 2015 and is expected to be further strengthened during 2016. The scope of the Marketing Cell has been expanded to include liability products as well, following the amalgamation.

Business Banking for High End SMEs

DFCC Bank's Business Banking offers the entire range of banking services inclusive of commercial banking counter operations and lending products. Positioned in-between Branch Banking and Corporate Banking, Business Banking combines the best of both ends of the spectrum, offering a professional service to clients as well as maintaining close and cordial relationships with them. The client portfolio is also diversified, with a mix of lower-end corporate clients, higher end SME clients and retail customers. The Bank strives to customise products to suit the requirements of customers. Business Banking products include project loans, term loans for financing of business assets and construction of commercial buildings, loans and overdrafts to finance working capital, trade finance to facilitate imports/exports, debenture investments, fee-based products such as letters of credit and guarantees to cover transaction-related contingencies as well as Personal Financial Services such as credit cards, leasing, personal loans and housing loans.

During the period under review, the Business Banking assets portfolio grew by 25% to LKR 19,088 million, which is a very impressive achievement given that the growth was only 13.8% during the year ended 31 March 2015. The major contribution for the growth of asset portfolio was given by the loan portfolio despite the very competitive market conditions and rising cost of funds. The liability base, showed a moderate growth of 7.3% to LKR 8,575 million. The unit has laid out solid plans for growing the liability base in 2016.

Personal Financial Services was an area which was keenly focused on, which yielded successful results. The retail asset portfolio at the end of the period was LKR 951 million. The combined renewals/approvals during the period under review amounted to LKR 15,083 million.

Personal Financial Services

DFCC Bank's Personal Financial Services (PFS) was launched in 2011 as a total solutions provider meeting the needs and wants of individual borrowers. A great deal of emphasis is placed on personal banking as it is a consistent contributor to the growth and profitability of the Bank. Being a late entrant to this segment, the Bank has been able to penetrate and fly high in the retail banking sector amidst severe competition.

Marketed under the brand name 'Vardhana Personal Plus' the product portfolio consists of asset and liability products comprising convenient deposits and lending options such as home loans, personal loans, vehicle leases, pawning and credit card facilities. PFS products are available through the Bank's multi channeled distribution network including the branches located island-wide, providing a seamless customer experience.

The individual borrower sector caters to both the fixed income earners as well as the self-employed, providing personalised solutions designed to meet the financial requirements of these individuals.

New heights were reached in terms of growth and process improvements. The bulk of PFS was generated from the outstations where the demand contributed mostly for the growth in 2015. This trend has continued for the past four years since the product initiation, and further it is the segment that is expected to shine in the coming years.

Also in the period under review, the Central Loan Processing unit was expanded and is now a fully-geared back-office service delivery unit, allowing the Bank to excel in service delivery for valued customers. Enabling customer acquisition, strengthening existing relationships and relentless focus on service delivery are the key features that the Bank follows to provide better financial services.

2015 was a momentous year for Personal Financial Services (PFS) with a remarkable 37% growth in the total PFS portfolio during the period under review. The retail asset portfolio at the end of the year reached LKR 24,922 million.

DFCC Bank is fully equipped to take its place among the front-runners in the industry. The Bank's aim and vision for 2016 is to be the 'Preferred Bank' in the mind of every Sri Lankan.

Personal Loans

Vardhana Personal Loans, introduced in 2013, is a product marketed under the umbrella of Personal Plus which is tailored with the objective of providing financial solutions to fulfill the varying requirements of individual borrowers. This loan scheme is primarily targeted to meet personal commitments of salaried employees of both the private and public sectors. The product is also extended to appeal to professionals and members of the defense forces. Loans can be obtained for education, home improvements, vehicle purchase or any other requirement that is deemed feasible by the Bank. Loans extended to professionals have proved to be a successful niche that contributed healthy volumes to the portfolio growth whilst enhancing the customer base.

During the period under review, Personal Loans recorded a notable growth of 54%. The strategy for success revolved around promoting the Personal Loans Scheme to employees of the existing corporate client base across the Bank's network, and also to employees of recognised corporate entities. The bulk of the Personal Loans booked during the period under review was generated from the outstations, a trend witnessed across all PFS products.

Within the highly competitive Personal Loan segment, the Bank differentiates itself by offering competitive and flexible interest rates, simplified documentation, tailor-made solutions and faster turnaround times.

A healthy growth has been witnessed during the short tenure since the product was launched and we see immense potential for growth in this segment. In 2016, DFCC Bank intends to have a series of product marketing promotions, specially focusing in the North and the East Regions where there is huge potential for growing this product.

Housing Loans

The *Sandella* Housing Loan, marketed under the umbrella of Vardhana Personal Plus with a promise to "Make Your Dream Home a Reality", is designed to cater to all avenues of home ownership, such as house purchase, land investment and condominiums. It also accommodates the construction of new housing units as well as renovation and extensions to existing houses. The product was introduced in 2010, and throughout the last five years there has been a phenomenal growth in the market, accounting for a significant portion in the retail assets portfolio of the Bank. This scheme is intended for a wide cross-section of demographic including persons from business and professional backgrounds, public and private sector employees, self-employed individuals as well as Sri Lankan citizens employed abroad. Loans under this scheme are priced at competitive rates and the tenor can be structured to suit the repayment capacity of individuals.

The increase in condominium developments in the country also led to a demand for such financing by high net-worth individuals and also by those employed abroad. The Bank's tie-up arrangements with the condominium developers led to mutual collaboration in business generation that also contributed to the overall housing growth.

During the year 2012, DFCC Vardhana Bank, subsidiary of DFCC Bank at the time, signed an agreement with the Asian Development Bank (ADB) to obtain a Credit Line of USD 15 million for housing finance with a view to reach out further to the developing housing market, increasing focus on regional geographies. The ADB Credit Line prioritises for first time homebuilders, young professionals, family borrowers, female entrepreneurs and middle and lower-middle income individuals. Further, indirect development in terms of contribution to the development of the country and employment generation within the sector is expected to be achieved through the Credit Line. DFCC Bank was the first to initiate such a credit scheme for the purpose of financing residential property.

The loans disbursed were partly funded by the ADB Credit Line. The first tranche amounting to USD 7.5 million was utilised since its inception in 2012, and the second tranche of USD 7.5 million was availed in April 2015.

During the period under review, a remarkable growth of 42% was recorded in the housing loans portfolio. The portfolio as at 31 December 2015 stood at LKR 5,602 million. The success was primarily from outstation branches which accounted for over 78% of the contribution. The ease of access to the Northern and the Eastern regions has phenomenally supported the growth.

With the amalgamation of DFCC Bank and DFCC Vardhana Bank, much attention has been given to growing the Retail Assets portfolio of the Bank. With the expanding branch network our services will have a wider reach, especially in the North and the East regions and much emphasis will be placed on vertical living financing whilst continuing to cater to the middle-income sector. DFCC Bank intends to continue promoting housing loans with appropriate advertising and a pool of 'foot soldiers' island-wide.

Finance Leasing

DFCC Bank is one of the pioneer facilitators in providing leasing in the banking sector in Sri Lanka. The Bank has provided lease facilities to customers from a wide spectrum of sectors such as industry, transport, tourism, agriculture, manufacturing and construction apart from catering to the needs of individuals. By providing lease facilities for these sectors, the Bank has immensely contributed to the development of the country in its long run; over the past six decades. In addition to providing financial assistance, the Bank has provided guidance to its customers leveraging the expertise available within the Bank, being the pioneering development bank in the country. By educating the clientele, the Bank has been able to build skilled entrepreneurs to lead in almost every sector in Sri Lankan enterprises.

The Bank offered the most competitive interest rates in the leasing market throughout the period under review, and promotional campaigns conducted jointly with motor vehicle suppliers were highly successful. The Bank has been able to reach a substantial customer base under different sectors and achieve a geographically well-diversified portfolio through the island-wide branch network. As part of product diversification, DFCC Bank introduced two stage lease facilities enabling customers to have an affordable monthly pay back rental by extending the lease period up to seven years.

DFCC Bank recorded 32% net growth in the collective leasing portfolio of the DFCC Banking Business (DFCC Bank and its subsidiary at the time, DFCC Vardhana

Bank) in 2015 which reached LKR 15,436 million by 31 December 2015. In the regional distribution for 2015, most of the facilities granted were out of Colombo. Also a substantial growth was seen in the North and the East regions compared to the previous year. Overall, 2015 was an excellent year for the Bank's leasing business and the Bank looks forward to enhancing the growth momentum in 2016.

Gold Pledge Lending

The Ranwarama Pawning product was introduced in 2008 as a convenient source of funding to meet the varying needs of customers. However, with the drastic downturn in the gold prices experienced in April 2013 the market has been very cautious and opportunity for growth has been limited. The year 2015 was challenging where there was a decline in the portfolio during the first two quarters. Nevertheless, the Bank continued to promote the product, offering customers an extremely competitive advance value at a low interest rate, through extended banking and weekend banking coupled with a friendly and efficient service, which has borne fruit.

Card Operations

Having launched the Visa international debit card in the year 2011, DFCC Bank ended the year 2015 with a base of over 84,500 debit cards in issue. During the period under review, over 18,000 Visa debit cards were issued. The DFCC Visa debit cards provide access to over 36 million Visa-accredited merchants globally for purchase of goods and services and can be used for cash withdrawals worldwide through a network of over 2.4 million ATMs.

The period under review saw debit card usage amount to LKR 1,974 million from 333,994 transactions at ATMs and LKR 272 million from 93,301 transactions at POS terminals. In addition to the standard Visa debit cards the Bank introduced three special Visa debit cards for DFCC Premier banking customers, namely, Premier plus, Premier and Prabhu.

The credit card range of DFCC Bank covers internationally valid Visa Classic, Gold and Platinum cards. The Platinum cards, with a number of value added features, are issued to key customers of the Bank, while corporate cards target corporate customers. All the credit cards issued by the Bank are chip based and provide enhanced protection against credit card frauds. This includes SMS alert messages relating to transactions and a 24-hour hotline.

The total credit exposure of the credit card portfolio stood at LKR 738 million as at 31 December 2015, with a card usage of LKR 357 million during the period under review.

DFCC Bank's credit card operation remains a viable business line despite its late entry into the market. The card portfolio is free of material infections due to prudent screening methods adopted at the time of issuing them.

The chip based multi currency Visa Global Travel card was introduced in 2015 replacing the magnetic stripe based single currency Global Travel card. The Global Travel card is a prepaid card which provides the choice of preloading and accessing four international currencies in one card at any given time, thus reducing additional costs arising from multiple currency conversions.

DFCC Bank has started providing card acceptance facilities to merchant establishments with the assistance of 'Global Payments' from the third quarter of 2015 and so far over 100 merchant establishments have been provided with card acceptance facilities.

Investment Banking and DFCC Bank's Investment Portfolio

Investment Banking services are offered through Acuity Partners (Pvt) Limited; a full service investment bank promoted as an equally owned joint venture between DFCC Bank and Hatton National Bank (HNB). It offers a comprehensive suite of products and services in Fixed Income Securities, Stock Brokering, Corporate Finance, Margin Trading, Asset Management and Venture Capital Financing.

DFCC Bank's Investment Portfolio

As at 31 December 2015, the aggregate cost of investment in DFCC Bank's portfolio of quoted shares [excluding the holding in Commercial Bank of Ceylon PLC (CBC) voting shares], unit holdings and unquoted shares amounted to LKR 1,658 million. The distribution of the aggregate investment portfolio is given below:

Investment Portfolio as at 31 December 2015:

	Cost (LKR million)	Market value (LKR million)
Quoted share portfolio (excluding CBC)	673.7	1,122.3
Unit Trust portfolio	836.5	995.0
Unquoted share portfolio	147.4	147.4
Total	1,657.6	2,264.7

The unquoted share portfolio is carried at cost in the balance sheet. The market value of the investment in CBC voting shares was LKR 17,001 million on 31 December 2015 as against the cost of LKR 3,290 million.

During the nine month period ended 31 December 2015, DFCC Bank carried out selected divestment of mature quoted shares and unit trust holdings, realising LKR 78 million in sales proceeds and LKR 37 million in capital gains.

Credit Line Management

EIB SME & Green Energy Global Loan

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

The entire loan of Euro 90 million was fully allocated within the availability period, which ended on 13 November 2015. A total of 167 requests from three participating intermediary banks, including DFCC Bank, aggregating to approximately LKR 14.65 billion were allocated funds. Of the amount allocated, by the year-end, LKR 6.74 billion (Euro 42.46 million) or 47.2% of the total loan, had been disbursed to intermediary banks for the benefit of their customers. The balance funds will be disbursed during 2016.

SME projects in a variety of sectors were approved for funding. Prominent sectors were auto service & repair, bakery products, construction, education, healthcare, manufacturing including agro processing, printing, retailing, tourism and trading. Under 'Green Energy', 57.7 MW of renewable energy capacity will be added to the national grid. Notable features were the approval of a 10MW photo voltaic solar power plant and a 4 MW bio mass combined heat and power co-generation plant which will use fuel wood only from authenticated sustainably grown sources, benefiting over 12,000 farmers. In addition, two 10MW wind farms and numerous 'mini hydro' projects were approved for funding.

Treasury

The easing monetary policy stance of the Central Bank of Sri Lanka (CBSL), in the back drop of slow credit growth and low inflation that the country witnessed in the year 2014, continued to the early part of 2015 as well. The lackluster private sector credit growth that continued until the middle of the year was mainly attributable to political and policy uncertainties that prevailed during this period. However, at the latter part of the year an expansion of credit to both the private and public sectors was witnessed.

The policy rates [Standard Deposit Facility (SDF) and Standard Lending Facility (SLF)] that stood at 6.50% and 8.00% respectively at the beginning of the year closed at 6.00% and 7.50% at the end of the year. In the first half of the year, Interbank money market rates continued to decline amidst highly liquid market conditions, which on average maintained daily excess liquidity of approximately LKR 72,000 million. Nonetheless, the developments that took place globally and locally specially at the latter part of the year have shown signals of fuelling inflation and tight money supply. Government borrowing had increased during the period in the backdrop of expenditure related to elections and public welfare initiatives of the past and incumbent Governments. On the other hand, the continued US FED rate hike speculations in the global markets and eventual rate hike in December, fuelled a sense of risk averseness and resulted in the continued sell off in equities and debt by investors especially in the emerging and frontier markets. This had put further pressure on the Government's foreign reserves and cost of funding through foreign sources.

In a move that signals and acknowledges the impact of the above developments, the CBSL in December chose to increase the Statutory Reserve Ratio (SRR) applicable to all Rupee deposit liabilities of commercial banks by 1.50% to 7.50% effective from the reserve week commencing 16 January 2016.

In response to the above local and global trends, the benchmark Government Treasury Bill/Bond yields also gradually increased during the calendar year 2015, with 12 month Treasury bill rates rising to 7.30% from 6.00%, five year bonds rising to 9.53% from 7.50% and 10 year bonds rising to 10.20% from 8.30%. Under this challenging environment, the Fixed Income (FI) desk has made significant gains through trading activities. The FI portfolio witnessed a growth and stood at LKR 51,966 million while the encumbered portfolio (allocated for REPO transactions) alone was LKR 20,231 million at the end of the period.

Maintaining the targeted interest rate spreads between deposit liabilities and lending rates in the light of prevalent low interest rate sentiment, which bank's witnessed in the early part of 2015, was a challenge for all market players. This, coupled with high market liquidity, especially in the early part of 2015, prompted fierce competition among banks and non-banking financial institutions for growth in advances at the expense of margins. This scenario compelled bank treasuries to improve the efficiency of liquidity and interest rate management to a level never witnessed before.

In the local Foreign Exchange markets, the pressure on the LKR witnessed at the end of 2014, continued in 2015, mainly due to foreign outflows from the equity and debt markets, along with the gradual widening of the trade deficit. This had compelled the CBSL to revise its strategy in managing the USD/LKR exchange rate in the third quarter of the year, encouraging the market to find its equilibrium instead. The USD/LKR rate closed the year 2015 with a depreciation of approximately 9.2%. The rate as at 31 December 2015 was LKR 144.15 compared to LKR 131.95 quoted as at 31 December 2014. At the latter part of the year, we saw an upward movement in the USD/LKR premiums with the premiums settling at around LKR 2.00, LKR 3.50 and LKR 7.00 for three months, six months and 12 months respectively.

Amidst this challenging environment, DFCC Bank Treasury made LKR 118.9 million through FX trading activities while positively contributing to reduce the cost of funds through its FX swap operation.

As the economy slowly continued to expand, improvements in customer volumes were witnessed throughout the year resulting in a 22.6% year-on-year growth, while contributing LKR 212 million to the bottom line through FX customer transactions. During the period under review, the Treasury sales desk successfully organised several customer events including the annual DFCC Economic Forum in collaboration with market experts, economists and senior CBSL officials, with the objective of enhancing the knowledge on current economic trends and resultant opportunities.

The Group Treasury played a vital role in the process of amalgamation between DFCC Bank and DFCC Vardhana Bank in October 2015, ensuring all regulatory requirements of the new entity were met while operationally ready for the day of the amalgamation and beyond. At the same time certain functions within Treasury were amalgamated and streamlined to ensure greater efficiencies to meet the requirements of all external and internal customers.

Going forward, while maintaining the positive momentum built over the years, with customer service at its core, Treasury is focusing on a series of process improvements with the support of IT. The focus will be on upgrading existing systems in order to better handle growing volumes while improving efficiency in fund transfer pricing.

International Banking

Trade Services

With an excellent understanding of customers' need for quick service, the Trade Services unit efficiently handled the increased volumes, enhancing customer satisfaction and enabling the Bank to build a loyal customer base.

The country witnessed a considerable increase in the importation of vehicles during the first nine months of 2015, and in line with this, the Bank was able to increase the fee income by issuance of import LCs. However, the imposition of the margin requirement during the latter part of the last quarter impacted the business volumes and the fee income negatively.

Attracting new corporate and SME clients also contributed to the growth. Further, DFCC Bank was able to earn a considerable commission income from LCs issued for importation of machinery and equipment for the projects financed through project lending.

The Bank's continuous efforts to grow the correspondent banking network helped the customers to arrange advising of Letters of Credit to their suppliers in various countries which in turn enabled the Bank to increase the volumes of LCs issued and grow its fee income.

Business volumes handled by Trade Services consisting of import Letters of Credit, import collection bills, acceptances, shipping guarantees and export bills amounted to LKR 100,228 million which is an increase of 23% compared to 2014.

Remittance Services

The period under review was fruitful for Inward and Outward Telegraphic Transfer business. This was mainly due to the import customers opting to settle their suppliers through the Advance Payments and Open Account Payment mechanism. The budgeted income for the period under review from these transactions was achieved with a growth in excess of 30% over the preceding year.

The income generation from drafts and cheques continued to slide with the gradual extinction of these products from banking services due to the increasing use of electronic banking services and direct debits/credits, and the ever-increasing risks of frauds and manipulations associated with them. At present the drafts are requested mainly by BOI companies for settlement of their various suppliers who are also customers of other commercial banks' Foreign Currency Banking units.

The Bank's remittance business is promising with the widening of the network and the growing customer base. The superior customer service characterised by expeditious and meticulous delivery has contributed to enhancing customer satisfaction and confidence, enabling customer acquisition and retention.

EMPLOYEE CAPITAL

The Bank acknowledges that its human capital is a key enabler for executing its strategy and achieving goals. It is only when the employees, from the Chief Executive to the Office Assistant live the espoused values of the Bank and promote a culture of extraordinary customer care that our stakeholders, customers in particular, will have trust and confidence in the Bank. Consequently, the Bank attracts the best of talent, develops a professional and collaborative work environment, promotes a culture of diversity and inclusion and provides opportunities for employees to work to their full potential and realise their personal career goals. In turn, we reward their performance, in the form of compensation and benefits as well as recognition and appreciation.

Our reporting boundary on employee capital is the DFCC Bank, unless otherwise stated.

HR Challenges of Amalgamation

2015 was an exciting and challenging one for the Human Resource Department. After 12 years of separate operations, DFCC and DFCC Vardhana Bank amalgamated their enterprises to come under one umbrella – DFCC Bank PLC – with one collective vision of becoming the *'leading financial solutions provider sustainably developing individuals and businesses'*.

Legal and Statutory Concerns and Amalgamation of Remuneration Structures and Processes

From a Human Resource (HR) perspective, the amalgamation process necessitated multiple legal and statutory concerns to be addressed in consultation with regulatory authorities. Differences in certain HR policies and processes, which had developed over time due to the different business models of the two banks needed review and realignment to meet the needs of the amalgamated entity. The Board of Directors mandated that disparities in employment practices, remuneration and benefits between the two banks be addressed to the maximum possible extent at the outset. Accordingly, grade structures, designations, perquisites etc. were reviewed and standardised and in the process, grade placements of 84 non-executive employees were rectified. Following the amalgamation, HR policies were revised to cater to the demands of the new business environment.

External Consultants

To assist in the amalgamation process as well as in the interest of transparency and equality, the services of external consultants were engaged. Cerebrus Consultants came on board to design and develop a job evaluation scheme and conduct a job evaluation exercise covering all positions across the merged entity as well as provide insights on grade structures and designations. Another consultant was engaged to assist in the integration process particularly in relation to rationalisation of staffing requirements across the organisation and enhancing staff communication.

Communication

We used a range of internal communication tools and programmes to openly engage with our employees throughout the integration process. Regular updates on developments were shared with employees through the internal newsletter; the 'Weekly Roundup' as well as through formal notifications. Meetings were held with different staff groups to explain revisions to organisation structures, HR and business processes. Video communications by the CEOs of the two banks were disseminated regionally to ensure all employees received a consistent message. The external consultant engaged by the Bank also functioned as 'Ombudsman' to our employees to provide them with another avenue to raise any issues or queries they had pertaining to the amalgamation.

Another pre-amalgamation engagement and energising activity that was conducted encompassing all staff across the two banks, was the 'I Will Rise' series of programmes. These programmes were structured to ensure that each and every employee was aware of what our objectives were with the amalgamation and the contribution required from each of them to achieve the same.

An internal cross-functional team was set up to formulate the vision, mission and values for the merged entity. The team engaged with varied groups of staff across the two banks and incorporated feedback received when the new vision and mission statements and values of the Bank were developed.

Our Vision

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

Our Mission

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

Our Values

We are;

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

Amalgamation of Human Resource

On 1 October 2015, a total of 958 employees were absorbed from DFCC Vardhana Bank to DFCC Bank PLC without any adverse impact to their employment terms and remuneration. It is noteworthy that this amalgamation was achieved within a span of four months primarily utilising internal resources. The integration teams took on a significant volume of additional tasks while handling their day-to-day responsibilities to ensure a successful amalgamation within a challenging time frame.

Staff Strength

At the year-end, the overall head count excluding outsourced staff for janitorial and security personnel etc. stood at 1,445 a growth of 1.3% over the previous year. 88% of the workforce are in the permanent cadre. Overall male female gender ratio of 50:50 is maintained.

Branches (excluding centralised operations and other business units) absorbed 67% of the total workforce. Within branches, proportionate to the large number of branches in the province, the Western Province accounted for 33.5% of employees, followed by Southern (14%) and Central (12%) provinces.

An age analysis of staff reveals that 59.2% are between 18-30 years. They belong to the 'new generation' of employees we refer to later and are the most 'volatile' in terms of retention.

Grade	2015	2014/15	2013/14
Management	78	82	76
Executives	419	413	384
Supervisory	243	199	185
Junior Staff	705	733	726
Total	1,445	1,427	1,371

Total Number of Permanent Employees by Employment Type and Gender

	December 2015			2014/15			2013/14		
Grade	Male	Female	Total	Male	Female	Total	Male	Female	Total
Management	51	15	66	53	17	70	48	17	65
Executive	210	171	381	203	165	368	193	157	350
Supervisory Staff	123	117	240	106	92	198	80	104	184
Junior	249	332	581	271	369	640	372	264	636
Total	633	635	1,268	633	643	1,276	609	626	1,235

Total Number of Employees by Employment Type/Contract and Gender

Grade	Permanent			Contract/Casual/Part time			Total Number of Employees		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Management	51	15	66	11	1	12	62	16	78
Executive	210	171	381	20	18	38	230	189	419
Supervisory Staff	123	117	240	1	2	3	124	119	243
Junior Staff	249	332	581	61	63	124	310	395	705
Total	633	635	1,268	93	84	177	726	719	1,445

Total Number of Employees by Employment Contract and Gender

Employee Type	No. of Employees			Composition of Employees (%)		
	2015	**2014/15**	2013/14	**2015**	**2014/15**	2013/14
Full-time – Male	**726**	**707**	690	**50**	**50**	50
Full-time – Female	**719**	**720**	681	**50**	**50**	50
Outsourced – Male	**0**	**0**	0	**0**	**0**	0
Outsourced – Female	**0**	**0**	0	**0**	**0**	0
Total	**1,445**	**1,427**	1,371	**100**	**100**	100

Staff Distribution by Grade and Age

Grade	Management		Executives		Supervisory		Junior Staff		Total Staff	
	Count	%	Count	%	Count	%	Count	%	Count	%
18-25	0	0	14	3	2	1	374	53	390	27
26-30	0	0	124	30	97	40	245	35	466	32
31-40	4	5	212	51	105	43	56	8	377	26
41-50	44	57	64	15	34	14	19	3	161	11
51-55	19	24	3	1	4	2	8	1	34	3
56+	11	14	2	0	1	0	3	0	17	1
Totals	78	100	419	100	243	100	705	100	1,445	100

As at 31 December 2015	Female	Male	Total
DFCC	719	726	1,445

Breakdown of Employees by Province

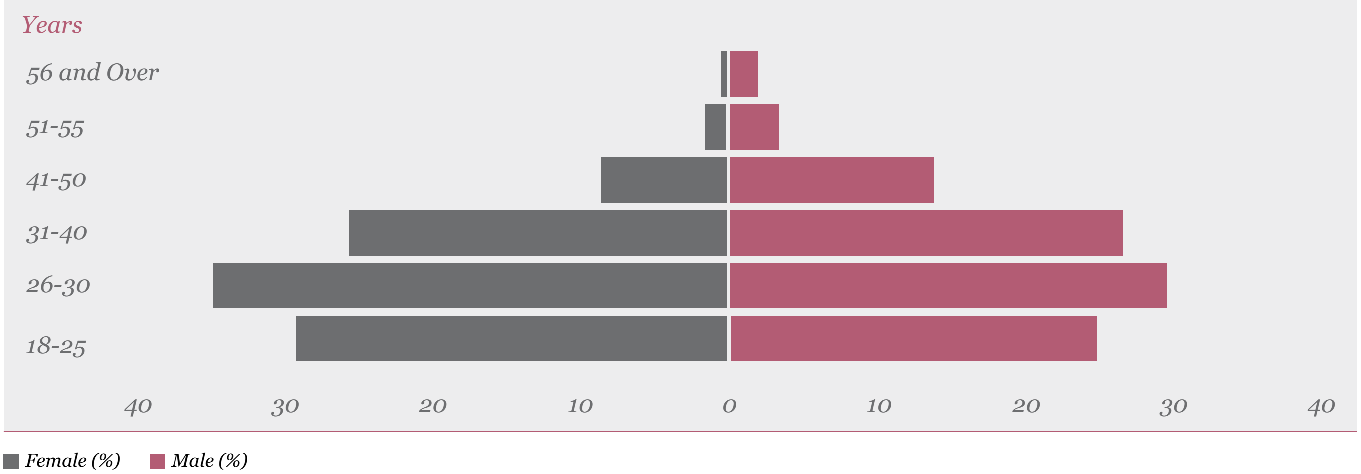
	Female	Male	Total	%
Central	47	**69**	**116**	**8**
Eastern	22	**50**	**72**	**5**
Northern	21	**34**	**55**	**4**
North Central	20	**42**	**62**	**4**
North Western	38	**36**	**74**	**5**
Sabaragamuwa	35	**36**	**71**	**5**
Southern	67	**67**	**134**	**9**
Uva	18	**38**	**56**	**4**
Western	451	**354**	**805**	**56**
Total	719	**726**	**1,445**	**100**

Total Workforce by Region and Gender

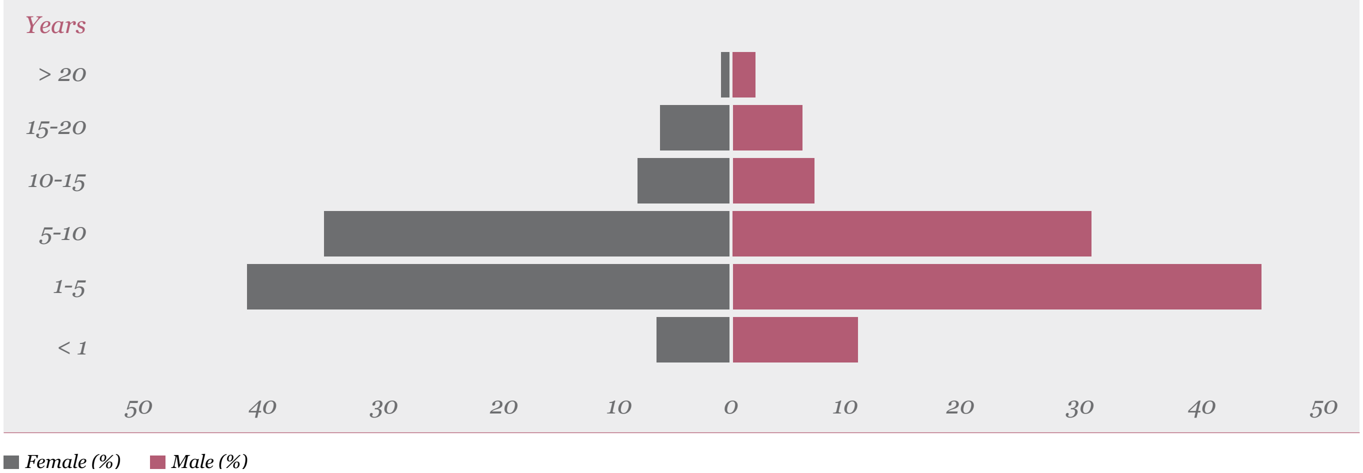
	2015 December					2014/15					2013/14				
			No. of employees					No. of employees					No. of employees		
Province/Departments and Other Business Units	No. of Branches	No. of SLP Units	Male	Female	Total	No. of Branches	No. of SLP Units	Male	Female	Total	No. of Branches	No. of SLP Units	Male	Female	Total
Central	10	4	69	47	116	10	4	62	47	109	9	5	57	47	104
Eastern	7	4	50	22	72	7	4	48	22	70	7	4	50	20	70
Northern	6	0	34	21	55	6	0	36	22	58	6	0	34	22	56
North-Central	3	6	42	20	62	3	6	39	23	62	3	6	39	20	59
North-Western	6	4	36	38	74	6	4	34	40	74	5	5	31	34	65
Sabaragamuwa	5	10	36	35	71	5	10	32	36	68	5	10	37	38	75
Southern	9	14	67	67	134	8	15	69	65	134	8	15	67	60	127
Uva	4	5	38	18	56	4	5	41	20	61	3	6	39	18	57
Western	29	11	146	176	322	29	11	144	175	319	28	11	140	169	309
Departments and Other Business Units	64	0	208	275	483	74	0	202	270	472	63	0	196	253	449
Total	79	58	726	719	1,445	78	59	707	720	1,427	74	62	690	681	1,371

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

Age Analysis



Service Analysis



Return to Work After Parental Leave

Indicator	Male	Female	Total
Number of employees entitled to parental leave during previous reporting period	n.a.	715	715
Number of employees who took parental leave during 2015	n.a.	60	60
Number of employees who returned to work after parental leave ended during 2015	n.a.	60	60
Number of employees who returned to work after parental leave during 2014	n.a.	44	44
Number of employees who returned to work after parental leave during 2014 who were still employed 12 months after return to work	n.a.	41	41
Retention rate	n.a.	87%	87%

Manpower Planning

Given the expansion and the market dynamics, manpower planning is a continuous process in the Bank. It entails estimation of future manpower requirements in both quantitative and qualitative terms, inventorying the existing workforce with regard to their characteristics, facilitating the selection and recruitment process, ensuring effective utilisation of human resources and undertaking programmes for their development.

Recruitment

The Bank recruited 122 employees during the period under review, of whom 70.5% were at the entry level/ in non-executive grades. Supporting opportunities for job rotation and enrichment and providing avenues for career advancement, the Bank gives priority to internal candidates to fill vacancies. For external recruitments, we largely rely on referrals and online advertising. We have also obtained the services of head hunting firms for sourcing senior candidates and recruitment of technical staff. Further, the Human Resources team participates in career fairs to source new talent in the market, as well as to provide career guidance to young job seekers as a part of our social responsibility focus.

Managing The Employee Exit Experience

The Bank accords equal importance to managing the employee exit experience as the entry process. We believe that a positive and professional cessation to an employment relationship goes a long way in assisting external branding of the Bank and its workplace culture, while feedback received at these interviews also surfaces valuable information towards required improvement of processes, policies, risk mitigants and managerial competencies. Feedback from exit interviews is shared with senior management as well as the Operational Risk Management Committee on a regular basis.

A total of 89 employees resigned during the period under review and it worked out to a turnover of 6.2%. Of the resignations, 54% were junior level employees. Migration is a key factor for resignation among young graduates and professionals.

Grade	Turnover by Age Group and Gender*						
	Age group				Gender		
	Less than 30 years	Between 30-50 years	Above 50 years	Total	Male	Female	Total
Management	0	1	1	2	1	1	2
Executive	11	13	0	24	12	12	24
Supervisory Staff	6	9	0	15	9	6	15
Junior Staff	46	2	0	48	19	29	48
Total	63	25	1	89	41	48	89

** Excluding Terminations/Contract Expiries/Retirements.*

Total Number and Percentage of Employee Turnover by Age Group and Gender

	2015				2014/15				2013/14			
	Employee Turnover*		(%)**		Employee Turnover*		(%)**		Employee Turnover*		(%)**	
Category	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Below 30 years	26	37	7	9	44	50	12	11	51	57	14	13
30 - 50 years	15	10	5	4	20	11	6	4	17	8	6	3
51 - 60 years	0	1	0	8	5	1	16	9	6	2	16	17
Above 60	0	0	0	0	0	0	0	0	2	0	40	0
Total	41	48	6	7	69	62	10	9	76	67	11	10

** Excluding retirements/Contract expiries/Terminations.*

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

Parental Leave

As per the Shop and Office Act, female employees are entitled to parental (maternity) leave. We give them unhindered opportunity to avail of this benefit, while also encouraging and facilitating their return to work. We offer the same or an alternate position without any prejudice to their job security, remuneration or career path upon return. We take pride in our high return to work rate, that also serves to boost employee morale and productivity.

Return to Work

Employees who returned to work out of those due to return during 2015 was 100% (2014: 94%).

Retention Rate

Employees who stayed on at least 12 months out of those returning in 2014 was 87% (2013: 92%).

Maximising Talent Productivity

Through effective engagement, defining roles and responsibilities, bringing them to live the corporate values, aligning the corporate goals with theirs, empowerment, establishing mechanisms for feedback and rewarding and recognising them, the Bank constantly looks for ways to maximise talent productivity.

During the period under review, focus was accorded to ensure rationalising of resourcing towards optimising value generation from our human capital. Staffing structures across the branch network and departments are in the process of being reviewed and standardised. The Bank encourages internal mobility of staff and facilitates their move within and across divisions.

During the period, 122 employees were recruited of which 70% were for the business lines while others were for support services.

Recruitments by Age and Gender

	2015				2014/15				2013/14			
	New Employees Hired		(%)*		New Employees Hired		(%)*		New Employees Hired		(%)*	
Category	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Below 30 years	50	52	14	12	80	96	22	21	100	122	27	29
30 - 50 years	13	5	4	2	9	6	3	2	20	11	7	5
51 - 60 years	1	1	3	8	4	1	13	9	3	0	8	0
Above 60	0	0	0	0	0	0	0	0	0	0	0	0
Total	64	58	9	8	93	103	13	14	123	133	18	20

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

New Hires by Age Group and Staff Category

Grade	New employees joining in the current Financial Year						
	Age group				Gender		
	Less than 30 years	Between 30-50 years	Above 50 years	Total	Male	Female	Total
Management	0	1	0	1	1	0	1
Executive	17	10	1	28	17	11	28
Non-Executive	2	5	0	7	4	3	7
Other/SLP	83	2	1	86	42	44	86
Total	102	18	2	122	64	58	122

Percentage of Leave during 2015

Leave Type	%
Vacation Leave	57.2
Medical Leave	25.2

Capacity Building and Talent Management

Approach to Talent Management

Over the years, the Bank has invested generously in the area of capability and capacity enhancement of its employees. The Bank adopts a four-pronged approach to talent management.

- The development and implementation of mechanisms for talent identification/differentiation
- A formal process for succession planning and building managerial and leadership competencies across the organisation
- Availability of standardised methodology for identification of strengths and development gaps of employees, and providing opportunities to employees to address the identified development needs
- Encouraging and facilitating employees to extend their horizons in terms of personal and professional growth.

The process of talent identification and differentiation at the Bank is based on the 'Nine Box' talent management methodology. Annually, the capabilities of all executives are assessed by the Management based on which individual development and career planning initiatives are designed and implemented.

Based on skilling requirements identified through the development planning discussions and also taking into consideration certain business objectives and priorities of the Bank, the annual training plan is prepared at the beginning of the year and shared across the Bank. While training is prioritised based on needs surfaced in the development plans, employees also have the option of requesting for specific additional programmes should they so wish.

Training and Development

During the period under review, 4,069 participants attended 234 programmes of which 112 were organised in-house. The total number of training hours provided reflected an increase of 12% over the previous year. The e-learning platform continued to more than justify its investment with usage increasing by 22%. During the period under review, 133 employees availed of the many attractive subsidised loan and grant schemes offered by the Bank to assist in furthering their education. Of the study programmes subsidised, 56% pertained to obtaining banking qualifications.

Training Hours 2015

	No. of person hours of training			Average training hours per employee		
	Male	Female	Total	Males	Female	Total
Management	998	285	1,283	15.84	16.75	16.04
Executives	7,601	6,330	13,931	33.34	33.76	33.54
Non-Executives	9,806	11,744	21,550	22.91	22.92	22.91
Total	18,406	18,359	36,764	25.60	25.60	25.60

Type of Training

	Total person hours	
Types of training	2015	2014
In-house	**34,275**	27,741
External	**2,393**	3,706
Foreign	**96**	1,384
Total	**36,764**	32,831

Number of Staff Members who Completed Banking Qualifications during year 2015

Qualification	No. of Staff
AIB	20
DBF	37
CBF	62

Other Initiatives

A mentoring programme and DFCC REDS projects, targeted towards assisting new recruits acclimatise with the culture of the Bank as well as amass the requisite skills to enable effective contribution to the Bank, continued during the period. Activities organised by the DFCC REDS Committee included two CSR projects, social events such as a quiz night, bowling tournament, an adventure-based development programme, as well as a field trip targeted towards recent executive recruits of the Bank.

To ensure that our employees are exposed to the functions of both development and commercial banking, a series of training opportunities to provide cross exposure were arranged. These programmes were a business imperative this year considering the amalgamation that was taking place. Skilling occurred through classroom-based training, e-learning and job rotations. During the latter part of the year, a structured re-skilling initiative was launched to fulfil job based skilling needs of staff whose job roles changed as a result of the amalgamation.

In tandem with the Bank's drive to canvass business more aggressively, this year too sales training continued to be an area of focus with most of the programmes pegged to specified ROI measures. Of special mention is the programme on Sales Excellence which is differentiated from many training initiatives as it focuses on continued development through a series of activities and performance monitoring and enhancement mechanisms driven by the participants themselves. The initiative is being further developed and expanded this year, incorporating continuous learning and development utilising multiple tools. This is also envisaged to provide a platform for sales staff to network, provide support and share vital market information amongst each other.

During the period, several overseas resource persons were engaged to conduct programmes on key account management, wallet sizing, ALM, credit appraisal etc.

Since 2014, mandatory product knowledge quizzes are conducted via e-learning on a quarterly basis for the frontline staff to ensure that they have the requisite knowledge to perform their job functions effectively. It is encouraging to note that over the period the number of employees passing the assessment has steadily increased.

A New Generation of Employees

We are aware that a new generation of employees who are well educated, skilled in technology, highly self-confident, able to multitask and have plenty of energy are now entering the workforce. Seeking challenge and with preference to work in teams, they have different expectations from employment and ways of working. We will require new methods of engaging them and will have to gear our systems and processes to encourage further collaboration and innovation. We will consider these dynamics in formulating our training and development initiatives going forward.

Performance Management

The Bank is committed to fair and equitable remuneration and follows a performance-based approach in determining annual staff emoluments. Strategic goals are cascaded down to the plans of the business unit, which in turn, lead to the formulation of personal accountabilities to be defined in respective scorecards of staff members. Performance against agreed targets is evaluated formally at mid-year and year-end by supervisors with one-on-one meetings with their staff, accompanied by constructive feedback on goal achievement and qualitative behavioural aspects, which could impact current job roles and future career advancement plans.

The Nine Box Framework that we follow since 2013 for talent identification and differentiation among Executives is an useful tool for targated retention and career planning. Constructive discussions are also held with those whose performance needs improvement.

Managing Remuneration

The Bank participates in periodic surveys to benchmark its remuneration levels against the industry, to ensure a competitive and an equitable reward system. Moreover, with the amalgamation, differences in remuneration structures of the two banks were reviewed and revised to ensure consistency across application among different staff levels of the merged entity.

Benefits Offered to Permanent Employees

The following are benefits offered to permanent employees that are not available to contract staff (barring some exceptions that are noted):

- Housing loan, vehicle loan, miscellaneous staff loan, MBA loan
- Also available for certain contract staff, Executive Trainees and Management Trainees: Reimbursement of examination fee, professional membership subscriptions, fitness and social club membership
- Also available for some contract staff based on contract: Holiday grant
- Only for Non-Executive permanent staff: Festival advance

Career Advancement

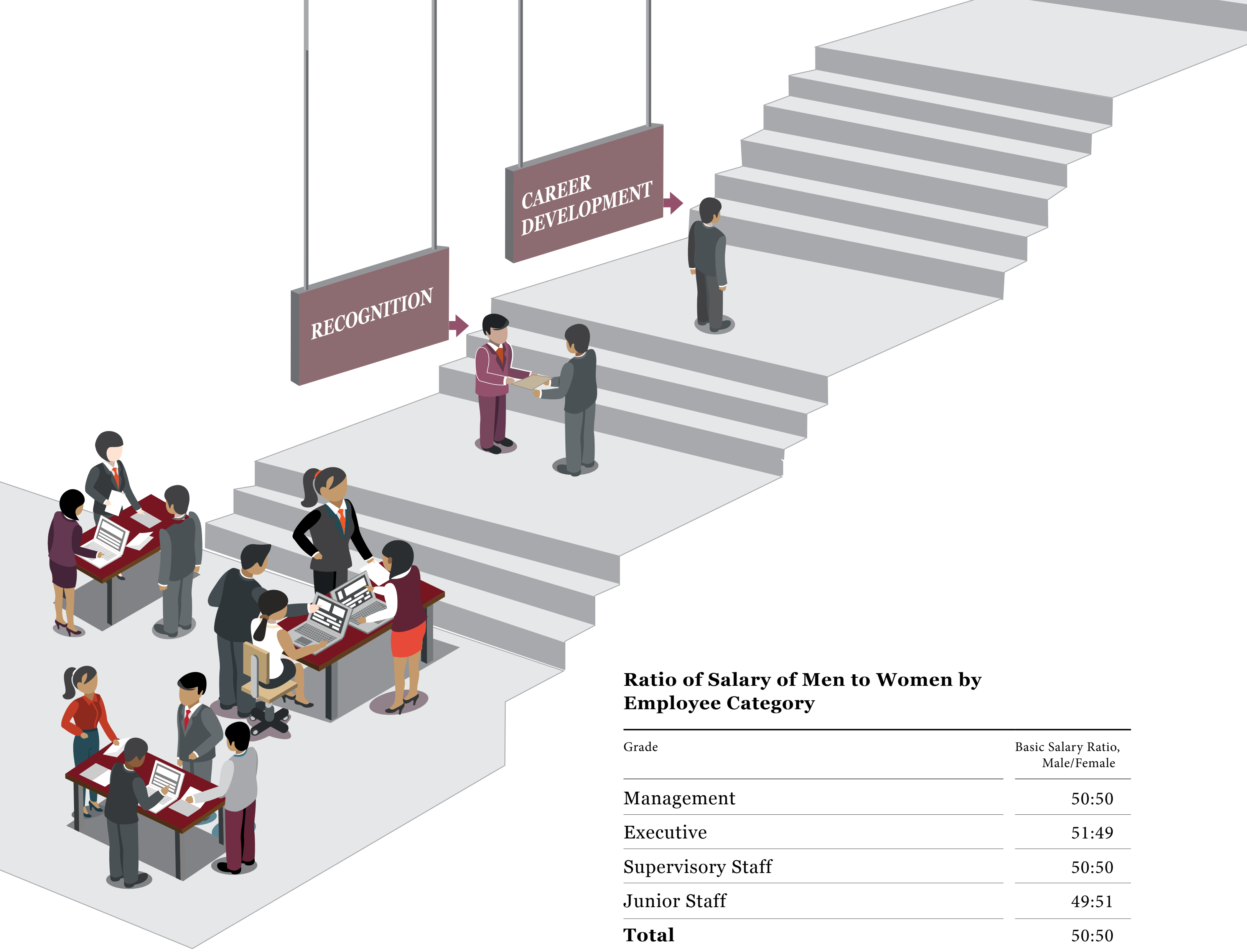
The annual career advancement programme which assists junior level staff to obtain entry into the executive cadre was held during the period. 59 employees applied for the programme at the conclusion of which 11 candidates were selected for higher level promotions and job roles.

The OIC Certification; a mandatory 12-day training programme and assessment for all staff functioning in the role of Officer in Charge, was held this year as well. A total of 54 staff underwent the programme and 32 successfully passed the intensive two-day assessment.

Embracing Diversity, Inclusion and Equality

We believe that a diverse and inclusive workforce helps us to build stronger relationships, maximise team performance, foster innovation and strengthen partnership and collaboration internally as well as with external stakeholders. It also reflects the changing needs and expectations of our stakeholders. Therefore, we actively promote diversity and inclusion in our workforce in terms of social strata, ethnicity, religion, exposure and knowledge and make every effort to appoint the best person for the job regardless of age, gender, disability or culture.

The high ethical standards of conduct expected of the employees is clearly communicated to them during on-boarding sessions and reinforced through meetings, specific classroom based training sessions and mandated training modules. We have a policy of zero tolerance towards harassment and victimisation and have instituted mechanisms for reporting such occurrences, if any, to relevant decision makers.



Ratio of Salary of Men to Women by Employee Category

Grade	Basic Salary Ratio, Male/Female
Management	50:50
Executive	51:49
Supervisory Staff	50:50
Junior Staff	49:51
Total	50:50

Minority ethnic communities accounted for 17 persons or 14% of new recruits during the period under review. In terms of gender, our workforce is equally divided. The return to work and retention rates of employees who availed of maternity leave are a high 100% and 87% respectively. The Bank ensures equitable remuneration based on merit and transparent procedures that take no account of caste, creed or gender. Each employment level has a specified salary range based on benchmarked industry data and employees placed at each grade receive a base pay within the established range. The benefits available are usually standardised by grade. In addition, certain job-specific benefits too are offered.

Staff Well-Being

Health and Wellness Programme

The programme to drive health and wellness among the staff gathered momentum during the period. Knowledge enhancing articles on physical and mental health and safety were regularly sent to staff via a number of communication methods. A number of wellness driven programmes were also arranged.

The weekly services of a doctor has been made available to staff at the main offices.

Employees also have the option of joining social clubs and gyms with full or part reimbursement of expenses. Several avenues to perform at mercantile level in relation to tennis, basketball, swimming and cricket are also available to them.

Occupational Health and Safety

The Bank places high importance to ensuring the safety of employees in terms of the physical environment as well as emotional aspects. No occupational incidents were reported during the period.

The Bank also has in place a disaster recovery team trained in varying aspects including first aid, evacuation and fire fighting to ensure that our employees are taken care of in an eventuality. Periodic drills and training of these teams are carried out based on an annual plan.

To ensure emotional well-being and freedom from harassment, a secure office environment policy has been implemented. The Bank places a high importance on respecting individuals and implements this policy strictly. No incidents of this nature were reported during the period.

All permanent staff are also entitled for medical leave, medical insurance and reimbursement of medical expenses up to predetermined limits.

Work/Life Balance

During the period under review, several social and fitness related events were organised for the staff. The annual staff trip was a family trip organised by the DFCC Welfare and Recreation Club and it was held in Singapore where 520 employees took advantage of the opportunity. In addition, the Club also organised sports and cricket events as well as other social engagement activities for the staff and their families. A new event, the 'DFCC Run', was also included in the annual schedule, which was a marathon in which our employees took part enthusiastically.

This year proved to be an exceedingly eventful year, with the Bank also celebrating its 60th Anniversary. In addition to a series of client events held across the country to mark the event, celebrations also included a gigantic event organised at Stein Studios, Ratmalana for all staff. The event had a two-pronged objective of marking the 60th anniversary of the Bank as well as introducing the new brand, vision, mission and values of the amalgamated entity to our workforce.

Employee Relations and Recognition

A formalised Grievance Policy is in place and accessible to all staff through the e-learning portal. During the period, regular communications continued to be shared with staff on the options available to them under the policy. The Grievance Committee, a cross-functional team, continued to be active through the year and provided another avenue for staff to surface concerns and issues. In addition, the Bank has in place a Whistle Blowing procedure, detailing the procedure by which issues of concern can be raised at the Bank.

Showing our appreciation for staff who go the extra mile continued to be a key HR initiative. As such, on a quarterly basis throughout the year, employees nominated by the supervisors, subordinates or peers were recognised for commitment and exceptional contribution made towards the Bank's success under the rewarding excellence scheme. During the period under review, 26 employees were recognised and appreciated through this scheme. In addition all department heads are provided an annual allowance to show appreciation to their staff as well as staff of other departments who have provided exceptional assistance. The period also saw 18 branch/team/individual awards being disbursed in recognition of outstanding performance during the past year.

BUSINESS PARTNER CAPITAL

DFCC Bank recognises that in order to accomplish our mission, we need the support and blessings of a wide range of trusted and committed partners. Accordingly, the Bank has partnered with reputed global and local organisations. They include multilateral and bilateral development institutions, local financial institutions, Government institutions, industry associations and suppliers of goods and services. All these business partners actively collaborate with us in our efforts to create value. We share complementary business goals with them and our interactions with them foster mutually beneficial long-term relationships.

Multilateral and Bilateral Institutions

Since its establishment in 1955, on the recommendation of the World Bank, DFCC Bank has developed and nurtured strong relationships with many multilateral and bilateral institutions that share similar goals. Our business partners in this context include The World Bank; the European Investment Bank (EIB); Asian Development Bank (ADB); Kreditanstalt für Wiederaufbau (KfW), Germany; Deutsche Investitions- und Entwicklungsgesellschaft (DEG), a subsidiary of KfW; Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO), Netherlands and Proparco, a subsidiary of Agence Francaise de Developement (AFD), France. Primarily our roles in these partnerships have been as an effective credit institution for on-lending funds to end users, or as the project manager in implementing credit programmes, administering grant funds and smart subsidiaries for market development, and capacity building.

Some of the recent programmes DFCC Bank has worked with these partners, as detailed elsewhere, bear testimony to the beneficial relationships the Bank has been able to build with them.

DFCC Bank implemented two successive renewable energy credit lines from The World Bank (1997-2011), playing an exemplary role in mainstreaming the renewable energy sector in Sri Lanka leading to landmark transformational impacts in the areas of technology, financing and regulation. On behalf of the Government of Sri Lanka and the EIB, the Bank is currently implementing the EUR 90 million EIB funded SME & Green Energy Global Loan scheme. Previously, the Bank implemented the EIB Post-Tsunami credit line and also disbursed two dedicated global loans from the EIB.

DFCC Bank is also currently implementing a dedicated housing loan credit scheme funded by ADB, and will also be a participating bank in a new ADB credit line for SMEs. The Bank previously implemented the credit component of the ADB funded Plantation Development Project (PDP) and managed the Plantation Trust Fund component of the PDP jointly with associate – National Asset Management Limited. The KfW DFCC V credit line for SMEs in the North and the East was also implemented by DFCC Bank.

DEG, FMO and Proparco promote private sector initiatives in developing and emerging countries. While DFCC Bank has ongoing loans from DEG and FMO, both institutions were former shareholders of the Bank and had representation on the Board. DFCC Bank established a relationship with Proparco in 2015 and is expecting to conduct transactions shortly.

Correspondent Banks

We have established correspondent banking relationships with the following banks in order to service transactions of our customers, which originate in or involve foreign countries. They also act as our agents in the respective countries.

Bank	Country	City	Length of Relationship
HSBC Bank	Australia	Sydney	12 Years
The Bank of Nova Scotia	Canada	Toronto	12 Years
Commerzbank AG	Germany	Frankfurt	12 Years
Bank of Ceylon (UK) Limited	UK	London	12 Years
Sumitomo Mitsui Banking Corporation	Japan	Tokyo	12 Years
Standard Chartered Bank PLC	Singapore	Singapore	12 Years
Deutsche Bank Trust Company Americas	USA	New York	12 Years
HSBC Bank USA NA	USA	New York	12 Years
Mashreq Bank PSC	USA	New York	12 Years
Standard Chartered Bank PLC	USA	New York	12 Years
Commonwealth Bank of Australia	Australia	Sydney	4 Years
Bank of China	China	Beijing	4 Years
Zurcher Kantonal Bank	Switzerland	Zurich	3 Years
HDFC Bank	India	Mumbai	3 Years
UniCredit Bank AG	Germany	Munich	12 Years

The Supply Chain

DFCC Bank's procurement policy requires that the selection of its suppliers and procurement of goods and services be done in a fair, transparent and economically effective manner. Selection of suppliers is through a rigorous evaluation process, which, inter alia, takes into account the price, quality, after sales support, satisfactory references, timely delivery and technical capacity. Previously registered suppliers who fail to qualify are subsequently reviewed once in every three years. We prefer to procure from local suppliers thereby helping them to establish themselves by associating with the Bank and receiving financial advice and assistance if required.

Industry Initiatives

Lanka Money Transfer

DFCC Bank's remittance system, Lanka Money Transfer (LMT) was launched in April 2015. LMT is unique in that other banks/financial institutions can have direct arrangements with it to receive direct remittances for their account holders. Currently, eight such establishments have signed up with LMT. Irrespective of the bank, LMT notifies the beneficiary via an SMS informing the receipt of the remittance. Work on many other value additions are in progress to be delivered in 2016. Seven exchange companies in the UAE and Qatar have already signed up with LMT and negotiations are underway with exchange companies in Saudi Arabia, Kuwait, Bahrain, Jordan, Italy and the UK to expand its global presence.

Tea Integrated Payment System

DFCC Bank together with Synapsys, launched a groundbreaking supplier settlement system to support Sri Lanka's large community of private tea manufacturers and tea leaf suppliers. Designed by Synapsys, the system gives suppliers the opportunity to have proceeds from their sales managed by a bank and have it transferred directly to their bank accounts. DFCC Bank launched the V Cash Card as part of this initiative, enabling tea leaf suppliers to withdraw cash from over 700 ATMs across the country. The system provides efficiency, visibility and greater accountability, resulting in tea leaf suppliers having greater confidence in the collection process and control over their receipts.

Mobile Wallet

The Vardhana Virtual Wallet® developed by Synapsys, is a convenient electronic payment and fund management solution that allows users to send and receive funds through their mobile devices instantly. The funds stored therein could be used to electronically pay for goods and services at selected merchant outlets, withdraw cash at designated outlets, pay utility bills and transfer to or receive funds from one's near and dear. Available round the clock, these services take place within a secure transaction network. This will reduce the need for customers and merchants to hold cash to carry out transactions. Vardhana Virtual Wallet® will be made available on Apple and Android devices free of charge. Retail customers and merchants will however be required to register with the Bank to avail this service.

Strategic Alliances

While organically growing through judicious management of its business, DFCC Bank diversified itself through a series of timely and prudent strategic acquisitions, alliances and partnerships over the years and immensely benefited from the resulting synergies. The DFCC Group today comprises its subsidiaries; Synapsys, DFCC Consulting, Lanka Industrial Estates Limited, its joint venture, Acuity Partners and associate company National Asset Management Limited, together providing the full gamut of services to the financial sector.

Acuity Partners

Acuity Partners, a joint venture by DFCC Bank and HNB, is a full service investment bank. It is the only integrated, full service investment bank in Sri Lanka offering a comprehensive suite of products and services in Fixed Income Securities, Stock Brokering, Corporate Finance, Margin Trading, Asset Management and Venture Capital Financing. Acuity is the successor to the investment banking related subsidiaries and divisions of DFCC Bank and HNB and was created through the consolidation of all Corporate Finance, Equities and Fixed Income Securities activities of the two banks.

The following subsidiaries/associates and business units come under the Acuity umbrella;

- Acuity Corporate Finance – Provides Corporate Finance and Advisory Services
- Acuity Securities Limited – A Primary Dealer for Government Securities
- Acuity Stockbrokers (Pvt) Limited – A member of Colombo Stock Exchange
- Lanka Ventures PLC – A Venture Capital Company
- Guardian Acuity Asset Management Limited – A dedicated fund management entity

Lanka Industrial Estates PLC (LINDEL)

Lanka Industrial Estates, better known as LINDEL, is located strategically in Sapugaskanda on 125 acres of land. With its close proximity to the Colombo Harbour (18 km) and to the International Airport (25 km), this industrial estate offers the most advanced infrastructure facilities available in Sri Lanka. Out of the 19 production facilities which are currently operational, five are run by Fortune 500 Companies. Out of the leasable land, 80% has been let to industries.

Memberships in Industry Associations

DFCC Bank has obtained membership in or established affiliations with the following industry associations and organisations. Our association with them provides opportunities for networking, contributing to development of standards and best practices for the industry and making a collective voice representing the industry with regard to issues relating to regulation and policy.

- Association of Development Financing Institutions in Asia & The Pacific (Adfiap)
- American Chamber of Commerce in Sri Lanka
- Association of Compliance Officers of Banks – Sri Lanka
- Chamber of Commerce & Industry of Central Province
- Cima Sri Lanka Division
- Colombo Stock Exchange
- Fitch Ratings Lanka Limited
- Genesiis Software (Pvt) Limited
- Lanka Business Coalition On HIV and Aids
- LankaClear (Pvt) Limited
- Sabaragamuwa Chamber of Commerce and Industry
- Sri Lanka Banks' Association (Guarantee) Limited
- Sri Lanka Forex Association
- Sri Lanka Interbank Payment System (Slips)
- The Association Of Banking Sector Risk Professionals
- The Ceylon Chamber of Commerce
- The Ceylon National Chamber of Industries
- The Employers' Federation of Ceylon
- The European Chamber of Commerce of Sri Lanka
- The Financial Ombudsman Sri Lanka (Guarantee) Limited
- The Institute of Bankers of Sri Lanka
- The Institute of Chartered Accountants of Sri Lanka
- The Mercantile Service Provident Society
- The National Chamber of Commerce of Sri Lanka

SOCIAL AND ENVIRONMENTAL CAPITAL

Society and environment has had an enormous bearing on our journey so far. Given the growing issues that the world is confronted with at present, it is expected to have an even greater relevance as we move forward. Hence, DFCC Bank has an unwavering commitment to the society and the environment, which is built into strategy. We use our financial and other resources to address social and environmental issues of the communities in which we operate. We encourage our staff to actively engage with members of the community in order to understand their concerns, extend a helping hand to them wherever possible and bring serious issues and concerns to the attention of the Management and the Board of Directors.

Social Capital

Socio-Economic Impact

DFCC Bank PLC has for 60 years, directly and indirectly contributed to the economic development of the country at a national, provincial and local community level. Being a net transferor of financial resources, especially in the provincial areas, the Bank has helped to transform rural economies, enhance livelihoods, generate employment and encourage capital formation in every district.

Over the years, the Bank has pioneered the financing of new economic sectors in the country which are now mainstream businesses. One of the earliest examples is when DFCC Bank financed Sri Lanka's first beach hotel in the 1960's. This set the stage for the many hotel projects that followed suit and helped develop the tourism sector in the nation, which today, is a thriving industry. The Bank also pioneered several other industries in the private sector namely apparel, aquaculture, ceramics, horticulture and renewable energy. Going beyond simply providing financial solutions, the Bank also provides advisory services and has catalysed the transformation of organisations, both locally and internationally.

Looking at the present, the Bank continues to be a pioneer and is committed to driving financial inclusivity particularly in the rural and economically backward areas. In this context, the reach of DFCC Bank's network in relation to the contribution of each province to national GDP indicates a high concentration of service centre's in the lower GDP-ranked areas.

These achievements indicate our long-term commitment and significant contribution to sector development and economic development of the country. We remain committed to rural economic development through providing loan, savings and investment products and other services that will stimulate capital formation and employment creation.

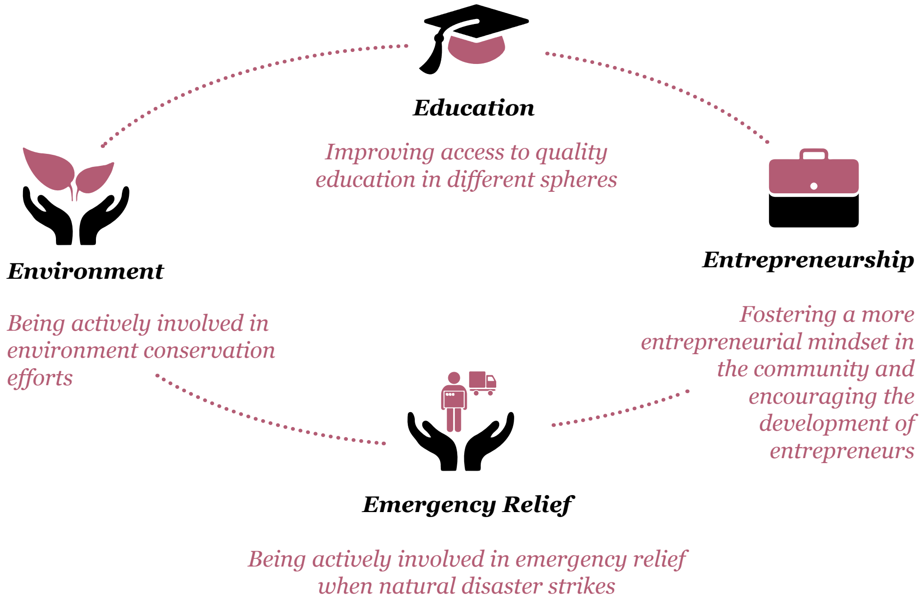
Province	GDP* LKR million (2013)	Provincial % of total GDP	No. of DBB service centres	DBB's provincial presence (%)
Western	3,643,241	42.0	38	27.7
Southern	954,518	11.0	23	16.8
Sabaragamuwa	526,155	6.1	15	10.9
Central	959,918	11.1	14	10.2
North-Western	887,083	10.2	12	8.8
Eastern	542,905	6.3	11	8.0
North-Central	438,896	5.1	9	6.6
Uva	409,972	4.7	9	6.6
Northern	311,542	3.6	6	4.4
Total	8,674,230	100	137	

Strategic CSR

Community development is an integral part of DFCC Bank's core value system, and employees at every level are encouraged to engage with local communities through varied community development projects. Our corporate social investment initiatives spread further than charitable donations, and what we aim to do is create long-term social value for the communities in which we operate.

The Bank has undertaken many initiatives in the past, one of our flagship projects being the 6S implementation in schools. This project was carried out under the theme 'Towards an exemplary society', making a difference in 100 schools across the country. This was a long-term project spanning four years and was aimed at educating children at primary school level on the 6S principles. Additionally, our branches have also engaged in many community upliftment projects, creating an impact in their localities.

This year DFCC Bank implemented a 4E Strategy, further strengthening its strategic CSR focus. This integrated approach is aligned with the Banks' brand values, strengths and processes. The 4E Strategic Theme Framework is as shown in the next page:



Initiatives in 2015

- **Northern Region's Flood Relief Initiative**

  DFCC Bank's team in the Northern Region provided assistance to families affected by floods in the Vatharavarai village. The village was severely affected and many people were displaced due to the flash floods caused by heavy rain. The team distributed food items, as many of the families, especially children were without food. They also distributed mosquito coils, and provided relief for about 100 families.

- **Nepal Disaster Relief**

  The staff of DFCC Bank contributed basic necessities to be sent to people affected by the Nepal earthquake. The Bank has had a close relationship with Nepal on development of renewable energy, and joined hands with the Sri Lanka Government to transport the relief goods to Nepal.

Community Based CSR Initiatives:

In addition to the Strategic CSR projects, employees across the Bank are encouraged to engage with the local communities through various other community development initiatives. The Bank aims to be a model corporate citizen and the Bank's head office, regional and branch level staff in fact undertook many initiatives in their respective communities during the period under review. Two noteworthy initiatives were –

1. Providing a Clean Drinking Water System for Bt/Koddamunai Kanishta Vidyalayam

The Batticaloa branch undertook a project to supply clean drinking water for nearly 800 students who attend Bt/Koddamunai Kanishta Vidyalayam in Batticaloa by setting up a hygienic drinking water station at the school premises. The opening ceremony was held on the 5th of November with the Regional Manager, the branch managers of Batticaloa, Kattankudy and Sainthamaruthu and other members of the team in attendance.

2. Reaching out to Health Care Institutions in the North

DFCC Bank assisted two health care institutions in the Jaffna and Vavuniya Regions, by providing them with essential equipment to cater to the needs of patients. The Bank donated 30 wheelchairs to the Jaffna Teaching Hospital fulfilling an urgent requirement. The Bank also donated 200 seats to be placed in the OPD patients waiting area at the Vavuniya General Hospital. The equipment was handed over to the Director of the Jaffna Teaching Hospital and the Director General of the Vavuniya General Hospital. These initiatives helped to enhance the service experience of needy patients during their visits to the respective hospitals.

Volunteerism

The DFCC REDS also engage in CSR activities every year. This group is one that comprises young recruits in the executive and management trainee cadres. Collectively they engage in CSR projects as a team building exercise. Two noteworthy initiatives by the REDS during the period were the contribution made towards renovating the Opatha Hospital in the Galle District and organisation of a blood donation campaign.

Sponsorships

The Bank funds and supports numerous events across the country through sponsorships which are approved based on internal policies on eligibility, transparency and due process. Approximately 60% of the support during the period was towards events organised by the business community with whom the Bank has built relationships. The balance was allocated for local communities, educational and professional institutions, and sports related events.

In return, these events enhance the Bank's visibility and goodwill while also providing opportunities for the Bank to build trust and establish rapport with existing and prospective stakeholders.

Environment Capital

DFCC Bank is a strong advocate of environment protection, and strives to minimise adverse impacts. As a financial services provider, our impacts on the environment are mostly indirect. However, we continually encourage our clients, employees and service providers to adopt environmentally responsible practices.

The direct environmental impacts we address include those associated with materials, energy, waste and transportation.

Managing Resource Consumption

We periodically review our resource consumption and look at innovative methods of conserving energy and providing business solutions in a proactive manner. The 3R concept – reduce, reuse, recycle – is strictly used when procuring and managing resources. Our work processes are extensively automated to minimise paper usage and all internal correspondence is electronic. Further, most management meetings are conducted through technological solutions which include video and voice conferencing. Waste paper and hazardous waste are sent to verified recyclers for disposal.

Measures taken to minimise electricity consumption include calibrating all air conditioning systems for optimal efficiency, shifting towards LED bulbs, retrofitting plant and equipment with energy efficient technologies and considering the energy labelling when procuring office equipment. These efforts and investments have borne fruit. The Bank's electrical energy consumption decreased from 4,915 MWh to 4,859 MWh during the year under review.

GHG Emissions

We are reporting our greenhouse gas (GHG) emissions on a voluntary basis for the fourth consecutive year. The boundary in the previous years was the 'DFCC Banking Business' which comprised DFCC Bank and DFCC Vardhana Bank. Following the amalgamation of these two entities with effect from 1 October 2015 our reporting has changed to DFCC Bank for the 12 months ending 31 December 2015 which includes 'pre and post-merger' DFCC Bank and the pre-merger DFCC Vardhana Bank for the nine months ending 31 October 2015. Hence, the physical boundary is effectively still the same for comparability, but the shift to a new timeframe brings about some overlaps over the previous accounting period.

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

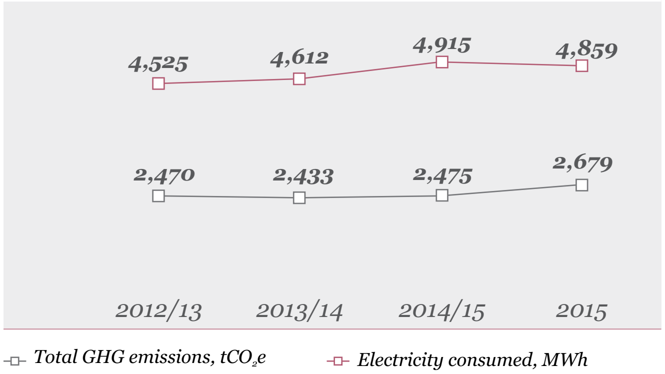
Carbon Footprint of the Bank

Scope	Source	GHG emissions			
		2015		2014/15	
		tCO_2e	%	tCO_2e	%
Scope 1 (direct)	Stationary combustion	**0.2**	**0**	11.6	0.5
	Mobile combustion	**215**	**8.0**	98.4	4.0
	Total Scope 1	**215.2**	**8.0**	110.0	4.5
Scope 2 (indirect)	Purchased electricity (CEB)	**988.2**	**36.9**	885.8	35.8
	Total Scopes 1 and 2	**1,203.4**	**44.9**	995.8	40.3
Scope 3 (indirect)	Stationary combustion	**47.1**	**1.8**	31.6	1.3
	Purchased electricity (CEB)	**1,423.6**	**53.1**	1,419.2	57.3
	Employee air travel	**5.1**	**0.2**	28.7	1.2
	Total Scope 3	**1,475.9**	**55.1**	1,479.5	59.8
	Total Scopes 1, 2 and 3	**2,679.3**	**100.0**	2,475.4	100.0

Note: Totals may not tally exactly due to rounding

The total GHG emissions during the period under review amounted to 2,679 tonnes carbon dioxide equivalent (tCO_2e), an increase of 8.2% over the previous year.

Managing Our Environmental Impact



Indirect GHG emissions from purchased electricity was by far the single largest contributor, accounting for 37% of the total in respect of Bank-owned premises (2014/15: 36%) and another 53% of the total in respect of rented premises (2014/15: 57%), bringing its total share to 90% (2014/15: 93%).

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

However, it is noteworthy that total electricity consumption was well managed during the year, recording a 1.1% reduction compared to the previous reporting period. Nevertheless, this achievement was negated by a higher grid emission factor used for the period under review, which in turn impacted on the total GHG emissions.

Integration with Business Processes

Being fully aware that economic development creates an impact on the environment and social aspects of life, we give high priority to environmental and social appraisal in making investment decisions and managing internal operations.

Thus, we have established a Social & Environmental Management System (SEMS) which ensures that the performance of existing operations and environmental/ social implications due to proposed projects are reviewed, and that subsequent monitoring is carried out to maintain stipulated environmental standards.

Staff Awareness

DFCC Bank educates staff on concepts related to sustainability and environment protection *via* a module on the Bank's e-learning portal as well as through regular articles featured in its weekly newsletter.

Supporting Environmental Initiatives

DFCC Bank plays an active role in supporting industry and Government initiatives related to protecting the environment. Further, employees were encouraged to buy energy efficient products by arranging for discounted prices during the period. These products included solar net metering, solar water heaters and pureit water filters.

Initiatives in 2015

- **Commemorating World Environment Day on 5 June 2015**

  A tree planting ceremony was held on 5 June 2015 to commemorate World Environment Day at the DFCC Bank Head Office. The two trees that will dominate the porch area of the Head Office in the future were jointly planted by Mr Arjun Fernando – CEO and Mr Palitha Gamage – Executive Vice President.

- **Global Climate March**

  The Global Climate March was organised by 'Earth Hour Sri Lanka' in Colombo on 29 November 2015, and DFCC Bank also joined the Climate March in support of this initiative.

- **Energy Efficiency Programmes for SMEs**

  DFCC Bank facilitated a workshop for SMEs on 'Financing Energy Efficiencies' in partnership with the Deutsche Gesellschaft fur Internationale Zusammenarbeit (GIZ) in various parts of the country. This workshop was conducted for SME customers of the Bank and members of the Chamber of Commerce. In addition, as a part of this initiative, the Bank part-financed Energy Audits on selected SMEs.

- **Earth Hour 2015**

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

  The Bank supports this initiative by switching off all signboard lights across all branches, serving as an example to the wider community to adopt a more responsible attitude towards the environment.