

Annual Report of the Board of Directors on the affairs of the Bank

Constitution

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

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of the DFCC Bank (Repeal and Consequential Provisions) Act No. 39 of 2014, the DFCC Bank Act No. 35 of 1955 was repealed and with effect from 6 January 2015 the Bank was incorporated under the Companies Act No. 07 of 2007 as a public limited company listed in the Colombo Stock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

The shareholders at the Extraordinary General Meeting held on 28 August 2015 approved the amalgamation of DFCC Vardhana Bank PLC (DVB) with DFCC Bank PLC (DFCC). The Registrar General of Companies on 1 October 2015 issued the Certificate of Amalgamation in terms of Section 244 (1) (a) of the Companies Act No. 07 of 2007 that DVB has been amalgamated with DFCC in accordance with the provisions of Part VIII of the Companies Act, with DFCC Bank PLC surviving as the amalgamated entity.

DFCC Bank PLC also obtained a commercial banking license from the Monetary Board of the Central Bank of Sri Lanka in terms of the Banking Act No. 30 of 1988, as amended, and accordingly upon the amalgamation now operates as a licensed commercial bank with effect from 1 October 2015.

Going Concern

The Directors are satisfied that the Bank has adequate resources to continue its operations in the future and as such, the financial statements are prepared on the basis of a going concern. The Auditors have declared the Bank solvent even after the payment of dividend.

Financial Statements

The financial statements of the Bank and the Group are given on pages 122 to 208 of this Annual Report.

The financial statements of the Bank and the Group have been prepared in accordance with Sri Lanka Accounting Standards prefixed SLFRS and LKAS, the Banking Act No. 30 of 1988 and amendments thereto, the Companies Act No. 07 of 2007 and other applicable statutory and regulatory requirements.

During the period under review, subsequent to the amalgamation, the financial year of the Bank was changed to a calendar year commencing the year 2015, to fall in line with other licensed commercial banks. As such the Income Statement is in respect of the nine month period ending 31 December 2015.

Review of Business of the Period

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

Profit and Appropriations

9 months ended 31 December 2015	LKR 000
Profit for the period	1,068,350
Appropriations	
Transfer to:	
Reserve Fund (statutory requirement)	60,000
First and final dividend approved for financial period ended 31 December 2015	662,744
Unappropriated profit for the period	345,606

Accounting Policies

The accounting policies adopted in the preparation of the financial statements of the Bank and the Group are stated on pages 131 to 145 of this Annual Report.

There were no changes to the accounting policies of the Group in the period under review other than due to the adoption of Statement of Alternative Treatment on accounting for super gains tax.

Auditors' Report

The Auditors' Report on the financial statements, which is unqualified, is given on page 121.

Reappointment of Auditors

The present Auditors, Messrs KPMG have expressed their willingness to continue as Auditors of the Bank for the next financial year ending 31 December 2016. The Audit Committee has reviewed the effectiveness and the relationship with DFCC Bank including the fees paid to the Auditors and has concluded that they are suitable to continue in office. The Directors are satisfied that based on the written representation made by the Auditors, they have no relationship or interest with the Bank or with any of its subsidiaries which would impair the Auditor's independence. A Resolution pertaining to their reappointment and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting for adoption.

The Board of Directors

The Board of Directors of the Bank presently consist of 12 Directors with wide knowledge and experience in the fields of banking and finance, trade, law, commerce, manufacturing or services. Profiles of the Directors are given in pages 10 to 13. The following were the Directors of the Bank as at 31 December 2015 categorised in accordance with criteria specified in the Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka.

Non-Executive Directors

C R Jansz – Chairman
K D N R Asoka*
A N Fonseka
Ms V J Senaratne

Independent Non-Executive Directors

A W Atukorala
K P Cooray
T Dharmarajah
P M B Fernando
Ms S R Thambiyah
L N de S Wijeyeratne

Executive Directors

A R Fernando – Chief Executive
L H A L Silva – Deputy Chief Executive

* Appointment in terms of Article 36 (ii) of the Articles of Association

K D N R Asoka represents a specific stakeholder and as such does not qualify to be designated as an independent director. C R Jansz, Ms V J Senaratne and A N Fonseka also do not meet the criteria set out in the Direction to be designated as Independent Directors by virtue of the fact that Mr Jansz and Ms Senaratne are common directors of another company and Mr Fonseka was an employee of the Bank until 31 March 2014.

Senior Director

Upon the retirement of G K Dayasri on 14 July 2015, P M B Fernando was designated as the Senior Director in terms of the Central Bank of Sri Lanka Direction on Corporate Governance.

Resignation and Retirement of Directors

G K Dayasri retired from the Board with effect from 14 July 2015 upon reaching the age of 70. J E A Perumal and Ms H M N S Gunawardana resigned from the Board with effect from 30 April 2015 and 23 June 2015 respectively. The Directors' record their appreciation for the contributions made by them during their tenure as Directors.

Appointment and Re-election of Directors

A W Atukorala and Ms V J Senaratne were appointed as Directors on 23 April 2015 and 6 July 2015 respectively. K D N R Asoka was appointed to succeed Ms H M N S Gunawardana on 23 June 2015. L N de S Wijeyeratne, A N Fonseka and L H A L Silva were appointed as Directors with effect from 15 October 2015.

Ms V J Senaratne, L N de S Wijeyeratne, A N Fonseka and L H A L Silva will retire in terms of Article 46 (ii) of the Articles of Association and are offering themselves for re-election at the Annual General Meeting. The Nominations Committee has recommended their re-election and the Board having concluded that they are fit and proper persons to be Directors in terms of the provision of the Banking Act, unanimously endorsed the recommendation of the Nominations Committee.

Retirement by Rotation and Re-election of Directors

The Directors retiring by rotation in terms of Article 44 of the Articles of Association are P M B Fernando and T Dharmarajah, who offer themselves for re-election under the said Article with the unanimous support of the Directors.

Directors' Remuneration

The Directors' remuneration for the financial period ended 31 December 2015 is given in Note 20 of the financial statements.

Directors' Meetings

The Bank held 13 Board meetings during the nine month period. The attendance of Directors is shown in the table on page 90 of the Annual Report.

Directors' Interests in Shares

	No. of Shares* as at 31.12.2015	No. of Shares as at 31.03.2015
K D N R Asoka ¹	Nil	–
A W Atukorala ¹	14,500	–
K P Cooray	Nil	Nil
G K Dayasri ²	–	1,036
T Dharmarajah	500	500
A R Fernando	4,470	4,470
P M B Fernando	1,000	1,000
A N Fonseka ¹	142,006	–
Ms H M N S Gunawardana ²	–	Nil
C R Jansz	1,000	1,000
J E A Perumal ²	–	42,475
V J Senaratne ¹	1,296	–
L H A L Silva ¹	3,476	–
Ms S R Thambiayah	Nil	Nil
L N de S Wijeyeratne ¹	Nil	–

Directors' Interests in Debentures

	31.12.2015 LKR 000	31.03.2015 LKR 000
A R Fernando	5,000	5,000
A N Fonseka ¹	5,000	–

¹ Not a Director as at 31 March 2015

² Not a Director as at 31 December 2015

* Includes shares held by the spouse

No Director directly or indirectly holds options of the Bank.

Directors' Interests Register

An interest register is maintained by the Bank as required by the Companies Act, No. 07 of 2007. Directors have made the general disclosure as provided for in Section 192 of the Companies Act, No. 07 of 2007. The Directors have declared all material interests in contracts involving the Bank and have not participated in the decision-making related to such transactions. All related entries were made in the Interest Register during the nine months under review.

Directors' Interests in Transactions with the Bank

The Directors' interests in transactions with entities/ persons (other than subsidiaries, joint ventures and associate) is listed under each Director for the nine months ended 31 December 2015 as follows:

	LKR 000
A W Atukorala	
TVS Lanka Limited	
Aggregate amount of accommodation	354,800
United Motors Lanka PLC	
Aggregate amount of payments made for services	31
K D N R Asoka	
Postgraduate Institute of Management	
Aggregate amount of payments made for services	40
K P Cooray	
Sri Lanka Telecom PLC	USD
Aggregate amount of accommodation	10 million
Aggregate amount of payments made for services	20,697
T Dharmarajah	
The Institute of Chartered Accountants of Sri Lanka	
Aggregate amount of payments made for services	647
A R Fernando	
Aggregate amount of accommodation	50,000
Credit Information Bureau of Sri Lanka	
Aggregate amount of payments made for services	3,070
Home Finance Company Limited-Fiji	
Aggregate amount of fee received for services	13,278
C R Jansz	
Distilleries Company of Sri Lanka PLC	
Aggregate amount of accommodation	1,000,000
Lanka Bell (Pvt) Limited	
Aggregate amount of payments made for services	1,878
Ms V J Senaratne	
Distilleries Company of Sri Lanka PLC	
Aggregate amount of accommodation	1,000,000
L N de S Wijeyeratne	
Kelani Valley Plantations PLC	
LB Finance PLC	
Talawakelle Tea Estates PLC	
Aggregate amount of accommodation	937,402

Messrs C R Jansz and A R Fernando are or have been Chairman/Director of one or more of the subsidiaries, joint venture or associate company. Details of transactions with subsidiaries, joint venture and associate company are disclosed in Notes 59.2-59.4 in the Notes to the financial statements.

Corporate Donations

During the period the Bank did not make any donations.

Board Committees

The following are the present members of the permanent committees of the Board. Changes to the composition during the period are set out in the respective committee reports in the Annual Report.

Audit Committee

P M B Fernando – Chairman
K D N R Asoka
T Dharmarajah
L N de S Wijeyeratne

Credit Approval Committee

C R Jansz – Chairman
T Dharmarajah
A W Atukorala
K P Cooray

Credit Restructure Committee

C R Jansz – Chairman
A W Atukorala
Ms S R Thambiayah

Human Resources and Remuneration Committee

C R Jansz – Chairman
A W Atukorala
Ms V J Senaratne

Nominations Committee

P M B Fernando – Chairman
C R Jansz
A W Atukorala
K P Cooray

Integrated Risk Management Committee

C R Jansz – Chairman
P M B Fernando
A N Fonseka
L N de S Wijeyeratne
A R Fernando

The Chief Risk Officer of the Bank is also a member of the Committee.

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

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

Dividend

The Directors have approved the payment of a first and final dividend of LKR 2.50 per share, (final dividend paid in the previous year, LKR 6/- per share). The total dividend for the period will amount to approximately LKR 663 million (LKR 1,591 million in the previous year), which amounts to 66% of the Bank's distributable profit.

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

Property, Plant and Equipment and Leasehold Property

The total expenditure of acquisition on property, plant and equipment during the year amounted to LKR 119 million of which intangible assets amounted to LKR 36 million. Details of these are given in the Notes 40 and 41 to the financial statements.

Reserves

Total reserves and retained profit amounted to LKR 38,104 million.

Market Value of Freehold Properties

The information on market value of freehold properties are given in Note 40.1.2 to the financial statements.

Stated Capital and Subordinated Debentures

The stated capital as at 31 December 2015 was LKR 4,716 million. The number of shares in issue as at 31 December 2015 was 265,097,688. Further information is given on pages 179 and 180.

Share Information

Information relating to earnings, net asset and market value per share are given on pages 5 and 114 of the Annual Report and also contains information pertaining to the share trading during that period.

Shareholders

As at 31 December 2015, there were 8,640 registered shareholders and the distribution is indicated on page 115.

The 20 largest shareholders as at 31 December 2015 are listed on page 115.

Employment and Remuneration Policies

The policy of the Bank is to develop and maintain a dedicated and highly motivated group of employees who are committed to creating sustainable value through effective risk management and high quality service while supporting the public and private sector in its development efforts within the ambit of the Articles of

Association of the Bank. DFCC Bank continuously invests in training and development of its staff to meet these objectives. The Bank is an equal opportunity employer. Remuneration of employees consists of fixed and variable payments. Annual increments and pay awards are based on the performance of the Bank and the individual. It is DFCC Bank's policy to fix remuneration at a level which will attract, motivate and retain high quality employees.

Statutory Payments

The Directors, to the best of their knowledge and beliefs are satisfied that all statutory payments due to the Government and in relation to the employees have been made on time.

Compliance with Laws, Regulations and Prudential Requirements

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

The Table below provides cross references to facilitate easy reference:

Reference to Rule	Requirement	Reference to Annual Report
3 (8) (i)	Financial statements on prescribed format	Financial statements on pages 122 to 208
3 (8) (ii) (a)	Affirmative assurance of compliance with accounting standards and requirements	Directors' Responsibility Statement on page 119
3 (8) (ii) (b)	Affirmative assurance of the integrity of financial reporting system	Directors Statement of Internal Control on page 110
3 (8) (ii) (c)	Assurance report issued by the external auditor	Independent Assurance Report on page 112
3 (8) (ii) (d)	Information on Directors	Corporate Governance Report. Table on page 98
3 (8) (ii) (d)	Remuneration of Directors	Notes on the financial statements on page 149
3 (8) (ii) (e)	Net accommodation granted to each category of related party	Corporate Governance Report. Table on page 98
3 (8) (ii) (f)	Compensation and other transactions with Key Management Personnel	Corporate Governance Report. Table on page 98
3 (8) (ii) (h)	Compliance with prudential requirements and regulations	This report.

Acknowledgement of the Content of the Report

As required by Section 168 (1) (k) of the Companies Act, No. 7 of 2007, the Board of Directors does hereby acknowledge the contents of this Report.

For and on behalf of the Board of Directors,



C R Jansz
Chairman



A R Fernando
Director and Chief Executive



Ms A Withana
Company Secretary

24 February 2016

Events Occurring after the Reporting Period

Subsequent to the date of the statement of financial position, no circumstances have arisen which would require adjustments to the accounts. Significant events occurring after the reporting period which in the opinion of Directors require disclosure are described in Note 63 to the financial statements.

Corporate Governance

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

The Directors' have obtained External Auditor's assurance on effectiveness of the internal control mechanism and compliance with the Direction 11 of 2007 of the Central Bank of Sri Lanka on Corporate Governance.

Details of governance practices and the required disclosures are given on pages 89 to 98. Rule 3 (8) of the Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka prescribes disclosures in the Annual Report. These disclosures have been made in this Annual Report as shown in the following Table: