

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 on 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of the DFCC Bank (Repeal and Consequential Provisions) Act No. 39 of 2014, the DFCC Bank Act No. 35 of 1955, was repealed and with effect from 6 January 2015, the Bank was incorporated under the Companies Act No. 07 of 2007 as a Public Limited Company listed on the Colombo Stock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 (Bank). 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 Bank PLC 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 152 to 244 of the 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.

Review of Business for the Year

The Chairman’s Statement, Chief Executive’s Review and the Management Discussion and Analysis give details of the operations of the Bank and the Group, and the key strategies that were adopted during the year under review.

Profit and Appropriations

Year ended 31 December 2017	LKR 000
Profit for the period	4,414,964
Appropriations	
Transfer to Reserve Fund (statutory requirement)	220,000
First and final dividend approved for financial year ended 31 December 2017	1,325,488
Unappropriated profit for the period	2,869,476

Accounting Policies

The accounting policies adopted in the preparation of the Financial Statements of the Bank and the Group are stated on pages 161 to 244 of the Annual Report.

There were no changes to the accounting policies of the Group in the year under review.

Auditors’ Report

The Auditors’ Report on the Financial Statements, which is unqualified, is given on page 151.

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 2018. The Audit Committee has reviewed the effectiveness and the relationship with the 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 Auditors’ 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 nine 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 on pages 16 to 17. During the year, L H A L Silva, Deputy CEO/Director assumed duties as the Chief Executive Officer/Ex-Officio Director with effect from 16 August 2017.

The Directors of the Bank categorised in accordance with criteria specified in the Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka are as follows:

Non-Executive Directors

C R Jansz – Chairman
N K G K Nemmawatta*
Ms V J Senaratne

Independent Non-Executive Directors

K P Cooray
T Dharmarajah
Ms L K A H Fernando
P M B Fernando – Senior Director
Ms S R Thambiayah

Executive Director

L H A L Silva – Chief Executive Officer

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

N K G K Nemmawatta represents a specific stakeholder and as such does not qualify to be designated as an Independent Director.

C R Jansz and Ms V J Senaratne 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 two companies outside the Group.

Senior Director

P M B Fernando has been designated as the Senior Director in terms of Central Bank of Sri Lanka Direction on Corporate Governance.

Resignation and Retirement of Directors

A R Fernando retired from the Board with effect from 15 August 2017, on completion of his contract of employment. L N de S Wijeyeratne retired from the Board with effect from 28 October 2017 having served a period of nine years as a Director of the Bank. H A Ariyaratne and K D N R Asoka resigned from the Board with effect from 28 March 2017 and 10 October 2017 respectively.

The Directors' record their appreciation for the contributions made by them during their tenure as Directors.

Appointment and Re-election of Directors

Ms L K A H Fernando was appointed a Director with effect from 1 November 2017. N K G K Nemmawatta was appointed on 1 February 2018 to succeed K D N R Asoka.

Ms Fernando will retire in terms of Article 46 (ii) of the Articles of Association and is offering herself for re-election at the Annual General Meeting. The Nomination and Governance Committee has recommended her re-election and the Board having concluded that she is a fit and proper person to be a Director in terms of the provision of the Banking Act unanimously endorsed the recommendation of the Nomination and Governance 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 Ms V J Senaratne and P M B Fernando, who offer themselves for re-election under the said Article with the unanimous support of the Directors.

Directors' Remuneration

The Directors' remuneration in respect of the Bank and the Group for the financial year ended 31 December 2017 is given below:

	Year ended 31 December 2017 LKR 000	Year ended 31 December 2016 LKR 000
Bank	80,877	68,748
Group	103,818	90,223

Directors' Meetings

The Bank held 14 Board meetings during the year. The attendance of Directors is shown in the table on page 113 of the Annual Report.

Directors' Interests in Shares

	No. of Shares as at 31 December 2017	No. of Shares as at 31 December 2016
H A Ariyaratne ¹	-	102,710
K D N R Asoka ¹	-	Nil
K P Cooray	Nil	Nil
T Dharmarajah	500	500
A R Fernando ¹	-	4,470
Ms L K A H Fernando ²	Nil	-
P M B Fernando	1,000	1,000
C R Jansz	1,000	1,000
Ms V J Senaratne	1,296	1,296
L H A L Silva	3,476	3,476
Ms S R Thambiayah	Nil	Nil
L N de S Wijeyeratne ¹	-	Nil

¹ Not a Director as at 31 December 2017

² Not a Director as at 31 December 2016

Directors' Interests in Debentures

	31 December 2017 LKR 000	31 December 2016 LKR 000
L H A L Silva	2,000	2,000

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 year under review.

Directors' Interests in Transactions with the Bank

The Directors' interests in transactions with entities/ persons (other than subsidiaries, the joint venture and associate) listed under each Director for the year ended 31 December 2017 is as follows:

	LKR '000
K P Cooray	
Hotel Developers Lanka PLC	
Aggregate amount of accommodation	4,608,000
The Associated Newspapers of Ceylon Limited	
Aggregate amount of payments made for services	456
T Dharmarajah	
DHS Medical Group (Pvt) Limited	
Aggregate amount of accommodation	490
A R Fernando	
LVL Energy Fund Limited	
Aggregate amount of accommodation	875,000
Credit Information Bureau of Sri Lanka	
Aggregate amount of payments made for services	6,921
Ms L K A H Fernando	
United Motors Lanka PLC	
Aggregate amount of payments made for supplies	30
C R Jansz	
Distilleries Company of Sri Lanka PLC Melstacorp PLC	
Aggregate amount of accommodation	4,000,000
Lanka Bell Limited	
Periceyl Limited	
Aggregate amount of payments made for services and supplies	5,571
Ms V J Senaratne	
Distilleries Company of Sri Lanka PLC Melstacorp PLC	
Aggregate amount of accommodation	4,000,000
L H A L Silva	
Aggregate amount of accommodation	2,000
Acuity Securities Limited	
LVL Energy Fund Limited	
Aggregate amount of accommodation	1,800,000
LVL Energy Fund Limited	
Aggregate amount of fee received for services rendered	8,941
Lanka Financial Services Bureau Limited	
Sri Lanka Banks Association (Guarantee) Limited	
Aggregate amount of payments made for services	4,358
L N de S Wijeyeratne	
Kelani Valley Plantations PLC	
L B Finance PLC	
Aggregate amount of accommodation	850,000

A R Fernando, K P Cooray and L H A L Silva are or have been Chairman/Director of one or more of the subsidiary, joint venture or associate companies. Details of transactions with subsidiary, joint venture and associate companies are disclosed in Notes 55.3 to 55.5 to the Financial Statements.

Corporate Donations

During the year, the Bank made donations amounting to LKR 10,600.

Board Committees

The following are the members of the permanent committees of the Board. Changes to the composition during the year are set out in the respective Committee Reports in the Annual Report:

Audit Committee

P M B Fernando – Chairman
T Dharmarajah
Ms L K A H Fernando

Credit Approval Committee

C R Jansz – Chairman
K P Cooray
P M B Fernando

Credit Restructure Committee

C R Jansz – Chairman
T Dharmarajah
Ms S R Thambiayah

Human Resources and Remuneration Committee

C R Jansz – Chairman
K P Cooray
Ms S R Thambiayah

Nomination and Governance Committee

P M B Fernando – Chairman
K P Cooray
C R Jansz

Integrated Risk Management Committee

T Dharmarajah – Chairman
Ms L K A H Fernando
Ms V J Senaratne
L H A L Silva

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

Related Party Transactions Review Committee

T Dharmarajah – Chairman
K P Cooray
C R Jansz
L H A L Silva

In addition, from time to time the Board appoints committees to deal with specific matters. The Board also invites external advisors 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 5.00 per share, (final dividend paid in the previous period, LKR 4.50 per share). The total dividend for the year will amount to approximately LKR 1,325 million (LKR 1,193 million in the previous period), which amounts to 32% of the Bank's distributable profit.

The Directors unanimously declare that, DFCC Bank PLC 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 a certificate of solvency from its Auditor is obtained.

Property, Plant and Equipment and Leasehold Property

The total expenditure of acquisition on property, plant and equipment during the year amounted to LKR 880.9 million of which intangible assets amounted to LKR 275.6 million. Details of these are given in the Notes 38 and 39 to the Financial Statements.

Reserves

Total reserves and retained profit amounted to LKR 43,161 million.

Market Value of Freehold Properties

The information on market value of freehold properties are given in Note 38.1.2 to the Financial Statements.

Stated Capital and Subordinated Debentures

The stated capital as at 31 December 2017 was LKR 4,716 million. The number of shares in issue as at 31 December 2017 was 265,097,688. Further information is given on page 216.

Share Information

Information relating to earnings, net assets and market value per share are given on pages 54 and 144 of the Annual Report and also contains information pertaining to the share trading during the period.

Shareholders

As at 31 December 2017, there were 8,728 registered shareholders and the distribution is indicated on page 145.

The 20 largest shareholders as at 31 December 2017 are listed on page 146.

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 public and private sector in its development efforts within the ambit of the Articles of Association of the Bank. DFCC Bank PLC 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 the 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 belief are satisfied that all statutory payments due to the Government and in relation to the employees have been made on time.

Related Party Transactions

The Related Party Transactions Review Committee is responsible for ensuring compliance with the code specified in Section 9 of the CSE Listing Rules. The Committee reviewed the related party transactions carried out during the year and noted that the transactions were in compliance with the said code.

Compliance with Laws, Regulations and Prudential Requirements

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

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 58 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 Auditors' assurance on effectiveness of the internal control mechanism and compliance with the Direction No. 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 111 to 124.

Rule 3 (8) of the Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka prescribe disclosures in the Annual Report. These disclosures have been made in this Annual Report as shown in the following table:

The table below provides cross references to facilitate easy reference.

Reference to Rule	Requirement	Reference to Annual Report
3 (8) (i)	Financial Statements on prescribed format	Financial Statements on pages 152 to 244
3 (8) (ii) (a)	Affirmative assurance of compliance with accounting standards and requirements	Directors' Responsibility Statement on page 149
3 (8) (ii) (b)	Affirmative assurance of the integrity of financial reporting system	Directors' Statement of Internal Control on page 140
3 (8) (ii) (c)	Assurance report issued by the External Auditor	Independent Assurance Report on page 143
3 (8) (ii) (d)	Information on Directors	Pages 16 and 17
3 (8) (ii) (d)	Remuneration of Directors	Annual Report of the Directors on page 126
3 (8) (ii) (e)	Net accommodation granted to each category of related party	Corporate Governance Report. Table on page 124
3 (8) (ii) (f)	Compensation and other transactions with Key Management Personnel	Corporate Governance Report on page 124
3 (8) (ii) (h)	Compliance with prudential requirements and regulations	This report.

Acknowledgment of the Content of the Report

As required by Section 161 (1) (k) of the Companies Act No. 07 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

19 February 2018



L H A L Silva
Director and Chief Executive Officer



Ms A Withana
Company Secretary