

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of the DFCC Bank (Repeal and Consequential Provisions) Act No. 39 of 2014, the DFCC Bank Act No. 35 of 1955 was repealed and with effect from 6 January 2015 the Bank was incorporated under the Companies Act No. 07 of 2007 as a public limited company listed on the Colombo Stock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 136 to 242 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 of the year

The Chairman’s Statement, Chief Executive’s Report 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 2018	LKR 000
Profit for the period	2,768,179
Appropriations	
Transfer to:	
Reserve Fund (statutory requirement)	134,000
First and final dividend approved for financial year ended 31 December 2018	927,842
Unappropriated profit for the period	1,706,337

Accounting Policies

The Accounting Policies adopted in the preparation of the Financial Statements of the Bank and the Group are stated on pages 145 to 242 of the Annual Report.

There were no changes to the accounting policies of the Group in the year under review, other than for changes arising out of transition to SLFRS 15 and SLFRS 9.

Auditors' report

The Auditors' Report on the Financial Statements, which is unqualified, is given on page 131.

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 2019. 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 10 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 14 and 15.

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
Ms V J Senaratne

Independent Non-Executive Directors

K P Cooray
T Dharmarajah
J Durairatnam
Ms L K A H Fernando
P M B Fernando
N K G K Nemmawatta
Ms S R Thambiayah

Executive Director

L H A L Silva – Chief Executive Officer

C R Jansz and Ms V J Senaratne 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.

Appointment, resignation/cessation and re-election of Directors

N K G K Nemmawatta was appointed on 1 February 2018 as a Non-Independent Non-Executive Director to succeed K D N R Asoka. He ceased to be a Director of the Bank with effect from 31 October 2018 in terms of Article 36 (ii) of the Articles of Association of DFCC Bank PLC.

Subsequently N K G K Nemmawatta was reappointed to the Board as an Independent Non-Executive Director with effect from 20 December 2018. He will retire in terms of Article 46 (ii) of the Articles of Association and is offering himself for re-election at the Annual General Meeting.

J Durairatnam was appointed a Director with effect from 30 August 2018. He will retire in terms of Article 46 (ii) of the Articles of Association and is offering himself for re-election at the Annual General Meeting.

The Nomination and Governance 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 Nomination and Governance Committee.

There were no resignations during the year.

Retirement by rotation and re-election of Directors

The Directors retiring by rotation in terms of Article 44 of the Articles of Association are T Dharmarajah and Ms S R Thambiayah, 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 2018 is given below:

	Year ended 31 December 2018	Year ended 31 December 2017
Bank	55,271	80,877
Group	79,959	103,818

Directors' meetings

The Bank held 14 Board meetings during the year. The attendance of Directors is shown in the Table on page 96 of the Annual Report.

Directors' interests in shares

	Number of shares as at 31 December 2018	Number of shares as at 31 December 2017
K P Cooray	Nil	Nil
T Dharmarajah	500	500
J Durairatnam ¹	Nil	-
Ms L K A H Fernando	Nil	Nil
P M B Fernando	1,000	1,000
C R Jansz	1,000	1,000
N K G K Nemmawatta ¹	Nil	-
Ms V J Senaratne	1,296	1,296
L H A L Silva	3,476	3,476
Ms S R Thambiyah	Nil	Nil

¹ Not a Director as at 31 December 2017

Directors' interests in debentures

	31 December 2018 LKR 000	31 December 2017 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 2018 is as follows:

	LKR 000
K P Cooray	
Aggregate amount of accommodation	500
Hotel Developers PLC	
Aggregate amount of accommodation	500,000
Associated Newspapers of Ceylon Limited	
Aggregate amount of payments for services	11,985
T Dharmarajah	
DHS Medical Group (Pvt) Ltd.	
Aggregate amount of accommodation	4,050
J Durairatnam	
Aggregate amount of accommodation	500
Asian Hotels & Properties PLC	
Aggregate amount of payment for services	4,410
Ms L K A H Fernando	
Aggregate amount of accommodation	500
TVS Lanka (Pvt) Ltd.	
United Motors Lanka PLC	
Aggregate amount of accommodation	1,160,000
United Motors Lanka PLC	
Aggregate amount of payment for services	417
P M B Fernando	
Aggregate amount of accommodation	500
N K G K Nemmawatta	
Aggregate amount of accommodation	500
C R Jansz	
Distilleries Company of Sri Lanka PLC	
Melstacorp PLC	
Periceyl (Pvt) Limited	
Splendor Media (Pvt) Ltd.	
United Dairies Lanka (Pvt) Ltd.	
Aggregate amount of accommodation (Includes LKR 2 Bn which was cancelled prior to 31 December 2018)	7,322,500
Lanka Bell Limited	
Aggregate amount of payments for services	5,461
Ms V J Senaratne	
Aggregate amount of accommodation	500
Distilleries Company of Sri Lanka PLC	
Melstacorp PLC	
Aggregate amount of accommodation (Includes LKR 1.5 Bn which was cancelled prior to 31 December 2018)	4,800,000

	LKR 000
L H A L Silva	
Aggregate amount of accommodation	700
Lanka Ventures PLC	
LVL Energy Fund PLC	
Aggregate amount of accommodation	705,000
Lanka Financial Services Bureau Limited	
Aggregate amount of payments for services	3,679

During the year, L H A L Silva and K P Cooray 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 56.3-56.5 in the Notes to the Financial Statements.

Corporate donations

During the year, the Bank made donations amounting to LKR 60,000.

Board Committees

The following are the present 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
J Durairatnam
P M B Fernando*

**Non-voting member with effect from 21 December 2018*

Credit Restructure Committee

C R Jansz – Chairman
T Dharmarajah
Ms S R Thambiyah

Human Resources and Remuneration Committee

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

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
P M B Fernando
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 3.50 per share, (final dividend paid in the previous period, LKR 5.00 per share). The total dividend for the year will amount to approximately LKR 928 Mn (LKR 1,325 Mn in the previous period), which amounts to 35% 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 1,093 Mn, of which intangible assets amounted to LKR 422 Mn. Details of these are given in Notes 38 and 39 to the Financial Statements.

Reserves

Total reserves and retained profit amounted to LKR 39,130 Mn.

Market value of freehold properties

The information on market value of freehold properties are given in Note 38.1.3 to the Financial Statements.

Stated capital and subordinated debentures

The stated capital as at 31 December 2018 was LKR 4,716 Mn. The number of shares in issue as at 31 December 2018 was 265,097,688. Further information is given on pages 210 and 211.

The Board of Directors, on 22 January 2019 decided to raise new capital by way of a Rights Issue of two shares for every five shares held at a consideration of LKR 72.00 per share. The Rights Issue is subject to the approval by the Colombo Stock Exchange and the shareholders at an Extraordinary General Meeting and intends to raise approximately LKR 7.6 Bn of new equity capital.

Share information

Information relating to earnings, net asset and market value per share are given on pages 45 and 48 of the Annual Report and also contain information pertaining to the share trading during the period.

Shareholders

As at 31 December 2018, there were 8,880 registered shareholders and the distribution is indicated on page 46.

The 20 largest shareholders as at 31 December 2018 are listed on page 47.

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.

Review of 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 59 to the Financial Statements.

Corporate governance

The Directors place great emphasis on following internationally accepted good corporate governance practices, and principles. 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 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 94 to 107.

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 136 to 242.
3 (8) (ii) (a)	Affirmative assurance of compliance with accounting standards and requirements	Directors' Responsibility Statement on page 129.
3 (8) (ii) (b)	Affirmative assurance of the integrity of financial reporting system	Directors' Statement of Internal Control on page 123.
3 (8) (ii) (c)	Assurance report issued by the External Auditor	Independent Assurance Report on page 126.
3 (8) (ii) (d)	Information on Directors	Pages 14 and 15.
3 (8) (ii) (d)	Remuneration of Directors	Annual Report of the Directors on page 108.
3 (8) (ii) (e)	Net accommodation granted to each category of related party	Corporate Governance Report. Table on page 107.
3 (8) (ii) (f)	Compensation and other transactions with Key Management Personnel	Corporate Governance Report on page 107.
3 (8) (ii) (h)	Compliance with prudential requirements and regulations	This report.

Acknowledgement 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

18 February 2019



L H A L Silva
Director and Chief Executive Officer



Ms A Withana
Company Secretary