

Annual Report of the Board of Directors on the State of Affairs of the Bank

General

The Board of Directors of DFCC Bank PLC (the Bank) take pleasure in presenting their Report on the State of Affairs of the Bank as published in this Annual Report of the Bank which also consists of the Audited Financial Statements of the Bank, the Consolidated Financial Statements of the Group and the Auditor's Report on those Financial Statements.

The disclosures in this Annual Report conform to the requirements of the Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 (as amended) and the Directions issued by the Monetary Board of the Central Bank of Sri Lanka under the Banking Act and the Listing Rules of the Colombo Stock Exchange (CSE).

The disclosures required under Section 168 of the Companies Act No. 07 of 2007, published in this Annual Report are tabulated in the table below:

Section	Disclosure requirement	Reference to annual report
168 (1) (a)	The nature of the business of the Bank and Group	Page 155 (Note 1.4 to the Financial Statements)
168 (1) (b)	Signed Financial Statements of the Bank in accordance with Section 152	Page 149 (Financial Statements)
168 (1) (c)	Auditor's Report on Financial Statements of the Bank and the Group	Page 141
168 (1) (d)	Changes in accounting policies made during the accounting period	Page 164 (Note 6 to the Financial Statements)
168 (1) (e)	Particulars of entries in the interest register made during the accounting period	Page 120 of this Report
168 (1) (f)	Remuneration and other benefits of Directors during the accounting period	Pages 119, 211 and 270 (Notes 20 and 58.2 to the Financial Statements and this Report)
168 (1) (g)	Total amount of donations made by the Bank during the accounting period	Page 121 of this Report
168 (1) (h)	Information on Directorate of the Bank during and end of the accounting period and persons who ceased to hold office as directors during the accounting period.	Page 119 of this Report
168 (1) (i)	Amounts payable to the Auditors' as audit fees and fees for other services rendered during the accounting period as a separate disclosure	Page 211 (Note 20 to the Financial Statements)
168 (1) (j)	Auditors' relationship or any interest with the Bank and its subsidiaries	Page 118 of this Report
168 (1) (k)	Annual Report of the Board of Directors on the State of Affairs of the Bank signed on behalf of the Board of Directors	Page 123 (Signed with an acknowledgment by two Directors and the Company Secretary)

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 (the 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 146 to 282 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 2019	LKR '000
Profit for the period	2,073,868
Appropriations	
Transfer to:	
Reserve fund (statutory requirement)	103,693
First and final dividend recommended for financial year ended 31 December 2019	912,566
Unappropriated profit for the period	1,057,609

Accounting policies

The accounting policies adopted in the preparation of the Financial Statements of the Bank and the Group are stated on pages 158 to 282 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 16.

Auditors' Report

The Auditors' Report on the Financial Statements, which is unqualified, is given on page 141.

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 2020. 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, or services. Profiles of the Directors are given on pages 14 to 17.

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:

Independent Non-Executive Directors

K P Cooray

T Dharmarajah*

J Durairatnam – Chairman with effect from 28 July 2019.

Ms L K A H Fernando

P M B Fernando – Senior Director

N K G K Nemmawatta

Ms S R Thambiayah

Non-Independent Non-Executive Director

Ms V J Senaratne

Executive Directors

L H A L Silva – Chief Executive Officer

N H T I Perera – Deputy Chief Executive Officer

** due to retire in March 2020*

Appointment, retirement/resignation and re-election of Directors

N H T I Perera, Deputy Chief Executive Officer was appointed as an Executive Director of the Bank on 1 July 2019. 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 the re-election of N H T I Perera and the Board having concluded that he 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.

C R Jansz retired from the Board with effect from 27 July 2019 in terms of Section 3 (2) (ii) of the Banking Act Direction No. 11 of 2007 having served a period of nine years as a Director of the Bank. Upon the retirement of C R Jansz, the Board appointed J Durairatnam as the Chairman with effect from 28 July 2019.

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 P M B Fernando and Ms L K A H 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 2019 is given below:

	Year ended 31 December 2019	Year ended 31 December 2018
Bank	65,120	55,271
Group	88,545	79,959

Directors' meetings

The Bank held 15 Board meetings during the year. The Table on page 104 of the Annual Report gives details of the attendance of the Directors at Board and Board committees during the year.

Directors' interests in shares

	Number of shares as at 31 December 2019	Number of shares as at 31 December 2018
K P Cooray	Nil	Nil
T Dharmarajah	2,700	500
J Durairatnam	Nil	Nil
Ms L K A H Fernando	Nil	Nil
P M B Fernando	2,000	1,000
C R Jansz ¹	-	1,000
N K G K Nemmawatta	Nil	Nil
N H T I Perera ²	16,800	-
Ms V J Senaratne	1,814	1,296
L H A L Silva	24,866	3,476
Ms S R Thambiayah	Nil	Nil

¹ Not a Director as at 31 December 2019

² Not a Director as at 31 December 2018

Directors' interests in debentures

	31 December 2019 LKR '000	31 December 2018 LKR '000
L H A L Silva	2,000	2,000

No Director directly or indirectly holds options of the Bank.

Directors' interests register

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. As required by the Companies Act No. 07 of 2007, an interest register is maintained by the Bank and relevant entries are recorded therein.

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 2019 is as follows:

	LKR '000
K P Cooray	
Associated Newspapers of Ceylon Limited	
Hotel Developers (Lanka) PLC	
Aggregate amount of accommodation	1,300,000
Associated Newspapers of Ceylon Limited	
Aggregate amount of payments for rent	16,541
Aggregate amount of payments for services	11,256
J Durairatnam	
Assetline Leasing Company Limited	
Aggregate amount of accommodation	500,000
Asian Hotels and Properties PLC	
Aggregate amount of payment for services	33
Ms L K A H Fernando	
Foodbuzz (Pvt) Limited	
R I L Property PLC	
United Motors Lanka PLC	
Aggregate amount of payment for services	610
P M B Fernando	
Laufgs Power Limited	
Aggregate amount of accommodation	96,000
C R Jansz	
Distilleries Company of Sri Lanka PLC	
Lanka Bell Limited	
Lanka Milk Foods (CWE) PLC	
Aggregate amount of payments for services	3,146
Ms V J Senaratne	
Distilleries Company of Sri Lanka PLC	
Melstacorp PLC	
Aggregate amount of accommodation	3,300,000
Distilleries Company of Sri Lanka PLC	
Aggregate amount of payment for services	50
L H A L Silva	
Aggregate amount of accommodation	2,000
LVL Energy Fund PLC	
Aggregate amount of accommodation	500,000
Lanka Financial Services Bureau Limited	
Aggregate amount of investment	1,000
Aggregate amount of payments for services	8,419

During the year, L H A L Silva, P M B Fernando, and N H T I Perera are or have been Chairman/Director of one or more of the subsidiary, joint venture, or associate company. Details of transactions with subsidiary, joint venture and associate company are disclosed in Note 58.4.

Corporate donations

During the year, the Bank made donations amounting to LKR 1,250,000.

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

J Durairatnam – Chairman
K P Cooray
N K G K Nemmawatta
P M B Fernando*

**Non-voting member*

Credit Restructure Committee

J Durairatnam – Chairman
T Dharmarajah
Ms S R Thambiayah

Human Resources and Remuneration Committee

J Durairatnam – Chairman
K P Cooray
Ms S R Thambiayah

Nomination and Governance Committee

P M B Fernando – Chairman
K P Cooray
J Durairatnam

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
J Durairatnam
P M B Fernando
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 recommended the payment of a first and final dividend of LKR 3.00 per share, (final dividend paid in the previous period, LKR 3.50 per share). The total dividend for the year will amount to approximately LKR 913 Mn (LKR 928 Mn in the previous period), which amounts to 46% 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 1,318 Mn, of which intangible assets amounted to LKR 317 Mn. Details of these are given in Notes 39 and 40 to the Financial Statements.

Reserves

Total reserves and retained profit amounted to LKR 39,949 Mn.

Market value of freehold properties

The information on market value of freehold properties are given in Note 39.1.2 to the Financial Statements.

Stated capital and subordinated debentures

The stated capital as at 31 December 2019 was LKR 7,530 Mn. The number of shares in issue as at 31 December 2019 was 304,188,756. Further information is given on pages 263 and 264.

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. New capital amounting to LKR 2,814 Mn was raised by way of the Rights Issue.

Share information

Information relating to earnings, net asset and market value per share are given on pages 50 and 53 of the Annual Report and also contain information pertaining to the share trading during the period.

Shareholders

As at 31 December 2019, there were 9,011 registered shareholders and the distribution is indicated on page 51.

The 20 largest shareholders as at 31 December 2019 are listed on page 52.

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 61 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 100 to 116.

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 146 to 282
3 (8) (ii) (a)	Affirmative assurance of compliance with accounting standards and requirements	Directors' Responsibility Statement on page 139
3 (8) (ii) (b)	Affirmative assurance of the integrity of financial reporting system	Directors' Statement of Internal Control on page 133
3 (8) (ii) (c)	Assurance report issued by the External Auditor	Independent Assurance Report on page 136
3 (8) (ii) (d)	Information on Directors	Pages 14 to 17
3 (8) (ii) (d)	Remuneration of Directors	Annual Report of the Board of Directors on the State of Affairs of the Bank on page 119
3 (8) (ii) (e)	Net accommodation granted to each category of related party	Corporate Governance Report. Table on page 115
3 (8) (ii) (f)	Compensation and other transactions with Key Management Personnel	Corporate Governance Report on page 116
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,



J Durairatnam
Chairman

18 February 2020



L H A L Silva
Director and Chief Executive Officer



Ms A Withana
Company Secretary