

Corporate Governance

DFCC Bank is committed to maintaining the highest standards of Corporate Governance. Apart from adhering to the general principles of good Corporate Governance, the Bank is also subject to the Mandatory Codes on the subject issued as Direction No. 12 of 2007 by the Central Bank of Sri Lanka and Listing Rule No. 6 of the Colombo Stock Exchange. Full compliance with Direction No. 12 is mandated by 1 January 2009 (except for a few areas where a longer period has been specified). Compliance with Listing Rule No. 6 becomes mandatory during the financial year that commenced on 1 April 2008. The Listing Rules require disclosure on compliance and an explanation to be provided in instances of non-compliance.

Board of Directors

The Board of Directors is responsible for determining the strategic direction of the Bank and setting the corporate values. The Directors strengthen the safety and soundness of the Bank by identifying and setting limits for the principal risks applicable to the Bank and exercising adequate oversight with regard to the Bank and its subsidiaries including effective checks and balances in order to manage such risks prudently. The appointment and succession of the Chief Executive Officer and the second level of management are also matters that receive the attention of the Directors. The Directors evaluate the performance of the Chief Executive Officer on a continuous basis and annually on a formal basis.

Other than the General Manager who is the Chief Executive Officer and is an Ex-Officio Director without voting rights, all the other Directors of the Bank are Non-Executive Directors. They are persons of wide ranging skills and relevant experience and are fit and proper persons in terms of Section 42 of the Banking Act. The longest serving Non-Executive Director has served the Board for less than 9 years. Periodic induction of new Non-Executive Directors to the Board ensures objectivity, independence from management as well as new thinking being brought to bear on deliberations of the Directors.

Chairman and Chief Executive Officer

The Non-Executive Directors elect the Chairman for a 3-year term with re-election permitted. While the Chairman is responsible for managing the Board and facilitating the effective discharge of the Board functions, the Directors have delegated sufficient authority to the Chief Executive Officer to carry out the day-to-day tasks, manage operations and implement policies approved by the Directors.

Meetings of Directors

Directors of the Bank dedicate time and effort to matters referred to the Board in order to ensure that their duties and responsibilities are discharged satisfactorily. To facilitate this, a schedule of monthly board meetings is approved in advance by the Directors for the full year and changes thereto are made only rarely and with adequate notice. Additional board meetings are held to discuss urgent issues when so warranted. The DFCC Bank held 12 board meetings during the period under review and the attendance of the Directors at these meetings are given below:

Mr J M S Brito -Chairman	12
Mrs M A R C Cooray (Resigned in February 2008)	7
Ms Sujatha Cooray (Appointed in March 2008)	1
Mr G G R Dalchow (Alternate to T Caglayan)	9
Mr A N Fonseka	12
Mr A Jayaratne	12
Mr G P Karunaratne	12
Mr S N P Palihena	12
Mr C P R Perera	11
Mr D S Weerakkody	11

All issues or matters taken up for discussion at meetings of the Board of Directors are included in the agenda and papers on each matter are prepared by management setting out the relevant background details and identifying decision points where applicable. The Secretary submits the Agenda and the related papers to the Directors prior to the board meeting giving them adequate time to study and obtain further clarifications from management,

if necessary. The decisions of the Board, including any dissenting views, are documented by the Board Secretary in the form of Minutes. The draft Minutes are circulated to Directors in advance for adoption at the following meeting.

In compliance with Section 9 (6) of the DFCC Bank Act, all Directors disclose their interest in any matter which comes up for consideration at the board meeting and do not participate in the deliberations on that matter. In terms of the DFCC Bank Act, a contract or transaction in which a Director has an interest can only be approved by a unanimous decision of all the other Directors.

Remuneration of Directors

In terms of the Regulations of DFCC Bank, the shareholders approve the aggregate remuneration payable to the Directors at each Annual General Meeting. The Ex-Officio Director does not receive any remuneration as a Director.

Committees of the Board of Directors

To assist the Board of Directors in the discharge of their duties, the Directors have established Board Committees on Audit, Credit, Human Resources & Remuneration, Nomination and Integrated Risk Management. Where considered necessary the Board has invited external experienced professionals to serve on the subcommittees as advisors. The members of the committees are listed in the Annual Report of Directors. The charters of the Audit, Human Resources & Remuneration, Nomination and Integrated Risk Management committees are being amended to encompass the requirements as specified in Direction No. 12 of 2007 of the Central Bank of Sri Lanka. The Bank is implementing processes aimed at full compliance with the requirements relating to the functioning of these committees by the end of 2008.

The Report of the Audit Committee is given in page ... of the Annual Report.

The Credit Committee deals with matters relating to lending operations that exceed the authority of the Executive Credit Committee. However, approval of credit risk beyond the limit delegated to the Executive Credit Committee requires consideration by the full Board.

The Human Resources & Remuneration Committee decides on the remuneration policies including the overall level of annual increments and variable pay awards and the basis for performance based distribution. It also specifically deals with the remuneration of the Chief Executive Officer and key management personnel.

The Nomination Committee vets all nominations received for filling vacancies on the Board of Directors including the re-election of incumbent Directors.

The Chairmen of all committees are independent Non-Executive Directors.

Disclosure of Information to Shareholders and Other Stakeholders

Directors consider as paramount, the duty cast on them to provide shareholders with all important information pertaining to the Bank in a timely manner. A comprehensive Annual Report is sent to the shareholders together with the Notice of the Annual General Meeting. In addition to the Annual Report, the Directors make announcements through the Colombo Stock Exchange to all shareholders, including quarterly financial statements and a commentary thereon. The Bank also disseminates information to stakeholders through the media and the Bank's website.

Compliance with the Corporate Governance Rules of the Colombo Stock Exchange

Section 6 of the Listing Rules of the Colombo Stock Exchange (CSE), sets out minimum corporate governance requirements for listed companies and require listed companies to confirm compliance or explain the reasons for non-compliance. The following disclosures are made accordingly.

Rule 6.1 - Non-Executive Directors: Complied. 8 out of the 9 Directors are Non-Executive.

Rule 6.2 - Minimum Number of Independent Directors: Complied. The minimum required is three.

Rules 6.3 and 6.4 - Disclosures Relating to Directors : 7 of the 8 Non-Executive Directors meet all the criteria specified in Rule 6.4 for determining the Independence of Directors. These Independent Directors are Messrs J M S Brito, A M de S Jayaratne, G P Karunaratne, D S Weerakkody, T Caglayan (alternate G G R Dalchow), C P R Perera and Mrs S Cooray.

Rule 6.5 - Remuneration Committee: Complied. The required information on Remuneration is given in Notes 16 and 60.5 to the financial statements.

Rule 6.6 - Audit Committee: Complied