

Annual Report of the Board of Directors

The Directors of the DFCC Bank have pleasure in presenting to the members the Annual Report together with the audited financial statements for the year ended 31 March 2009.

The Annual Report contains information and disclosure required under the Companies Act No.7 of 2007 to the extent applicable to DFCC Bank, the Listing Rules of the Colombo Stock Exchange, the Banking Act (including Directions issued there under) and the requirements of the Sri Lanka Accounting Standards.

■ General

DFCC Bank which is established under the DFCC Act No.35 of 1955, is listed on the Colombo Stock Exchange and is licensed as a Specialised Bank under the Banking Act No.30 of 1988 as amended.

■ Activities

■ Bank

The principal activities of DFCC Bank include the business of development financing and investment banking services.

There has been no significant change in the nature of DFCC Bank's principal activities during the year.

■ Subsidiaries, Joint Venture and Associates

The subsidiaries of the Bank are DFCC Consulting (Pvt) Limited, DFCC Vardhana Bank Limited, Lanka Industrial Estates Limited (LINDEL), Lanka Ventures PLC (LVL) and Synapsys Limited. The equally owned joint venture company is Acuity Partners (Pvt) Limited and associate companies are National Asset Management Limited (NAMAL) and Commercial Bank of Ceylon PLC while the nature of business and the Bank's interest in these entities are set out in Pages 20 & 21.

Except for the exchange of shares of DFCC Stockbrokers (Pvt) Limited for shares of Acuity Partners (Pvt) Limited there were no significant changes relating to the business of the Subsidiaries and Associates of the Bank.

■ Going Concern

The Directors are satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the financial statements are prepared on the going concern basis.

■ Financial Statements

The financial statements of the Bank and the Group of Companies are given on pages 73 to 78 of the Annual Report. They have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, the Banking Act and other applicable statutory and regulatory requirements.

■ Principal Accounting Policies

The significant accounting policies adopted in the preparation of the financial statements of the Bank and the Group are stated on pages 79 to 94 of the Annual Report.

■ Directors' Interests in Transactions with the Bank

All Directors have complied with Section 9(6) of the DFCC Bank Act and declared any interest in transactions or proposed transactions with the Bank and all such transactions have been approved unanimously by the other Directors of the Bank.

Particulars extracted from the Interests Register relating to Directors' interest in transactions with the entities/persons listed under each Director for the financial year ended 31 March 2009 are as follows.

Mr J M S Brito Rs.mn

- a. *Ace Exports (Pvt) Limited*
- b. *Kandalama Hotels Limited*
- c. *Elpitiya Plantations PLC*
- d. *Aitken Spence Holdings PLC*
- e. *Aitken Spence Hotel Managements (Pvt) Limited*
- f. *Elevators (Pvt) Limited*

(A) Aggregate amount of credit facilities approved: 46.65

(B) Aggregate amount of payments made for services: 1.20

Mr C P R Perera

Kotagala Plantations PLC

Aggregate amount of credit facilities approved: 49.70

Mr A N Fonseka

- a. *Colombo Stock Exchange*
- b. *Credit Information Bureau of Sri Lanka*
- c. *Mrs R D Fonseka*

Aggregate amount of payments made for services/rent: 3.51

Messrs J M S Brito, A N Fonseka and D S Weerakkody are Chairman/Director of one or more of the subsidiary, joint venture or associate companies and transactions with subsidiary and associate companies

are disclosed under Note 58 in Notes to financial statements

Auditor's Report

The Auditor's Report on the financial statements is given on page 72.

Re-appointment of Auditors

Messrs KPMG Ford, Rhodes, Thornton & Company have expressed their willingness to continue in office as auditors of DFCC Bank for the financial year ending 31 December 2010. The Audit Committee

has reviewed the appointment of the Auditor, the effectiveness and the relationship with the Bank including the fees paid to the Auditors (Reported in Note 17 to the financial statements). 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 re-appointment and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting.

Employee Share Option Plan (ESOP)

The last grant under the ESOP approved by shareholders was made in 2006 and there will be no further grants. As at 31 March 2009, the details of unexercised options were as follows:

Tranche	Total Award	Exercise Price*	Exercise Period	Outstanding
3rd	1,867,066	Rs110/48	1-7-2005 to 30-6-2009	1,851,497
4th	200,454	Rs117/46	3-7-2007 to 2-7-2011	200,545

* Price per share (adjusted for rights and bonus issues)

The Board of Directors

The Board of Directors of the Bank consist of eight Directors with wide knowledge and experience in the fields of finance, trade, commerce, manufacturing, services and banking. Profiles of each of the Directors are given in pages 14 to 16 The following are the present Directors of the Bank

Mr J M S Brito (*Chairman*)

Mrs S Cooray - *Government Director*

Mr T Caglayan

Mr A N Fonseka - *CEO and Ex-officio Director*

Mr A M de S Jayaratne

Mr S N P Palihena

Mr C P R Perera

Mr D S Weerakkody

Resignation and Appointments of Directors

Mr G P Karunaratne resigned from the Board with effect from 01 October 2008 to take up another assignment and Mr R Dalchow, alternate to Mr Caglayan resigned with effect from 31 March 2009 as he had completed his assignment in Sri Lanka.

Retirement and Re-election of Directors

The Director retiring by rotation in Terms of Regulation No.87 of the DFCC Regulations is Mr Brito who offers himself for re-election under the said Regulations with the unanimous support of the Directors based on the recommendation of the Nominations Committee.

Directors' Remuneration

The Director's remuneration for the financial year ended 31 March 2009 are given in Note 17 of the financial statements.

Directors' Meetings

The Bank held 13 Board Meetings during the financial year. The attendance of Directors is shown in the Table on page 29 of the Annual Report.

Directors' Interests in Shares

	No. of Shares* As at 31 March 2009	No. of Shares* As at 31 March 2008
Brito, J M S	9,380	9,380
Caglayan T	Nil	Nil
Cooray, Mrs S	Nil	Nil
Dalchow R	Nil	Nil
Fonseka, A N	57,332	27,332
Jayaratne, A M de S	750	750
Palihena, S N P	5,000	5,000
Perera, C P R	4,500	4,500
Weerakkody, D S	1,244	1,244

*Directors' shareholding includes shares held by the spouse, and children under 18 years of age

Mr A N Fonseka in his capacity as General Manager has been awarded options on shares under the Employee Share Option Plan (ESOP). Mr Fonseka held 151,171 options as at 31 March 2009 (181,171 as at 31 March 2008). During the financial year 2008/09, Mr Fonseka exercised Options on 30,000 shares. The other Directors do not participate in the ESOP.

No Director directly or indirectly holds debentures of DFCC Bank.

Board Committees

The following Directors serve as Members of the sub-committees of the Board on (i) Audit (ii) Credit (iii) Human Resources & Remuneration (iv) Nomination and (v) Integrated Risk Management. The Board has also invited external advisers and Key Management Personnel to serve on some of the sub-committees -

Audit Sub-committee

Mr A M de S Jayaratne - *Chairman*

Mr S N P Palihena

Mr D S Weerakkody

Credit Sub-committee

Mr S N P Palihena - *Chairman*

Mr A N Fonseka

Mr C P R Perera

**Human Resources & Remuneration
Sub-committee**

Mr J M S Brito - *Chairman*
Mr C P R Perera
Mr D S Weerakkody

Nomination Sub-committee

Mr C P R Perera - *Chairman*
Mr J M S Brito
Mr D S Weerakkody

**Integrated Risk Management
Sub-committee**

Mr J M S Brito - *Chairman*
Mrs S Cooray
Mr S N P Paliheena
Mr A N Fonseka - *Chief Executive Officer*

The Heads of key risk assuming units, the head of Risk Management, the Chief Financial Officer are also members of this committee.

The Annual Report contains reports submitted by the Chairmen of the respective sub-committees.

**Review of Business
of the Year**

The Chairman's Statement, Chief Executive Officer's Report and the Management Discussions and Analysis give details of the operations strategies adopted by the Bank during the year under review.

Profit and Appropriations

(Rupees million)

Year ended 31 March 2009

Retained profit on 31 March 2008	792
Previous year dividend approved on 30 June 2008	(653)
Unappropriated profit on 31 March 2008	139
Profit after tax of the Bank	1,360
Total available for appropriations	1,499
Appropriations:	
Transfer to Reserve Fund (statutory requirement)	(70)
Transfer to General Reserve	(656)
First and final dividend recommended for financial year ended 31 March 2009	(654)
Unappropriated profit on 31 March 2009	119

Dividend

The Directors have recommended to shareholders the payment of a final dividend of Rs5 per share, being the same

as that paid in the previous year. The proposed distribution is approximately Rs654 million (Rs654 million in the previous year) which amounts to 48% of the Bank's distributable profit.

The Directors unanimously declare that, the Bank will satisfy the solvency test stipulated in Section 57 of the Companies Act No.7 of 2007 immediately after the proposed dividend payment is made and have obtained a certificate of solvency from its auditors.

**Property, Plant & Equipment
and Leasehold Property**

The total expenditure of acquisition on property, plant and equipment during the year amounted to Rs83 million. Intangible assets amounted to Rs23 million. Details of these are given in the Notes 38 and 39 to the financial statements.

Reserves

Total revenue reserves augmented by the annual appropriation and retained profit amounted to Rs773 million.

**Market Value of Freehold
Properties**

The information is in Note 38.1.1 to the financial statements.

Share Capital and Subordinated Debentures

With the options exercised by the employees during this financial year, the total share capital as at 31 March 2009 was Rs1,307,324,700 consisting of 130,732,470 shares of Rs10 each. Further information is given on page 123. The DFCC Bank Act No.35 of 1955 mandates a par value of Rs10 per share. The Stated Capital, if computed in accordance with the requirements of the Companies Act No.7 of 2007 amounts to Rs4,515 million.

Share Information

Information relating to earnings, net asset and market value per share are given in page 143 of the Annual Report and also contains information pertaining to the share trading during that period.

Shareholders

As at 31 March 2009 there were 7,699 registered shareholders and the distribution is indicated on page 144. The 20 largest shareholders as at 31 March 2009 are listed on page 145.

Employment & Remuneration Policies

The policy of DFCC 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 sustainable private sector development within the ambit of the DFCC Bank Act. The Bank continuously invests in training and development of its staff to meet these objectives. DFCC Bank is an equal opportunity employer. Remuneration of employees consists of fixed and variable pay. 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. A compensation survey is conducted once in three years, in order to appropriately benchmark the Bank's remuneration levels and policies with those in the banking and other competing private sector institutions.

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 in time.

Compliance with Laws and Regulations

The Bank has not engaged in any activities contravening the laws and regulations. The Directors obtain quarterly a confirmation

report from the Management with regard to compliance with laws and regulations. With regard to a Direction issued by the Central Bank to reduce its shareholding in Commercial Bank of Ceylon PLC to 15% on or before 23 October 2008, the Bank has complied with the consequential provision of this Direction whereby the voting rights of the Bank are restricted to 10% until the shareholding is reduced. This issue is sub-judice.

Post Balance Sheet Events

Subsequent to the date of the balance sheet no circumstances have arisen which would require adjustments to the accounts. Significant post balance sheet events which in the opinion of Directors require disclosure are described in Note 60 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 Bank has complied with the mandatory provisions of Direction No.12 of 2007 - Corporate Governance of Licensed Specialised Banks in Sri Lanka as amended by Direction No.2 of 2008.

The disclosure on compliance with the requirements of Section 7.10 of the Listing Rules of the Colombo Stock Exchange on 'Corporate Governance' is reported on pages 33 to 35.

Details of governance practices and the required disclosure are given in pages 28 to 35.

■ Regulatory Disclosures

Rule 3(8) of the Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks in Sri Lanka prescribes disclosures in the Annual Report. These

disclosures have been included in appropriate sections of the Annual Report as given below.


The Table below provides cross references to facilitate easy reference.

Reference to Rule	Requirement	Reference to Annual Report
8 (i)	financial statements on prescribed format	financial statements on pages 73 to 78
8 (ii) (a)	Affirmative assurance of compliance with accounting standards and requirements	Directors' Responsibility Statement on page 70
8 (ii) (b)	Affirmative assurance of the Integrity of financial reporting system	Directors' Responsibility Statement on page 70
8 (ii) (d)	Information on Directors	
8 (ii) (d)	Remuneration of Directors	Notes on the financial statements 17
8 (ii) (e)	Net accommodation granted to each category of related party	Notes on the financial statements 58.8
8 (ii) (f)	Compensation and other transactions with key management personnel	Notes on the financial statements 58.5.2
8 (ii) (h)	Compliance with prudential requirements regulations	This report

For and on behalf of the Board of Directors


J M S Brito
 Chairman


A N Fonseka
 Ex-Officio Director &
 Chief Executive


T Wijemanne
 Secretary to the Board

27 May 2009