

# Committee Reports

## AUDIT COMMITTEE REPORT

### The Composition of the Committee

The Board appointed Audit Committee comprises the following non-executive Directors of the Bank:

- Mr A M de S Jayaratne (*Chairman*)
- Mr S N P Palihena
- Mr D S Weerakkody

Mr T Bandaranayake serves as an adviser to the Committee. Mr Bandaranayake was a Partner of Ernst & Young, Chartered Accountants until 31 March 2009.

The Chairman of the Committee is the designated senior director and is an independent Director as defined in Rule 3(2)(iv) of Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Bank in Sri Lanka issued by the Central Bank on 26 December 2007. (Hereinafter referred to as the Corporate Governance Direction)

The Chairman of the Committee and the Adviser are senior Chartered Accountants. The Head of Internal Audit holds the management rank of Assistant Vice-President and serves as the Secretary of the Committee. The Head of internal Audit has direct access to the members of the Audit Committee.

### Meetings

During the financial year ended 31 March 2009, six Audit Committee Meetings were held. Proceedings of the Audit Committee Meetings are reported regularly to the Board.

Attendance by the Committee members at each of these meetings is given in the table on page 29 of the Annual Report.

The General Manager/CEO and Executive Vice President (Finance) attend the meetings by invitation. The Committee met with the external auditor, KPMG Ford, Rhodes, Thornton & Company on 1 December 2008 and 25 March 2009 without any executive being present so as to provide the external auditor an opportunity to have a frank dialogue with the Committee.

### Role of the Audit Committee

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities for the Bank's accounting and financial reporting process and audit of the financial statements of the Bank by monitoring (1) the integrity of the Bank's financial statements, (2) the independence and qualifications of its external auditor, (3)

the Bank's system of internal controls, (4) the performance of the Bank's internal audit process and external auditor, and, (5) the Bank's compliance with laws, regulations and codes of conduct with a view to safeguarding the interests of all stakeholders of the Bank.

The Bank has complied with Rule 3(6)(ii) of the Corporate Governance Direction No12 of 2007 issued by the Central Bank of Sri Lanka on the composition of the Audit Committee and its terms of reference.

### Financial Reporting

The Committee assists the Board of Directors to discharge their responsibility for the preparation of true and fair financial statements in accordance with the books of accounts and Sri Lanka Accounting Standards by: (1) reviewing the adequacy and effectiveness of the internal control system and procedures to provide reasonable assurance that all transactions are accurately and completely recorded in the books of accounts; (2) reviewing the integrity of the process by which financial statements are derived from the books of accounts; (3) reviewing the choice of appropriate accounting policies and the judgments used in the application of

such accounting policies; (4) reviewing the process by which compliance with Sri Lanka Accounting Standards, and other regulatory provisions relating to financial statements are ensured with reasonable degree of assurance.

The Committee confirms that to the best of its knowledge and belief the financial reporting system of the Bank has been designed to provide reasonable assurance on the reliability of the financial statements prepared for external purposes and is in compliance with relevant accounting principles and regulatory requirements. The accounting principles are based on relevant Sri Lanka Accounting Standards, and regulatory requirements include DFCC Bank Act No. 35 of 1955, Banking Act No. 30 of 1988 and Companies Act No. 7 of 2007.

### **Internal Audit and Inspection**

With the concurrence of the Board, the Audit Committee has continued to engage the services of a firm of Chartered Accountants to supplement the Bank's Internal Audit function in carrying out periodic audits at some of the business units. Representatives from the audit firm are invited to the Audit Committee Meetings convened to discuss their reports.

The Audit Committee also provides a forum for the review of Internal Audit Reports and consideration of findings, recommendations and corrective action taken by management to overcome the deficiencies identified, with a view to managing significant business risks and improving controls. Department/unit heads attend meetings when their reports are discussed.

### **Risks and Controls**

The Committee has adopted a risk-grading matrix for identifying and assessing risks identified during audits. The Committee seeks and obtains the required assurance from the head of the business unit on the remedial action taken in order to maintain the effectiveness of internal controls.

### **External Audit**

The Audit Committee assists the Board of Directors to implement a transparent process (1) in the engagement and remuneration of the external auditor for audit services with the approval of the shareholders; (2) in reviewing the non-audit services to ensure that they do not lead to impairment of the independence of the Auditor; (3) in assisting the Auditor

to complete the audit program within an agreed time frame in compliance with relevant guidelines issued by Central Bank of Sri Lanka.

In order to discharge its responsibilities the Audit Committee meets with the Auditor as and when it is necessary. During this meeting with the Auditor the Audit Committee: (1) reviews the non-audit services provided by the External Auditor to ensure that provision of such services are not in conflict with the guidelines issued by the Central Bank of Sri Lanka and that the remuneration for such services are not of such value so as to impair their independence; (2) requests for information relating to the total remuneration of the External Auditor for audit and non-audit services provided to the Bank and its Group; (3) discusses and finalises the scope of the audit to ensure that it is in compliance with the guidelines issued by the Central Bank of Sri Lanka.

The Audit Committee also meets with the Auditor at the conclusion of the audit to review the Management Letter issued by the Auditor before it is transmitted to the Board of Directors and the Central Bank of Sri Lanka.

### **Regulatory Compliance**

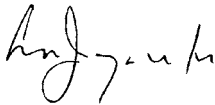
The Bank's procedures in place to ensure compliance with mandatory Banking and statutory requirements were under constant check. The Committee is satisfied that the Bank substantially complies with these requirements. With regard to its continuing investment in Commercial Bank of Ceylon PLC, the Bank has not as yet reduced its shareholding to 15% as directed by the Central Bank but has complied with the consequential provision whereby its voting rights are restricted to 10% until such reduction takes place. This matter is sub-judice.

### **Evaluation of the Committee**

A self-evaluation on the effectiveness of the Committee was carried out by the other members of the Board and the Committee has been found to be effective.

### **Reappointment of Auditor**

The Audit Committee having evaluated the quality of audit services provided by the current auditor has recommended to the Board of Directors that M/s KPMG Ford, Rhodes, Thornton & Company be reappointed as Auditors for the year ending 31 March 2010, subject to the approval of shareholders at the Annual General Meeting.



**Ajit Jayaratne**  
*Chairman - Audit Committee*  
27 May 2009

# HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

needs to ensure the Bank consistently delivers value to all stakeholders and make the organisation more competitive.

The Human Resources and Remuneration Committee appointed by the Board of Directors, consists of three Non-Executive Directors. Mr J M S Brito is the Chairman of the Committee and Messrs C P R Perera and Dinesh Weerakkody act as members. The Chief Executive Officer/ Director - Mr. Nihal Fonseka attended meetings by invitation and participated in its deliberations except when his own evaluation and remuneration was under discussion. The Executive Vice-President, Special Loans Administration & Human Resources and the Group Vice-President, Human Resources assisted the Committee by providing relevant information.

In compliance with Direction No. 12 of 2007 on Corporate Governance for licensed specialised banks, the Committee determines the remuneration policy relating to Directors, Chief Executive Officer and Key Management Personnel of the Bank. In determining the appropriate compensation levels, the Committee recognises the need for the Bank to attract, retain and motivate talent with the core capabilities matched to its strategy and


The Remuneration Committee recognise rewards as one of the key drivers influencing employee behaviour and influencing business results. The Committee engaged Hewitt Associates (India) to carry out an assessment of the Bank's compensation and benefits programme to optimise its investment in people cost. Key deliverables of this project included a detailed diagnostic study of the competitiveness of the Bank's salaries and benefits programme and to realign the Bank's compensation philosophy to drive and support the Bank's short-term goals and long-term goal of sustainable growth.

The Committee held two meetings during the financial year to decide on the basis for granting annual merit and market adjustments and the variable pay awards and a revision to base salaries based on the salary survey conducted by Hewitt Associates, India.

Consistent with the Bank's policy of pay for performance, the committee reviewed the

performance of the Bank for determining and recommending to the board the annual salary pool and the bonus pool for the Bank. The Committee also appraised the performance of the Chief Executive Officer against the pre-agreed targets and made recommendations to the board with regard to the CEOs total remuneration.

In addition, the Committee considers and recommends to the Board of Directors from time to time, the requirements of additional/ new expertise/skills. Further, the Committee assesses and recommends to the Board on all promotions of Key Management Personnel. They also review periodically the Bank's Talent Pool to identify high potential and review and approve the succession plans in place for all critical management positions in the Bank.



**J M S Brito**  
*Chairman - Human Resources and Remuneration Committee*  
27 May 2008

# NOMINATION COMMITTEE REPORT

## The Composition

The Nomination Committee of the Board of Directors consist of three Non-Executive Directors. Mr C P R Perera, an independent Director is the Chairman with Messrs J M S Brito and D S Weerakkody serving as members. The General Manager, Mr A N Fonseka attends meetings by invitation, while the Secretary to the Board functions as the Secretary of the Committee.

## The Mandate

The Mandate of the Committee is to identify and evaluate persons with the required skills, knowledge, standing, fitness and propriety to join the Board of the Bank and evaluate the suitability of Directors seeking re-election. The Committee is also tasked with the responsibility of a putting in place a procedure for the appointment of the CEO and Key Management Personnel, when necessary. The Committee makes recommendations to the Board for consideration.

## The Procedure

The Committee meets when necessary and acts within a framework approved by the Board of Directors when making its recommendations. The framework incorporates, *inter alia*, the requirements of Direction No 12 of 2007 of the Central Bank and the Listing Rule 7.10 of the Colombo Stock Exchange relating to Corporate Governance.

## Meetings

One meeting was held during the financial year to identify possible candidates to fill Board vacancies. The Committee also deliberated and decided to recommend the re-election of Mr J M S Brito, who retires by rotation in terms of Regulation 87 of the Bank as a Director at the next Annual General Meeting. Mr Brito withdrew from the meeting during these deliberations.



**C P R Perera**

*Chairman - Nominations Sub-committee*

27 May 2009

# BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

## ■ Composition

The Board Integrated Risk Management Committee (BIRMC) of DFCC Bank was established during the second half of the year and comprised of the following four Directors and five other members.

Mr J M S Brito - *Chairman*

Mr S N P Palihena - *Non-Executive Director*

Mrs S Cooray - *Non-Executive Director*

Mr A N Fonseka - *Ex-Officio Director/  
Chief Executive Officer*

Mr H A Ariyaratne

*Executive Vice-President/Lending*

Mr S Nagarajah

*Executive Vice-President/Finance*

Ms A Withane

*Senior Vice-President/Operations*

Mrs M Gunewardena -

*Executive Vice-President/Lending*

Mr S de Silva (Secretary of BIRMC)

*Vice-President/Integrated*

*Risk Management*

Invitee: Ms M Gunathilake

*Assistant Vice-President/Internal Audit*

## Charter and the Responsibilities of the BIRMC

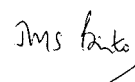
The Board approved the BIRMC Charter during the year which stipulates authority, structure, responsibilities and tasks of BIRMC. As per its Charter, the primary responsibilities of BIRMC is to review and ensure:

- a. The integrity and adequacy of the risk management function of the Bank
- b. The adequacy of the Bank's capital on a solo and consolidated basis and its allocation
- c. Risk exposures and risk profiles of the Bank and its subsidiaries are within acceptable parameters and to make recommendations to the Board of Directors on any action required
- d. The compliance of the Bank's operations with relevant laws, regulations and standards including the adherence to the Direction on corporate governance issued by the Central Bank.

The process through which the BIRMC discharges its responsibilities is detailed in the Risk Management section of this Annual Report.

## ■ BIRMC Meetings

BIRMC holds meetings at least quarterly. During the year, DFCC Bank convened two BIRMC meetings. The attendance of members is listed on page 29 of the Annual Report. The proceedings of the meetings are reported to the Board subsequently. The Committee reviewed policy frameworks, risk management strategies and key risk indicators at these meetings and was satisfied that the risk exposures of the Bank were being appropriately managed.



**J M S Brito**

*Chairman*

27 May 2009