

# Reports of Directors

## 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 2010.

The Directors Report contains some pertinent 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 thereunder), 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.

### Principal 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 (DVB), Lanka Industrial Estates Limited (LINDEL) and Synapsys Limited. Acuity Partners (Pvt) Limited is an equally-owned joint venture and associate companies are National Asset Management Limited (NAMAL) and Commercial Bank of Ceylon PLC. The nature of business and the Bank's interest in these entities are set out in pages 18 and 19.

The Bank divested the shares owned in Lanka Ventures PLC, a company principally engaged in making venture capital investments to Acuity Partners (Pvt) Limited in January 2010 and it ceased to be a subsidiary thereafter. There were no significant changes relating to the business of the subsidiaries and associates of the Bank during the year.

### Going Concern

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

### Financial Statements

The financial statements of the Bank and the Group of companies are given on page 65 to 69 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.

### Review of Business of the Year

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

### Profit and Appropriations

Year ended 31 March 2010	(Rupees million)
Retained profit on 31 March 2009	773
Previous year dividend approved on 30 June 2009	662
Unappropriated profit on 31 March 2009	111
Profit after tax of the Bank	1,713
Total available for appropriations	1,824

### Appropriations:

Transfer to Reserve Fund (statutory requirement)	90
Transfer to General Reserve	742
First and final dividend recommended for financial year ended 31 March 2010	794
Unappropriated profit on 31 March 2010	198

## Accounting Policies

The accounting policies adopted in the preparation of the financial statements of the Bank and the Group are stated on page 70 to 82 of the Annual Report. There were no significant changes to the accounting policies of the Bank in the year under review.

## Auditor's Report

The Auditor's Report on the financial statements, which is unqualified, is given on page 64.

## Reappointment of Auditors

The present Auditors, Messrs KPMG Ford, Rhodes, Thornton & Company have expressed their willingness to continue as Auditors of DFCC Bank for the next financial year ending 31 March 2011. The Audit Committee has reviewed the effectiveness and the relationship with the Bank including the fees paid to the Auditors and have 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 Auditor's 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 consists of nine Directors with wide knowledge and experience in the fields of finance, trade, commerce, manufacturing, services and banking.

Profiles of the Directors are given in page 12 to 15. The following are the present Directors of the Bank:

Mr J M S Brito (Chairman)  
Mr S N P Paliheena - Senior Director  
Mr A N Fonseka - CEO and  
Ex Officio Director  
Dr (Mrs) Damitha de Zoysa -  
Government Director  
Mr T Caglayan  
Mr C P R Perera  
Mr D S Weerakkody  
Mr A S Abeyewardene  
Mr G K Dayasri  
Mr T K Bandaranayake -  
Alternate to Mr T Caglayan

## Resignation and Appointment of Directors

Mrs Sujatha Cooray resigned from the Board with effect from 15 December 2009 and Dr Mrs Damitha de Zoysa was appointed as the Government Director with effect from 30 December 2009. Mr T K Bandaranayake was appointed as alternate to Mr T Caglayan with effect from 23 October 2009. Mr A S Abeyewardene was appointed to the Board on 18 August 2009 and Mr G K Dayasri was appointed as a Director on 31 March 2010. Mr A S Abeyewardene and Mr G K Dayasri will retire in terms of Regulation No.90 of the DFCC Regulations and are offering themselves for re-election at the Annual General Meeting. The Nominations Sub-committee have recommended their

re-election and the Board having concluded that they are fit and proper persons to be Directors in terms of the provisions of the Banking Act, unanimously endorse the recommendation of the Nominations Sub-committee.

## Retirement of Directors

The Director retiring by rotation in terms of Regulation No.87 of the DFCC Regulations is Mr T Caglayan. Mr A M de S Jayaratne, the Senior Director retired from the Board on 30 April 2010 on reaching the age of 70 as required by Direction No.12 of 2007 of the Central Bank of Sri Lanka on Corporate Governance in Licensed Specialised Banks.

## Senior Director

Mr S N P Paliheena, was elected by the Board as the Senior Director in place of Mr A M de S Jayaratne.

## Directors' Remuneration

The Director's remuneration for the financial year ended 31 March 2010 is given in Note 18 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 27 of the Annual Report.

## Directors' Interests in Shares and Debentures

	No. of Shares* as at 31 March 2010	No. of Shares* as at 31 March 2009
Brito, J M S	9,380	9,380
Caglayan, T	Nil	Nil
De Zoysa, Dr Mrs A D N	Nil	Nil
Abeyewardene, A S	1,190	Nil
Fonseka, A N	66,499	57,332
Bandaranayake, T K	739	Nil
Paliheena, S N P	5,000	5,000
Perera, C P R	13,000	4,500
Weerakkody, D S	12,844	1,244
Dayasri, G K	518	Nil

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

Mr A N Fonseka held 17,004 options as at 31 March 2010 (151,171 as at 31 March 2009). During the financial year 2009/10, Mr Fonseka exercised Options on 134,167 shares.

No Directors directly or indirectly hold options or debentures of DFCC Bank.

### 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 remaining Directors of the Bank.

The Directors' interest in transactions with entities/persons (other than subsidiaries, joint ventures and associates) are listed under each Director for the year ended 31 March 2010 as follows:

Messrs J M S Brito, A N Fonseka, T K Bandaranayake, A S Abeyewardene and D S Weerakkody are Chairman/ Director of one or more of the subsidiary, Joint venture or associate companies and interest in transactions with subsidiary, joint venture and associate companies are disclosed under Note 61 in notes to financial statements.

### 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) Nominations and (v) Integrated Risk Management. Apart from these permanent sub-committees, from time to time the Board appoints sub-committees to deal with specific matters. The Board has also invited external advisers and Key Management Personnel to serve on some of the sub-committees.

### Audit Sub-committee

Mr T K Bandaranayake (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)  
Mr A S Abeyewardene  
Mr S N P Palihena  
Mr A N Fonseka - Chief Executive Officer

The Heads of key risk assuming units, the Head of Risk Management, the Chief Financial Officer and the Head of Internal Audit are also members of this Committee.

Further details relating to the sub-committees are given in the section on Corporate Governance and the Committee Reports.

*Rs million*

#### Mr J M S Brito

Elpitiya Plantations Limited	
Aitken Spence PLC	
Branford Hydro Power (Pvt) Limited	
Aggregate amount of credit facilities approved	1,075

#### Mr C P R Perera

Ceylon Tea Brokers Limited	
Aggregate amount of credit facilities approved	20.0

#### Mr A N Fonseka

Colombo Stock Exchange	
Central Depository Systems Limited	
Mrs R D Fonseka	
Aggregate amount of payments made for services/rent:	2.7

#### Mr A S Abeyewardene

Ceylon Hospitals PLC	
Aggregate amount of credit facilities approved	600.0

#### Mr S N P Palihena

Senok Wind Power (Pvt) Limited	
Aggregate amount of credit facilities approved	275.0

## Dividend

The Directors have recommended to shareholders the payment of a final dividend of Rs6 per share, increased from Rs5 per share paid in the previous year. The proposed distribution is approximately Rs794 million (Rs662 million in the previous year), which amounts to 46% 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 Rs38 million. Intangible assets amounted to Rs18 million. Details of these are given in the Notes 40.1 and 41 to the financial statements.

## Reserves

Total revenue reserves augmented by the annual appropriation and retained profit amounted to Rs992 million.

## Market Value of Freehold Properties

The information is in Note 40 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 2010 was Rs1,323,753,050 consisting of 132,375,305 shares of Rs10 each. Further information is given on page 107. 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 Rs4,695 million.

## Share Information

Information relating to earnings, net asset and market value per share are given in page 127 of the Annual Report and also contains information pertaining to the share trading during that period.

## Shareholders

As at 31 March 2010 there were 7,952 registered shareholders and the distribution is indicated on page 128. The 20 largest shareholders as at 31 March 2010 are listed on page 129.

## 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 public and private sector in its development efforts 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 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. A remuneration 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.

## 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 2010, the details of unexercised options were as follows:

Tranche	Total Award	Exercise Price per Share*	Exercise Period	Outstanding
4th	200,454	Rs117/46	03.07.2007 to 02.07.2011	180,622

\* Adjusted for rights and bonus issues.

## 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 the 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. The 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 63 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 External Auditor's Certification on effectiveness of the internal control mechanism and compliance with the Direction 12 of 2007 of the Central Bank of Sri Lanka on Corporate Governance could not be obtained for reasons explained in page 26 of the Annual Report.

Except as stated in the preceding paragraph, the Bank has complied with the provisions of Direction No.12 of 2007 - Corporate Governance of Licensed Specialised Banks in Sri Lanka as amended by Direction No.2 of 2008.

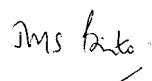
Details of governance practices and the required disclosure are given in pages 25 to 31.

Rule 3 (8) of the Direction No.12 of 2007 on Corporate Governance for Licensed Specialised Banks in Sri Lanka and Section 7.10 of the Listing Rules of the Colombo Stock Exchange prescribe disclosures in the Annual Report. These disclosures have been made in this Annual Report as depicted in the Table given below:

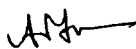
The Table below provides cross references to facilitate easy reference.

Reference to Rule	Requirement	Reference to Annual Report
8 (i)	Financial statements on prescribed format	Financial statements on pages 70 to 82
8 (ii) (a)	Affirmative assurance of compliance with accounting standards and requirements	Directors' Responsibility Statement on page 62
8 (ii) (b)	Affirmative assurance of the Integrity of financial reporting system	Directors' Responsibility Statement on page 62
8 (ii) (d)	Information on Directors	
8 (ii) (d)	Remuneration of Directors	Notes on the financial statements 18
8 (ii) (e)	Net accommodation granted to each category of related party	Notes on the financial statements 61.9
8 (ii) (f)	Compensation and other transactions with key management personnel	Notes on the financial statements 61.6.2
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

26 May 2010