

CORPORATE GOVERNANCE

REPORTS OF DIRECTORS

Good corporate governance is a mechanism that harmonises the interests of a wide range of stakeholders of an institution. It contributes to sustainable growth by attracting outside sources of capital. DFCC Bank practices high standards of corporate governance based on the OECD principles of good governance.

The key corporate governance practices of DFCC Bank are given in this Report with specific disclosures relating to the status of compliance with the mandatory requirements of Direction No. 12 of 2007 of the Central Bank of Sri Lanka (as amended). In view of the application of these mandatory regulatory provisions and disclosures that are required to be made, the Colombo Stock Exchange has exempted licensed banks from the application of Section 7.10 of the Listing Rules of the Colombo Stock Exchange relating to corporate governance.

SHAREHOLDER RIGHTS

The basic rights of shareholders include (a) the ability to transfer shares freely, (b) to have access to financial and other relevant information about the entity on a regular and timely basis, (c) the ability to effectively participate in shareholder meetings, (d) appoint Directors and Auditors and (e) equitable treatment relating to the type of shares owned. The shares of DFCC Bank are freely transferable through the Colombo Stock Exchange but subject to limitations stated in the DFCC Bank Act and Banking Act.

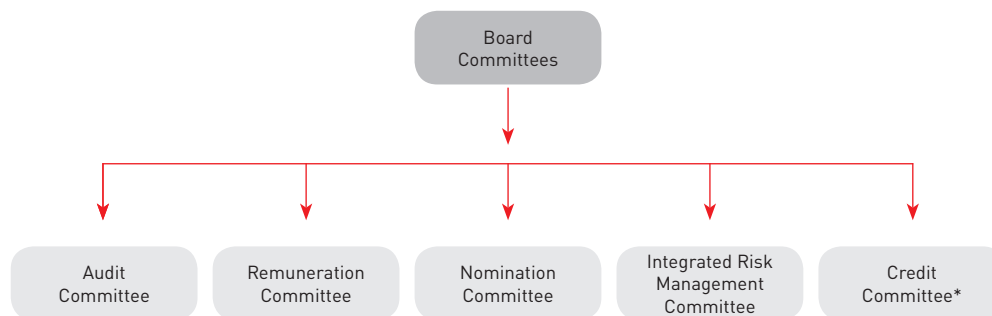
The Board approved Corporate Communications Policy ensures that information relating to the financial performance and the progress of DFCC Bank is made available to shareholders through timely disclosure made to the Colombo Stock Exchange (CSE). The Annual Report contains a comprehensive review of performance as well as other information of relevance to the other stakeholders apart from reporting on the financial condition of DFCC Bank and the Group. All important information is given publicity through the press and electronic media and posted on DFCC Bank's website.

DFCC Bank has procedures to promptly disseminate price sensitive information and trading in shares by the Directors to the CSE as required by the listing rules. In instances where this is not possible, the Head of Compliance advises closed periods for the trading in DFCC Bank's shares by employees and Directors. As a general rule, the period commencing two weeks after the end of each quarter up until three market days after the financial information is released, is treated as closed periods. Procedures are in place to detect any violations.

The Annual General Meeting of DFCC Bank is held within a period of one year from the date of the previous meeting after giving adequate notice to shareholders as required by the Regulations. The Annual Report and Notice of Meeting are sent to all shareholders in order to enable effective shareholder participation at the meeting. Shareholders have the opportunity to obtain the Annual Report as an electronic or printed document. Extraordinary General Meetings are held to obtain shareholder approval on matters that require such approval.

During the year, DFCC Bank has shared a reasonable portion of its profit with shareholders in the form of an interim and final dividend while retaining the balance to support its growth and development.

All the shareholders of DFCC Bank are treated equally on the basis of one vote per ordinary share. DFCC Bank has not issued any non-voting ordinary shares or preference shares.



ATTENDANCE OF DIRECTORS AT MEETINGS

Committee	Main Board		Audit Committee		Human Resources & Remuneration Committee		Nomination Committee		Integrated Risk Management Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Mr J M S Brito	14	14			2	2	2	2	4	4
Mr A N Fonseka	14	14							4	4
Mr S N P Palihena	14	13	9	9					4	4
Mr C P R Perera	14	14			2	2	1	1		
Mr D S Weerakkody (resigned in June 2010)	2	1	2	1	2	1	1	1		
Mr A S Abeyewardene	14	13	6	5					4	4
Mr T K Bandaranayake	14	13	9	9						
Dr Mrs A D N de Zoysa (resigned in July 2010)	4	4								
Mr G K Dayasri	14	13								
Mr R B Thambiyah	10	10					1	1		
Mr C R Jansz	10	10					1	1		
Mrs H M N S Gunawardana	9	9								

* The Credit Committee approves papers by circulation.

Rule	Governance Principle	Compliance	Remarks
3.1 Responsibilities of the Board			
3.1 (i)	The responsibility of the Board to strengthen the safety and soundness of the Bank	Compliant	The Board engages in the strategic planning and control of DFCC Bank by overseeing the formulation of business objectives and targets, assessing risks, evaluating the effectiveness of the internal controls by engaging qualified and experienced personnel and delegating them with the authority for conducting operational activities and monitor the performance through a formal reporting process.
3.1 (ii)	Appointment and segregation of the roles of the Chairman and CEO	Compliant	The Board elects the Chairman and appoints the Chief Executive Officer while the Chairman provides leadership to the direction, oversight and control process exercised by the Board. The CEO is responsible for management of the Bank as per DFCC Act.
3.1 (iii)	Board Meetings	Compliant	The Board conducted 14 monthly Board meetings during the year. The Directors actively participated in the Board decision making process as evident from the Board minutes. Seeking approval of the Board by circulation of written circulars is done only in exceptional circumstances due to urgency.
3.1 (iv)	The Board to ensure that arrangements are in place for Directors to include items and proposals in the Agenda of Board Meetings	Compliant	Whenever the Directors provide suggestions of topics for consideration at the Board meetings, they are included in the Agenda under 'open forum' and other supporting data, reports, documents etc., relevant for the subject matter are circulated among the Directors for information.
3.1 (v)	Notice of Board Meetings - At least 7 days notice of regular meetings and reasonable notice of other meetings to be given	Compliant	Dates for the regular monthly Board meetings are agreed by the Directors at the commencement of each year and any changes to dates of scheduled meetings are decided well in advance. The Board circulars and other documents pertaining to meetings are dispatched in advance to enable the Directors to participate in deliberations.
3.1 (vi)	Attendance at Board Meetings	Compliant	All Directors attended more than two thirds of Board meetings and no Director was absent for three or more consecutive meetings. Attendance details are given on page 60.
3.1 (vii)	Duties and qualifications of the Company Secretary	Compliant	The Company Secretary possesses the qualifications specified in the Section 43 of the Banking Act and performs the secretariat services to the Board and shareholders' meetings and other relevant statutory and regulatory functions.
3.1 (viii)	The Directors' access to the Company Secretary	Compliant	All Directors have access to the advice and services of the Company Secretary directly.
3.1 (ix)	The Company Secretary's duty to maintain minutes of Board meeting and ensure the Directors' access to them	Compliant	The Company Secretary compiles the minutes of the Board Meetings which are subject to approval of the Board and signed by the Chairman. Copies of minutes are provided and Directors have access to the original minutes at all reasonable times.
3.1 (x)	The form and contents of the minutes of Board meetings	Compliant	The Board minutes are drawn with reference to Board Circulars with sufficient details to indicate the decisions made by the Board of Directors. The information used in making such decisions, the reasons and rationale of making them and each Director's contribution is included in the minutes.
3.1 (xi)	Independent professional advice on request to Directors to perform their duties	Compliant	The Board has put in place a procedure where the Directors can obtain independent professional advice, at DFCC Bank's expense, to perform their duties.
3.1 (xii)	The Directors' avoidance of conflict of interest	Compliant	Section 9(6) of DFCC Act requires the Directors who are directly or indirectly interested in contracts or a proposed contract with DFCC Bank to declare the nature of such interest and not to participate in the decision making. All decisions pertaining to such matters require to be unanimous according to the Act.

Rule	Governance Principle	Compliance	Remarks
3.1 (xiii)	Schedule of matters reserved for the decisions of the Board	Compliant	Schedule of matters reserved for the Board have been decided on.
3.1 (xiv)	Reporting insolvency to the Director of Bank Supervision	Compliant	Solvency is a matter constantly monitored by the Treasury Department, Integrated Risk Management Committee and the Board of Directors. During the year DFCC Bank remained solvent and no event has or is likely to occur that would make the bank not able to meet its obligations.
3.1 (xv)	Adequacy of capital	Compliant	DFCC Bank is capitalised well above the minimum levels required by the Monetary Board in terms of the capital adequacy and minimum required capital.
3.1 (xvi)	Corporate governance report	Compliant	The annual Corporate Governance Report forms an integral part of the Directors' Report of DFCC Bank's Annual Report.
3.1 (xvii)	Self-assessment of the Board of Directors	Compliant	The Board has a structured scheme of self assessment which is carried out annually and the findings are discussed at the Board Meetings and action is taken on areas identified for improvement. This process is being continuously improved.

3.2 Composition of the Board

3.2 (i)	Number of Directors	Compliant	The Board of Directors comprises ten Directors.
3.2 (ii)	Period of service of a Director	Compliant	No Director has held the position of a Director of DFCC Bank for more than nine years.
3.2 (iii)	Number of Executive Directors	Compliant	The Chief Executive is the only Executive Director of the Board. He is an Ex-Officio Non-Voting Director.
3.2 (iv)	Number of Independent Directors	Compliant	There were seven Independent Directors at the end of the period under review.
3.2 (v)	Alternate Directors	Compliant	All persons appointed as Alternate Directors to an existing Director of the Board have been subject to the same criteria applicable to Directors.
3.2 (vi)	The skills, experience and track records of Non-Executive Directors	Compliant	All Non-Executive Directors have professional backgrounds, strong track records and high level managerial experience in banking, plantations, industry, law and service sectors.
3.2 (vii)	Number of Non-Executive Directors required to form a quorum of Board meetings	Compliant	DFCC Bank has been constantly compliant with this rule at all times as monitored by the Company Secretary. Although according to the DFCC Regulations, the required quorum is only 4 Non-Executive Directors.
3.2 (viii)	Disclosure of Details of Directors	Compliant	The names and the composition of the Directors by category are disclosed in the Annual Report of the Board of Directors.
3.2 (ix)	Appointment of new Directors	Compliant	Appointment of all new Directors is formally evaluated by the Nomination Committee and recommended to the Board of Directors for approval in terms of the Regulations.
3.2 (x)	Appointment of a Director to fill a casual vacancy	Compliant	The Regulations of DFCC Bank provide that the Directors appointed by the Board of Directors hold office until the following AGM at which they have to be elected by the shareholders.
3.2 (xi)	Resignation or removal of a Director	Compliant	The resignations of Directors from office during the period under review are given in the Directors Report. No Director was removed.
3.2 (xii)	Appointment of a Director or an employee to another bank	Compliant	No Director or employee of DFCC Bank is a Director of another bank except the subsidiary company, DFCC Vardhana Bank, which is a permitted exception.

Rule	Governance Principle	Compliance	Remarks
3.3 Fitness and Propriety of Directors			
3.3 (i)	Maximum age of Directors	Compliant	All Directors who reached the age of seventy have relinquished office.
3.3 (ii)	Holding of Director's position in more than 20 companies	Noted for compliance	As per the amended Section 3.3 (ii) A, in terms of Direction No. 6 of 2008, this provision will become only effective from 1 January 2012.
3.4 Management Functions Delegated by the Board			
3.4 (i)	Delegation arrangements	Compliant	The Board of Directors has delegated authority to the management subject to specific criteria, limitations, safeguards and monitoring mechanisms.
3.4 (ii)	Extent of Delegation	Compliant	The delegation of authority made by the Board is designed to facilitate efficient management of the affairs of DFCC Bank and to aid the oversight role exercised by the Board. It is not of an extent to hinder the ability of the Board to discharge its functions. The Board retains the authority to expand, curtail, limit or revoke such delegated authority.
3.4 (iii)	Review of delegation process	Compliant	The delegation process is subject to periodic review by the Board in order to ensure that necessary amendments are approved to meet the requirements of DFCC Bank.
3.5 The Chairman and Chief Executive Officer			
3.5 (i)	Separation of the roles of the Chairman and CEO	Compliant	The Chairman and the Chief Executive Officer are two separate individuals.
3.5 (ii)	The Chairman to be a Non-Executive Director	Compliant	The Chairman is a Non-Executive Director. The Board has appointed an Independent Director as the Senior Director as disclosed in the Annual Report.
3.5 (iii)	Disclosure of Relationship between the Chairman, CEO and other Directors	Compliant	No relationships exist between the Chairman, CEO and the other Directors according to the declarations made by them except being Directors of subsidiaries.
3.5 (iv)	Role of the Chairman	Compliant	The Chairman provides leadership to the Board and ensures that the Board discharges its responsibilities effectively and stimulates discussions on all key and appropriate issues in a timely manner.
3.5 (v)	Agenda of Board Meetings	Compliant	The Agenda of each Board Meeting is drawn by the Company Secretary under the direction of CEO and Chairman and any matters proposed by other Directors are included in the agenda.
3.5 (vi)	Providing information to the Directors	Compliant	The Chairman ensures that all Directors are properly briefed on issues which arise at the Board Meetings and ensures that they receive adequate information in a timely manner.
3.5 (vii)	The Board to act in the best interest of the Bank	Compliant	The Chairman encourages exercise of independent judgement by the Directors on matters under consideration by the Board in order that the best interests of the Bank can be assured.
3.5 (viii)	Effective contribution of Non-Executive Directors	Compliant	The Chairman facilitates contributions by the Non-Executive Directors in making decisions.
3.5 (ix)	The Chairman not to engage in executive functions	Compliant	The Chairman is non-executive and does not supervise any management personnel of DFCC Bank directly.
3.5 (x)	Communication with shareholders	Compliant	The Chairman maintains effective communication with shareholders and conveys their views to the Board.
3.5 (xi)	CEO to be in charge of the management of operations and business	Compliant	The Chief Executive is the Head of the management team and is in charge of the day-to-day management of DFCC Bank's operations and business.

Rule	Governance Principle	Compliance	Remarks
3.6 Board Appointed Committees			
3.6 (i)	Four Board appointed committees	Compliant	The Board has appointed the four committees stated in the Direction. The reports on their duties, performance and roles are published in the Annual Report.
3.6 (ii)	Board Audit Committee - Composition and duties	Compliant	Please refer page 67.
3.6 (iii)	Board Human Resources and Remuneration Committee - Composition and duties	Compliant	Please refer page 69.
3.6 (iv)	Board Nomination Committee - Composition and duties	Compliant	Please refer page 70.
3.6 (v)	Board Integrated Risk Management Committee - Composition and duties	Compliant	Please refer page 71.

3.7 Related Party Transactions			
3.7 (i) to (iii)	Avoidance of conflicts of interest and favourable treatment in transactions with related parties	Compliant	DFCC Bank has adhered to the law as specified in the Banking Act and the Directions issued thereunder with regard to transactions with related parties. The process for recording and collating related party transactions is being continuously strengthened.
3.7 (iv)	Accommodation to Directors or their close relations	Compliant	DFCC Bank complies with the law as specified in the Banking Act and the Directions issued thereunder in granting accommodation to the Directors and/or their close relations.
3.7 (v)	Accommodation granted to Directors prior to appointment	Compliant	The provisions of the Banking Act will be followed if such situations arise and public will be informed if not compliant by the specified date as he/she will cease to hold office. This situation did not arise.
3.7 (vi)	Avoidance of favourable treatment in accommodation to employees, close relations of employees and/or entities in which any employee or close relation of such employee hold substantial interest	Compliant	The accommodation to employees, close relations of employees and/or entities in which any employee or close relation of such employee hold substantial interest are subject to normal commercial terms applicable to such transactions except in case of accommodation under approved schemes uniformly applicable to all or specific categories of employees.
3.7 (vii)	Not to remit part of accommodation or interest without prior approval of Monetary Board	Compliant	No such situation has arisen.

DISCLOSURE ON CORPORATE GOVERNANCE MADE IN TERMS OF SECTION 3 (8) OF THE BANKING ACT DIRECTION NO. 12 OF 2007 OF THE CENTRAL BANK OF SRI LANKA

(i) The Board shall ensure that:

The Annual audited financial statements and quarterly financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards and such statements are published in the newspapers in an abridged form in Sinhala, Tamil and English.	Complied with.
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(ii) The Board shall ensure that the following minimum disclosures are made in the Annual Report:

(a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with. Please refer the Statement of Directors' Responsibility on page 82.
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(b) A report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied with. Please refer to the Directors' Statement of Internal Control on page 73.															
(c) The External Auditor's Certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after 31 December 2008.	The Board has obtained an Assurance Report from the External Auditor.															
(d) Details of Directors, including names, fitness and propriety, transactions with the Bank and the total fees/remuneration paid by the Bank	Complied with. Please refer Notes 18 and 62 to the financial statements.															
(e) Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital	<p>Complied with.</p> <table border="1" data-bbox="790 678 1442 880"> <thead> <tr> <th data-bbox="790 678 1217 734">Category of related party and type of transactions</th> <th data-bbox="1217 678 1377 734">31 March 2011 Rs 000</th> <th data-bbox="1377 678 1442 734">%</th> </tr> </thead> <tbody> <tr> <td data-bbox="790 745 1217 779">Key management personnel - loans</td> <td data-bbox="1217 745 1377 779">7,171</td> <td data-bbox="1377 745 1442 779">0.04</td> </tr> <tr> <td data-bbox="790 779 1217 813">Subsidiaries - Reverse repos</td> <td data-bbox="1217 779 1377 813">166,000</td> <td data-bbox="1377 779 1442 813">0.97</td> </tr> <tr> <td data-bbox="790 813 1217 846">Total net accommodation</td> <td data-bbox="1217 813 1377 846">173,171</td> <td data-bbox="1377 813 1442 846">1.01</td> </tr> <tr> <td data-bbox="790 846 1217 880">Regulatory capital - solo basis</td> <td data-bbox="1217 846 1377 880">17,087,452</td> <td></td> </tr> </tbody> </table> <p data-bbox="790 925 1434 1014">The total net accommodation was 1.01% of the Bank's regulatory capital on solo basis. Maximum limit determined by Directors is 25% of Bank's regulatory capital on solo basis.</p>	Category of related party and type of transactions	31 March 2011 Rs 000	%	Key management personnel - loans	7,171	0.04	Subsidiaries - Reverse repos	166,000	0.97	Total net accommodation	173,171	1.01	Regulatory capital - solo basis	17,087,452	
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(f) The aggregate values of remuneration paid by the Bank to its key management personnel and the aggregate values of the transactions of the Bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank.	Complied with. Please refer Note 62 to the financial statements.															
(g) The External Auditor's Certification of the compliance with these Directions in the Annual Corporate Governance Reports published after 1 January 2010.	Complied with. A report of factual findings has been provided by the External Auditors to the Board.															
(h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance.	Complied with. See Annual Report of the Directors.															
(i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	The Monetary Board has not required any disclosure to be made.															