

Annual Report of the Board of Directors on the State of Affairs of the Bank

General

The Board of Directors of DFCC Bank PLC (the Bank) take pleasure in presenting their report on the state of affairs of the Bank as published in this Annual Report of the Bank which also consists of the Audited Financial Statements of the Bank, the

Consolidated Financial Statements of the Group and the Auditor's report on those Financial Statements.

The disclosures in this Annual Report conform to the requirements of the Companies Act No. 07 of 2007,

the Banking Act No. 30 of 1988 (as amended) and the Directions issued by the Monetary Board of the Central Bank of Sri Lanka under the Banking Act and the Listing Rules of the Colombo Stock Exchange (CSE).

The disclosures required under Section 168 of the Companies Act No. 07 of 2007, published in this Annual Report are tabulated in the table below:

Section	Disclosure requirement	Reference to annual report
168 (1) (a)	The nature of the business of the Bank and the Group	Page 163 (Note 1.4 to the Financial Statements)
168 (1) (b)	Signed Financial Statements of the Bank in accordance with Section 152	Page 157 (Financial Statements)
168 (1) (c)	Auditor's Report on Financial Statements of the Bank and the Group	Page 149
168 (1) (d)	Changes in accounting policies made during the accounting period	Page 173 (Note 6 to the Financial Statements)
168 (1) (e)	Particulars of entries in the interest register made during the accounting period	Page 127 of this Report
168 (1) (f)	Remuneration and other benefits of Directors during the accounting period	Pages 126, 222 and 285 (Notes 20 and 58.2 to the Financial Statements and this Report)
168 (1) (g)	Total amount of donations made by the Bank during the accounting period	Page 127 of this Report
168 (1) (h)	Information on Directorate of the Bank during and end of the accounting period and persons who ceased to hold office as Directors during the accounting period.	Page 126 of this Report
168 (1) (i)	Amounts payable to the Auditor's as audit fees and fees for other services rendered during the accounting period as a separate disclosure	Page 222 (Note 20 to the Financial Statements)
168 (1) (j)	Auditor's relationship or any interest with the Bank and its subsidiaries	Page 126 of this Report
168 (1) (k)	Annual Report of the Board of Directors on the State of Affairs of the Bank signed on behalf of the Board of Directors	Page 130 (Signed with an acknowledgement by two Directors and the Company Secretary)

Constitution

DFCC Bank was incorporated in 1955 under the DFCC Bank Act No. 35 of 1955 as a limited liability public company and the ordinary shares of the Bank were listed on the Colombo Stock Exchange.

Consequent to the enactment of the DFCC Bank (Repeal and Consequential Provisions) Act No. 39 of 2014, the DFCC Bank Act No. 35 of 1955 was repealed and with effect from 6 January 2015 the Bank was incorporated under the Companies Act No. 07 of 2007 as a public limited company listed on the Colombo Stock Exchange with the name "DFCC Bank PLC".

The shareholders at the Extraordinary General Meeting held on 28 August 2015, approved the amalgamation of DFCC Vardhana Bank PLC (DVB) with DFCC Bank PLC (the Bank). The Registrar General of Companies on 1 October 2015 issued the Certificate of Amalgamation in terms of Section 244 (1) (a) of the Companies Act No. 07 of 2007 that DVB has been amalgamated with DFCC Bank PLC in accordance with the provisions of Part VIII of the Companies Act with DFCC Bank PLC surviving as the amalgamated entity.

DFCC Bank PLC also obtained a commercial banking license from the Monetary Board of the Central Bank of Sri Lanka in terms of the Banking Act No. 30 of 1988, as amended, and accordingly upon the amalgamation now operates as a Licensed Commercial Bank with effect from 1 October 2015.

Going concern

The Directors are satisfied that the Bank has adequate resources to continue its operations in the future and as such, the Financial Statements are prepared on the basis of a going concern. The Auditors have declared the Bank solvent even after the payment of dividend.

Financial statements

The Financial Statements of the Bank and the Group are given on pages 154 to 296 of the Annual Report. The Financial Statements of the Bank and the Group have been prepared in accordance with Sri Lanka Accounting Standards prefixed SLFRS and LKAS, the Banking Act No. 30 of 1988 and amendments thereto, the Companies Act No. 07 of 2007 and other applicable statutory and regulatory requirements.

Review of business of the year

With the outbreak of COVID-19 in Sri Lanka, the Bank took all measures required to ensure the safety of its employees and other stakeholders while ensuring an uninterrupted service to customers.

Contributing to efforts by the Sri Lankan Government to manage the impact of COVID-19 global pandemic, DFCC Bank continued to serve the Bank's customers across the country by providing essential banking services without interruption during the lockdown/curfew periods. Throughout this challenging times due to the Bank's Digital Footprint customers experienced greater convenience as they were able to conduct their financial transactions in the comfort of their homes.

The Bank also implemented a number of relief schemes in line with Government directives to support those customers affected as a result of the pandemic.

Message from the Chairman, Chief Executive's Review and the Management Discussion and Analysis give further details of the operations of the Bank and the Group, and the key strategies that were adopted during the year under review.

Profit and appropriations

Year ended 31 December 2020	LKR '000
Profit for the period	2,388,035
Appropriations	
Transfer to:	
Reserve Fund (statutory requirement)	122,000
First and final dividend approved for financial year ended 31 December 2020	917,992
Unappropriated profit for the period	1,348,043

Accounting policies

The accounting policies adopted in the preparation of the Financial Statements of the Bank and the Group are stated on pages 167 to 296 of the Annual Report.

There were no changes to the accounting policies of the Group in the year under review, other than adoption of revised SLFRS 3.

Auditors' Report

The Auditors' Report on the Financial Statements, which is unqualified, is given on page 149.

Reappointment of Auditors

The present Auditors, Messrs KPMG have expressed their willingness to continue as Auditors of the Bank for the next financial year ending 31 December 2021. The Audit Committee has reviewed the effectiveness and the relationship with the Bank including the fees paid to the Auditors and has concluded that they are suitable to continue in office.

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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 Auditors 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 presently consist of 10 Directors with wide knowledge and experience in the fields of banking, finance, trade, law, commerce, or services. Profiles of the Directors are given on pages 13 to 16.

The Directors of the Bank categorised in accordance with criteria specified in the Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka are as follows:

Independent Non-Executive Directors

J Durairatnam – Chairman
 Ms L K A H Fernando
 P M B Fernando – Senior Director
 N K G K Nemmawatta
 Ms S R Thambiyah
 H A J De S Wijeyeratne

Non-Independent Non-Executive Directors

Ms H M N S Gunawardana
 Ms V J Senaratne

Executive Directors

L H A L Silva – Chief Executive Officer
 N H T I Perera – Deputy Chief Executive Officer

Appointment, retirement/resignation and re-election of Directors

H A J De S Wijeyeratne and Ms H M N S Gunawardana were appointed as Directors of the Bank on 1 July 2020. They will retire in terms of Article 46 (ii) of the Articles of Association and are

offering themselves for re-election at the Annual General Meeting.

The Nomination and Governance Committee has recommended the re-election of H A J De S Wijeyeratne and Ms H M N S Gunawardana and the Board having concluded that they are fit and proper persons to be Directors in terms of the provision of the Banking Act unanimously endorsed the recommendation of the Nomination and Governance Committee.

T Dharmarajah retired from the Board with effect from 24 March 2020 in terms of Section 3 (2) (ii) of the Banking Act Direction No. 11 of 2007 having served a period of nine years as a Director of the Bank.

K P Cooray resigned from the Board with effect from 19 August 2020.

Retirement by rotation and re-election of Directors

The Directors retiring by rotation in terms of Article 44 of the Articles of Association are J Durairatnam and Ms V J Senaratne who offer themselves for re-election under the said Article with the unanimous support of the Directors.

Directors' remuneration

The Directors' remuneration in respect of the Bank and the Group for the financial year ended 31 December 2020 is given below:

	Year ended 31 December 2020 LKR '000	Year ended 31 December 2019 LKR '000
Bank	77,310	65,120
Group	96,644	88,545

Directors' meetings

The Bank held 12 Board meetings during the year. The Table on page 110 of the Annual Report gives details of the attendance of the Directors at Board and Board committees during the year.

Directors' interests in shares

	Number of shares as at 31 December 2020	Number of shares as at 31 December 2019
K P Cooray ¹	–	Nil
T Dharmarajah ¹	–	2,700
J Durairatnam	Nil	Nil
Ms L K A H Fernando	Nil	Nil
P M B Fernando	2,011	2,000
Ms H M N S Gunawardana ²	Nil	–
N K G K Nemmawatta	Nil	Nil
N H T I Perera	16,899	16,800
Ms V J Senaratne	1,823	1,814
L H A L Silva	25,013	24,866
Ms S R Thambiyah	Nil	Nil
H A J De S Wijeyeratne ²	8,449	–

¹ Not a Director as at 31 December 2020

² Not a Director as at 31 December 2019

Directors' interests in debentures

	31 December 2020 LKR '000	31 December 2019 LKR '000
L H A L Silva	7,000	2,000

No Director directly or indirectly holds options of the Bank.

Directors' interests register

Directors have made the general disclosure as provided for in Section 192 of the Companies Act No. 07 of 2007. The Directors have declared all material interests in contracts involving the Bank and have not participated in the decision-making related to such transactions. As required by the Companies Act No. 07 of 2007, an interest register is maintained by the Bank and relevant entries are recorded therein.

Directors' interests in transactions with the Bank

The Directors' interests in transactions with entities/persons (other than subsidiaries, the joint venture, and associate) listed under each Director for the year ended 31 December 2020 is as follows:

	LKR '000
J Durairatnam	
Assetline Leasing Company Limited Aggregate amount of accommodation	500,000
Asian Hotels and Properties PLC Aggregate amount of payment for services	1,660
Ms L K A H Fernando	
Aggregate amount of accommodation	1,500
UML Heavy Equipment Limited United Motors Lanka PLC Aggregate amount of accommodation	610,000
Foodbuzz (Pvt) Limited United Motors Lanka PLC Aggregate amount of payment for services	454
Ms H M N S Gunawardana	
Aggregate amount of accommodation	500
N H T I Perera	
Acuity Stock Brokers (Pvt) Limited Aggregate amount of payment for services	152
L H A L Silva	
Aggregate amount of accommodation	2,000
Lanka Financial Services Bureau Limited Sri Lanka Banks' Association (Guarantee) Limited Aggregate amount of payments for services	8,291
Ms S R Thambiayah	
Renuka Family Group of Companies Aggregate amount of accommodation	904,000
H A J De S Wijeyeratne	
Aggregate amount of accommodation	8,800

During the year, L H A L Silva, P M B Fernando, and N H T I Perera are or have been Chairman/Director of one or more of the subsidiary, joint venture, or associate company. Details of transactions with subsidiary, joint venture and associate company are disclosed in Note 58.4.

Corporate donations

During the year, the Bank made donations amounting to LKR 180,000.

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Board committees

The following are the present members of the permanent committees of the Board. Changes to the composition during the year are set out in the respective committee reports in the Annual Report:

Audit Committee

P M B Fernando – Chairman
Ms L K A H Fernando
H A J De S Wijeyeratne

Credit Approval Committee

J Durairatnam – Chairman
P M B Fernando*
N K G K Nemmawatta
L H A L Silva

**Non-voting member*

Credit Restructure Committee

J Durairatnam – Chairman
N K G K Nemmawatta
Ms S R Thambiyah

Human Resources and Remuneration Committee

J Durairatnam – Chairman
Ms H M N S Gunawardana
Ms S R Thambiyah

Nomination and Governance Committee

P M B Fernando – Chairman
J Durairatnam
Ms V J Senaratne

Integrated Risk Management Committee

Ms L K A H Fernando – Chairperson
Ms H M N S Gunawardana
Ms V J Senaratne
L H A L Silva

Chief Risk Officer of the Bank is also a member of the Committee.

Related Party Transactions Review Committee

P M B Fernando – Chairman
J Durairatnam
L H A L Silva

In addition, from time to time the Board appoints committees to deal with specific matters. The Board also invites external advisors and Key Management Personnel to serve on some of the committees as and when necessary.

Further details relating to the committees are given in the section on corporate governance and the committee reports.

Dividend

The Directors have approved the payment of a first and final dividend of LKR 3.00 per share, (final dividend paid in the previous period, LKR 3.00 per share). The total dividend for the year will amount to approximately LKR 918 Mn (LKR 913 Mn in the previous period), which amounts to 41% of the Bank's distributable profit.

The Directors unanimously declare that, DFCC Bank PLC will satisfy the solvency test stipulated in Section 57 of the Companies Act No. 07 of 2007 immediately after the dividend payment is made and a certificate of solvency from its Auditor is obtained.

Property, plant and equipment, and leasehold property

The total expenditure of acquisition on property, plant and equipment during the year amounted to LKR 1,204 Mn, of which intangible assets amounted to LKR 315 Mn. Details of these are given in Notes 39 and 40 to the Financial Statements.

Reserves

Total reserves and retained profit amounted to LKR 41,675 Mn.

Market value of freehold properties

The information on market value of freehold properties are given in Note 39.1.2 to the Financial Statements.

Stated capital and subordinated debentures

The stated capital as at 31 December 2020 was LKR 7,682 Mn. The number of shares in issue as at 31 December 2020 was 305,997,250.

Consequent to the Scrip Issue approved during the year, the stated capital was increased by LKR 152 Mn.

Further information is given on pages 278 and 279.

Share information

Information relating to earnings, net asset and market value per share are given on pages 51 and 53 of the Annual Report and also contain information pertaining to the share trading during the period.

Shareholders

As at 31 December 2020, there were 11,526 registered shareholders and the distribution is indicated on page 52.

The 20 largest shareholders as at 31 December 2020 are listed on page 53.

Employment and remuneration policies

The policy of the 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

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high quality service while supporting public and private sector in its development efforts within the ambit of the Articles of Association of the Bank. DFCC Bank PLC continuously invests in training and development of its staff to meet these objectives. The 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.

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 on time.

Review of related party transactions

The Related Party Transactions Review Committee is responsible for ensuring compliance with the code specified in Section 9 of the CSE Listing Rules. The Committee reviewed the related party transactions carried out during the year and noted that the transactions were in compliance with the said code.

Compliance with laws, regulations, and prudential requirements

DFCC Bank PLC has not engaged in any activities contravening the laws and regulations and has complied with prudential requirements. The Directors obtain quarterly, a confirmation report from the Management with regard to compliance with laws, regulations, and prudential requirements.

Events occurring after the reporting period

Subsequent to the date of the Statement of Financial Position, no circumstances have arisen which would require adjustments to the accounts. Significant events occurring after the reporting period which in the opinion of Directors require disclosure are described in Note 61 to the Financial Statements.

Corporate governance

The Directors have obtained External Auditors' assurance on effectiveness of the internal control mechanism and compliance with the Direction No. 11 of 2007 of the Central Bank of Sri Lanka on Corporate Governance.

Details of governance practices and the required disclosures are given on pages 104 to 123.

Rule 3 (8) of the Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka prescribe disclosures in the Annual Report. These disclosures have been made in this Annual Report as shown in the following Table:

The table below provides cross references to facilitate easy reference.

Reference to rule	Requirement	Reference to annual report
3 (8) (i)	Financial statements on prescribed format	Financial Statements on pages 154 to 296
3 (8) (ii) (a)	Affirmative assurance of compliance with accounting standards and requirements	Directors' Responsibility Statement on page 147
3 (8) (ii) (b)	Affirmative assurance of the integrity of financial reporting system	Directors' Statement of Internal Control on page 140
3 (8) (ii) (c)	Assurance report issued by the External Auditor	Independent Assurance Report on page 143
3 (8) (ii) (d)	Information on Directors	Pages 13 to 16
3 (8) (ii) (d)	Remuneration of Directors	Annual Report of the Board of Directors on the State of Affairs of the Bank on page 126
3 (8) (ii) (e)	Net accommodation granted to each category of related party	Corporate Governance Report. Table on page 122
3 (8) (ii) (f)	Compensation and other transactions with Key Management Personnel	Corporate Governance Report on page 123
3 (8) (ii) (h)	Compliance with prudential requirements and regulations	This report

Acknowledgement of the content of the report

As required by Section 161 (1) (k) of the Companies Act No. 07 of 2007, the Board of Directors does hereby acknowledge the contents of this report.

For and on behalf of the Board of Directors,



J Durairatnam
Chairman



L H A L Silva
Director and Chief Executive Officer



Ms A Withana
Company Secretary

17 February 2021