

# Report of the Board Integrated Risk Management Committee

## Composition of Board Integrated Risk Management Committee

During the year, the Board Integrated Risk Management Committee (BIRMC) functioned on Group basis overlooking the integrated risk management of DFCC Bank and DFCC Vardhana Bank (DVB) until the amalgamation of the two banks. The Group BIRMC consisted of necessary representation from both the DFCC Bank and the DVB Boards with two Non-Executive Directors representing DFCC and DVB, one Non-Executive Director representing DFCC, one Non-Executive Director representing DVB, one Executive Director representing DFCC and one Executive Director representing DVB. The composition of the BIRMC was changed after the amalgamation of DFCC Bank and DVB, to four Non-Executive Directors including Chairman and one Executive Director. The Group Chief Risk Officer, who has the voting power, functions as the Secretary to the Committee. Heads of key functional areas such as lending, finance, treasury, operations, IT and internal audit attend the meetings on invitation. The membership of the BIRMC as at 31 December 2015 was as follows:

- C R Jansz – Chairman
- P M B Fernando – Non-Executive Director
- A N Fonseka – Non-Executive Director
- L N de S Wijeyaratne – Non-Executive Director
- A R Fernando – CEO/Director
- T S A Fernandopulle – Chief Risk Officer

## Charter and the Responsibilities of the BIRMC

The approved Charter for the BIRMC stipulates authority, structure, responsibilities and tasks of BIRMC. As per its Charter, the primary responsibilities of BIRMC are to review and ensure:

- A. Integrity and adequacy of the risk management function of the Bank.
- B. Adequacy of the Bank's capital and its allocation.
- C. Risk exposures and risk profiles of the Bank are within acceptable parameters and to make recommendations to the Board of Directors on any action required.
- D. The adequacy and effectiveness of the management committees through a set of defined tools.
- E. Availability of a comprehensive and updated set of risk policies and guidelines covering overall operations of the Bank.
- F. 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 meets on a quarterly basis. During the year, DFCC Bank convened four BIRMC meetings. The attendance of the members is listed on page 90 of the Annual Report. The Committee continued to review policy frameworks, risk management

strategies, risk capital position and key risk indicators at these meetings and was satisfied that the risk exposures of the Bank were being appropriately managed. During the year, the following key initiatives were achieved by the Committee:

- A. Review and approval of the prudential risk limits to reflect the current risk appetite of the Bank.
- B. Review and approval of the Internal Capital Adequacy Assessment Process (ICAAP) of the Bank which was a regulatory requirement with effect from January 2014. As a part of the ICAAP, BIRMC monitored the risk capital forecast and capital cushion in line with the business strategy and industry positions.
- C. The annual review of effectiveness and adequacy of the Management Committees were conducted by the BIRMC during the first quarter of 2015. The review results and recommendations of the BIRMC were shared with the respective committees for necessary improvements.
- D. Close monitoring of the arrears positions in loans to identify recurring incidents, possible trends inherent to business units/regions and/or industry segments with the view of minimising probable default risk incidents.
- E. Monitoring of the Liquidity Coverage Ratio (LCR) under Basel III as per the guidelines issued by the CBSL implemented from April 2015. The LCR is expected to strengthen the liquidity risk management ensuring that Banks have adequate stock of high quality liquid assets for 30 days that can be easily and immediately converted to cash even under a liquidity stressed scenario. On a pre and post-amalgamation basis DFCC Bank comfortably complied with the minimum requirements.
- F. Review and approval of risk management policies and guidelines for the amalgamated entity
- G. Having duly recognised the global trend on increasing threats on system and information security, BIRMC paid increased attention to IT systems security under its operational risk management practices

## Reporting

The proceedings of the BIRMC meetings are reported to the Board through submission of the meeting minutes. Monthly Key Risk Indicators and other specific matters are submitted separately for the Board's approval on recommendation of the BIRMC. The recommendations made by the BIRMC during the year under review were approved by the Board.



**C R Jansz**  
Chairman – Board Integrated Risk Management Committee

24 February 2016