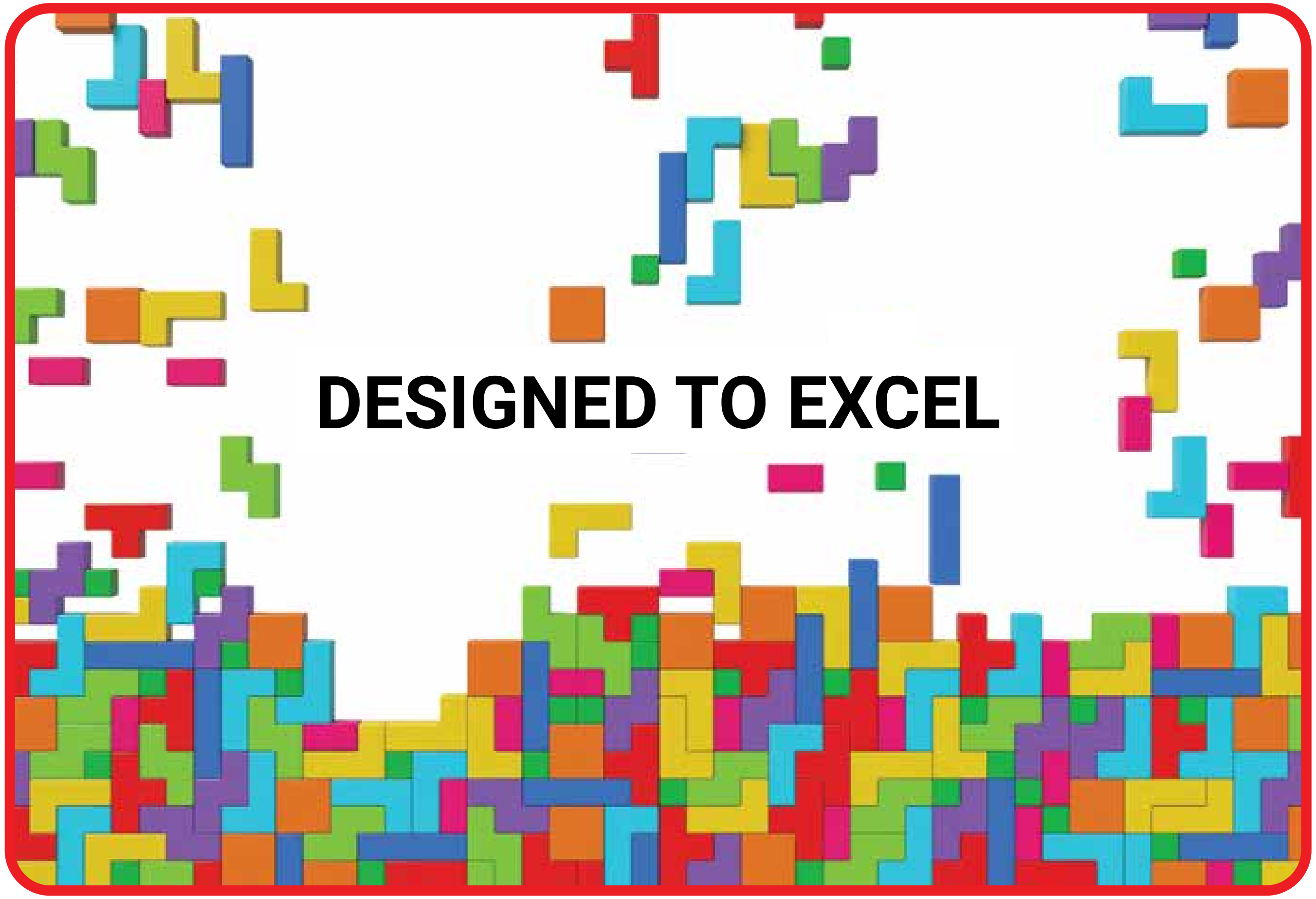
DFCC BANK
Keep Growing

DESIGNED TO EXCEL



ANNUAL REPORT 2021

DESIGNED TO EXCEL

Within DFCC Bank's core lies an undiminished will to excel in every aspect of enterprise. This ethic drives the Bank to find ways to become better at what it does, serving every customer demographic with products and services often ahead of the times: leveraging the best and most advanced technology; always upskilling and outfitting the Bank to become one of Sri Lanka's best and looking to play a vital, leading role in the national economy.

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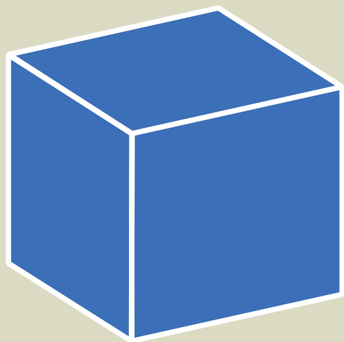
http://dfcc2021.annualreports.lk

INTRODUCTION



ABOUT THIS REPORT

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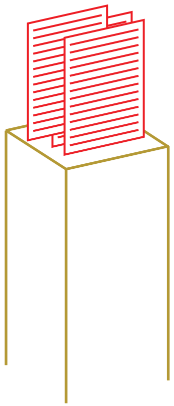
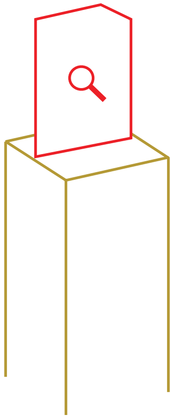


A concise Integrated Annual Report in print form



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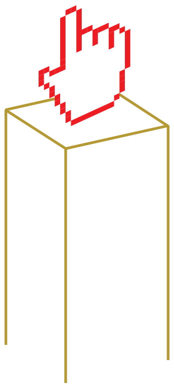


Online HTML

This Integrated Annual Report serves to communicate DFCC Bank's strategy, governance, performance and prospects, in the context of its external environment, leading to the creation of sustainable value for its stakeholders.

REPORTING PERIOD AND BOUNDARY

DFCC Bank's Annual Report for 2021 covers the 12-month period from 1 January 2021 to 31 December 2021. Our reporting covers DFCC Bank PLC ("DFCC Bank" or "Bank") and the DFCC Bank Group ("Group") comprising the Bank and its subsidiaries, a joint venture company, and an associate company. The respective entities are duly identified where applicable.

COMPLIANCE

In the spirit of good governance, the Board of Directors of DFCC Bank, accepts responsibility for the entirety of this Annual Report 2021. The information contained herein, as in the past, complies with all applicable laws, regulations, and standards. This is declared on page 142 of the Annual Report 2021.

This Annual Report has been prepared in accordance with the following:

STATUTORY FRAMEWORKS

- Companies Act No. 07 of 2007
- Sri Lanka Financial Reporting Standards
- Listing Rules of the Colombo Stock Exchange

REPORTING FRAMEWORKS

- GRI Standards
- International Integrated Reporting Council's Integrated Reporting Framework*
- Smart Integrated Reporting Methodology™

ASSURANCE

- Provided by KPMG Sri Lanka on the Financial Statements, including the Notes to the Accounts

* As provided in paragraphs 2.10 and 2.17-2.19 of the Integrated Reporting Framework, organisations are not required to adopt the Framework's categorisation of capitals and as such, the capitals have been categorised in a way that best describes the Bank's value creation process.

PRECAUTIONARY PRINCIPLE

We are aware of, and take responsibility for the social and environmental consequences of our actions, both direct and indirect. We acknowledge that the latter is of greater significance, and arise from our lending operations, which are addressed through credit policies, post disbursement supervision, and risk management processes.

ABOUT DFCC BANK

DFCC Bank ventured into commercial banking in 2015 by extending its expertise in project lending gained over six decades. While providing comprehensive development and commercial banking services, DFCC Bank has been leading the industry in digitally-enabled products and services, while playing a significant role in the growth of the digital economy in the country. The Bank was established in 1955, pursuing the idea of ensuring balanced regional and sectoral development, as well as fostering the growth of marginalised industries, areas, and social segments, especially in a developing country such as Sri Lanka, where the role of a development bank has been crucial. It was the first development bank in Sri Lanka, and one of the oldest in the region. DFCC Bank has emerged as the lender of choice for entrepreneurs, industrialists and agriculturists, especially those in the SME sector. Embracing environmental sustainability among its key areas of focus, the Bank has emerged as the preferred lender for "Green" development projects, including waste-to-energy, hydro, wind, and solar energy projects.

REACH

With its reach and service footprint spanning 139 branches across the island, DFCC Bank offers its customers access to over 5,500 ATMs across the country via the LankaPay ATM network, in addition to online and mobile banking and "DFCC MySpace", the Bank's self-banking solution. More details on the Bank's branch network are provided on page 69.

VISION

To be the leading financial solutions provider sustainably developing individuals and businesses.

MISSION

To provide innovative and responsible solutions true to our values with the expertise of our multidisciplinary team of professionals and synergies of our financial services group.

VALUES

- Customer-centric
- Professional
- Team-oriented
- Accountable
- Socially Responsible
- Ethical
- Innovative
- Diversity, Equity and Inclusion
- Stewardship

MILESTONES

1955
DFCC is incorporated under an Act of Parliament and is one of the first development banks to be instituted in Asia.

1956
DFCC becomes the first bank to be listed on the Colombo Brokers' Association, the precursor to the Colombo Stock Exchange.

1977
Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) is formed with DFCC as a founder member.

1984
Finance leasing is officially introduced.

1985
An insurance agency business is commenced.

Medium-term working capital financing is officially introduced.

1986
The Head Office is inaugurated.

1988
The first branch in Kandy is opened.

1989
Short-term Working Capital Financing is officially introduced.

1991
NAMAL is officially founded.

1992
Lanka Industrial Estates Limited is founded.

Lanka Ventures Limited is founded.

1993
Reached No. 1 position in market capitalisation.

1995
Asia Money ranks DFCC as the Best Managed Company in Sri Lanka.

1996
Fixed deposit mobilisation is introduced.

Sri Lanka's first BOO Power Project is commissioned, financed by DFCC.

1997
Appointed as the Administrative Unit of the Energy Services Delivery Project funded by the World Bank.

1999
Asia Money ranks DFCC as the Best Managed Company of the decade.

MILESTONES

2000

Structured and managed Sri Lanka's First Rated Debenture Issue for Sri Lanka Telecom.

2001

DFCC acquires ABN AMRO Securities (Pvt) Limited and renames the company to DFCC Stock Brokers (Pvt) Limited.

2002

Fitch Ratings Lanka Limited assigned the SLAA National Rating for Implied Long-term Unsecured Senior Debt of DFCC Bank.

Managed the IPO of Sri Lanka Telecom – the largest offering on the Colombo Stock Exchange.

Appointed as the Administrative Unit of the Renewable Energy for Rural Economic Development project funded by the World Bank.

2003

DFCC acquires 94.16% of MERC Bank and renames it as DFCC Vardhana Bank.

2004

DFCC Consulting is founded.

2008

Acuity Partners (Pvt) Limited commences commercial operations.

2011

Shareholding in DFCC Vardhana Bank increased to 99.1%.

2014

Appointed by GOSL to administer the EUR 90 Mn Credit Line from the European Investment Bank.

2015

DFCC Bank and DFCC Vardhana Bank are amalgamated in October to form DFCC Bank PLC.

2016

DFCC Virtual Wallet launches as yet another financial inclusion enabler by DFCC Bank, a first in Sri Lanka's banking industry.

2017

DFCC Bank launches DFCC Premier Go app to empower Premier customers.

2018

DFCC Bank launches DFCC iConnect, a cutting-edge payments solution for businesses.

DFCC Credit Cards relaunched with EMV-enabled chip and Visa PayWave contactless technology.

DFCC Bank crowned as one of Sri Lanka's "Most Admired Companies" by Chartered Institute of Management Accountants (CIMA) and the International Chamber of Commerce Sri Lanka (ICCSL)

2020

DFCC Bank is awarded the No. 1 Cash Management Service Provider in Sri Lanka by Euromoney.

DFCC Bank is awarded Market Leader in Cash Management (Domestic Banks) and Best Services in Cash Management.

2021

DFCC Bank signs an agreement with the United States Development Finance Corporation (DFC) for USD 150 Mn.

DFCC GROUP STRUCTURE

DFCC BANK
Keep Growing

SUBSIDIARIES

DFCC Consulting (Pvt) Limited

Incorporated – 9 September 2004

Principal Activity – Consultancy

Directors
N H T I Perera – Chairman
T W de Silva
R A Dasanayake
S Wijesingha

Synapsys Limited

Incorporated – 11 October 2006

Principal Activity –
Information technology services and IT-enabled services

Directors
N H T I Perera – Chairman
D J P Fernandopulle - CEO
G S Dewaraja
T W de Silva
A Hewanayake

Lanka Industrial Estates Limited

Incorporated – 12 March 1992

Principal Activity –
Operating an industrial estate

Directors
L H A L Silva – Chairman
A D Tudawe
T W de Silva
W D R Crishantha
Dr R M K Ratnayake
R A Dassanayake
T Dharmarajah
Mrs C M D N K Seneviratne

JOINT VENTURE

Acuity Partners (Pvt) Limited

Incorporated – 7 February 2008

Principal Activity –
Investment banking and related activities such as corporate finance, debt structuring and IPOs

Directors
N H T I Perera – Chairman
M R Abeywardena – MD
R Dissanayake
D Pallewatte
S Wijemanne
L Withana
S Perera

ASSOCIATE COMPANY

National Asset Management Limited

Incorporated – 28 September 1990

Principal Activity –
Licensed unit trust and investment management

Directors
A Lovell – Chairman
R T Abeyasinghe – CEO/Director
Ms K S Bee
W Dambawinne
S Madanayake
K Nanayakkara
I Wickramasinghe
R Dassanayake

HIGHLIGHTS

Group LKR Mn Year ended 31 December	Based on SLFRS 9 2021	2020	2019	2018	Based on LKAS 39 2017
Operating results					
Total income	43,029	43,604	43,648	39,448	35,987
Profit before tax	4,859	3,944	3,308	4,676	5,891
Tax expense	1,194	1,097	1,008	1,606	1,458
Profit attributable to equity holders of the Bank	3,549	2,745	2,214	3,011	4,362
Statement of financial position					
Assets					
Cash and short-term funds	26,383	28,063	14,326	17,331	21,390
Loans to and receivables from banks and other customers	365,901	306,062	272,818	249,690	213,704
Financial investments	81,226	120,932	108,171	100,580	91,707
Investments in associate and joint venture	2,840	2,481	2,096	1,989	1,684
Other assets	11,907	9,829	9,500	7,172	5,983
Total assets	488,257	467,367	406,911	376,762	334,468
Liabilities					
Due to depositors	319,362	309,566	247,458	241,915	192,920
Due to other borrowers	107,623	97,406	102,910	82,589	84,578
Other liabilities	9,507	8,686	7,117	6,602	7,568
Total liabilities	436,492	415,658	357,485	331,106	285,066
Equity					
Total equity attributable to equity holders of the Bank	51,448	51,426	49,163	45,398	49,125
Non-controlling interests	317	283	263	258	277
Total equity and liabilities	488,257	467,367	406,911	376,762	334,468
Return on equity, %* (PAT)	7.45	6.16	5.32	7.70	12.08
Return on total assets, %* (PBT)	1.02	0.91	0.59	0.88	1.47
Earnings per share, LKR	11.17	9.00	7.62	11.36	16.45
Net asset value per share, LKR	160.51	168.06	161.62	171.25	185.31
Capital adequacy					
Common equity Tier I Capital ratio, % (Basel III)	9.28	10.82	11.33	10.89	13.09
Tier I capital ratio, % (Basel III)	9.28	10.82	11.33	10.89	13.09
Total capital ratio, % (Basel III)	13.00	15.75	15.78	16.17	16.53

* After eliminating fair value reserve.

HIGHLIGHTS

SUPPORTING AND EMPOWERING CUSTOMERS

- Launch of new product propositions targetting varying segments, Customer Contact Centre and Customer Experience Unit
- Launch of multi-channel internet and mobile-enabled customer touch-points, upgrading digital apps for cashless and contactless transactions
- Relief packages during the pandemic, extension of debt moratoriums, concessionary loans for selected sectors, temporary overdrafts, import and export loans, extension of short-term loans, overdrafts

STRATEGIC FOCUS ON SUSTAINABILITY

- Sustainability Policy supporting vision to be the most customer-centric, digitally enabled bank
- Systems, protocols, processes and KPIs in place to support the Bank's sustainability programme
- Initiatives to embed sustainability practices within the Bank's ethos
- Recognition and awards for sustainability: Association of Development Financing Institutions in Asia-Pacific (ADFIAP) – 2 awards, Global Sustainable Finance, Karlsruhe, Germany – 2 awards

RECOGNITION AND AWARDS

- **Best Digital Wallet Sri Lanka –** Global Banking and Finance Awards 2021
- **Most Innovative Corporate Banking App Sri Lanka –** Global Banking and Finance Awards 2021
- **Market Leader in Cash Management Sri Lanka 2021 –** Euromoney Awards
- **Most Trusted Retail Banking Brand in Sri Lanka –** Global Brands Magazine, UK, 2021
- **Best Customer Service Banking Brand in Sri Lanka –** Global Brands Magazine, UK, 2021
- **Top 100 Most Valuable Consumer Brands in Sri Lanka 2021** – Ranked 27th
- An honourable mention at Sri Lanka's **"Most Admired Companies" Awards** – CIMA and ICCSL

DIGITAL TRANSFORMATION

- Digital strategy based on six pillars: digital channels, digital payments, digital operations, digital services, digital analytics and DFCC Agile (Innovation Hub)
- Improving customer experience with internet and mobile enabled apps, tri-lingual online communications, specialised units for seamless customer service and experience
- Enhancing productivity and efficiency through digital processes and automation of operations

THE BANK FOR EVERYONE

- Customer-centric, digitally enabled banking offering advanced products and services
- New propositions to suit varying lifestyles, income levels, aspirations
- Flagship branches and bespoke services for high-net-worth individuals

LEADERSHIP

MESSAGE FROM THE CHAIRMAN

THE STATE-OF-THE-ART CORE BANKING SYSTEM OF DFCC BANK OPENS UP IMMENSE OPPORTUNITIES TO IMPLEMENT HIGHLY INNOVATIVE BANKING PRODUCTS AND PROCESSES.

MESSAGE FROM THE CHAIRMAN

Dear Shareholders,

As 2021 dawned, the overarching objective of DFCC Bank was to energise and accelerate the economic revival of our nation, which had just begun its slow and difficult ascent towards achieving a semblance of normalcy. Though certain key sectors displayed remarkable resilience during the pandemic, many others continued to languish, needing urgent attention.

We were firm in our conviction that our branches held the key to revitalising businesses, rebuilding livelihoods, and renewing hope across the land. This impelled us to focus on rejuvenating our branch network, through which we could channel our resources and expertise, especially towards the MSME sector, which was the worst affected. It was a rewarding experience, as we played a crucial role in their recovery. This period also saw our emergence as one of the largest providers of relief across a number of affected sectors, and rebuilding the nation.

DFCC Bank was able to overcome an exceptionally challenging external environment by undertaking a judicious appraisal of our risk profile, putting in place the required mitigatory measures, and charting our own ambitious course: in keeping with our vision, mission and goals.

As a practice, we carry out risk assessment in the context of the current scenario. A contemporary example is the case of leasing in an environment where no vehicle imports are allowed, where we need to think in terms of the present market; not the past market. This particular situation resulted in our shift to leasing of pre-owned vehicles. We had to be oriented towards the future, and move forward.

We have also broadened our focus towards finding alternative avenues for growing our business, in keeping with the changing business and regulatory climate. This includes concentrating on local businesses in our immediate environment. In this regard, the support we recently received from the US-based Development Finance Corporation (DFC) will enable us to fast-track our programmes to empower SMEs, which are ideally placed to spearhead Sri Lanka's economic recovery.

The state-of-the-art core banking system of DFCC Bank opens up immense opportunities to implement highly innovative banking products and processes. It can also facilitate the deployment of the latest banking-related advances in Artificial Intelligence, machine learning and advanced analytics. This will assist us in creating improved customer experiences, efficient customer acquisition, higher customer lifetime value, enhanced operational efficiencies, and achieve lower costs. In fact, we intend embedding and implementing such processes across most aspects of our operations. Our core banking system, coupled with our digital-first strategy, gives room for considerable growth potential in the years ahead.

Though we have the latest technology in place, we need to contend with the cultural factor, as most customers still prefer visiting the branches. However, in the case of most SMEs, which happen to comprise our core customer base, the younger generation has taken over, or is assisting in running the business. This generation is extremely tech-savvy, which gives ample space for a highly digitised bank such as ours to grow.

Our governance structures have been assessed by international bodies, who have acknowledged our strengths in this regard. In terms of internal assessment, especially across our branch network, we are making the required changes to ensure adherence to international best practices. In addition, we are strongly committed to making sure that there is no room for any form of corruption or malpractices at DFCC Bank.

Given the unwavering focus of DFCC Bank on sustainability, the relevant strategy and implementation plan has been defined and formulated with inputs from external experts. We view our sustainability strategy from a national perspective. As Phase I, we have formalised and approved the plan, in addition to having all necessary structures in place. Phase II will be the rollout, which will be implemented in stages.

It needs to be emphasised that the principles of sustainability are embedded in our lending portfolio, in keeping with our goal of being a carbon-neutral bank and preferred finance partner for Green Financing. Our commitment in this regard is being institutionalised, as we transition towards achieving "Sustainable Work-life Balance" for our staff by 2030, and even extending this concept to customers and other stakeholders. The Bank's sustainability activities are envisaged to contribute towards specific Sustainable Development Goals (SDGs), as spelled out by the United Nations.

As we continue strengthening our branch network, Branch Managers have been empowered to go out and seek business from within their respective areas. We have given them the confidence to do so, as they can be sure of our steadfast support. We want our branches to contribute more towards the bottom line, and in terms of creating customer value.

Having commenced operations as a development bank, we have still retained that orientation as part of our ethos. Consequently, we have retained our dual identity both as a development bank, as well as a commercial bank. This gives customers the advantage of being able to obtain start-up funding from us as a development bank, as well as follow-up funding, as a commercial bank. This is our core-competency and competitive advantage.

Due to our strong emphasis on the fundamental principles of banking, carrying out operations, and adherence to best practices in the industry, we are able to withstand any situation or contingency brought on by changes in the economic climate, regulatory environment, or shifts in Government policies. We also remain firmly committed to creating and maximising value for our shareholders and all stakeholders.

In conclusion, I wish to thank our shareholders for their continued support of the Bank and the trust reposed in us. Our financial position remains strong, and I remain optimistic that our resilient character and prudent management practices will help us endure all challenges. We have also retained strong relationships with all our stakeholders.

MESSAGE FROM THE CHAIRMAN

I would also like to thank the Board of Directors for their guidance, our former CEO Mr Lakshman Silva for his stewardship through turbulent times, as well as our management team and staff members across all levels for their efforts in supporting our customers.

I take this opportunity to welcome Mr Thimal Perera, who has taken over the reins as CEO, and wish him the very best in taking forward DFCC Bank in achieving its ambitious and lofty objectives in the years ahead.

I would also like to express my sincere gratitude to officials of the Central Bank of Sri Lanka and the Ministry of Finance for their unwavering support extended at all times.

Finally, I thank our customers for their continued loyalty, trust, and support of our Bank. We will continue to focus on ensuring that you have our firm backing in all your endeavours in the years ahead.

J DURAIRATNAM
CHAIRMAN
17 February 2022

CHIEF EXECUTIVE'S REVIEW

BEING A MID-SIZED BANK WITH A STRONG TECHNOLOGICAL FOCUS CONFERS A FURTHER ADVANTAGE, AS IT ENABLES US TO BE NIMBLER, AND ADAPT QUICKLY TO CHANGES IN THE ENVIRONMENT, AS WELL AS THE FAST-CHANGING COMPETITIVE LANDSCAPE.

Successfully overcoming formidable obstacles and challenges, DFCC Bank has registered a number of significant achievements in the year under review. A customer-centric, digitally enabled core banking system has been implemented and holds us in good stead to face the upcoming challenges and customer expectations in the foreseeable future. Profitability has been robust, making 2021 the best year in the recent past. This can be ascribed to prudent cost management, a strategic approach to productivity enhancements, and the lower interest rates that prevailed, which led to a sizable boost to our lending portfolio. DFCC Bank has also been one of the first to use Google Workspace to drive digitisation, robotic automation and streamlined work processes to enhance customer experience. Such changes introduced during the year have made DFCC Bank among the most technically advanced in the industry.

During this year, DFCC Bank achieved a momentous milestone in reaching an asset base of LKR 486 Bn for the first time in its history. Profitability has soared to LKR 3,222 Mn, while income growth has peaked at LKR 42,649 Mn. The CASA ratio has risen to 31.25% while the cost to income ratio is 45:53. Loan book growth has climbed to LKR 365,901 Mn and the NPL stands at 5.6%. These figures, taken together, indicate a very impressive financial performance, despite an operating environment which was very unfavourable in many respects.

Among our segmentation propositions, DFCC Premier aimed at the higher end of customers was rebranded as DFCC Pinnacle, while we also launched DFCC Prestige, targeting the next level of discerning customers. The Bank is focusing on the salaried and professional segments and launched Salary Plus and Salary Partner, since they comprise a large share of retail banking customers. In addition, we have launched DFCC *Aloka*, our women's banking proposition which is designed to empower female customers to achieve their professional and personal goals. Together, these are precisely targeted propositions which will fuel our growth in the years ahead.

CHALLENGING EXTERNAL ENVIRONMENT

The external environment has posed exceptional challenges, other than those arising from the pandemic and resultant economic downturn, as well as the Easter Sunday carnage. The downgrading of Sri Lanka's sovereign rating by international rating agencies has impacted the entire banking industry, resulting in higher costs for the sourcing of funds locally and internationally. This has been aggravated by the single digit interest regime, as well as the series of moratoriums imposed by the Central Bank of Sri Lanka (CBSL), which deferred the inflow of customers' loan repayment. Despite such a scenario, we had to continue servicing our debt commitments to customers and external lenders, in addition to meeting many other regulatory conditions, which resulted in serious liquidity constraints. The restriction of imports due to the limited foreign exchange reserves of the country, led to a drop in imports, which impacted our trade business. In addition, the drastic reduction in vehicle imports adversely affected our leasing business, which usually makes a significant contribution to our bottom line.

ACCELERATING OUR DIGITAL JOURNEY

Our new core banking system can exponentially advance the frontiers of our digital capabilities in addition to enlarging the digitally enabled remote banking options for our customers through the provision of a number of innovative features. The system has the built-in capacity to facilitate Non-Face To Face (NF2F) on-boarding: even overseas customers can open accounts from the comfort of their home. Our advanced digital capability, coupled with restricted mobility of people during the pandemic, has resulted in a tremendous surge in digital adoption by customers. On-boarding through online/mobile apps for DFCC Virtual Wallet grew by 48%, and customers applying online for accounts and credit cards increased by 280%. Total transaction value via digital banking channels accelerated by 1300%, which is indicative of the success of our digitisation drive. Recent additions to our digital capabilities include the Multilingual Customer Contact Centre, and the virtual account opening process, which is fully integrated with the Department for Registration of Persons in Sri Lanka to authenticate the identity of new customers. With the new core banking system, we can optimise the use of multifunction platforms such as mobile banking and online banking, and opens up entering new target segments for us to drive new customer acquisition. The new system will also enable us to precisely segment, target and position our proposition to audiences such as Millennials and GenZ demographics, as well as the working population who make up a sizable proportion of potential customers. This has given us a tremendous head-start and an advantage in driving our business, using the latest technology.

ADAPTING TO THE "NEW NORMAL"

The pandemic-induced pressures have inspired DFCC Bank to consider "reimagined" models of working that diverge from traditional banking. This will include the use of digital channels by full-time staff working from home on most days, as well as part-time employees working on back-office tasks which do not require regular office hours. This could lead to improved efficiency and reduced costs, in terms of office space, utilities and overtime payments, as proper policies, procedures and strategies are put in place to take advantage of such practices. However, this will entail heightened cybersecurity concerns which will be of paramount importance, given the critical need to protect our systems domain. We have significantly invested and continue to invest in the necessary infrastructure, protocols and procedures to prevent and mitigate the impact of hostile cyber-based threats.

PROMOTING A YOUTHFUL, INCLUSIVE CULTURE

It is heartening to note that we have a sizable percentage of young staff at all levels, who have the inherent ability to embrace our automated processes and technological advancement. We also have an equal balance of males and females, further fostering an inclusive culture. Younger people are taking up branch leadership, and we have been fast-tracking career progress for this group. They have also been at the vanguard of our digital and sustainability initiatives. Such empowered staff will help us achieve our vision of being a customer-centric and digitally enabled bank by 2025 while accelerating our journey towards reaching two million customers during this time frame.

This will also help DFCC Bank cement its well-deserved reputation for having an inspiring working environment which fosters innovative and creative thinking and work practices. In fact, we have won titles such as becoming one of Sri Lanka's "Top 10 Women Friendly Workplaces" and being recognised as a "Company with Great Managers". The Bank also received an honourable mention at Sri Lanka's "Most Admired Companies" Awards in the year 2021.

SUSTAINABILITY TAKING CENTRE-STAGE

We approach sustainability in terms of a 10-year plan with clearly identified goals and areas of focus. The results of these initiatives will be evident by 2025. We also have an external Strategy Consultant to guide us in our efforts. Within the Bank itself, we have made considerable progress in reducing paper, plastics and electricity usage, in addition to installing rooftop solar projects at selected branches. These have helped reduce our carbon footprint on the environment, and related expenditure, to a great extent. We continue our efforts in embedding sustainability within the DNA of the Bank, extending it to all areas of our operations. Centring sustainability within our lending portfolio, we offer the "*Krushibala*" loan scheme at low interest rates for people involved in agriculture, more specifically, sustainable agriculture. Renewable energy is another key focus area in which we encourage customers to invest, offering preferential rates and other financial services and benefits. The "DFCC Sustainability Trust" will engage the branches and other interested stakeholders to contribute towards the sustainability effort of the country. In recognition of our efforts with regard to sustainability, we have been recognised with two awards at the Karlsruhe Awards for Sustainability, held in Germany.

FOCUSING ON RISK MANAGEMENT

The Integrated Risk Management Committee with the guidance of the Board, and the Operational Risk Management Committee, carry out their roles diligently under the three pillars of market risk, credit risk and operational risk, with clearly identified KPIs decentralised. Credit Hubs have been set up to underwrite and evaluate credit risk of facilities that are granted. Market risk is managed by fully automated systems. We have external agencies to validate operating models on the basis of the business users' requirements. Retail banking products, credit cards, loan originations and other functions are fully automated, including statistically developed credit scorecards. As a result, manual interventions will be minimal, making the area of risk management highly transparent. We believe that the quality of our portfolios will further improve as a result of all these initiatives that are firmly in place.

DFCC Bank has strict and deeply-entrenched policies against corruption and bribery. Staff members are required to sign a pledge to this effect, and there is also a transparent whistle-blowing policy, which gives employees an avenue to report misappropriation or wrongdoing of any kind to relevant senior authorities. The Bank is currently in the final stages of formulating and implementing a more rigorous transparency policy, which is essential for our onward march.

LOOKING FORWARD

The effects of the pandemic are likely to linger, though there could be an improvement in the business climate as more and more organisations adapt to the "new normal", and tourism rises out of its depressed situation. Exports are likely to continue their upward trend, while inward remittances could improve when more workers return to their jobs overseas. As the moratoriums granted to businesses come to an end, they will be required to start repaying their loans. As many businesses have not recovered completely, this could lead to a spike in non-performing loans, unless debts are restructured and flexible repayments allowed. This is sure to result in challenging times ahead. The decline in the country's foreign exchange reserves could have a major spill-over effect across all sectors of the economy, unless remedial measures are undertaken by the Government. Rising inflation is likely to remain an area of concern in the year ahead.

Despite such setbacks, we can look forward to the future with a degree of confidence, due to the rich heritage of trust, inherent strengths, as well as the prudent and proven management practices of DFCC Bank. Being a mid-sized bank with a strong technological focus confers a further advantage, as it enables us to be nimbler, and adapt quickly to changes in the environment, as well as the fast-changing competitive landscape.

MY SINCERE APPRECIATION

As I take on the stewardship of DFCC Bank, and the challenging task of guiding its fortunes through turbulent times ahead, I take confidence in the fact that I have the backing of some of the best minds in the industry. Let me take this opportunity to thank our Chairman, Mr J Durairatnam, and our Board of Directors, while looking forward to their guidance in taking the Bank forward. Mr L H A L Silva who stepped down from the position as CEO at the end of 2021, deserves a word of appreciation for navigating the Bank through a very challenging time period during his tenure at the helm of the Bank. I also wish to express my gratitude to the Governor and staff of the Central Bank of Sri Lanka, the Treasury and its officials for their support. A very big thank you to our staff for their efforts, perseverance and dedication during these difficult times. Finally, I would like to express my sincere appreciation to our customers for their unwavering loyalty, and our shareholders for their continued support. Together, we can make the coming year a resounding success in every way.

N H T I PERERA
CHIEF EXECUTIVE OFFICER
17 February 2022

BOARD OF DIRECTORS

J Durairatnam

Chairman
Independent Non-Executive Director
(Member of the Board since August 2018 and as Chairman from July 2019)

Skills and experience

Mr Durairatnam possesses extensive experience in banking having been with Commercial Bank of Ceylon PLC covering a period of 36 years. He served as a Director of Commercial Bank of Ceylon PLC from April 2012 to July 2014 and as the Managing Director/CEO from July 2014 until his retirement in July 2018. He has served in several other Senior Management positions at Commercial Bank of Ceylon PLC including as Chief Operating Officer, Deputy General Manager – International, Assistant General Manager – International and Head of Imports. He has held the position of Managing Director of Commercial Development Company PLC and has served as a Director on the Board of Lanka Financial Services Bureau Limited.

He holds a BSc from the University of Peradeniya and an Executive Diploma from the University of Colombo.

Other current appointments:

Listed companies: Director of Asian Hotels and Properties PLC.

Others: Director of Ceylinco Life Insurance Limited and Assetline Leasing Company Limited.

N H T I Perera

Director/Chief Executive Officer (CEO)
(Member of the Board since July 2019 and as CEO from January 2022)

Skills and experience

Mr Perera held the position of Deputy Chief Executive Officer from August 2017 to December 2021. He has held several senior positions in the banking sector and has over two decades of experience in the financial services and banking sector, both locally and internationally having been with the HSBC Group, both in Sri Lanka and overseas, the Commercial Bank of Qatar, Barclays Bank PLC, UAE and at Hatton National Bank. He has served as a Board member of HNB Assurance PLC, HNB General Insurance Limited and HNB Finance Limited.

He is a Member of The Institute of Chartered Accountants of Sri Lanka and a finalist of the Chartered Institute of Management Accountants (CIMA) – UK.

Other current appointments:

Listed companies: Director of Lanka Ventures PLC and LVL Energy Fund PLC.

Others: Chairman of Synapsys Limited, Acuity Partners Limited, and DFCC Consulting (Pvt) Limited and a Director of Lanka Clear (Pvt) Limited.

P M B Fernando

Senior Director
Independent Non-Executive Director
(Member of the Board since July 2013)

Skills and experience

Mr Fernando is a former Partner of KPMG Ford, Rhodes, Thornton & Co., and has extensive experience in financial services. He has functioned as the Group Finance Director of the Confifi Group and Finance Director for the Asia Region at Virtusa (Pvt) Limited. In 2005 he became the Managing Director of Capital Reach Group and was appointed as Director/Chief Executive Officer of Softlogic Finance PLC, following the consolidation of activities of Capital Reach Group under Softlogic Finance PLC.

He holds a BSc in Applied Science from the University of Sri Jayewardenepura and is a Fellow of The Institute of Chartered Accountants of Sri Lanka and a Fellow of the Chartered Institute of Management Accountants of UK.

Other current appointments:

Listed companies: Director of The Lanka Hospitals Corporation PLC and Laugfs Power PLC.

Others: Director of Laugfs Leisure Limited, Laugfs Eco Sri Limited, Reach Asia Leisure Limited, Evoke International Limited and Lanka Hospitals Diagnostics (Pvt) Limited.

BOARD OF DIRECTORS

Ms V J Senaratne

Independent Non-Executive Director
(Member of the Board since July 2015)

Skills and experience

Ms Senaratne has over 40 years of professional experience and is well versed in the fields of litigation, commercial law, conveyancing, and company secretarial practices. She held the position of Company Secretary at Sri Lanka Insurance Corporation PLC from May 2003 to 2009 and has served as a Legal Officer at the Central Bank of Sri Lanka.

She is an Attorney-at-Law and Notary Public, Commissioner of Oaths, and a Solicitor of England and Wales.

Other current appointments:

Listed companies: Alternate Director of Melstacorp PLC and Distilleries Company of Sri Lanka PLC and functions as the Chief Legal Officer and Company Secretary of Distilleries Company of Sri Lanka PLC.

Others: Director of Paradise Resort Pasikudah (Pvt) Limited and Amethyst Leisure Limited and the Company Secretary of Periceyl (Pvt) Limited.

Ms L K A H Fernando

Independent Non-Executive Director
(Member of the Board since November 2017)

Skills and experience

Ms Fernando started her career at Kreston MNS & Co, a correspondent firm of Grant Thornton International – Sri Lanka Division, a firm of Chartered Accountants and counts over 20 years of professional and commercial experience in the fields of auditing, finance, and management.

She is a Fellow of The Institute of Chartered Accountants of Sri Lanka and a Fellow of the Institute of Certified Management Accountants of Sri Lanka.

Other current appointments:

Listed companies: Chief Executive Officer/Executive Director of R I L Property PLC and a Director of United Motors Lanka PLC and Panasian Power PLC

Others: Director of UML Heavy Equipment Limited, Unimo Enterprises Limited, Finergreen Rajarata (Pvt) Limited, Padiyapelella Hydropower Limited, Powergen One (Pvt) Limited, and Rajarata Sustainable Development (Pvt) Limited.

N K G K Nemmawatta

Independent Non-Executive Director
(Member of the Board since December 2018)

Skills and experience

Mr Nemmawatta has held several executive positions in the public sector. He has served as Secretary, State Ministry of Defence, Director General – Department of Public Enterprise, Ministry of Finance, Additional Secretary to the Ministry of Higher Education and Highways and the Ministry of Environment. He has also served as Director of Sri Lanka Samurdhi Authority, Sri Lanka Customs and Department of Trade, Tariff and Investment Policy.

He holds a BCom (Sp.) from the University of Colombo, a Postgraduate Diploma in Devolution and Local Government Studies from the University of Colombo and an MSc in Management from the University of Sri Jayewardenepura. He is also a Licentiate of The Institute of Chartered Accountants of Sri Lanka.

Other current appointments: None.

BOARD OF DIRECTORS

Ms H M N S Gunawardana

Non-Executive Director
(Member of the Board since July 2020)

Skills and experience

Ms Gunawardana has over 35 years of diverse experience. She started her career at Julius & Creasy and proceeded to the Legal Division, Central Bank of Sri Lanka. She has held several senior public service positions including Legal Advisor – Department of Fiscal Policy and Economic Affairs, Senior Assistant Secretary (Legal) – Ministry of Finance, and Director General – Legal Affairs Department of the General Treasury. As Project Director, she led the Fiscal Reforms Project and the Fiscal Management Reform Programme of the ADB/Ministry of Finance, and the Legal and Judicial Reforms Project of the World Bank/Ministry of Justice. She has previously served as a Director of Renuka City Hotels PLC and Information & Technology Agency of Sri Lanka and as the Government Nominee Director of DFCC Bank PLC. She has had extensive foreign training including programmes at HIID/Harvard University (USA), Amsterdam Institute of Finance, LKY School of Public Policy (Singapore), Commonwealth Secretariat (London), and the World Bank (Washington D.C.).

She is an Attorney-at-Law and holds a Master's Degree in Commercial Law from the United Kingdom.

Other current appointments:

Listed companies: She is a Director of Haycarb PLC

Others: Joint Managing Partner of Capital City Law – Colombo, Group Legal Consultant – International Distilleries Lanka Limited and Consultant, CHEC Port City (Colombo) (Pvt) Limited. Also, a member of the Company Law Advisory Commission of Sri Lanka and a member of the Executive Committee of Sri Sathya Sai Karuna Nilayam Foundation.

H A J de S Wijeyeratne

Independent Non-Executive Director
(Member of the Board since July 2020)

Skills and experience

Mr Wijeyeratne counts over 29 years of experience in the fields of general management, financial management and auditing which has been acquired while being employed at Investcorp Bank, Bahrain, Grindlays Bahrain Bank, Ernst & Young, Bahrain and Ernst & Young, Sri Lanka. In addition, he has held the position of Chief Executive Officer of the Sri Lanka Institute of Nanotechnology (Pvt) Limited (SLINTEC) for over five years (2013 to 2019) and a consultant for ZONE 24x7 an IT company involved in data analytics and machine learning (2019 to 2020). He was an Independent Director of Union Assurance PLC and was also the Chairman of the Board Audit and Compliance Committee and retired after completing 9 years in September 2020. He is an Associate member of The Institute of Chartered Accountants of Sri Lanka and a Fellow member of the Chartered Institute of Management Accountants, UK.

Other current appointments:

Listed companies: Director of Trans Asia Hotels PLC and Chairman of the Audit Committee.

Others: Audit Committee Chairman of MAS Holdings and is also a member of the Gamini Corea Trust, a Trustee of the SLINTEC Endowment Trust Fund and remains the Founder/ Owner of Avastha Financial Advisory Services and the Co-Founder of Kalyana, a mental health advocacy group.

N Vasantha Kumar

Independent Non-Executive Director
(Member of the Board since September 2021)

Skills and experience

Mr Vasantha Kumar counts over 40 years of experience in banking having been with ANZ Grindlays Bank for over 22 years and thereafter at People's Bank for over 18 years. During his period of service at People's Bank, he has served as the Chief Executive Officer/General Manager of People's Bank for a period of 8 years.

He has previously served as a Director of People's Leasing & Finance PLC, People's Insurance PLC, People's Merchant Finance PLC, People's Travels Ltd., Lanka Financial Services Bureau Ltd., and the Credit Information Bureau of Sri Lanka. He was a past president of Sri Lanka FOREX Association and the Association of Primary Dealers. He was also a member of the governing board of the Institute of Bankers of Sri Lanka.

He holds a Master's in Business Administration from the University of Wales, UK.

Other current appointments:

Listed companies: Director of Ceylinco Insurance PLC and Senkadagala Finance PLC.

Others: Director of Asset Trust Management (Pvt) Limited and Safe Holdings (Pvt) Limited.

Ms A L Thambiayah

Independent Non-Executive Director
(Member of the Board since October 2021)

Skills and experience

Ms Thambiayah has worked as an Executive at Keells Hotel Management and John Keells Holdings – New Business Development and Group Initiatives for two and a half years. She commenced work at Hotel Renuka and Renuka City Hotel in 2008 and is currently the Jt. Managing Director of both Renuka Hotels PLC and Renuka City Hotels PLC.

She holds a Bachelor of Arts (Hons.) in Management Studies from the University of Nottingham, UK, and a Master of Science in International Business and Management from Manchester Business School, University of Manchester, UK.

Other current appointments:

Listed companies: Joint Managing Director of Renuka City Hotels PLC and Renuka Hotels PLC and a Director of Cargo Boat Development Company PLC.

Others: Director of Renuka Consultants and Services Limited, Renuka Properties Limited, Lancaster Holdings Limited, Amalgamated Theaters (Pvt) Limited and Portfolio Management Services (Pvt) Limited.

Ms A Withana

Secretary to the Board
(Since May 2011)

Skills and experience

Ms Withana joined the Bank in April 1990 and has functioned as the Chief Financial Officer, Head of Operations, Head of Credit Administration and Head of Accounting and Reporting. She is a former partner of a firm of Chartered Accountants and was a Director of DFCC Vardhana Bank PLC from August 2003 to July 2012.

She holds an MBA from the University of Colombo, a Fellow of The Institute of Chartered Accountants of Sri Lanka, and a Fellow of the Chartered Institute of Management Accountants of UK.

Other current appointments:

Listed companies: Also functions as the Company Secretary of DFCC Bank PLC.

Others: None.

CORPORATE MANAGEMENT

Thimal Perera
Chief Executive Officer

Anomie Withana
Executive Vice President
Company Secretary/Secretary to the Board

Aasiri Iddamalgoda
Senior Vice President
Retail Banking and SME

Achintha Hewanayake
Senior Vice President
Chief Operating Officer

Chinthika Amarasekara
Senior Vice President
Chief Financial Officer

Kapila Nanayakkara
Senior Vice President
Treasury, Resource Mobilisation and Capital Markets

Kushan Jayasuriya
Senior Vice President
Integrated Risk Management/Chief Risk Officer

Sohantha Wijesinghe
Senior Vice President
Corporate Banking

Sonali Jayasinghe
Senior Vice President
Human Resources

MANAGEMENT TEAM

Anton Arumugam
Vice President
Offshore Banking, Trade and Institutional Business Development

Chaminda Gunawardana
Vice President
Regional Manager

Chandrin Wimaladharma
Vice President
Rehabilitation and Recoveries

Chaya Gunarathne
Vice President
Compliance Officer

Denver Lewis
Vice President
Head of Card Centre

Duminda Silva
Vice President
Retail Asset and Liability Sales

Jayan Fernando
Vice President
Head of Internal Audit

Jayangani Perera
Vice President
Branch Credit Management

Mangala Senaratna
Vice President
Corporate Banking

Nilmini Gunaratne
Vice President
Marketing and Sustainability

Niroshini Wettasinha
Vice President
Head of Legal

Nishan Weerasooriya
Vice President
Head of Information Technology

MANAGEMENT TEAM

Palanadesan Rajanathan
Vice President
Corporate Banking

Pradeepa De Alwis
Vice President
Regional Manager

Prasanna Premaratne
Vice President
Trade Services and International Remittances

Sajith Silva
Vice President
Bancassurance

Shera Hassen
Vice President
Head of Pinnacle, Branch Banking Planning and Implementation

Wajira Punchihewa
Vice President
Regional Manager

MANAGEMENT TEAM

Amanthi Balasooriya Dahanayake
Vice President
Credit Risk Management

Candiah Jegarajah
Vice President
Regional Manager

Chandana Garusinghe
Vice President
Regional Manager

Channa Dayaratne
Vice President
Resource Mobilisation and Capital Markets

Dinesh Jebamani
Vice President
Digital Strategy

Dushan Weerakoon
Vice President
PFS Central Processing

Gaminda Fernando
Vice President
Services and Procurement

Gayan Jayatissa
Vice President
Information Systems Security

Iresha Kumbukage
Vice President
Credit Administration

Kelum Perera
Vice President
Regional Manager

Lakmal Rajasekara
Vice President
Branch Manager

Nalin Karunatileka
Vice President
Business Continuity Planning and Subsidiaries

MANAGEMENT TEAM

Neil De Rose
Vice President
Regional Manager

Nimali Ranaraja
Vice President
Corporate Banking

Pavithra Dias
Vice President
Branch Operations

Pradeep Ariyaratne
Vice President
Restructuring and Close Monitoring

Ravi Dassanayake
Vice President
Strategic Planning and Subsidiaries

Samathri Kariyawasam
Vice President
General Legal

Shan Heenkenda
Vice President
Employee Relations and Subsidiaries

Subhashi Cooray
Vice President
Core Banking Project

Terrence Etugala
Vice President
Regional Manager

Thejaka Perera
Vice President
Litigation and Legal Recoveries

Vidarsha Dharmasena
Vice President
Planning and Budgeting

BUSINESS MODEL

OUR VALUE CREATION MODEL

DFCC Bank creates value by means of a wide range of interactions, activities and relationships, within the market, regulatory, societal and natural/environmental contexts, in keeping with its Vision, Mission and Values. These include factors, both on-balance sheet, as well as off-balance sheet, which form of a range of Capitals that are continually transformed by the Bank's activities (Management Discussion and Analysis, pages 42 to 92). Such activities result in outputs (products and services), outcomes (value created by the Bank for itself and for its stakeholders), and impacts. They have a cascading effect across the short, medium, and long term, while providing feedback to grow the Bank's stock of capitals.

These are affected by trends in the operating environment (page 30), sound governance (page 123) and risk management (page 98) practices, stakeholder engagement and expectations (page 34), materiality (page 39), strategic objectives (page 32), and the ongoing monitoring and evaluation of performance across the Bank.

VISION, MISSION, VALUES

OPERATING ENVIRONMENT

STAKEHOLDERS AND MATERIALITY

STRATEGY

INPUTS

FINANCIAL CAPITAL

Strong book value of the Bank

Reflecting profitability and asset quality.

Pages 42 to 55

INSTITUTIONAL CAPITAL

Cutting-edge, knowledge-based tangibles and intangibles owned and controlled by the Bank.

Pages 56 to 60

INVESTOR CAPITAL

Loyal investor base nurtured and rewarded through sound governance and ethical business practices.

Page 61 to 65

CUSTOMER CAPITAL

Trust and loyalty earned by putting the customer at the heart of all we do.

Page 66 to 75

BUSINESS PARTNER CAPITAL

Strong relationships with multilateral and bilateral institutions, correspondent banks and suppliers, nurtured over the years.

Page 82 to 84

EMPLOYEE CAPITAL

A multidisciplinary team of professionals with a passion to serve.

Page 76 to 81

SOCIAL AND ENVIRONMENTAL CAPITAL

Positive contribution towards the community and environmental Inputs.

Page 85 to 92

ACTIVITIES

ENHANCING THE VALUE PROPOSITION OF DFCC BANK'S BUSINESS UNITS

Creating value through the Bank's business units (Consumer Banking, Corporate Banking, Treasury and Resource Mobilisation, Branch Banking, International Banking, Card Operations, and Bancassurance)

DEVELOPING PRODUCTS AND SERVICES

Develop products and services that serve changing customer needs

DIGITALISATION AND INNOVATION

Increase convenience to customers through digitalisation of systems and processes, delivery and communication channels, and product offering

Rollout of T24 Core Banking System

IMPROVING CUSTOMER CENTRICITY

Through training and development of staff, improving the level of customer service, and providing customised solutions to different customer segments

PROMOTING BRAND AWARENESS

Promoting brand awareness through special offers, events, and marketing campaigns and communicating through digital channels like the internet, email and social media platforms

SECURING AND MAINTAINING RELATIONSHIPS

Securing and maintaining strategic partnerships with local and international business partners

ENSURING SUSTAINABILITY

Carrying out programmes aimed at social development, environmental preservation, and community upliftment under the directives of the UN SDGs

OUR VALUE CREATION MODEL

STEWARDSHIP

MONITORING AND EVALUATION

OUTPUTS

- Growth in loans for 2021 – LKR 64 Bn
- Growth in deposits for 2021 – LKR 10 Bn
- Proposed scrip dividend of LKR 3.00 per share
- Reduction of unnecessary costs
- Responsive to the needs of customers across various segments through sophisticated Contact Centre and relevant products
- Improved brand recognition (employee and employer)
- Sales-driven, customer centric culture
- Enhanced profitability at customer level
- Acquisition and retention of premier customers
- Improved risk rating via early warning system
- Dedicated SME customer management
- Branch rationalisation and digitisation
- Voice of customer platforms
- Building a socially responsible brand
- Faster, efficient processes
- Shifting employees towards more rewarding, value-adding work and away from manual and iterative tasks
- Increased awareness and responsibility towards communities and the environment
- Improved employee well-being

OUTCOMES

VALUE DERIVED BY THE BANK

- Sustainable growth in the financial position
- Resilience to changes in the operating environment
- Cost savings
- Strong brand value
- Customer patronage
- A loyal and satisfied team

VALUE DELIVERED TO STAKEHOLDERS

- 66 years of heritage and experience to deliver customers the most customer centric, digital-first approach of any commercial bank in Sri Lanka
- Improved systems and processes for better service
- Innovative banking services and products for customers
- On-time payments for goods and services provided by suppliers
- Remuneration, training and development, and welfare for employees
- Financial inclusion
- Uplifting of communities through CSR initiatives
- Financed projects adhering to stipulated environmental standards

IMPACT

Steer the Bank towards becoming the leading financial solutions provider by sustainably developing individuals and businesses

OPERATING ENVIRONMENT

GLOBAL ECONOMY

The impact of the COVID-19 pandemic is expected to continue into the coming year and beyond despite the rapid vaccination drive and booster shots administered, especially across developed countries. The outbreak of the Delta variant effectively ended these countries' goals of achieving herd immunity. Their present aim is to bring the pandemic down to the level of an "endemic", which would facilitate a semblance of normalcy in resuming large-scale economic activities. Developing countries continue to face the brunt of the pandemic due to insufficient access to vaccines, which will hinder global economic output. Further mutations of the virus make future economic scenarios hard to predict.

While the pandemic continues to cast its shadow across the world, in terms of lives lost and financial setbacks, the global economy has displayed remarkable resilience. The International Monetary Fund (IMF) expects the global economy to grow by 5.9% in 2021, slowing down to 4.9% in 2022, and levelling out at about 3.3% in the medium term. The upward trajectory of growth across Europe, China, and India is anticipated to stay the course throughout 2021, taking a slight dip in 2022. The IMF further states that Emerging Markets and Developing Economies (EMDEs) could experience growth of 6.4% in 2021, which may slow down to around 5.1% in 2022.

Meanwhile, in the USA, the S&P 500 index has more than doubled since the pandemic-induced decline which began in March 2020. Investments in equity funds have risen to about USD 900 Bn in 2021, exceeding the combined total from the past 19 years. However, with the emergence of new strains of the virus, with potentially more transmissible and virulent mutations, the projected outlook for US economic growth has been cut to around 3.8% in 2022 by certain leading US banks.

5G networks are being rolled-out throughout developed countries, which will substantially improve the implementation of emerging technologies such as Artificial Intelligence, Machine Learning and the Internet of Things. In addition, the growth of quantum computing, availability of supercomputing on the cloud, developments in electric and autonomous vehicles, investments in renewable fuels and various other technological advances could have far-reaching, exponential consequences on the world economy, as well as the environment.

Though the overall outlook seems positive worldwide, several sectors continue to languish, most notably tourism. The anticipated "revenge travel" phenomenon may not reach its full potential due to concerns about COVID-19 transmission, especially to EMDE destinations, where vaccination levels and access to medical care are relatively low. This will have a strong, negative impact on employment generation and foreign exchange inflows in these regions. Inflation is also expected to decrease to pre-pandemic levels in developed countries, while it could continue in EMDE economies during 2022. Supply chain issues and increases in fossil fuel prices could spell trouble in the year ahead.

On the political front, the continuing standoff between the US/EU and China/Russia could have severe repercussions on the global economy.

SRI LANKAN ECONOMY

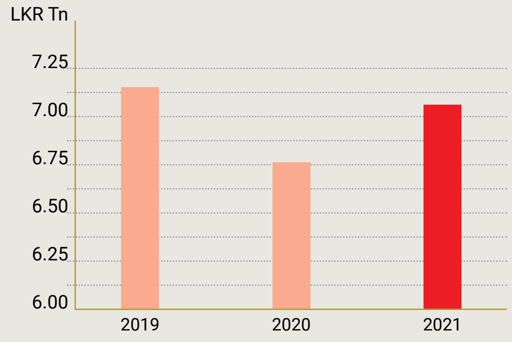
Recovery of the Sri Lankan economy continues to display a classic "K-shaped" pattern, though two years have passed since the start of the global health crisis. Merchandise exports have bounced back to nearly pre-pandemic levels with projected earnings of more than USD 12 Bn, and a few sectors such as the financial sector and telecom have fared considerably well. In contrast, tourism which generates direct and indirect employment to many continues to be in the doldrums, with limited potential for recovery in the near future. The drop in tourism-related revenue, as well as a nearly 50% decline in foreign remittances in 3Q 2021, has triggered off a crisis situation, spilling over to many sectors of the economy. Import restrictions have further reduced tax revenue, as nearly a half of the Government's tax coffers is derived from import-related taxes. It should be noted that inward remittances is the country's largest foreign exchange earner, while tourism stands as the third largest.

The budget deficit for 2022 is expected to be 8.8%, which is to be funded through local sources. According to the CBSL, Headline inflation, as measured by the year-on-year (YoY) change in the National Consumer Price Index (NCPI, 2013=100), increased to 11.1 % in November 2021, while core inflation (YoY), which reflects the underlying inflation in the economy, increased to 8.8%.

Sri Lanka's outstanding foreign debt has reached a critical position, with total outstanding at USD 35.1 Bn as at April 2021, while the country will be required to repay at more than USD 4.0 Bn per annum in foreign loans, up to 2025 and beyond. The debt-to-GDP ratio could reach 110% by end-2021. As a consequence, Sri Lanka's sovereign rating has been downgraded by Fitch Ratings, S&P, as well as Moody's to "Substantial Credit Risk". While making international borrowings more expensive, this can also dampen foreign investor confidence. A weak balance of payment situation marked by low foreign exchange reserves, and high inflation remain as causes for concern.

On a positive note, the country's economy has grown by 4.4% in the first nine months of this year, in spite of a contraction of 1.5% in 3Q, according to the Department of Census and Statistics. Manufacturing and service sectors expanded in November 2021, recording an index value of 61.9 on the Central Bank's Manufacturing Purchasing Managers' Index (PMI) Survey.

REAL GROSS DOMESTIC PRODUCT OF FIRST NINE MONTHS



Source: Department of Census and Statistics (2021)

BANKING SECTOR

The banking sector has displayed a remarkable ability to flourish even during turbulent times, registering credible growth despite a daunting regulatory environment, foreign currency restrictions and depressed economic situation. Total assets have also grown by 17.6%* during the year under review.

As the Government introduced a low interest regime to spur economic growth, deposits were expected to decline in the banking system. However, due to spending restrictions caused by the lockdowns, as well as the unfavourable investment climate, individuals and businesses which had surplus liquid assets ploughed them back into deposits. Overall, deposits grew 18.2%* YoY 2021 across the sector, boosting up liquidity levels and providing the resources needed to support credit growth.

The growth in loans and advances coupled with surplus liquidity in the market contributed to total banking sector net interest income growth. Net interest margin (NIM) also registered an increased from 3.1% to 3.4% in the period under review compare to the corresponding period in 2020. Restrictions on the import of motor vehicles will continue to have an adverse effect on the leasing business, which contributes substantially to the Bank's revenue.

On the positive side, the pandemic has catapulted digital adoption among customers by several years. Banks, as well as customers, embraced new technologies with equal enthusiasm, helping manage cost-to-income ratios, and improving efficiencies. This period also led to significant positive developments such as the reduced need for brick-and-mortar operations during lockdowns, conscious cost-cutting and deferment of investments in physical branches, in addition to more customer on-boarding and interactions through digital platforms. Growth of the sector was further enabled by capital augmentation (organic and inorganic) by banks, as well as the availability of low-cost debt in Sri Lankan Rupees and foreign currency. Overall relaxation in monetary policy, reduction of the Statutory Reserve Ratio (SRR) and policy rates by the CBSL were effective in lowering borrowing costs and increasing liquidity in the money market, which further aided the performance of the banking sector.

*All figures are calculated and compared up to the first nine months

OUTLOOK

Among the adverse consequences caused by the pandemic, are shortfalls in foreign currency earnings and reserves, which have placed a severe strain on the Sri Lankan economy. A number of initiatives undertaken by the Government to address dwindling foreign exchange reserves may bear fruit in the short term, though more ambitious programmes will be required to ensure long-term stability. Anticipated Foreign Direct Investments (FDIs) into construction, infrastructure, machinery, and new ventures will also need to materialise. Such FDIs will generate employment, and help build foreign exchange in the long term.

The banking sector which was in a position to expand its lending portfolio to hitherto unreached levels due to the availability of surplus liquidity, may find a tougher operating environment with dwindling liquidity and foreign currency shortages impacting the scale of their operations. The Government could support overcoming this situation by ensuring sufficient market liquidity and facilitating inflow of foreign currency into the country. This could play a key role in stimulating economic growth. However, net credit to the Government, which stands at LKR 5.8 Tn as at September 2021, up 27.3% YTD needs to be factored in, when evaluating future growth prospects. Further, factors which could impact Sri Lanka's banking sector include: the maximum interest rate on housing loans at 7% for salaried individuals, 20% minimum lending growth target for the Micro, Small and Medium Enterprise (MSME) sector, and the domestic industrial and business policy orientation of the Government.

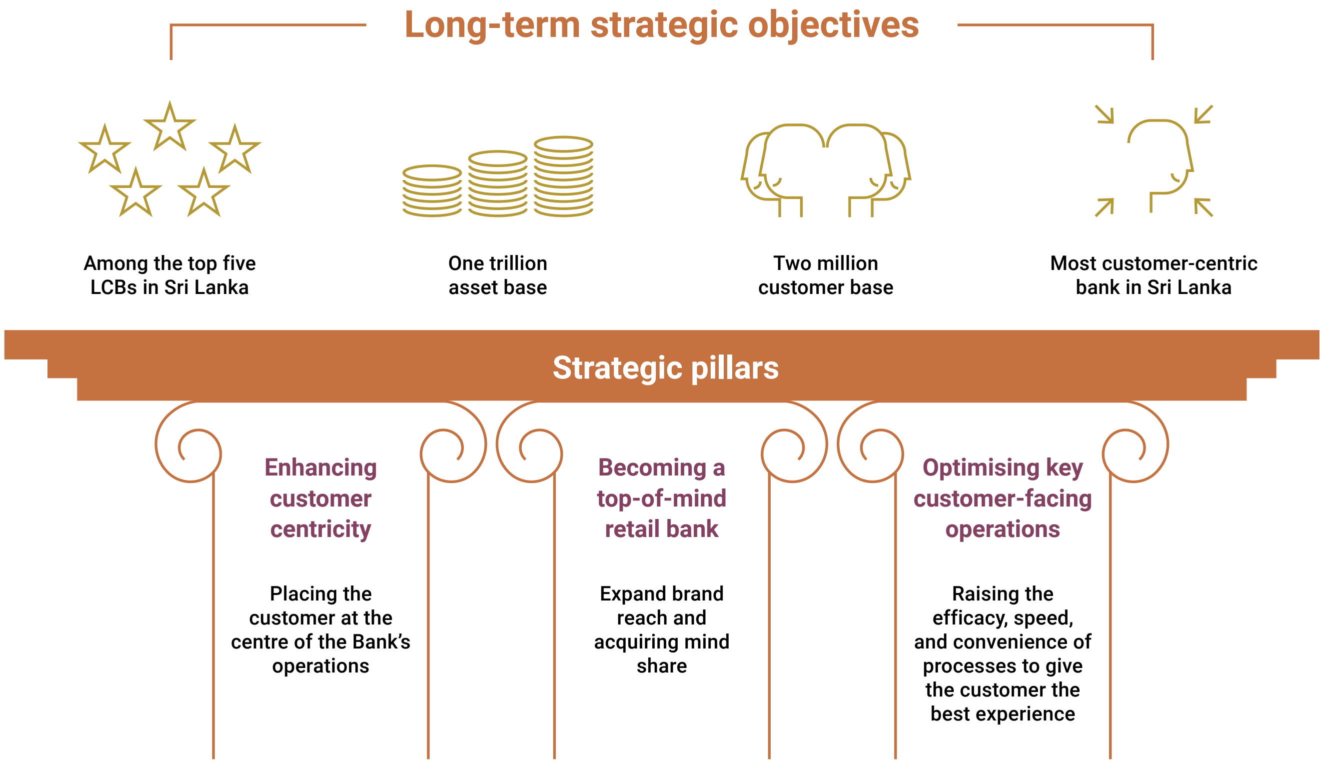
Prospects for 2022 can be viewed with cautious optimism, as improvements in tourism-related revenues and resurgence in inbound remittances could have a positive impact on the economy. The rapid vaccination drive is also expected to have a long-term progressive effect on economic growth in the year ahead. Sri Lanka could look forward to a relatively stable year ahead, if adequate funding can be secured on time to meet foreign debt obligations. This can have a positive, cascading effect on the entire economy.

STRATEGIC DIRECTION AND OUTLOOK

The banking sector is faced with a constantly changing external environment and customer preferences, innovations in banking products and FinTech, as well as a rapidly evolving technological landscape. Such circumstances call for a comprehensive strategic plan, in addition to significant investments in technology, which can help face the challenges of the short, medium and long term. DFCC Bank has responded to such daunting circumstances by adapting its business model, including investments in an ultra-modern technological infrastructure, to respond to the changing environment. This has been carried out with due consideration to stakeholder relationships, material issues, as well as the vision, mission, and values of the Bank.

Vision 2025, which was unveiled in 2019, outlines the strategic objectives and the goals to be achieved by 2025, which are: to be among the top five LCBs in Sri Lanka, achieve a LKR 1 Tn asset base, grow the customer base to two million, and become the most customer-centric bank in Sri Lanka by being data driven and digitally enabled. In addition, Vision 2025 is built upon three strategic pillars: enhancing customer-centricity, becoming a top-of-mind retail bank, and optimising key customer-facing operations.

VISION 2025



The Bank's investment in a state-of-the-art core banking system holds the key to the future, which will also facilitate sustained investment in people, processes, and the tools to implement the strategy, and monitor progress. DFCC Bank's ambitious digital-first approach received a significant boost, when pandemic-induced travel restrictions accelerated the shift to digital platforms. Customers too were quick to embrace the new technologies, while being on-boarded through digital verification via DFCC Video Chatz. The adoption of Google Workspace played a crucial role in the staff's shift to working from home, while streamlining operations and ensuring data security. This also set the foundation for the envisaged roll-out of innovative products in the year ahead.

STRATEGIC OUTLOOK

Though Vision 2025 strategy was formulated in 2019, it was crafted with built-in features to facilitate agility and flexibility, in order to accommodate advances in banking products, technology and customer preferences. This strategic vision was put to the test during the pandemic and resultant changes in the working environment. Coupled with the core banking system, this far-sighted strategy enabled the Bank to accelerate the implementation of a number of processes to accommodate the new restrictions and requirements of that period. This also assisted in the re-engineering of working processes to adhere to the new guidelines, controls and directions issued by regulators.

A "Digital-first approach", which was widely assumed to become the norm in banking by 2025, received a tremendous boost during the pandemic, based on sheer necessity. This led to the widespread adoption of this approach, five years ahead of schedule. As DFCC Bank had already mapped out strategies and processes to face this eventuality, the almost overnight shift to working from home was accomplished with considerable ease. Due to the changed operating environment, as well as imperatives of the economic situation, the Bank was able to re-evaluate and prioritise sectors which required special attention. Critical sectors such as agriculture, pharmaceuticals, ICT, education, services, construction, infrastructure and exports, in addition to other essential sectors were given greater attention.

STRATEGIC DIRECTION AND OUTLOOK

The “War Room” initiative, which was set up at the onset of the pandemic in 2020, was carried over into the current year. The War Rooms on Deposit Mobilisation and Moratorium Management concluded in 2020 on the realisation of intended outcomes. War Rooms on Alternate Channels and Cost Optimisation continued in 2021.

ALTERNATE CHANNELS

Alternate channels became the default mode of delivery, due to the disruptions caused by the pandemic. Such channels embraced by the Bank during the pandemic include cards, as well as the Contact Centre. The Contact Centre played a crucial role in serving customers remotely, especially during the digital on-boarding of new customers. Existing customer-facing processes continued seamlessly, in addition to proactively reaching out to customers to create new business opportunities for the Bank.

COST OPTIMISATION

Cost-saving activities were brought to the fore across the Bank, focusing on improving the Bank’s cost-to-income ratio. Productivity gains, process improvements and avoidance of potential waste were pursued wherever possible. An example is the Bank’s commitment to reduce paper usage significantly by 2024.

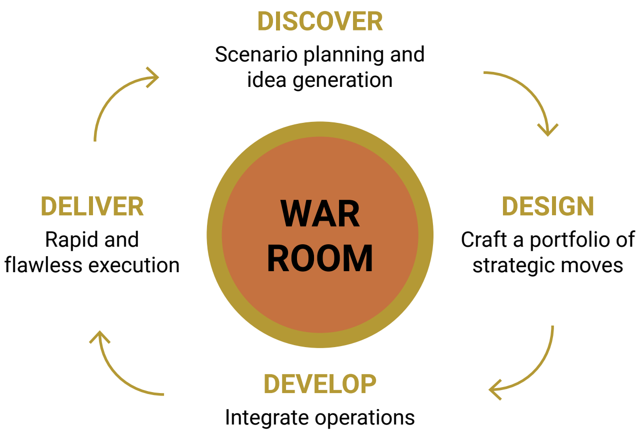
The climate of uncertainty of the previous two years is likely to persist well into the next year and beyond, due to the unpredictable nature of the COVID-19 virus and its mutations. The Bank will sustain its focus across all sectors, especially on SMEs which have been earmarked for enhanced development, in keeping with the Government’s goals, and supported by the DFC credit line from the US. Exports and services, whose development will be critical for post-pandemic recovery, will be targeted with special programmes.

DFCC Bank is also open to the concept of “reimagined” working styles, as virtual work platforms and tools gain traction in developed countries as an alternative to traditional office-based work. The success of digital-based banking during the pandemic opens up possibilities for working from home or similar, flexible working options.

The Bank will strive to improve its stable and low cost deposit base through a retail focused strategy while leveraging on alternate channels like digital and cards to grow fee incomes. Managing NPLs and improving cost effectiveness of internal processes will be a priority to ensure asset quality and operating margins. DFCC “Pinnacle” proposition, aimed at high-net-worth customers, continues its successful role in elevating the Bank’s image as a top-notch purveyor of bespoke services to discerning clientele, with a sophisticated outlook and understanding of the latest financial products in the market. The DFCC Pinnacle proposition will be expanded to other parts of the country in the year ahead.

The Bank’s commitment to sustainability will form a significant basis for all aspects of operations, as it works towards strengthening its image as the preferred banking partner for “Green Financing” by 2030.

As Vision 2025 has already been tested and proven as a future-driven and resilient strategy, the coming year will pave the way for DFCC Bank to consolidate its position as a data-driven, digital-first bank with a customer-centric approach.



STAKEHOLDERS

As a part of a socio-economic ecosystem, DFCC Bank is dependent on building and maintaining robust relationships with its stakeholders across all its operations. The Bank proactively identifies the needs and expectations of stakeholders to determine how to best integrate their concerns into the decision-making process.

SHAREHOLDERS AND INVESTORS

The Bank's investors ensure continued growth by providing equity and debt capital. The Bank has a responsibility to its investors to provide optimal and sustainable returns on their investments.

The Bank's Corporate Communications Policy and Investor Forums help investors to understand the Bank's future strategies and sustainable development goals to make informed decisions about investments in the Bank. The Bank publicly publishes information about its financial performance and progress through the Colombo Stock Exchange (CSE) and the Annual Report, media releases, and the corporate website. Every effort is made to convey context and insight on the Bank's value creation process.

CUSTOMERS

Customers are the source of the Bank's earnings. It is critical to understand their evolving needs and requirements to provide them with a portfolio of relevant products and services, thus maintaining a profitable and sustainable business. DFCC Bank is committed to delivering a great customer experience through innovative products and responsive service in line with its customer-centric strategy.

EMPLOYEES

The Bank's employees are the backbone of the Organisation, embodying its core values to achieve its strategic objectives. The Bank empowers them with continuous training, fostering innovation and creativity within the workplace and spurring collaboration. Employees can access the Bank's Internal Code of Conduct through the internal web portal. The Code of Conduct expresses the Bank's ethics in relation to the avoidance of conflict of interest, insider dealings, unfair business practices, and the confidentiality of sensitive information. The Bank's Whistle-blowing Policy encourages employees to report any observations of illegal or unethical practices. A Board-approved Grievance Handling Policy ensures that employees are provided with a fair and equitable work environment.

BUSINESS PARTNERS

The Bank's business partners include institutions that provide lines of credit (to manage or to on-lend) and vendors providing goods and services necessary for the Bank's business operations. The Bank maintains strong relationships with all its business partners, who are an important constituent of the Bank's value chain and play a critical role in helping it to create sustainable value. For the Bank's suppliers, a Procurement Policy has been established. Communications with suppliers are primarily based on securing competitive pricing for goods of a certain quality and reliability, while building mutually beneficial, long-term relationships.

REGULATORS

Regulators protect and enhance the country's financial system through the implementation and enforcement of rules and regulations, thus enabling a stable business environment to enhance customer confidence and mitigate reputation risks. The Bank adopts sustainable banking practices in compliance with the SLBA sustainable banking principles and complies with all applicable legal and regulatory requirements including the CBSL's roadmap for sustainable finance in Sri Lanka (2019) and conducts its business in an ethical, transparent, and responsible manner.

Communications with regulators often cover compliance with regulations, business operations, financial information pertaining to the Bank, voluntary guidelines and best practices, new legal and regulatory developments, financial inclusion, and matters affecting the financial sector. The Bank also engages with regulators through industry bodies via the timely submission of prescribed reports and returns, participation in meetings, forums, task forces, conferences, media releases, and the corporate website.

STAKEHOLDERS

COMMUNITIES

Communities are people, groups, organisations, or businesses that have an interest or concern in the community. The Bank and its other stakeholders can affect or be affected by the community's actions, objectives, and policies. Some examples of key community stakeholders are residents, community groups, developers, Government workers (and the agencies they represent), business owners, neighbourhood leaders, commission members, and other groups from which the community draws its resources.

DFCC Bank supports its local communities through its sustainability efforts and CSR activities linked to its sustainability goals, and the thematic areas it focuses on for optimising impact.

ADVOCACY GROUPS

Advocacy groups such as the media and international Non-Governmental Organisations (NGOs), use various forms of advocacy to influence public opinion and ultimately policy, and thus play an important role in the development of political and social systems. Motives for action may be based on political, religious, moral, or commercial positions. Groups use varied methods to try to achieve their aims, including lobbying, media campaigns, publicity stunts, polls, research, and policy briefings. Some groups are supported or backed by powerful business or political interests and exert considerable influence on the political process, while others have few or no such resources.

Therefore, it is important for the Bank to understand their perceptions and expectations, so that the Bank may accordingly mould its operations and CSR initiatives to foster mutually beneficial partnerships.

INDUSTRY ASSOCIATIONS

Industry associations are stakeholders that represent multiple members. They may be organised for specific sectors or private sector apex bodies such as business chambers and can also have a regional or international dimension. These associations are usually set up to represent interest of their members at national policy level and to provide/obtain information to and from their members. Industry associations play an important role in consultation processes, as it is very difficult for individual entities to follow and participate in all such matters due to lack of time, resources, and information. DFCC Bank therefore interacts closely with industry associations for mutual benefit.

STAKEHOLDER ENGAGEMENT

DFCC Bank, as a responsible corporate entity, considers its engagement with its various stakeholders to be vital to creating a sustainable business. The Bank continuously seeks to better understand its stakeholders and their expectations and maintains an open dialogue with them, using their feedback to constantly improve its operations. The following table details the methodology the Bank uses in its stakeholder engagement and the frequency of communication and key topics raised:

Type of stakeholder	Mode of engagement	Frequency	Key topics discussed
SHAREHOLDERS AND INVESTORS	Annual General Meeting	Annually	• Board governance • Sustainable performance of the Bank • Plans to optimise returns to shareholders • Local and international expansion plans
	Corporate website	Continuous	
	Annual reports	Annually	
	Colombo Stock Exchange announcements	Quarterly/As and when required	
	Press conferences and media releases	As and when required	
	Investor forums and road shows	As and when required	
	Investor relations hotline	Continuous	
	Meetings and teleconferences	As and when required	

STAKEHOLDERS

Type of stakeholder	Mode of engagement	Frequency	Key topics discussed
CUSTOMERS	Corporate website	Continuous	• Products, services, corporate news
	Social media	Continuous	• How to improve service standards
	Customer satisfaction surveys	Periodically	• Customer relationship management
	Branches	Continuous	• Corporate activity
	Relationship managers	Continuous	• Awareness of products, services, and promotions
	Media releases	As and when required	• Customer service
	Advertising and promotional campaigns	As and when required	• Topics to enhance business output
	New product launches	As and when required	• Initiatives towards digitisation
	Contact Centre	Continuous	• Local and global economy news
	Customer training workshops	Periodically	
	DFCC Financial Pulse Newsletter	Quarterly	
EMPLOYEES	Employee surveys	Periodically	• Employee feedback
	Human resources intranet portal	Continuous	• Information on products, services, policies, and guidelines
	Employee suggestion box	Continuous	• Feedback, new ideas, suggestions
	Performance review systems	Biannually	• Progress on scorecard
	Staff meetings	Continuous	• Progress and updates on action
	Employee training workshops and seminars	Continuous	• Training and development
	Email bulletins	Continuous	• Events, news, updates
	Special employee events	Periodically	• Employee fellowship
	Employee newsletter	Weekly	

STAKEHOLDERS

Type of stakeholder	Mode of engagement	Frequency	Key topics discussed
BUSINESS PARTNERS	Meetings, surveys	As and when required	• Health of the Bank and latest developments • Engagement activities with suppliers • Responsible procurement
	Corporate website	Continuous	
	Teleconferences	As and when required	
	Annual reports	Annually	
	Supplier Management Policy	Continuous	
	Meetings	As and when required	
REGULATORS	Prudential reports	Monthly	• Compliance with best practices • Compliance with Government regulations • Developments in the financial sector • Access to finance • Business and financial information • Corporate developments
	Meetings	As and when required	
	Forums and conferences	As and when required	
	Participation in task forces	As and when required	
	Corporate website	Continuous	
	Media releases	As and when required	
COMMUNITIES	Corporate social responsibility initiatives	Continuous	• CSR initiatives • Investing in the community through sponsorships, scholarships, etc. • Responsible lending • CSR project awareness • Communication to general public • Entrepreneur and SME development • Workshops, seminars, etc.
	Corporate website	Continuous	
	Sponsorships	Continuous	
	Branch network	Continuous	
	Public and DFCC events	Periodically	
	Contact Centre	Continuous	
	Media releases	As and when required	
	Press conferences	As and when required	
	Social media	Continuous	

STAKEHOLDERS

Type of stakeholder	Mode of engagement	Frequency	Key topics discussed
ADVOCACY GROUPS	Discussions with editors and journalists, researchers, and other professionals	As and when required	• Fellowship with media • Corporate activity • Sustainable Policy and Strategy of the Bank • Sustainable performance and initiatives of the Bank • Initiatives towards digitisation • Local and international expansion plans
	Annual media get-together	Annually	
	Press conferences	As and when required	
	Meetings	As and when required	
	Corporate website	Continuous	
	Contact Centre	Continuous	
	Media releases	As and when required	
	Annual reports	Annually	
INDUSTRY ASSOCIATIONS	Meetings	As and when required	• Products, services, corporate news • Corporate activity • Awareness of products, services, and promotions • Initiatives towards digitisation • Local and international expansion plans
	Forums and conferences	As and when required	
	Participation in taskforces	As and when required	
	Corporate website	Continuous	
	Sponsorships	Continuous	
	Contact Centre	Continuous	
	Press conferences	As and when required	
	Teleconferences	As and when required	
	Annual reports	Annually	
	Social media	Continuous	
	Awards programmes	Periodically	

MATERIALITY

As part of DFCC Bank's development of its new Sustainability Strategy and Plan 2020-2030, the Bank reached out to its stakeholders to better understand their concerns and the relevance of their priorities against economic, environmental, governance, and social issues.

Inclusivity is vital to the Bank in its sustainability journey. The Bank believes in its stakeholders' right to be heard and accounting for the impact it has on them and vice versa. Materiality is knowing what concerns are important to the Bank and its stakeholders.

Materiality =	Relevance +	Magnitude of + Impact	Probability of Occurrence

Stakeholder engagement is a part of good sustainability practices designed to contribute towards identifying and addressing:

1. Significant impacts related to business operations and strategy;
2. Stakeholders significantly impacted; and
3. Stakeholders with significant potential to influence the Bank.

The Bank has eight stakeholder groups, including Investors/Shareholders, Customers, Employees, Business Partners, Regulators, Communities, Advocacy Groups (Media and I/NGOs), and Industry Associations.

The Bank's external environment includes economic, environment, governance, and social-related trends. The Bank's Sustainability Strategy and Plan needs to account for relevant trends, i.e. those that are material.

Through materiality analysis, the Bank determines aspects that are of importance to its stakeholders and to the Bank with respect to its economic, social, and environmental agenda for sustainable value creation. The following trends have been identified:

1. Increased demand for Green Financing (environmentally friendly projects and investments) with sector specific expertise, e.g. renewable energy
2. Health and wellness-enhanced productivity
3. Empowered staff, including special focus on female staff
4. Collaboration and teamwork
5. Enhanced productivity, process efficiencies with investment in staff knowledge and skills (training and knowledge development)
6. Increased resource efficiency, e.g. decreasing energy and paper usage, minimising wastage, etc.
7. Healthy and attractive workplace culture that attracts and retains diverse and excellently performing staff
8. Clarity on career progression
9. Customer centric services and engagement
10. Increasingly differentiated and evolving customer needs on financial services, including wealth management advisory services
11. New technologies for customer investment and use, e.g. smart/precision agriculture, pollution control, energy efficient technologies, etc.
12. Increased demand for convenient, remote, streamlined, and flexible services
13. Increasing demand for new and innovative services
14. Trend towards purposeful and responsible business, i.e. businesses committed to making a positive impact on society/solving challenges that affect society while also making profits
15. Need to improve financial literacy
16. Specialised MSME services, including non-financial services
17. Partnerships and collaborations with professional apex bodies
18. Increasing entrepreneurs and MSMEs involvement in creating positive social and environmental impacts
19. Increased use and influence of social media
20. Increased investment in sustainability initiatives, including using less resources, address environmental and social impacts, CSR, disaster relief, etc.
21. Economic performance
22. Increased demand for transparent reporting on non-financial information including environmental and social issues
23. Compliance with the Sri Lanka Banks' Association's (SLBA) Sustainable Banking Initiative (SBI) principles
24. Need to contribute towards UN Sustainable Development Goals (SDGs)
25. Negative outlook for the banking sector
26. Increasingly competitive business environment
27. Building resilient business strategies including sustainability
28. Sustainable sourcing and supply chains
29. Decent work or fair waged jobs
30. Entrepreneurial skills training for the self-employed
31. Education and skills building opportunities
32. Increased frequency and scale of natural disasters and poor preparedness
33. Environmental and social impacts from economic activities
34. Increasing importance of organisational reputation

MATERIALITY

35. Declining trends in exports
36. Need to improve business resilience
37. Use of new technologies, e.g. digitisation, Artificial Intelligence, robotic process automation, etc.
38. Growth of MSMEs

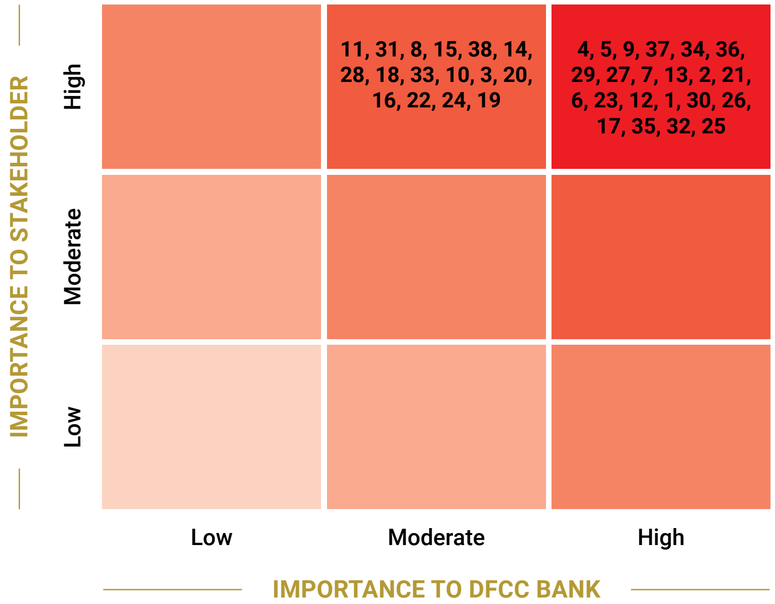
These trends have been mapped on the GRI Standards two-dimensional matrix:

As per the Materiality Matrix, the Bank will take note of stakeholder priorities in designing its Sustainability Strategy and Plan with the priority areas for the Bank to pursue.

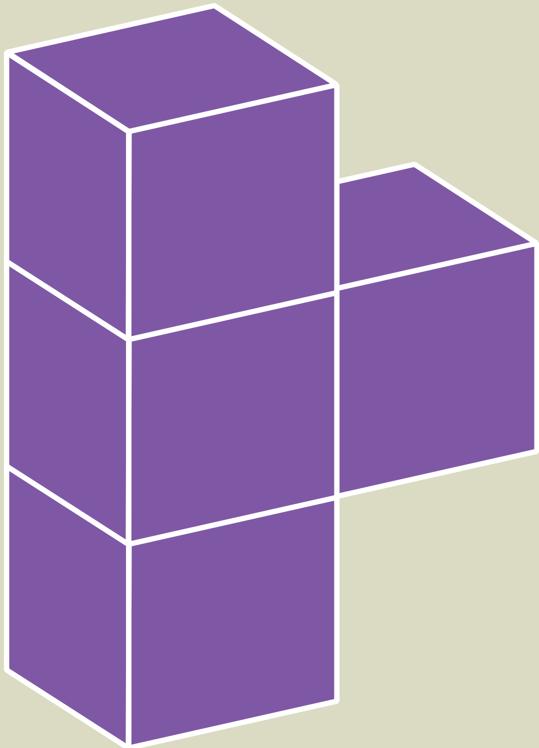
MANAGEMENT APPROACH

By engaging effectively with stakeholders, the Bank can map a portfolio of activities. The careful execution of these activities can lead the Bank to generate and deliver value to its stakeholders and derive value accordingly. This process helps to achieve the strategic goal of ensuring the credibility of the Bank's sustainability plans and its operations, while also helping to establish strong relationships with customers, empower employees with mutually rewarding careers, generate steady returns for investors, establish mutually beneficial and profitable partnerships with partners, and act responsibly towards society and the environment.

The Management Discussion and Analysis section in this Annual Report discusses the initiatives that the Bank has undertaken during the period under review in further detail.



MANAGEMENT DISCUSSION AND ANALYSIS



FINANCIAL CAPITAL

FINANCIAL PERFORMANCE

OVERVIEW

DFCC Bank continued its commitment to serving its customers across the country, delivering high-quality uninterrupted banking services, despite unprecedented challenges faced due to the pandemic resulting in volatility and economic slowdown. This hard work is attested by the global recognition that DFCC Bank received from Global Brands UK, being recognised as both the “Most Trusted Retail Banking Brand” and the “Best Customer Service Banking Brand” in Sri Lanka for 2021, in the “Banking and Finance” category.

With the objective of becoming one of Sri Lanka’s most customer- centric digitally enabled banks by 2025, and in line with the Bank’s corporate strategy, the T24 Temenos new Core Banking System was implemented on 21 October 2021, along with a functionally rich online banking platform. The transition to the new core banking system will offer customers a digitally enabled, best in class banking service that is flexible and agile.

The Bank was able to achieve expected growth as a result of executing a focused strategy, driven by its purpose. The core objective being to help people and businesses prosper by embracing change through technological transformation, in order to continue to seize new opportunities resulting from the challenges of the pandemic.

The Bank implemented several concessionary schemes to support customers affected by the pandemic, helping them to emerge stronger, through numerous moratoriums, relief measures and advisory support and services, in accordance with the directives issued by the Central Bank of Sri Lanka.

As a result of this focused approach and agile maneuvering, DFCC Bank was able to successfully conclude the year ended 31 December 2021, having delivered robust performance and growth, amidst a challenging economic environment. The Bank’s total assets increased by LKR 20,428 Mn and recorded a growth of 4% from December 2020. This constitutes a loan portfolio growth of LKR 63,991 Mn to LKR 365,901 Mn compared to LKR 301,909 Mn as at 31 December 2020, recording an increase of 21%. The Bank’s deposit base as at 31 December 2021 increased to LKR 319,861 Mn from LKR 310,027 Mn as at 31 December 2020, a growth of 3%. The Bank’s CASA ratio which represents the proportion of low-cost deposits increased to 31.25% by 31 December 2021 compared to 23.8% in December 2020. Profit after tax of the Bank grew by 35% to LKR 3,222 Mn, recording a growth in Earnings Per Share (EPS) by 29% during the year 2021.

INCOME STATEMENT ANALYSIS

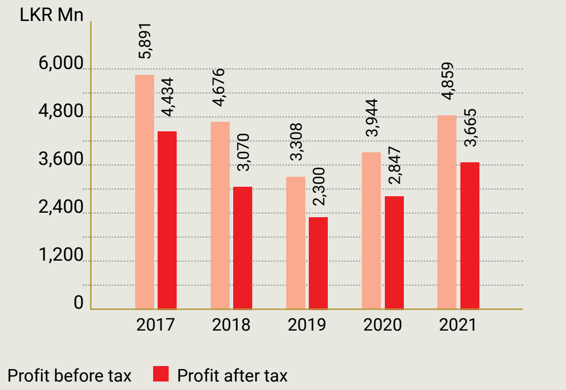
PROFITABILITY

DFCC Bank PLC, the largest entity within the Group, reported a Profit Before Tax (PBT) of LKR 4,326 Mn and a Profit After Tax (PAT) of LKR 3,222 Mn for the year ended 31 December 2021. This compares with a PBT of LKR 3,398 Mn and a PAT of LKR 2,388 Mn in the previous year.

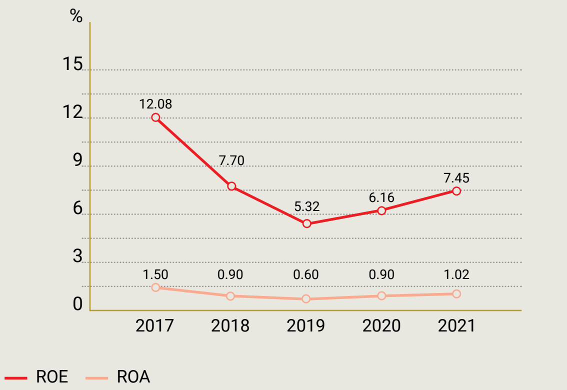
The Group recorded a PBT of LKR 4,859 Mn and PAT of LKR 3,665 Mn for the year ended 31 December 2021 as compared to LKR 3,944 Mn and LKR 2,847 Mn respectively in 2020. All the member entities of the Group made positive contributions to this performance.

The Bank’s Return on Equity (ROE) improved to 6.55% during the year ended 31 December 2021 from 4.93% recorded for the year ended 31 December 2020. The Bank’s Return on Assets (ROA) before tax for the year ended 31 December 2021 is 0.92% compared to 0.79% for the year ended 31 December 2020.

GROUP PROFIT BEFORE AND AFTER TAX



ROA AND ROE (GROUP)



MANAGEMENT DISCUSSION AND ANALYSIS

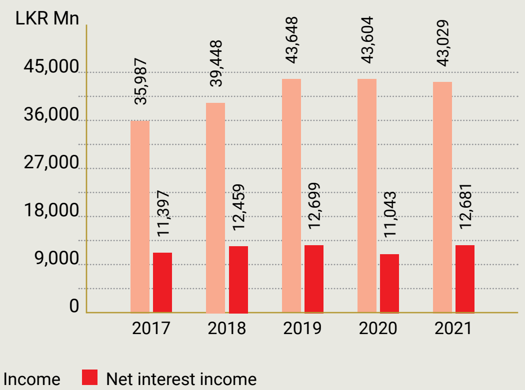
NET INTEREST INCOME

The Bank's total income for the year 2021 was LKR 42,649 Mn compared to LKR 43,300 Mn in the previous period. Interest income accounted for 86% of the total income of the Bank. The Bank recorded LKR 12,653 Mn in Net Interest Income (NII), which is a 15% increase year-on-year primarily due to an increase in AWPLR by more than 194 bps over the past 12 months. This contributed to increase in interest margin from 2.53% in December 2020 to 2.66% in December 2021.

FEE AND COMMISSION INCOME

The Bank staff at Head office and across branch network working continuously over the year has helped the Bank to increase non-funded business. This effort was fruitful as it resulted in an increase in net fee and commission income to LKR 2,596 Mn for the year ended 31 December 2021, up from LKR 2,061 Mn in the comparative year.

INCOME (GROUP)



Fees generated from loans and advances, credit cards, and fees collected from trade accounted for the majority of the fee and commission income.

NET GAIN FROM DERECOGNITION OF FINANCIAL ASSETS

A gain of LKR 1,325 Mn was recorded during the year by disposal of selected treasury bill and bond holdings, originally categorised under fair value through other comprehensive income (FVOCI), with the objective of cash flow management to support loans and advance growth in line with projections. The action also goes in tandem with the bank's expectations with regard to the domestic interest rate trend, going forward.

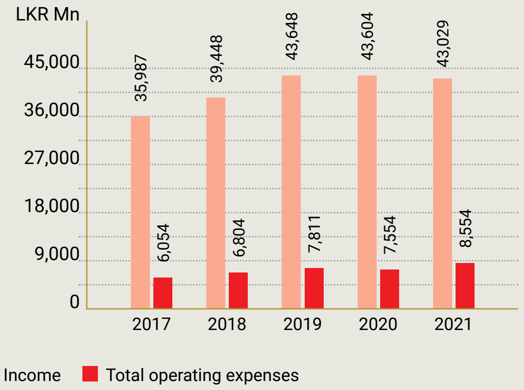
IMPAIRMENT CHARGE ON LOANS AND OTHER LOSSES

Impairment provision for the year ended 31 December 2021 was LKR 4,485 Mn compared to LKR 3,298 Mn in the comparable year. NPL ratio increased from 5.56% in December 2020 to 5.60% in December 2021 and impaired loan (stage 3) ratio increased from 2.80% to 3.03%. In order to address the current and potential impact of Covid-19 and other prevailing economic conditions on lending portfolio, the Bank has made adequate impairment provisions as at 31 December 2021
by introducing changes to internal models to cover unseen risk factors in the highly uncertain and volatile environment including additional provisions made for the exposures to risk elevated sectors.

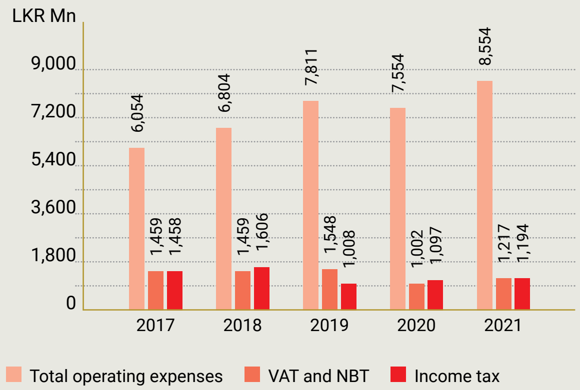
OPERATING EXPENSES

During the year ended 31 December 2021, the Bank's operating expenses increased from LKR 7,387 Mn to LKR 8,381 Mn compared to the previous year mainly due to increase in transport cost provided to its staff due to restrictions in public transport and all other expenses incurred in keeping safe and healthy environment within Bank premises to support client engagements. During the year the Bank also created multiple channels to enhance the service delivery to customers through a strong digital drive providing access to uninterrupted banking services during these trying times. This resulted the increase in IT related expenses with the infrastructure upgrades. The process automation and workflow management systems introduced during this year facilitated effective cost control measures which resulted in managing the operating expenses at these levels.

TOTAL INCOME TO OPERATING EXPENSES – GROUP



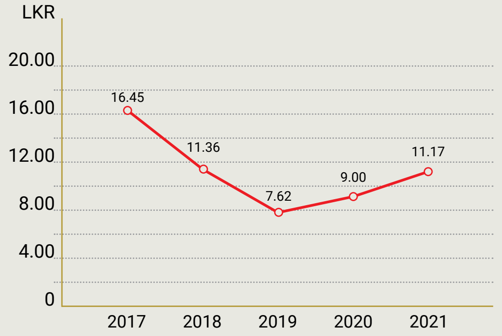
EXPENSES (GROUP)



PROFIT AFTER TAX (PAT)

The Bank recorded a PAT growth of 35% to LKR 3,222 Mn for the year 2021 compared to LKR 2,388 Mn in year 2020. The Bank's total tax expense, which includes financial, services VAT (15%) and income tax (24%), is LKR 2,322 Mn for the year ended 31 December 2021. As a result, the Bank's tax expense taken as a percentage of operating profit for the year stood at 41.9%.

EARNINGS PER SHARE



FINANCIAL POSITION ANALYSIS

ASSETS

Despite the challenges faced by the economy and the banking sector, DFCC Bank's total assets increased by LKR 20,428 Mn, recording a growth of 4% from December 2020.This constitutes a loan portfolio growth of LKR 63,991 Mn to LKR 365,901 Mn compared to LKR 301,909 Mn as at 31 December 2020, an increase of 21%. Following the Bank's prudent lending policies, it did not pursue aggressive growth, particularly to sectors that exhibited stress. The Bank has implemented a number of relief schemes in line with the directives from the Central Bank of Sri Lanka to support those customers affected. The Bank's net asset value per share has decreased by 5% to LKR 152.83 from LKR 161.30 in 2020.

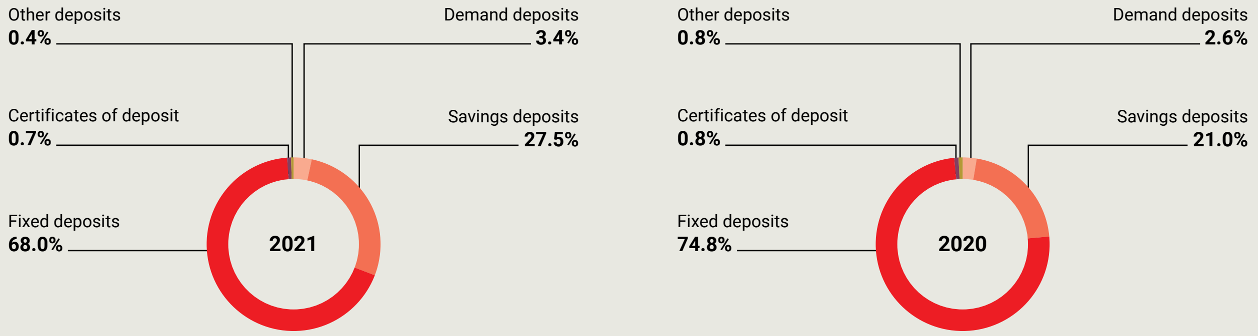
LIABILITIES

The liabilities increased by 5% over the previous year to LKR 436,519 Mn as at the year end. The main increase was due to the substantial growth in other borrowers of LKR 22,742 Mn During the year, the Bank was able to raise long term funding of USD 150 Mn from the United Stated International Development Corporation, which mainly contributed to the increase.

The Bank's deposit base also experienced a growth of 3%, recording an increase of LKR 9,834 Mn to LKR 319,861 Mn from LKR 310,027 Mn as at 31 December 2020. This resulted in recording a loan to deposit ratio of 114%. Further CASA ratio improved to 31.25% as at 31 December 2021. Funding costs of the Bank were also contained by using medium to long-term concessionary credit lines. When these concessionary term borrowings are considered, the CASA ratio further improved to 36.47% as at 31 December 2021.

DFCC Bank continued its approach to tap local and foreign currency related, long-to-medium-term borrowing opportunities.

DEPOSIT MIX (GROUP)



EQUITY AND COMPLIANCE WITH CAPITAL REQUIREMENTS

DFCC Bank's total equity is maintained at LKR 49 Bn from year 2020 to year 2021 with the recorded profit after tax of LKR 3.2 Bn.

In order to support future growth as a full-service retail bank, the Bank has consistently maintained a capital ratio above the Basel III minimum capital requirements. As at 31 December 2021, the Bank has recorded Tier 1 and total capital adequacy ratios of 9.31% and 13.03%, respectively which is comfortably above the minimum regulatory requirements of 8% and 12% including a capital conservation buffer of 2%. In order to strengthen the capital, the Bank has announced a right issue to raise further capital of LKR 6 Bn. The Bank's Net Stable Funding Ratio was 122.43%, which is well above the regulatory minimum of 100%.

CREDIT QUALITY

Following the Bank's prudent lending policies, it did not pursue aggressive growth particularly in sectors that exhibited stress. During the year, the Bank had a moderate growth in its loan book covering corporate, retail, and small and medium size business segments. The loan to customer portfolio of the Bank is fairly well diversified across a wide range of industry sectors with no significant exposure to any particular sector. The Bank continued to improve its pre and post credit monitoring mechanisms through changes to internal processes and timely actions. This has brought positive results in maintaining credit quality amidst the stressed economic situation.

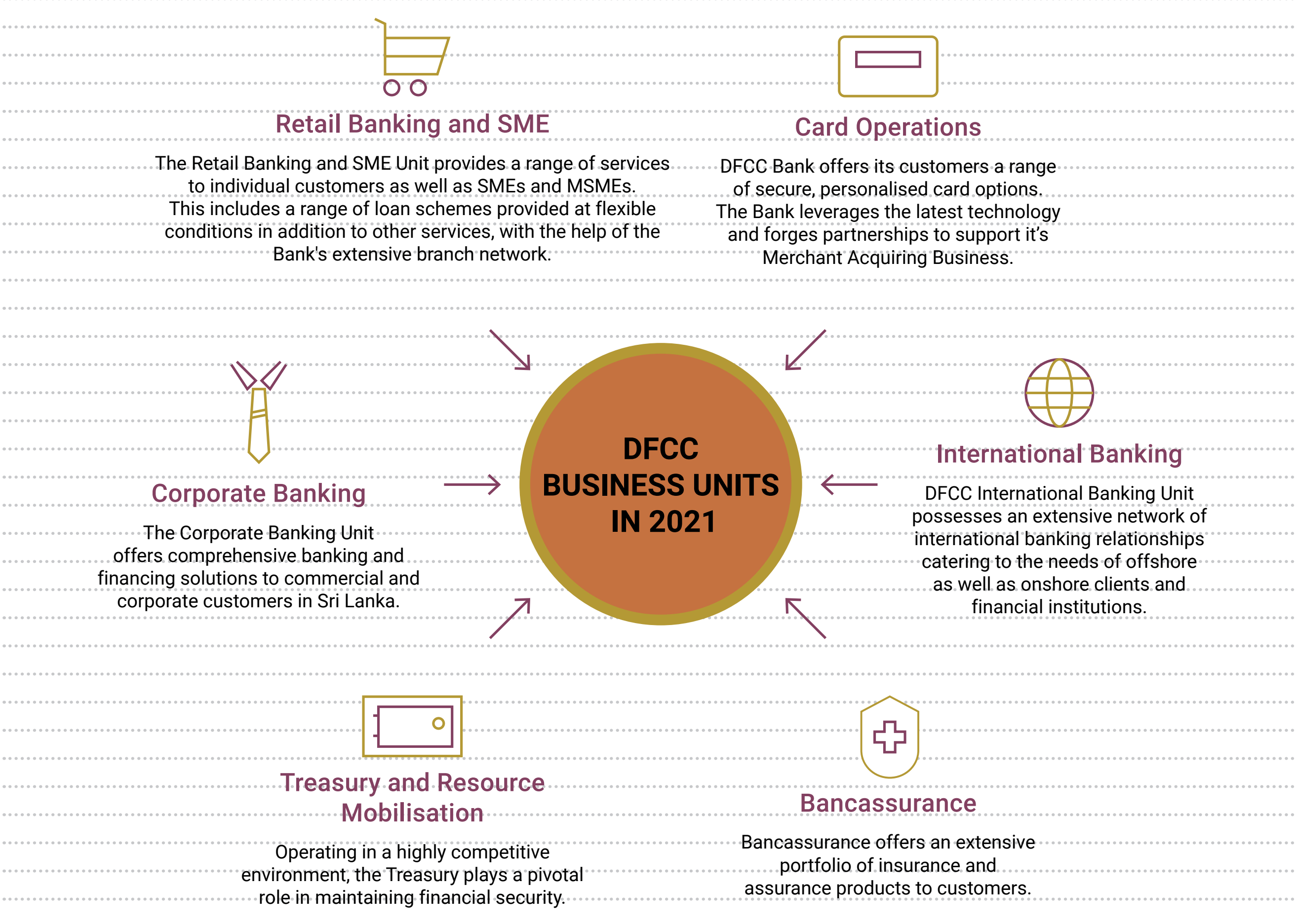
DIVIDEND POLICY

The banking industry faced many challenges during the year from both the business and regulatory fronts due to the global pandemic. The adverse business environment became constraints for the growth of returns on equity. The minimum capital requirements became more stringent with the adoption of BASEL III. The Bank's dividend policy seeks to maximise shareholder wealth whilst ensuring there is sufficient capital for expansion as it leverages its island-wide presence and investments in technology. Accordingly, the Board of Directors has approved a final dividend of LKR 3.00 per share in the form of a scrip dividend for the year ended 31 December 2021, balancing the needs of shareholders with business plans. Accordingly, the dividend payout ratio for the year ended 31 December 2021 is over 31% on the distributable profit.

GROUP PERFORMANCE

The DFCC Group consists of DFCC Bank PLC and its subsidiaries; DFCC Consulting (Pvt) Limited, Lanka Industrial Estates Limited (LINDEL), Synapsys Limited, its joint venture company Acuity Partners (Pvt) Limited (Acuity), and its associate company National Asset Management Limited (NAMAL). LINDEL is a 31 March reporting entity whilst the others are 31 December reporting entities. For the purpose of consolidated financials, 12 months results from 1 January to 31 December 2021 were accounted for in all Group entities. Financials of the 31 March entity was subject to a review by its External Auditor covering the period reported.

The Group made a profit after tax of LKR 3,665 Mn during the year ended 31 December 2021. This is compared to LKR 2,847 Mn made in the year 2020. DFCC Bank accounted for majority of the Group profit with profit after tax of LKR 3,222 Mn, while LINDEL (LKR 238 Mn), Acuity (LKR 293 Mn), Synapsys (LKR 1.7 Mn), and DFCC Consulting (LKR 5 Mn) contributed positively by way of profit after tax to the Group. In the previous year, Synapsys, Acuity, DFCC Consulting, and LINDEL reported profit after tax of LKR 7 Mn, LKR 407 Mn, LKR 12 Mn, and LKR 208 Mn respectively. The associate company, NAMAL, contributed LKR 12.7 Mn to the Group, an increase from LKR 1.9 Mn in the year 2020. An Inter-company dividend of LKR 89.2 Mn was paid to DFCC Bank by LINDEL (LKR 85.7 Mn) and DFCC Consulting (LKR 3.5 Mn) during the year.



RETAIL BANKING AND SME

Retail Banking and SME has been the focus of relentless change and innovation worldwide. Banks are constantly seeking means of meeting challenges of the ever-evolving landscape of consumer needs and preferences. This has resulted in the introduction of new products and processes, even ground-breaking business models, in the quest to capture value and gain competitive advantage. In Sri Lanka, DFCC Bank has been at the forefront of this race to meet current and potential needs of customers through innovation and value-addition.

Meeting the needs of a wide cross-section of retail customers, DFCC Bank offers flexible financial solutions across personal loans, overdrafts, housing loans, vehicle loans, leasing and pensioners' loans, as well as education loans. Customers can also avail themselves of a range of deposit products which meet their individual needs. The Retail Banking section has been structured as two separate units: Assets and Liabilities, with dedicated staff serving the distinct needs of both sections.

ASSETS

HOUSING LOANS

Despite the adverse economic conditions and reduced income levels, home ownership has remained a priority, especially among the middle, professional and entrepreneurial classes. DFCC Bank has addressed the needs of these segments through housing loans for fixed income earners in the private and Government sectors, as well as professionals and entrepreneurs. These loans were provided for building, buying or renovating homes, purchasing plots of land or apartments.

PERFORMANCE IN 2021

While the construction sector as a whole has displayed a fair level of resilience, the housing sector has shown a marked decline. This was due to the lockdown-induced curtailment of economic activity, and the resultant reduction in income levels among a large cross-section of the population.

Self-employed individuals, particularly daily wage earners, and owners of SMEs continue to bear the brunt of the economic downturn, though fixed income earners have recovered to a considerable extent. The Bank has provided debt moratoriums to customers in keeping with the guidelines of the Central Bank of Sri Lanka (CBSL), while also extending this facility to those who did not meet criteria stipulated by CBSL.

The prevailing low-interest regime, intended to bolster economic activity, has also brought home-ownership within the reach of many. Making the best of the lower interest rates, the Bank added a host of attractive benefits to gather new customers who were eager to invest in residential housing and real estate. The interest rate structure has also turned the industry into a buyers' market, as potential investors were of the view that real estate offered better returns compared to other options. Pre-approved housing loans introduced by the Bank, with credit approval within just three working days, was a further enabler of growth in this sector.

Rising above the economic challenges of the pandemic, the high-end real estate and condominium sector has continued to soar.

The Bank has a team of experienced professionals, trained throughout the branch network, who have a sound grasp of the particular needs of the real estate sector. This enables them to ensure a streamlined service that takes into account customers' busy schedules, while also offering a doorstep or even on-site service.

MAIN NEW INITIATIVES CARRIED OUT IN 2021

The Housing Loans portfolio received a tremendous boost by way of the following:

- Introduced Structured Housing Loan product
- Launched "Let's Go Home" Advertising campaign
- Streamlined Housing Loan process

PARTNERSHIPS WITH DEVELOPERS

MOUs SIGNED

With 146 Residencies, Thalawathugoda by JAT Living – which offers customers a capital grace period up to 4 years a special structured repayment plan to suit their requirements and early settlement fee waivers

SPECIAL LOAN PACKAGES OFFERED

- CANTERBURY APARTMENTS by Home Lands Skyline
- ELEXIA 3CS by Home Lands Skyline
- BLENHEIM APARTMENTS by 360 Property Developers
- TRILLIUM HAVELOCK RESIDENCIES by Trillium
- THE PALACE by Prime Lands

OUTLOOK

Rapid urbanisation as well as the growth of the middle, professional and entrepreneurial classes has led to a rise in demand for housing units throughout the country. There is also a perceptible shift towards vertical living in the urban areas, as land values continue to rise. The implementation of various infrastructure projects in Colombo, including the Port City project, is expected to raise real estate values further. Sri Lanka's real estate sector, which accounts for a substantial 6.1% of the total GDP grew by 1.6% in 3Q, which is considerably lower than the 5.5% registered during the June quarter last year. However, it is reassuring to note that the real estate market remains vibrant at all three levels – luxury, affordable-luxury and the lower price range. The Bank anticipates considerable growth in its housing loans portfolio in 2022.

LEASING

DFCC Bank is a pioneer in the leasing industry, and is primarily focused on providing leasing solutions for the corporate sector, executives, professionals and self-employed individuals. The Bank's pioneering status has resulted in a strong presence in the industry, as well as enduring relationships. DFCC Leasing has been the backbone of many success stories in the SME sector, even though the continued import restrictions on vehicles as well as exorbitant vehicle prices affected leasing adversely.

PERFORMANCE IN 2021

Due to the economic downturn and the restrictions on vehicle imports by the Government, the Bank's leasing portfolio contracted by 5.4% during the year 2021. In keeping with CBSL's guidelines regarding the provision of moratoriums for those affected by the pandemic and its economic fallout, the Bank was able to provide concessions to customers across various sectors. Despite the unfavourable market conditions, the Bank was able to disburse more than LKR 10 Bn worth leasing facilities during the year under review.

While restrictions on the import of vehicles virtually ended the leasing of brand-new vehicles, the value of second-hand vehicles showed a steep rise, creating a pivotal shift in the leasing market. The Bank's leasing product has shown considerable growth, mainly from fixed income earners as well as the SME sector. A larger portion of the leasing business has been out of Colombo.

As the pandemic situation rendered conventional leasing promotions at vehicle dealers and bank branches impossible, the Bank launched the "DFCC Leasing Flash Promo", a 24-hour online leasing promotion. This scheme offered competitive interest rates on leasing, starting from 8.50% per annum, with a discount of 0.50% for applications received within a specified date.

DFCC Auto Loan is yet another initiative that has been well-received. This facility provides vehicle loans for up to LKR 10 Mn, with a structured repayment plan including residual value. The rollover option offers customers the option to extend the loan for up to eight years.

The introduction of an asset-based pricing model for the leasing product during the previous year has continued to make our offering more competitive in the market. Internal motivational campaigns carried out by the Bank have also yielded the desired results.

OUTLOOK

Throughout 2021, the Bank focused on maintaining a healthy leasing portfolio, bearing in mind the difficult economic situation faced overall in the country. Seeking new market segments, while strengthening relations with existing clientele, is expected to fuel healthy growth in 2022.

PERSONAL LOANS

PERFORMANCE IN 2021

Personal Loans surpassed all expectations, registering a significant growth of 104% during 2021.

In keeping with the varying needs of different market segments, the Bank offers a wide range of personal loans. Due to prevailing conditions such as delays in receiving salaries, salary cuts and loss of employment, the Bank had to accommodate the needs of customers who were affected. In accordance with CBSL guidelines, moratoriums were granted, while the Bank was flexible in supporting customers' individual needs.

As movement was severely curtailed during the lockdown periods, the Bank's timely adoption of technology played a pivotal role in offering an effective service. Certain processes had to be adjusted to meet the situation, while others requiring manual execution were deferred until the return to normalcy.

DFCC One Loan, a personal loan product, proved to be of invaluable aid to those who were impacted by the economic downturn. Salaried customers and professionals were able to consolidate their debt under an extended repayment plan, without the need to deal with multiple financial institutions. DFCC One Loan has shown remarkable promise, as evidenced by the growth shown during the past two years.

Government pensioners who were faced with urgent financial needs were offered a loan scheme that met their repayment needs by way of a comfortable monthly commitment. As Sri Lanka has a growing population of pensioners, and longer lifespans of the people, this product has considerable growth potential.

Recognising the services rendered to the nation by Government pensioners, the Bank organised an online event titled, "DFCC *Garusaru Vishrama Pranama*". Highlights of this virtual event included: health tips by a specialist doctor, comedy act by popular comedians, an interactive quiz with the chance to win prizes, as well as a presentation on the "DFCC *Garusaru* Personal Loan Scheme".

DFCC Pinnacle customers, who comprise our high-end segment, were given an extended loan repayment period, along with other attractive offers. Focusing on professionals, the Bank extended its product offerings to suit their requirements. This was in addition to tailor-made salary-based offerings.

Given the growth potential of the personal loan segment, the Bank will continue promoting it with innovative offerings. Digital banking will continue its role in ensuring customer convenience and service. Doorstep service, which brings immense convenience to customers, will be continued.

GOLD-PLEDGED LENDING

PERFORMANCE IN 2021

The curtailment of economic activity due to frequent lockdowns resulted in pawning of gold and gold jewellery becoming the last resort of those in need of urgent cash. The "DFCC *Ranwarama*" pawning facility offered throughout the Bank's branch network enabled many to meet their cash requirements at our island wide branches.

Due to the economic difficulties posed by the pandemic, the Bank extending a helping hand to those who wished to obtain funds to meet their urgent needs. This was enabled by increasing the advances offered by the "DFCC *Ranawarama*" pawning facility. This scheme offered an advance of LKR 95,000 on 24-carat gold, while 22-carat jewellery received LKR 80,000, at an interest rate of 10% p.a. Gold-pledged lending registered a growth rate of 31% in 2021. Portfolio growth stood at 1.4 Bn which is the highest growth in the pawning portfolio for a single year. In addition, the Bank surpassed the milestone of 5 Bn in the pawning portfolio.

OUTLOOK

Pawning gold not only provides cash to meet urgent requirements, it also ensures safety of the pawned items. The Bank has elevated itself above the competition by offering a superior service, which has been a key differentiator. The Bank's Gold portfolio will be promoted with greater vigour in 2022. Due to the high prices for gold prevailing worldwide, the Bank expects a further boost in profitability from gold-pledged lending.

LIABILITIES BUSINESS

RETAIL LIABILITIES

The growth of CASA, Time deposits and Children's Savings deposit products across the Bank is carried out by the Retail Liabilities Unit. Working closely with the branch network and sales team, this Unit ensures the continuous development and implementation of strategies and key initiatives to ensure the growth of the deposit products.

PERFORMANCE IN 2021

Overall Branch Banking liabilities which stood at LKR 214,337 Mn as at 31 December 2020, grew to LKR 241,662 Mn as at 31 December 2021.

In order to grow the deposit base and reduce the cost of funds, the Bank's promotional activities were primarily focused on building CASA during the year. This was carried out to ensure that the lending products could be offered at competitive rates.

Deposit mobilisation was the principal goal amongst several initiatives and marketing campaigns which were carried out throughout the year. This included a special offer for senior citizens, who received a higher interest rate on their savings with the Bank. This campaign was a success, as it was considered immensely beneficial for those belonging to this particular age group. This was evident by recording 145% growth in DFCC *Garusaru* savings product portfolio in 2021.

As Pandemic grips the World, especially the children and adolescents were isolated resulting in adverse consequences for their mental health. The Children Savings accounts of DFCC bank sponsored and conducted virtual events such as DFCC Junior Art workshop, DFCC Junior Essay and Art Competition, which were among many in 2021 to entertain and engage the children who predominantly follow online education due to the pandemic. These events were graced by the parents/guardians and requested to continue in the next years as well.

The DFCC Teen account continues to grow. Parents want the best for their children, and help them to build a solid financial foundation, which is a significant part of their "to-do list". Taking the media habits of teenagers, who are exceptionally tech-savvy into account, the Bank promoted "DFCC Teen" with a series of offline and online initiatives in order to increase financial literacy among teenagers.

M-Teller operation has been another success story during the past few years, which recorded LKR 3.0 Bn in 2021, the highest collection so far after launching this initiative. The number of Deposit Mobilisation Tellers as well as their efficiency has been increased to bring a substantial growth in collection.

OUTLOOK

In-depth study of various customer segments as well as the appropriate use of technology to reach such segments is essential for the growth of deposits. The Bank will continue to focus on both these activities in order to develop unique offerings targeting the most viable and promising segments.

OFFSHORE BANKING, TRADE & INSTITUTIONAL BUSINESS DEVELOPMENT

The Offshore Banking, Trade & Institutional Business Development Unit is responsible to drive business growth under the respective areas across the Bank. Working closely with all business lines, this Unit ensures the continuous development and implementation of strategies and key initiatives to ensure the growth of offshore banking, trade and institutional business.

TRADE BUSINESS

PERFORMANCE IN 2021

A considerable amount of trade income was generated during the first quarter of the year from the continuous implementation of the sugar sector initiative, where several large sugar importers channelled their transactions through DFCC, based on close client engagement and relationship management. During the subsequent period, due to the prevailing unfavourable macroeconomic conditions affecting imports, high priority was given to grow exports. However, we continued our assistance to importers by accommodating their requests on a selective basis, despite the shortages of foreign currency in the market.

Several initiatives were implemented on a continuous basis by engaging business units and relevant stakeholders to tap new business opportunities in the export segment. Customised solutions and facility structuring were offered to exporters covering various sectors to add value to them in growing their businesses.

The cinnamon sector was one sector identified by the Bank considering that Sri Lanka is the largest supplier of "True Cinnamon" to the world, and an increase in the demand for Ceylon cinnamon has occurred after the pandemic, due to its health-giving properties. After visiting several cinnamon exporters on a continuous basis and understanding their requirements, export facilities and financial guidance were provided to assist them.

As a result of this initiative most of the key cinnamon exporters are now banking with DFCC as their preferred bank. The MSME supplier financing proposition has also been successfully promoted to suppliers of large cinnamon export clients to businesses from the supply chain as well.

A programme to hand over tokens and letters of recognition to cinnamon clients for their important contribution to the country's economy was also implemented by the Offshore Banking, Trade & Institutional Business Development Unit under the guidance of CEO.

The Bank implemented a programme to recognise the efforts of its exporters for their contribution to the economy

GROUP CANELA (PVT) LTD.

OUTLOOK

Significant growth in overall bank export limits was observed during the year where several new facilities and enhancements were approved covering exporters from multiple sectors, which is a phenomenal achievement.

Considering the prevailing macroeconomic conditions, high focus will be given to the export sector which will help to increase the Bank's foreign currency inflows and conversions which is a critical requirement of the country as well.

CORPORATE BANKING

Expertise across diverse industry sectors, the ability to structure large and complex deals and long-term customer relationships underpin our position as a leading Corporate Bank in the country. Focusing on multinationals, large corporates, middle market enterprises, the public sector and non-bank financial institutions, the Corporate Banking Unit offers a complete and comprehensive range of banking and financial solutions. Solutions offered by the Bank's Corporate Banking Unit includes: working capital financing, trade financing, project and term funding, corporate financing and investment banking, cross-border financing in addition to liquidity and cash management solutions.

PERFORMANCE IN 2021

In 2021, Corporate Banking focused on three Pillars, namely: Grow – to deliver sustainable growth, Protect – to ensure that the Banks' interests are protected, and Take Action – to create a culture to thrive and succeed. Based on these Pillars, the Corporate Banking Unit delivered a creditable year of performance and consolidation, achieving an asset growth of 20% whilst preserving portfolio quality. Continuing its significant contribution to the Banks' CASA base, the Corporate Banking Unit posted YoY growth of 18%. This included the acquisition of several high-value CASA customers during 2021.

Operating income recorded at LKR 3.6 Bn, despite pressure on income of both funded and non-fund base due to various concessions given during the year and prevailing economic conditions. Strong emphasis on Trade Finance and Cash Management, on-boarding quality premium segment customers, cross-selling, profitability focus and capitalising on the key growth segments in the economy enabled the Unit to record sustainable revenue and portfolio growth.

OUTLOOK

The Corporate Banking Unit will continue to focus on the three Pillars and is positioned to benefit from the expected revival of the economy from mid-2022 onwards. Propositions are in place for customer acquisition, relationship management, promoting transaction banking and improving process efficiencies to ensure sustainable growth of the business. Aligning with the overall growth strategy of the Bank, Non-Funded Income (NFI) remains a key focus area.

Trade Finance for exporters, Working Capital, Term Funding and Sustainable Finance will be key focus areas for 2022. In partnership with the Banks' joint venture, Acuity Partners, the Unit will look to support customers with Corporate Finance and Investment Banking services as well. The Unit will continue to focus on driving CASA in 2022, especially the acquisition of operating and current accounts of customers by leveraging the Payments and Cash Management proposition which was voted by customers as the market leader and "Best Domestic Cash Management Bank in 2021" conducted by Euromoney.

BRANCH BANKING

As the frontline customer-facing touch-points of DFCC Bank, the branch network plays a crucial role in carrying out direct interactions with customers offering wide variety of financial solutions, transactional banking and financial advice. As DFCC expands its branch network across the island, with each region having its own specialised categories in the Retail, SME and MSME segments, the Bank's diversity of customers will broaden accordingly.

PERFORMANCE IN 2021

Branch banking faced its most severe test in offering direct and streamlined services due to the restrictions imposed by curtailed transport, social distancing and the ever-looming threat of the transmission of infections. However, the branch banking team rose to the challenge across the island, offering a seamless banking experience to customers. Implementing a mobile ATM in several areas and having Bank branches open from 9.00am to 12.00 noon during the lockdown period were further ways in which DFCC Bank brought convenience into the lives of customers.

Overcoming all obstacles of an economically challenging year, Branch Banking grew 22% in loans and advances, while the retail segment grew 29%. In addition, deposits grew by 11% in 2021 with a CASA ratio of 26% in the same period.

During 2021, DFCC Bank relocated Hakmana and Rambukkana branches for the convenience of its customers.

OUTLOOK

Categorising customers into distinct segments has enabled DFCC Bank to take a more focused approach to reaching out and meeting the needs and aspirations of each group.

With the launch/introduction of propositions in the year 2020, DFCC Bank was able to approach its retail clients with a more focused approach in 2021 to fulfil the needs and aspirations of each customer segment. Identifying the needs of a variety of segments, DFCC Salary Plus was able to fulfil the financial requirements of the mass market salaried customers while Salary Partner proposition captured the upper mass segment of customers to reach their financial aspirations. DFCC Prestige proposition contributed to offer its value proposition to the affluent segment with tailor-made banking solutions.

With the relocation of the state-of-the-art Pinnacle Centre offering much more flexibility and convenience, DFCC Bank was able to provide an unparalleled experience to its exclusive/HNW customers through its revamped proposition, with DFCC Pinnacle catering to the financial needs served by dedicated relationship managers.

DFCC "*Aloka*", an exclusive financial proposition to empower females across Sri Lanka was launched on 9 December 2021, with the prime goal of enabling women to achieve their aspirations through innovative financial, non-financial solutions, and value additions that provide a holistic approach towards the economic empowerment and development of female customers. Given the health regulations of the country a Hybrid event was held at the DFCC Pinnacle Centre which was streamed live as an online event, and was witnessed by our valued customers across the country in all nine regions. DFCC *Aloka* proposition will add value to its female customers at every stage of their life, such as being a student, home maker, career woman, entrepreneur or senior citizen, enabling them to reach their life's aspirations.

MSMES

The Sri Lankan economy derives a major portion of its domestic production as well as employment generation from Micro, Small and Medium Enterprises (MSMEs). Recognising the need to foster financial inclusion of all business segments, the MSME Division of DFCC was established in 2016. DFCC has been at the forefront of responding to the banking needs of MSMEs, remaining true to its roots as a specialised development bank. The Bank fully endorses the view that MSMEs of today have the potential to emerge as big businesses of tomorrow. It is also totally focused on its role as financier and growth partner to fuel their expansion. This Division supports small and medium entrepreneurs as well as self-employed individuals to expand their businesses, while realising their goals in life.

While MSMEs are underserved by the banking sector, they are also considered a high-risk segment. However, DFCC Bank has taken the view that serving such relatively small businesses will enable the outstation branches to grow their retail base. It will also diversify the sectoral base of the Bank's clientele. The MSME Division offers two key products. In the first category are small business loans, which DFCC has historically provided as a development bank, while the second category comprises Value Chain Financing. This is a novel approach which covers the financial needs of the entire value chain. This fosters the growth and competitiveness of all stakeholders across the value chain in a number of industries. It also makes the entire value chain more robust with the ability to scale and expand rapidly.

DFCC Bank has entered into partnerships with the CBSL and international agencies such as the International Fund for Agricultural Development (IFAD) and Smallholder Agriculture Partnership Programme (SAPP) attached to the Ministry of Agriculture. This enables the Bank to provide farmers with additional funding through grants. In addition, it helps increase productivity and savings among the farming community, while helping them improve their living standards and educate their children.

Some of the value chains where the MSME Division is actively engaged include value chain partners such as tea smallholders, tea factories, dairy farmers, milk collectors and dairy processing companies.

Financing in dairy sector through the SAPP programme has achieved immense success, granting over 1,200 loans in collaboration with seven dairy manufacturers. Apart from that over 4,000 tea smallholders were financially assisted for in-filling and replanting tea.

Staff members of the Division take care in selecting business sectors where they can create the most beneficial impact. In the case of agri-financing, priority is given to progressive farmers who use high quality inputs and sophisticated farming practices, in addition to employing workers within the community. This keeps risks associated with such a business model to the minimum, while ensuring sustainable development of the community.

Taking yet another step-in agriculture financing, in 2020 MSME Division established New Comprehensive Rural Credit Scheme (NCRCS) which is one of the main interest subsidy schemes funded by the Government of Sri Lanka. Commencing from Maha season of 2020, over 1,300 loans have been granted to the farmers who are mainly engaged in paddy, maize, turmeric, and gingelly cultivation in all parts of the country.

PERFORMANCE IN 2021

Though the MSME Division works mainly with tea smallholders and small-scale dairy farmers, it is on the constant lookout for new opportunities in new segments.

In 2020, the department launched a supplier financing scheme, breaking into a relatively untapped market. Furthermore, the department also introduced these customers to other products from the Bank such as deposits and cards, thus developing and contributing to the Bank's other lines of business.

Among the worst affected by the continuing pandemic were small businesses, forcing quite a few to shut down. With the help of debt moratoriums, many were able to recover, while some have even improved their business outlook. Despite such major setbacks, the department achieved its targets during the year. The department's portfolio has a nearly even split between agriculture and MSMEs, with half of MSME loans directed towards agriculture. The main focus of the department is on farmers who cultivate food crops and sugar cane.

While most banks and NBFIs concentrate on smaller loans to this sector, DFCC has focused on providing larger loans averaging over LKR 350,000. In addition, the department is able to process up to 400 loans per month, disbursing smaller loans. As the traditional one-on-one loan appraisal mechanism is not particularly efficient, the department has developed a new, vigorous mechanism to meet the needs of its 7,000-strong customer base representing MSMEs.

Currently, 35% of MSME customers are female. The biggest issue faced by women entrepreneurs is their inadequate financial literacy and limited access to finance. Promoting female entrepreneurship and enabling women to fully benefit from financial services is an approach that is being actively pursued by the MSME Division.

The Bank was able to implement this concept through a series of engagement programmes aimed at empowering and uplifting women entrepreneurs in the MSME sector. This programme was aimed at women entrepreneurs engaged in tea cultivation, beauty salon management, dairy farming and general cultivation, and was carried out with the assistance and guidance of experts in the relevant fields.

In November 2021, DFCC Bank signed an agreement with the United States Development Finance Corporation for USD 150 Mn. This is a significant milestone in the Bank's endeavour to help women entrepreneurs. The tranche is part of 265 million US Dollar credit line the US-based organisation has committed to support Micro, Small and Medium Enterprises in Sri Lanka with special emphasis on women-led businesses.

Further strengthening its partnership with the corporate sector and entrepreneurs in MSMEs, DFCC Bank partnered with the Ceylon National Chamber of Industries (CNCI) for the 4th consecutive year as the Principal Sponsor and Official Banking Partner of the CNCI Achiever Awards 2021. This partnership fitted seamlessly with the Bank's role as the preferred partner for MSMEs of Sri Lanka.

OUTLOOK

The launch of the new Core Banking System incorporating digital workflows and a data-driven model has helped the Division to transform and transition to a more efficient and effective style of functioning. Acquiring a portfolio of relatively larger SMEs will be the main focus as the economy hopefully rebounds in the coming year. The Division has identified suppliers of agriculture exports, who deal with high volumes but are under-banked, as potential customers. Having a more customer-centric approach, in addition to cash collection at the customers' own business premises will be the approach to be adopted in dealing with this segment.

In addition to liability products, the Division has also actively promoted leasing products, which are in great demand in this sector. In fact, this has been one of the enduring strengths of DFCC Bank over the years.

Successive governments have placed considerable emphasis on developing the MSME sector as well as the export sector, where quite a few of MSMEs are concentrated. This will help the Division to play an active role in propelling this sector on the path to greater economic success, while helping the national economy in the process.

Timely provision of debt moratoriums, as well as other facilities, enabled the branch banking team to continue supporting SMEs affected by the COVID-19 pandemic. "*Saubagya* COVID-19" loan scheme was one such initiative, along with "DFCC *Sahanaya*", the Bank-funded credit line, which played a pivotal role in helping SMEs survive and move forward during such challenging times.

Taking forward its pledge to build a more resilient Sri Lanka, the Bank launched the "DFCC *Krushibala*" credit scheme for SMEs and corporates engaged in agriculture and related sectors. This scheme offered loans up to LKR 100 Mn for five to seven years at a concessionary interest rate of 7.00% per annum. Loans were offered for cultivation, livestock and dairy, agricultural processing, warehousing and enhancing storage facilities, development of commercial agriculture and hi-tech agriculture, as well as introducing/capacity enhancement of organic fertilizer manufacturing.

SMEs in Sri Lanka are dispersed across many sectors, including agriculture, exports, manufacturing, health, education and construction, playing an important role in economic growth and employment generation. The Bank will continue to provide financial and advisory services to this sector, while extending its support to SMEs which were badly affected by the pandemic.

In keeping with DFCC Bank's sustainability goal of becoming a "Bank for Green Financing", there will be an increased focus on promoting environmental, energy and sustainability-related projects, as well as related advisory services.

TREASURY

DFCC Bank's Treasury function is structured on three Pillars: the Front, Middle and Back Offices.

The Treasury Front Office (TFO) is the main income generating unit. The TFO, which comprises a highly experienced team of dealers, generates revenue through trading in foreign exchange and fixed income securities, income through customer-related transactions and interest income from investment. The Unit also manages the Bank's liquidity ratios and other key regulatory ratios. The TFO reports directly to the Head of Treasury.

Treasury Middle Office (TMO) independently reports to the Chief Risk Officer (CRO). TMO engages in risk monitoring and reporting of TFO activities on the basis of Board-approved limits, controls and regulatory guidelines.

Treasury Back Office (TBO) comes under purview of the Head of Finance/Chief Financial Officer (CFO). TBO is responsible to prepare, verify and settle all transactions carried out by the TFO.

PERFORMANCE IN 2021

The Treasury Unit was able to contribute significantly to the Bank's bottom line under extremely challenging macro and micro environments. The accommodative monetary policy regime that was prevalent in the first half of the year enabled the Treasury to generate considerable revenue through capital gains by engaging in fixed income securities trading and related activities. The Treasury was well-positioned to take advantage of the rising interest rate environment through management of the maturities and investments that would help to maximise NII-based revenue.

Customer related transaction volumes were impacted due to tough economic conditions. The continuation of import restrictions imposed in 2020, island-wide lockdowns and the absence of interbank foreign exchange markets supressed potential revenues. Despite the above challenges, Treasury was able to deliver a seamless service to the customers through the use of digital channels while ensuring the achievement of said revenue targets.

In the backdrop of COVID-19 related economic setbacks and resultant sovereign rating downgrades, the external funding opportunities to the banking sector has been impacted. Despite the above, DFCC Bank has been able to raise long-term funding of USD 150 Mn from United States International Development Finance Corporation at very competitive terms. The Treasury was able to successfully hedge the proceeds of the same that will ensure steady revenue streams from on-lending activities.

OUTLOOK

The country will continue to face several challenges in time to come due to the external sector developments, depleting forex reserves and debt obligations. Despite these strong headwinds, Treasury is confident of overcoming such hurdles while capitalising on opportunities to achieving its objectives.

RESOURCE MOBILISATION AND CAPITAL MARKETS UNIT

This Unit is managed by the Vice President Resource Mobilization and Capital Markets under the direct purview of the Head of Treasury.

The Unit's responsibilities include, but not limited to the following:

- Sourcing of medium-term and long-term funding for the Bank which includes credit lines, syndicated loans and local and international debt issuances
- Managing the Bank's Equity portfolio comprising of strategic and non-strategic investments, the trading portfolio, and its portfolio of Unit Trusts investments
- Managing the Bank's Margin Trading Business as a Market Intermediary registered as Margin Provider by the Securities and Exchange Commission of Sri Lanka (SEC)
- Managing the Bank's Underwriting Business as a Market Intermediary registered as Underwriter by the SEC
- Managing matters relating to Capital Raising for the Bank
- Coordinating with the Rating agencies with regards to the National and International Ratings of the Bank

PERFORMANCE IN 2021

The Unit continues to play a key role in securing funding at attractive terms, which helps the Bank's budgeted balance sheet growth. During the period under review, the Unit raised over LKR 30,000 Mn (USD 150 Mn) in long-term funds from United States International Development Finance Corporation, which is the largest external borrowing in the history of the Bank and one of the largest by a bank in Sri Lanka during the year.

Through the Equity and Unit Trust portfolio management, the Bank was able to realise capital gains of LKR 570.08 Mn, while recording unrealised capital gains of LKR 324.25 Mn through the quoted equity portfolio. The dividend income earned during the year amounted to LKR 81.24 Mn [Excluding dividends from Commercial Bank of Ceylon PLC (CBC) and NDB Bank PLC (NDB)].

The Composition of the Equity and Unit Trust portfolio is given in Table 1.

Having taken charge of the Margin Trading operations in January 2021, the Unit was able to grow the business where the utilisation of limits grew by 5 times and the client base grew over 2.5 times.

During the year under review the Bank was able to participate in one of the Initial Public Offerings (IPO) of shares as one of its Underwriters, thus providing the much needed confidence to the investors and helping the issuer with a successful closure.

Composition of the Equity and Unit Trust portfolio as at 31 December 2021 – Table 1

	Cost LKR Mn	Fair value LKR Mn
Quoted share portfolio – Fair Value through Other Comprehensive Income (FVTOCI)*	1,037.23	1,312.47
Quoted share portfolio – Fair Value through Profit and Loss (FVTPL)**	132.41	181.42
Unit Trust portfolio**	6.16	37.45
Unquoted share portfolio	7.30	216.60
Total	1,183.10	1,747.94

* Excluding CBC voting shares and NDB shares

** Reflects the original investment cost

OUTLOOK

With the expectation of a continuation in the positive momentum in the Equity Market, the Unit is confident that 2022 will bring in considerable opportunities.

INTERNATIONAL TRADE AND REMITTANCES

DFCC Trade and Remittances Department consists of five units namely Imports, Exports, International Remittances, Correspondent Banking, and Offshore Banking. The well-planned strategic structure ensures efficient and streamlined day-to-day operations in delivering services to internal and external customers. Lanka Money Transfer, which handles worker remittances brought into the country, functions as a separate business unit of which operational functions are executed and monitored by Trade and Remittances.

PERFORMANCE IN 2021

The curtailment of economic activity due to the pandemic resulted in a considerable setback for the import, export and remittance business. The situation was further aggravated by frequent changes introduced by regulatory authorities to find solutions for Foreign Currency Liquidity shortage in the market. The widespread lock-downs and extended bans on inter-provincial travel were added burdens on an already fragile economic situation of the country.

In the face of aforesaid issues our teams of experts were able to explore new avenues to facilitate client requirements, while adhering to regulatory requirements. This innovative thinking mindset of the team was a welcome respite for this troubled sector which was already hampered by the prevailing conditions of lock-downs and restrictions. Despite aforementioned challenges, near normal business activities were recorded during the first few months of year 2021. The Bank was able to capitalize on favourable market conditions which prevailed during the first quarter before downsizing the business operations.

Despite all the setbacks, the Trade & Remittances Unit helped the Bank generate LKR 744.2 Mn and to achieve the Fee & Commission income budget allocated to trade business. The international remittance Unit was able to generate LKR 65.9 Mn from remittance business.

The nature of work processes in the Trade and Remittances Unit usually require the presence of staff in offices, as the work involves physically examining documents and meeting tight deadlines, delays of which would result in customers incurring financial losses. Therefore, even during lockdowns, sufficient staff were available at the Trade and Remittance Unit to ensure uninterrupted service to customers.

The Correspondent Banking Division played a commendable role in strengthening the existing relationships with international banks, and timely execution of trade transactions. Further consolidating the Bank's global presence, new correspondent banking relationships were established during the period under review.

OUTLOOK

The macro environment remains a cause of concern while the economic situation of the country itself should be viewed with cautious optimism. The market will continue to be challenging in the coming year and the Unit remains mindful of the environment to stay abreast of the latest market development. The main challenge would be the foreign currency liquidity issue in the market. However, our team of experts are well aware of market volatility and are optimistic to drive the Trade and Remittance business with the help of business units. Identifying the important business areas when facilitating trade transactions will be the way forward until the country's FCY liquidity positions are improved.

The Bank's commitment to digitising processes and work flows will continue to reap dividends in the years ahead. Rapid advances in technology and the very nature of conducting business across a diverse range of sectors can be inherently challenging. The team at the Trade and Remittances Unit is up to the task, constantly updating their knowledge and forming closer bonds with their ever-expanding client base.

WORKER REMITTANCES

Lanka Money Transfer (LMT) is a DFCC owned remittances system developed by Synapsys, that facilitates the transfer of funds in real time from a number of countries to any bank account in Sri Lanka. Currently, DFCC Bank has representations in 12 countries through 24 exchange companies.

PERFORMANCE IN 2021

Worker remittance from overseas is Sri Lanka's largest source of foreign exchange inflow to the country, which has been mostly unaffected by the pandemic situation except for the third quarter in 2021, when there was a considerable drop in remittance inflows. The Unit processed approximately 51,592 transactions worth USD 43.47 Mn in 2021. This was an improvement on the 40,000 transactions worth USD 30 Mn carried out in 2020. The LMT platform continues to reach more countries, including UK, Japan, South Korea, Australia, Singapore, Hong Kong, and Israel.

OUTLOOK

DFCC Remittance Services signed up with MMBL Money Transfer in October 2021, to accept money transfers through Western Union, MoneyGram, and Ria Money Transfer. In 2022, six exchange companies in Italy, Australia, Japan, and Israel will be added to the LMT platform. Worker remittances are likely to increase as many workers get back to their jobs overseas, especially in the Middle-East.

CARD OPERATIONS

PERFORMANCE IN 2021

With completely new working arrangements in place due to the COVID-19 pandemic, the business continued uninterrupted and was able to maximise the opportunities made available in the market.

The year was exceptional with the achievement of 50,000 Credit Cards; a milestone that was reached within a very short time span.

Moreover, the Bank expanded the Cards business by establishing a partnership with Mastercard in order to issue Credit Cards and to add value to the Merchant Acquiring Business.

While the Bank's focus was to continue assisting cardholders through turbulent times, the in-house smart-card personalisation system was introduced which equipped the production of cards with greater efficiency. The initiative tremendously supported scaling down production costs and improving the turnaround time for a card to be issued.

Given the importance of this endeavour, customer segments were identified to spur the cardholder spending and to make the card to achieve top-of-mind recall. A 3% cash-back was offered for fuel, restaurants, overseas spend and utility for the proposition cards. In addition, numerous initiatives to grow the cardholder spend and the portfolio growth was launched.

The introduction of the 0% Easy Payment Plans for a tenor of 13 months, Buy Now – Pay Later Promotions, 0% Balance Transfer campaigns and massive online and health care offers, especially to support the pandemic situation, were launched.

The largest online shopping site in Sri Lanka, Daraz recognised the Bank as the Tactical Campaign Innovator during the Daraz Payment Partner Performance Awards 2021. This award re-confirmed the Banks spirit of being innovative.

The Merchant Acquiring Business deployed over 1,000 POS terminal machines and continued to support the Bank by contributing to the CASA growth. A partnership was forged with VISA International to recruit Micro Merchants in a bid to encourage SME business to accept payment cards. The objective of the programme was to foster financial inclusion in the rural economy, and to penetrate card acceptance by offering preferential pricing to this segment. The Mastercard acceptance on the POS machines was also an added advantage that assisted with recruiting high volume merchants. Furthermore, under the guidance and initiative of Central Bank of Sri Lanka to promote and encourage cashless payments, the Bank participated in several LANKAQR campaigns across the country.

BANCASSURANCE

Bancassurance business offers an extensive portfolio of insurance and assurance products to its customers, to safeguard its mortgage assets, customer wealth and their well-being, while diversifying the Bank's operations to drive the "Other income" portfolio.

The product portfolio includes long-term solutions such as life insurance, pension plans, higher education plans, protection covers, and wealth management solutions. Short-term solutions include asset cover products such as motor insurance, fire insurance, marine covers, machinery covers, hospitality covers, etc. The Bancassurance Unit offers hassle-free claims settlements, bespoke insurance packages, free consultations to its customer base, and product customisation to meet their specific needs and requirements.

The Bancassurance Unit works to raise awareness on personal well-being, wealth planning, wealth management, and risk mitigation associated with businesses to its customers. The Unit has a partnership with the Bank's long-term life insurance partner, AIA Insurance Lanka Ltd., to provide Life insurance, and the General insurance solutions, which are sourced through all reputed insurers in Sri Lanka by the Bank's appointed insurance broker.

PERFORMANCE IN 2021

The Bancassurance Unit initiated 5,483 life cover policies for the year 2021 and facilitated 24,242 non-life policies for the same period. The Unit successfully negotiated claims amounting to LKR 85.3 Mn for non-life policies while generating over LKR 430 Mn Annualised New Premium (ANP) for Life insurance and over LKR 1.02 Bn. Gross Written Premium (GWP) for General Insurance for the said period.

The key initiative for life insurance in 2021 was to drive small ticket policies and to this end, the Bank launched a campaign targetting salaried new recruits, which was a major success in generating long-term small policies. AIA Insurance developed an Adobe digital signature work flow so that contracts could be signed via email. This has helped to accelerate the processing of smaller policies tremendously during the lock-down period.

The DFCC-AIA CEO's Club Awards Night 2020 and 2021 was held to recognise and celebrate the Bank's staff for their exceptional achievements in providing protection to the Bank's customers, via a virtual event with the participation of Bank and AIA staff members.

In 2021, General Insurance Unit, amidst challenges, have shown resilience to be on par with the aspired income target, as a result of maintaining a high level of renewals and also due to the initiation of business generation through Deceasing Term Assurance for personal financial services.

OUTLOOK

With the continuation of restriction on vehicle imports, 2022 will be a challenging year. The Unit will target an LKR 1.25 Bn top line from General insurance business. Life insurance penetration in the country remains low, therefore the market remains ripe and the need for digital strategy development appears to be growing more urgent. To this end, the Bank is exploring several innovative options to pave way for the growth of the business. The Unit will continue targetting customers with high disposable income, enhanced appetite and buying power for insurance products as a form of investment. We will also empathise on segmented approach and offer need base solutions for different segments of customers.

Leveraging technology such as Data Analytics, Artificial Intelligence and Machine Learning to identify specific customer segments and their needs, will be the way forward. On-boarding customers through social media such as Facebook, digital channels, the Bank's website, Virtual Wallet and ATM machines. The Bank has also considered using Call Centre and SMS platform to raise awareness among selected audiences. This will be key in 2022 as the trend from traditional bancassurance sales model, which has been heavily reliant on face-to-face interactions, has been rapidly shifting towards digitisation models.

INSTITUTIONAL CAPITAL

Institutional capital comprises knowledge-based, intangible, non-financial aspects of an organisation which can collectively create value and enhance performance, when managed systematically. DFCC Bank's institutional capital encompasses accumulated knowledge, systems and processes, procedures and protocols, corporate culture and values, as well as brand values, business ethics and integrity, which contribute towards its unique work style and culture.

ORGANISATIONAL KNOWLEDGE

Over the years, the Bank has accumulated a body of knowledge comprising systems and processes, procedures and protocols which have shaped a specific way of functioning within a distinctive corporate ethos. These can be categorised as "tacit" knowledge, as they are not recorded or written down in any way, but their existence can be felt in the way the Organisation carries out its operations and formulates its strategies. In the case of DFCC Bank, its organisational knowledge helps it to remain true to its tagline: "Keep Growing".

Such accumulated knowledge is reinforced, perpetuated and put to good use by in-house experts who educate and mentor staff on various aspects and intricacies of banking operations, technical details and strategy, together with "Our way" of doing things. Through such collective learning, senior staff members are encouraged to mentor and pass on their knowledge to the next generation.

The Bank's intranet, "WECONNECT" functions as a repository of policies, knowledge, procedures and regulatory guidelines, which staff members can access in order to acquaint themselves with such information.

CORPORATE CULTURE AND VALUES

The core values of ethics and integrity, as well as being customer-centric, innovative, professional, accountable, team-orientated and socially responsible, form the distinctive corporate culture at DFCC. New recruits are given a thorough orientation and induction programmes that instil in them the essence of the Bank's corporate values and behavioural expectations. Regular programmes are conducted to reinforce these values and expectations. Rewards and recognition mechanisms are also in place to guide the Bank's staff members to "Live the Brand" and drive its values in their day-to-day interactions with colleagues, customers, and other stakeholders. For 2022, in line with our future focus and priorities, two new values were introduced, namely, stewardship and diversity, equity and inclusion.

The Bank encourages collective professional growth, and emphasises a work culture that is inclusive, open and supportive. The culture actively encourages diversity of opinion, acceptance of alternate viewpoints, and an open-door policy that makes Senior Management freely accessible to all. Such communication is facilitated through mechanisms such as open days, town-hall meetings, multiple grievance escalation mechanisms and various other means.

BUSINESS ETHICS AND INTEGRITY

DFCC Bank's culture and ethos are underpinned by ethics and integrity, which are strictly adhered to in all business dealings and relationships. This also orients application of the principles of honesty and fairness across all functionalities and relationships of the Bank, including those with colleagues, business partners and customers. Aspects such as honesty, integrity, accountability, trust, loyalty, fairness, and respect for others are embedded with the Bank's business practices and operations.

A Whistle-blowing Policy outlines how employees convey instances of wrongdoing or breaches of ethics and integrity to the HRD or the Internal Audit Department. Cross-functional committees including the Grievance Committee and Reach-out Committee have been formed, in addition to other systemic mechanisms to provide our employees with multiple avenues to surface issues.

DIGITAL INFRASTRUCTURE

The lockdown had the inadvertent effect of boosting DFCC Bank's drive to become a leading digitally-enabled and digitally-driven Organisation. Due to the non-availability of conventional channels of communications and carrying out transactions, customers embraced the digital platforms in which the Bank had made strategic investments. The digital platforms also enabled staff of the Bank to rapidly adapt to the "New normal" of carrying out efficient operations remotely, without the need for face-to-face interactions with customers and colleagues. The newly installed core banking systems stands at the epicentre of the Bank's digital infrastructure, guiding all its activities.

DIGITAL BANKING, STRATEGY AND INNOVATION

DFCC Bank has structured its digital strategy offering along six pillars: digital channels, digital payments, digital operations, digital services, digital analytics and DFCC Agile, the innovation centre of excellence (Introduced in 2021). These six pillars form the basis and launching pad of a number of products introduced over the years. The Bank's digital strategy roadmap aligns with the Bank's goal to be the most customer-centric and digitally enabled bank by 2025. Strategies and methodologies to implement this roadmap keep evolving with the emergence of new technologies to support ever evolving customer needs.

DFCC Agile – Innovation centre of excellence was launched in August 2021 to develop an innovation roadmap with external partners and the Bank's identified team members through multiple iterations and reviews. The Bank partnered with Innovation Quotient (IQ) in this endeavour. The hub will function as a strategic think tank and creative engine and the operations will trickle down throughout the organisational structure at DFCC Bank, acting as a hub for incubation and testing. This will ensure that new and innovative ideas, products, services, and design thinking principles will go through an innovation management process before implementation.

DFCC Bank's Cash Recycler Machines (CRMs) allow customers to perform their cardless/card-based cash deposits and withdrawals from a single unit. This service has been expanded to 65 locations during year 2021 and plans to increase to 100 by year end 2022. The Bank partnered with MAS Unichela Koggala and introduced an offsite ATM and overall expanded the offsite ATM/CRM network to 25 allowing customers 24x7 access to their accounts. Cash deposits to CRMs grew by 266%. Cheque deposit kiosks have been expanded to 25 machines and intend to increase to 50 in the year 2022. Cheque deposits to the kiosk grew by 484%. The Bank also partnered with Mega Pay Private Limited and expanded the Pay&Go kiosks to 33 and plan to increase to 45 by year end 2022. This allows customers to top-up their mobile phones and pay up to 60 types of bills, including utility bills. The Bank expanded the MySpace locations to 45 and intends to adding another 20 locations during the year 2022. By introducing these channels, the time saved at branches enabled staff to focus more on value adding activities.

The Bank recently introduced the state-of-the-art new online banking platform built on Temenos Infinity for its retail banking customers with new features, user interface and self-service features such as 360^0 view on accounts/deposits/loans/credit cards and leases, viewing the entire banking portfolio in a single page, manage credit cards and make payments, transfer funds immediately to any bank account via CEFT/SLIPs and option to open savings accounts, fixed deposits, goal setting savings digitally and many more. A new lifestyle mobile banking app will also be introduced in year 2022. The launched digital bank will integrate to new ecosystems and provide frictionless, invisible banking experience to its present and future customers.

DFCC Virtual Wallet (hybrid mobile banking app) is an innovative product that enables customers to perform a multitude of banking functions using their smartphone. DFCC Virtual Wallet is similar to a wallet with built-in mobile banking features, with an interface that enables customers to use in Sinhala, English, or Tamil. The Bank introduced nearly 40 new billers, enabled the app to the Huawei app store, and improved a few user interfaces. DFCC Virtual Wallet is the online hybrid wallet and banking app in the market with trilingual options for customers to select and use. During the year 2021 the Bank integrated with mCash biller platform to enable users to pay additional billers, institutions, etc.

The app has been adopted very well by customers and transactions grew by nearly 203% and bill payment transactions increased by 203% and 65% of all CEFT transactions were routed through the DFCC Virtual Wallet in 2021. DFCC Virtual Wallet was recognised as the best "Digital Wallet in Sri Lanka in 2021" by Global Banking and Finance Review.

The "Mobile Teller" doorstep banking service will be continued with more features introduced in the future to add more value to customers. Through this channel, nearly 105 branches actively provide the services to customers.

Digital services have been greatly enhanced in keeping with the Bank's vastly improved digital capabilities, following the installation of the core banking system. DFCC Alerts SMS service continues to be upgraded, with more services being added on – including Junior Children's Savings and Teen Account holders. Customers can interact with the interactive, conversational DFCC chatbot in a language of their choice through Facebook Messenger, Viber or the corporate website. For complex inquiries which can't be handled by the chatbot, customer will be directed to a live chat with a Contact Centre agent. The bot was revamped and a new flow based chat and search feature was introduced while the option to chat with live agent was embedded to the main chat window. The DFCC Video Chatz feature helps customers to interact with a Contact Centre agent, through video, for digital products support and customer on-boarding. The Bank's website continues to support key banking functionalities, in addition to customer relations and communications efforts. All branch locations were listed on Google to support local search and were optimised for Google Maps. New features introduced in 2021 were:

- Non-Face To Face (NF2F) (implementation of digital on boarding and Account Opening Process)
- Dynamic Pinnacle page with relationship manager details
- Speed optimisation for an improved user experience and compliance to Google's core web vitals
- Credit card comparison upgrade with new products (Master Card, Affinity Card to compare and choose the most appropriate card type)
- Micro site for *Aloka* Product Page (to empower Sri Lankan women with exciting offerings)
- Dynamic page for Virtual Wallet with wallet merchant page

The Bank carried out the following communication campaigns to promote its digital offerings, using traditional and social media vehicles:

- DFCC Virtual Wallet Awareness Campaign
- DFCC Virtual Wallet – Enabling Huawei Harmony O/S Awareness Campaign
- DFCC Virtual Wallet Benefits and mCash Biller Integration Campaign
- Digital Channels Awareness Campaign
- Geo Fencing Campaign for Offsite LIOC ATMs and DFCC CRMs
- All-in-one Digital Properties Awareness Campaign in ATL, BTL and Digital medium

CORE BANKING SYSTEM

DFCC Bank's new core banking system has the avowed aim of substantially enhancing productivity and operational efficiency, bringing down operational costs, utilising less manpower, ensuring greater accountability of the customers, simplifying banking processes, and expanding the outreach and accessibility of the Bank. The new system will accelerate the adoption of digital processes, as the integration of several Application Programming Interfaces (APIs) will create a more agile platform that will enable the Bank to respond faster to the changing business environment. The new core banking system offers the Bank a distinctive competitive advantage, which can be leveraged to great effect over the next decade or so. It also aligns with the Bank's goal of increasing its customer-centric focus.

CUSTOMER EXPERIENCE

The Bank views its customer service and experience in a holistic manner. All incoming customer enquiries and complaints from multiple channels encompassing the corporate website, email, telephone, social media, or letters are handled by the centralised Customer Experience Unit. This enables increased quality of service and shorter response times.

Customer Services Ambassadors have been appointed across all branches. They have been tasked with driving the importance of consistent and sustainable customer experience across the branch network. The Customer Experience Unit utilises mystery shopper surveys as well as complaint management mechanisms to identify gaps in service, which are addressed through various training programmes to ensure that higher standards of service are maintained. Data analysis is being increasingly used to identify customer-related issues, so that they can be addressed and resolved more effectively.

TEA INTEGRATED PAYMENT SYSTEM

Taking an industry-specific approach, DFCC Bank's Tea Integrated Payment System (TIPS) platform offers a dedicated, streamlined and scalable system to the tea industry. This system integrates tea smallholders, factories, and financial institutions, in order to support the tea industry which is among the leading Forex earners for Sri Lanka, while also generating considerable employment opportunities. The system automates several manual processes such as tracking the collection of tea leaves and issuing payments to various stakeholders. This is carried out through the integration of technologies such as Near Field Communication (NFC), Radio Frequency ID (RFID), and Bluetooth. The system also helps to improve the financial inclusion of a large number of people engaged in this sector, while increasing transparency and efficiency of the industry.

PAYMENTS AND CASH MANAGEMENT SYSTEM

DFCC Bank is a market leader in the Payments and Cash Management proposition, which offers our customers a range of solutions to add efficiencies to their daily transactional banking needs. The highlight of this proposition is the fact that our subject matter experts perform a deep dive into the needs of the customer and offer a customised Payments and Cash Management solution that meet their requirements. DFCC iConnect is the electronic banking platform and is a fully integrated Payments and Cash Management system that enables our customers to perform all their transactions through a secure channel.

The iConnect portal offers solutions to customers that enable them to step into the new digital era by having access to a vast range of transactional banking solutions. This system can also be accessed through any smart device via the iConnect Mobile App version. It gives our customers the flexibility to authorise payments and perform other important transactional activities on the move.

One of the newest solutions that we have introduced under the iConnect offering is an end-to-end, straight through Financial Supply Chain Management solution. This module gives our customers the ability to digitalise the distributor/supplier financing needs of their Company. Through this feature, customers can now create a credit line and extend it to their distributors/suppliers, make payments, issue invoices, and obtain short-term loans. The main aim of this product was to improve the visibility, manage cash better and improve the turnaround time of our customers' total eco-system.

We are delighted that our customers have voted us as the Market Leader, under the Best Cash Management Bank category in 2021, awarded by the prestigious Euromoney. This accolade further justifies the market recognition, dominance and the ability of our Payments and Cash Management proposition to provide effective solutions to our customers.

BUSINESS PROCESSES AND OPERATIONAL EFFICIENCIES

Staff members have been wholehearted in adopting the Google Workspace, which has played a crucial role in the Bank's efficient response to the new paradigm imposed by the pandemic. Staff members were also given access to more tools which afforded increased visibility into their data, in order to work more efficiently in their functional areas. Several different workflows were created in order to break down the functional silos that existed between various departments. This has resulted in greatly enhanced cross-functional collaboration.

A data-driven culture is essential for progress in the future, which the Bank is developing internally. The Business Intelligence Unit continues to provide the Bank's staff with a holistic overview of its customers. The Business Intelligence Steering Committee performs a key role in enhancing value, quality, security, and adaptability of institutional data. Staff members have been given access to dashboards which provide a real-time view of key data and KPIs, while offering predictive analysis, which will enable them to understand customer needs better and respond to them in a proactive manner.

With the increasing adoption of virtual banking, Robotic Process Automation (RPA) has taken on an important role in streamlining a wide variety of the Bank's back office processes, and addressing internal process bottlenecks, while reducing the need for human involvement. This has helped DFCC to increase productivity by engaging and responding to customers in real-time. This has also allowed the Bank to shift staff from task-oriented roles towards more productive, value-adding roles.

The provision of moratoriums resulted in major changes in customers' contracts and repayment schedules. Shifting this process to RPAs helped the Bank in completing the work in days, compared to weeks it would have taken with manual processes. This effort was recognised by SLASSCOM and won the "Best Post-COVID Innovation Award" in the Business Continuity category at the RPA Awards 2020. In addition to RPA, the Bank also introduced a new workflow for credit card application processing to streamline and fast-track application processing and the approval process.

SECURITY AND INFRASTRUCTURE

Banks, as a rule, are intensely focused on online security risks posed to their systems, as well as to data integrity. The shift to work from home for most of the Bank's staff greatly intensified the need to be extra vigilant, as they carried out operations online, which elevated the prospect of security threats. Additional layers of security were added to the Bank's internal systems to enable staff members to connect to the Bank's systems from home. Adoption of Google Workspace by the Bank played a key role in helping staff members to carry out their functions efficiently, in a streamlined manner.

The Bank launched the Visa Secure platform to make online transactions more secure for its customers and signed up with Visa for its fraud detection system. The Bank also commenced its Point of Sales (POS) acquiring business, which has quickly grown to over 600 units, and launched the “DFCC Pay” app, the first mVisa-supported mobile app in the country.

BRAND EQUITY

The brand equity over the years has increased with the heightened awareness level that DFCC is a full service commercial bank – the bank for everyone!

In spite of the adverse economic conditions that were faced, the Bank was successful in adopting a communication strategy with greater emphasis on digital thus building on the existing equity of the DFCC brand. The Bank made use of this opportunity to shift its marketing communication strategy towards a greater usage of social media platforms such as Facebook, Instagram, YouTube, LinkedIn and Twitter. This resulted in vastly improved customer interaction and engagement, in addition to the continuous communications with customers and all other stakeholders. The top of mind recall for the DFCC brand increased and helped further reiterate the Bank’s focus on being a full service commercial bank.

This approach facilitated the precise targeting of clearly defined customer segments, continuous brand presence, and measurable engagement with customers on a range of products and services, using varied social media networks and digital platforms such as Google Display Network, Search Ads and Programmatic Ads on third party website and Apps. The key insight was the ability to measure the success rate of such campaigns run on digital platforms which made the marketing efforts more fruitful with clear evidence on the marketing return on investment.

As a result, the DFCC brand was able to attract a significant number of followers, increasing video views on the Bank’s products and services, as well as more impressions of brand-related content. Despite taking a “digital only” approach on a number of campaigns, customer engagement reached hitherto unmatched results.

Though communication challenges remained, new products and services were introduced from time to time. The DFCC brand has continued to be ranked among the top 100 most valuable brands in Sri Lanka by Brand Finance. The Bank has also retained its position among Business Today’s Top 40 Corporates, which is a commendable achievement.

Source – Business Today Dec 2021

Numerous campaigns with different objectives for distinct target audiences were launched during the year including a proposition exclusively for women – DFCC *Aloka*; along with various online and public relations initiatives. This played a key role in increasing mind-share of the brand and driving top-of-mind-awareness, helping the brand’s messages to reach out to multiple segments across the country.

The brand presence in social networks played a pivotal role in 2021 as the Bank evolved to become one of the best digitally enabled banks. Hence, DFCC Bank executed a holistic content strategy including Digital Films, Social Media competitions, Engagement driven campaigns in order to catch the eye of Digital Media users towards the Bank’s social presence and enhance brand engagement. Further, aggressive follower growth campaigns were executed on Facebook and Instagram in order to increase the brand awareness. As a result, as of 31 December 2021 the Bank achieved the following statistics on the main social media channels. As the latest addition to DFCC Bank Socials, the new TikTok content strategy will commence in January 2022.

In the year 2021, the Bank released over 60 PR articles and gained 1,230 impressions on both Press and Digital mediums. The Bank ranked the 7th position amongst all banks in terms of the Press impressions and 2nd position in the Digital space. The summary of the PR KPIs are as follows:

Total number of released articles	64
Print Impressions	502
Print – Language Breakdown	E-372/S-82/T-48
Online Impressions	728
SOV – Print	7%
Rank – Print	7
SOV – Online	13.42%
Rank – Online	2

Source – Annual PR Statistics Report 2021

	Facebook	Instagram	LinkedIn	YouTube
Follower Growth	47,571	6,134	9,415	680
Impressions/Number of Video views (YouTube)	50.3 Mil.	4.4 Mil.	735,064	999,041
Engagement	31%	160%	31%	N/A
Reach	40.5 Mil.	3.3 Mil.	285,462	N/A

Source – Annual Social Media Statistics Report, Fanpage Karma (2021)

NOTABLE RECOGNITION AND AWARDS

DFCC BANK'S BRAND RATING

DFCC Bank's Brand Rating

	Position	Rating	Value LKR Mn
2021	27	A	5,584
2020	28	A-	5,039
2019	25	A+	6,334
2018	27	A+	4,706
2017	39	A+	1,660
2016	38	A-	1,684

Source: Brand Finance Sri Lanka 100 – 2021

AWARDS AND CITATIONS

DFCC Bank received recognition from the following bodies in 2021:

- **Top 100 Most Valuable Consumer Brands in Sri Lanka – 2021.** DFCC Bank has been ranked 27th in the survey conducted by Brand Finance Sri Lanka. This is a rise of one notch from last year.
- **"Most Trusted Retail Banking Brand in Sri Lanka"** by the Global Brands Magazine, UK, for the year 2021, under the category of "Banking and Finance".
- **"Best Customer Service Banking Brand in Sri Lanka"** by the Global Brands Magazine, UK, for the year 2021, under the category of "Banking and Finance".
- Merit award at Outstanding Development Project Awards, Category 8 by the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), for DFCCs Supplier Financing Scheme for Export Agricultural Crops project.
- Special award for DFCC Bank's corporate website by the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP).
- Silver award for "Best Banking Website" in English, Sinhala, and Tamil, by LK Domain Registry, Best web.lk Competition.
- **"Most Innovative Corporate Banking App Sri Lanka"** at the Global Banking & Finance Awards 2021, organised by the Global Banking & Finance Review magazine. This award was for the DFCC "iConnect" app, which was launched in 2018. The app was previously awarded "Market Leader in Cash Management Sri Lanka (Domestic Banks)", and "Best for Services in Cash Management – Sri Lanka" at the "Asiamoney Awards".
- **"Best Digital Wallet Sri Lanka",** at the Global Banking & Finance Awards 2021, organized by the Global Banking & Finance Review magazine. The Bank received the award for its revolutionary "Virtual Wallet", the first mobile wallet launched in Sri Lanka, as far back as 2015.
- One of the Top five Honourable Mentions for the "Most Admired Companies in Sri Lanka" by Chartered Institute of Management Accountants (CIMA) and the International Chamber of Commerce Sri Lanka (ICCSL).
- Merit award for "Outstanding Business Sustainability Achievement" for incorporating sustainability in its corporate strategy and its business processes.
- Merit award in "Sustainability Leader of the Year" by Global Sustainable Finance Conference, City of Karlsruhe, Germany for Mr Lakshman Silva, former CEO, DFCC Bank PLC to recognise his exceptional leadership in driving the business performance of the Bank through creating social, economic, and environmental values.
- **"Market Leader in Cash Management Sri Lanka"** at the recently concluded Euromoney Awards. This award was for DFCC iConnect.

ANTI-BRIBERY AND CORRUPTION

The Anti-Bribery and Corruption Policy (ABC Policy) of the Bank which is timely revised through the approval of the Board of Directors regulates the Anti-Bribery and Corruption Framework which is monitored by the Fraud Risk Management Committee (FRMC). ABC Policy covers the Directors, employees and all others who are authorised to act on behalf of the Bank. Plus, the scope of the ABC Policy extends to prohibiting Bank's officials conducting business and maintaining relations with those who are known, associated with or else vulnerable to bribery and corruption.

In keeping with the Bank's zero-tolerance approach towards bribery and corruption, the FRMC regularly conducts reviews based on Audit, Compliance and HR findings to ensure that the relevant policy stipulations are rigorously adhered to. Employees and other stakeholders are encouraged to report bribery and corruption concerns as per the provisions under the Whistle-blowing Policy of the Bank or any other communication channels available within the Bank and are also required not to make facilitation payments and political contributions in the course of business. Parameters of employee conduct with regard to multiple areas including bribery and corruption is covered in the Employee's Handbook too which governs and regulates employee conduct and behaviour at work.

COMPLIANCE

DFCC Bank conforms to all applicable environmental and other statutory laws and regulations existing in Sri Lanka. During the year under review, there have been no incidents of non-compliance pertaining to the Bank's operations, marketing, labelling, loss of consumer data, and other processes, except for the penalty of Rupees one million (LKR 1,000,000/-) imposed by the Financial Intelligence Unit levied for an operational violation over a removal of a restraint order in an account under a freezing order. Bank reiterates the commitment to uphold and comply with all laws and regulations including FIU regulations and directions and has further strengthened controls through systems as well as awareness of staff on the importance of adherence to laws and regulations applicable.

INVESTOR CAPITAL

SHAREHOLDER PROFILE

The Bank had 10,595 shareholders as at 31 December 2021 (corresponding to a figure of 11,526 as at 31 December 2020), with 320,522,436 shares in issue. Institutions make up approximately 74.3% of the Bank's share capital. 83.9% of the Bank's share capital is held by local shareholders, both institutional and individual.

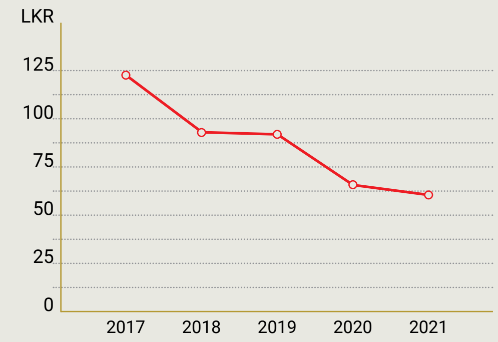
SHARE INFORMATION

DFCC Bank share price information for the period 1 January 2021 to 31 December 2021.

	1 January to 31 December 2021	1 January to 31 December 2020
Price indices		
ASPI	12,226.01	6,774.22
S&P SL20	4,233.25	2,638.10
Share price		
Lowest price (LKR)	56.30	47.90
Highest price (LKR)	80.40	91.80
Closing price (LKR)	60.00	65.30
Market capitalisation		
Value (LKR Mn)	19,231	19,982
Percentage of total market cap (%)	0.35	0.67
Rank	56	37
Value of shares traded		
Value (LKR Mn)	2,404	6,379
Percentage of total market turnover (%)	0.21	1.61
Rank	71	13

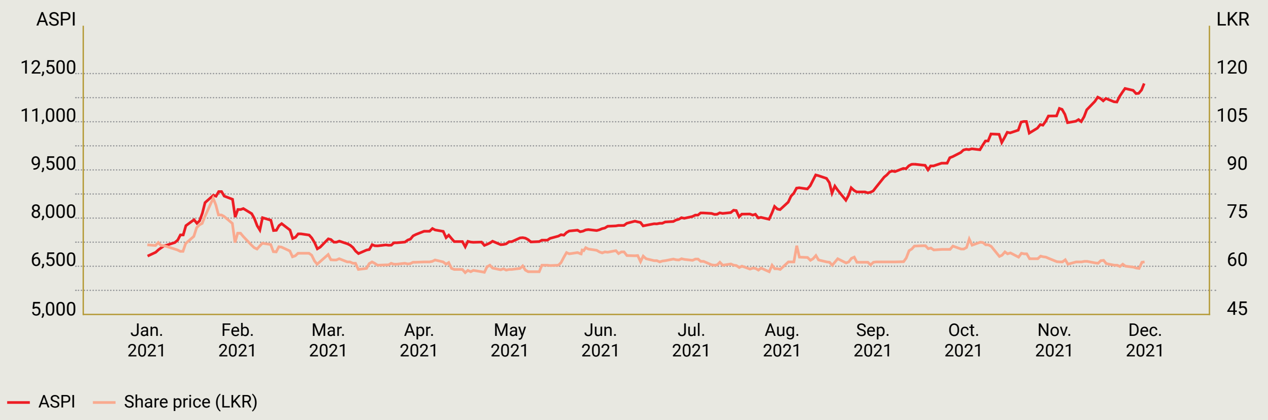
	1 January to 31 December 2021	1 January to 31 December 2020
Days traded		
Number of days traded	240	209
Total number of market days	240	209
Percentage of market days traded (%)	100	100
Frequency of shares traded		
Number of transactions	25,111	42,692
Percentage of total frequency	0.32	1.39
Rank	76	39

BANK'S CLOSING SHARE PRICE



Investors are a key stakeholder in the Bank's value creation process. One of the core objectives of the Bank is to maximise investor wealth by providing sustainable, long-term returns.

SHARE PRICE MOVEMENT OF DFCC BANK FROM JANUARY 2021– DECEMBER 2021



The Bank regularly engages with its investors and they are actively involved in shaping the Bank's corporate behaviour.

DISTRIBUTION OF SHAREHOLDING

CATEGORIES OF SHAREHOLDERS

As at	31 December 2021			31 December 2020		
Shareholding, %	Foreign	Local	Total	Foreign	Local	Total
Individual	10.10	13.34	23.44	10.11	15.56	25.67
Institutional	5.94	70.62	76.56	5.97	68.36	74.33
	16.04	83.96	100.00	16.08	83.92	100.00

DISTRIBUTION OF SHAREHOLDING BY SIZE

As at	31 December 2021			31 December 2020		
Share range	Number of shareholders	Number of shares	Total holding percentage	Number of shareholders	Number of shares	Total holding percentage
1 – 1,000	6,399	1,783,326	0.55	6,826	2,071,399	0.68
1,001 – 10,000	3,513	9,577,349	2.98	3,892	11,049,396	3.61
10,001 – 100,000	577	15,025,500	4.68	701	18,399,594	6.02
100,001 – 1,000,000	83	20,349,933	6.36	85	20,857,298	6.81
Over 1,000,000	23	273,786,328	85.43	22	253,619,563	82.88
	10,595	320,522,436	100.00	11,526	305,997,250	100.00

PUBLIC HOLDING AS AT 31 DECEMBER 2021

As at	31 December 2021	31 December 2020
Public holding percentage (%)	62.5	62.6
Number of public shareholders (Nos.)	10,579	11,511
Float adjusted market capitalisation (LKR Mn)	12,024	12,500
Applicable option as per CSE Listing Rule 7.13.1 (a)	Option 1	Option 1

TWENTY MAJOR SHAREHOLDERS OF THE BANK AS AT 31 DECEMBER 2021

As at Name of Shareholder/Company	31 December 2021 Number of shares	Percentage	31 December 2020* Number of shares	Percentage
Hatton National Bank PLC A/c No. 1	47,789,949	14.91	45,624,242	14.91
Bank of Ceylon No. 2 A/c	40,082,584	12.51	38,266,153	12.51
Mr M A Yaseen	32,052,242	10.00	30,599,724	10.00
Sri Lanka Insurance Corporation Ltd. – Life Fund	29,057,943	9.07	27,741,118	9.07
Employees' Provident Fund	25,677,509	8.01	24,513,876	8.01
Melstacorp PLC	23,585,521	7.36	22,516,691	7.36
Seafeld International Limited	18,668,111	5.82	17,822,125	5.82
Mr H H Abdulhusein	9,530,000	2.97	9,000,000	2.94
People's Leasing & Finance PLC/Don & Don Holdings (Pvt) Limited	8,981,956	2.80	4,673,501	1.53
Renuka City Hotels PLC	7,298,813	2.28	6,968,052	2.28
Renuka Hotels PLC	4,292,082	1.34	4,097,577	1.34
Employees' Trust Fund Board	4,202,087	1.31	4,011,661	1.31
Seylan Bank PLC/Senthilverl Holdings (Pvt) Limited	3,320,080	1.04	1,333,476	0.44
Akbar Brothers (Pvt) Limited A/c No. 1	2,844,533	0.89	2,599,019	0.85
Cargo Boat Development Company PLC	2,632,342	0.82	2,513,052	0.82
Anverally International (Pvt) Limited	2,582,161	0.81	2,056,639	0.67
Sri Lanka Insurance Corporation Limited – General Fund	2,269,393	0.71	2,166,551	0.71
Stassen Exports (Pvt) Limited	1,998,639	0.62	1,908,067	0.62
Deutsche Bank AG as Trustees to Assetline Income Plus Growth Fund	1,714,384	0.53	654,102	0.21
Crescent Launderers and Dry Cleaners (Pvt) Limited	1,562,154	0.49	1,491,362	0.49
Total of the 20 major shareholders	270,142,483	84.29		
Other shareholders	50,379,953	15.71		
Total	320,522,436	100.00		

* Shareholding as at 31 December 2020 of the twenty largest shareholders as at 31 December 2021.

RETURN TO SHAREHOLDERS – BANK

Description	2021	2020
Profit for the year (LKR Mn)	3,222	2,388
Return on total assets (%)*	0.92	0.79
Net assets per share (LKR)	152.83	161.30
Earnings per share (LKR)	10.14	7.83
Dividend per share (LKR)	3.00	3.00

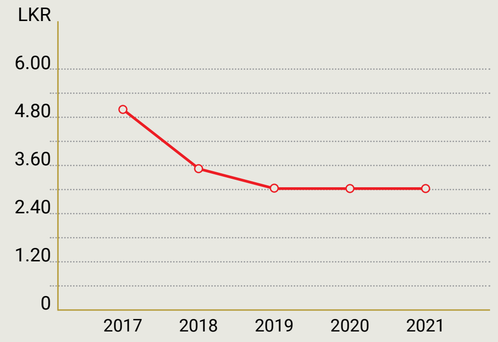
* After eliminating fair value reserve.

FINANCIAL RETURN

DFCC Bank strives to regularly provide high shareholder returns through profitable and sustainable performance. The Directors approved a first and final dividend of LKR 3.00 per share by way of a scrip dividend for the year ended 31 December 2021.

Dividends are based on growth in profits, while taking into consideration future cash requirements and the maintenance of prudent ratios.

BANK'S DIVIDEND PER SHARE



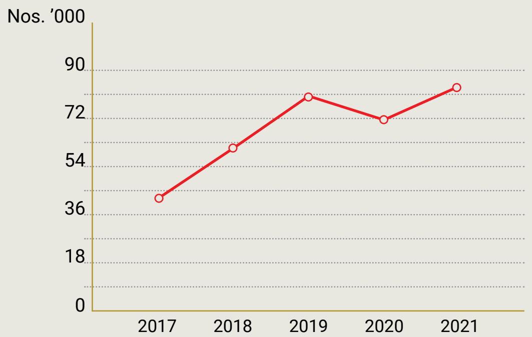
CUSTOMER CAPITAL

Customer-centricity is a concept that is deeply embedded within the Bank's ethos. With a heritage spanning over 66 years, the Bank has constantly engaged with customers on a personal basis, resulting in enduring relationships across a broad range of segments. As the number of accounts surpasses over half a million, DFCC Bank continues to guide customers in helping them make the most prudent and positively impactful financial decisions that help them reach their goals in life.

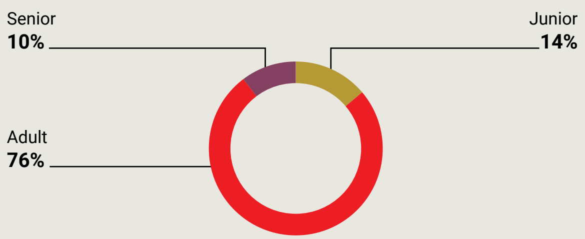
Customer-centricity assumes greater significance, given the Bank's stated goal of reaching two million customers. It is one of the key pillars defined in the Vision 2025 strategy plan. Building and enhancing the customer experience, along with adding value to the relationship, is a crucial component of the Bank's approach to customer-orientation. DFCC Bank continues to harness the benefits of innovative product and service offerings to customers, ensuring mutually-beneficial, long-term relationships.

CUSTOMER PROFILE

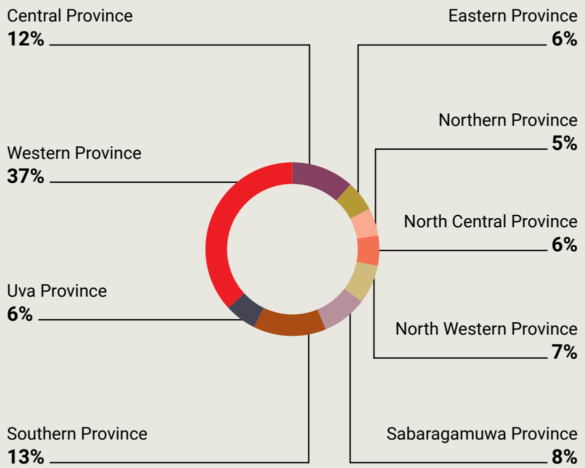
NUMBER OF NEW CUSTOMERS



CUSTOMERS BY SEGMENT



CUSTOMERS BY PROVINCE



PRODUCT PORTFOLIO

SAVINGS ACCOUNTS

DFCC Winner – Among the best interest rates for accounts with a minimum balance of LKR 2,500/-. This account is also for businesses and for individuals who are over the age of 18 years.

DFCC Mega Bonus – Interest rates on offer increases along with account balance on savings deposits, for businesses and individuals aged 18 years and above.

DFCC Xtreme Money Market Account – Offers one of the highest interest rates for Rupee and Dollar denominated savings, based on the account balance for businesses and individuals aged 18 years and above.

DFCC *Garusaru* – Offers attractive interest rates, reward schemes and a range of other benefits for senior citizens who are above 60 years of age.

DFCC Junior – Children's savings account which offers an exciting range of gifts and preferential interest rate for children below 18 years of age.

DFCC Junior Plus – Children's savings account with a higher interest rate for children below 18 years of age.

DFCC Teen – Savings account with exclusive offers, benefits and higher interest rate for teenagers who are between 13 and 18 years of age.

CUSTOMER CAPITAL

SPECIAL DEPOSIT ACCOUNT

Offers highly attractive returns for funds received from abroad via inward remittances. Fixed deposits can be placed under this account in any designated foreign currencies or Sri Lankan Rupees. This is an ideal account for Sri Lankans who are employed overseas.

PRODUCT PROPOSITIONS

These have been separated into varying categories, catering to different segments, distinct needs, wants, aspirations and lifestyle to offer the most suitable financial solutions. These include savings accounts, current accounts, debit and credit cards, as well as personal loans.

DFCC Salary Plus

DFCC Salary Partner

DFCC Prestige

DFCC Pinnacle

DFCC *Aloka* Women's Proposition

HOUSING LOANS

DFCC Home Loans – Flexible and convenient housing loans at competitive interest rates for self-employed individuals, professionals, and salaried individuals. These loans can be used for purchasing or constructing a house or apartment, as well purchasing a plot of land, renovating a house, etc.

PERSONAL LOANS

A wide range of personal loans catering to the varying needs of different categories of salaried employees and professionals in the private and Government sectors.

DFCC Education Loans – Flexible and convenient loan facilities to fund the higher education of individuals pursuing higher studies in Sri Lanka or overseas.

DFCC *Garusaru* Personal Loans – Special personal loan scheme for Government pensioners.

LEASING FACILITIES

DFCC Leasing for brand new and unregistered/registered vehicles, machinery, plant and equipment for corporates, SMEs, entrepreneurs, professionals and individuals.

DFCC CREDIT CARDS

The only Credit Card that offers 1% cashback on every personal card transaction, 365 days of the year.

BANCASSURANCE

Insurance and assurance solutions for corporates, SMEs, entrepreneurs, professionals, and individuals.

PAWNING SERVICES

Financing immediate cash requirements of individuals.

DIGITAL PRODUCTS AND SERVICES

DFCC Virtual Wallet (Hybrid mobile banking app)

DFCC iConnect

DFCC Pay App

DFCC Chatz/DFCC Video Chatz

MTeller

eStatements

DFCC Alerts (SMS)

DFCC Online Banking and Mobile Banking

DFCC MySpace (Digital Channels – ATMs, CRMs, CHDMS, Pay&Go Machines)

NF2F – Virtual customer on-boarding (Non-Face to Face)

DFCC BANK WEBSITE

The website continues to support key banking functionalities, in addition to customer relations and communication efforts. The Bank is focused on improving the interactive features of the website, In addition to traditional website functions such as customer interactions and communications, the Bank's website continues to support critical banking operations that improve client convenience and assist internal banking processes. All DFCC Bank branch locations were listed and optimised on Google to support local searches resulting approximately 200,000 actions (website, calls, directions) via the local listing. For the year 2021, the Bank's website had 1.3 million sessions and continues to support business to acquire customers digitally.

New features introduced in 2021

1. Non-Face To Face (NF2F) implementation of Digital on-boarding and Account Opening Process, converting the website to a semi-digital branch, enhancing customer convenience and matching the new normal. Further, this feature enables customers to open accounts in the comfort of their homes or office. The initiative also supports one of the Bank's sustainability strategies of moving towards a paperless and eco-friendly environment.
2. The online credit card application was upgraded in sync with the Bank's processes.
3. Dynamic Pinnacle page with relationship manager details was developed.
4. Website Speed Optimisation for an improved user experience and compliance to Google core web vitals.
5. Credit Card comparison upgrades with new products (Mastercard, Affinity Card to compare and choose the most appropriate card type)
6. Microsite for DFCC *Aloka* Product Page was developed to empower Sri Lankan women with exciting offerings.
7. Dynamic page for Virtual Wallet with wallet merchant information.

DFCC CHATZ

The interactive, multi-channel chatbot continues to provide assistance to customers through the corporate website, Facebook Messenger, and Viber. Customers can interact with the conversational DFCC chatbot in a language of their choice. For complex inquiries which can't be handled by the chatbot, customers will be directed to a live chat with a Contact Centre agent available 24/7. The bot was revamped and a new flow based chat and search feature was introduced while the option to chat with contact centre agent was embedded to the main chat window. 36,659 chat sessions were conducted during the year, an increase of 135% over the previous year. New channels and capabilities will be integrated to DFCC Chatz in the year 2022.

CREDIT LINE/SUBSIDY SCHEME SUPPORTED PROJECT LOANS

- ***"Saubagya"* (Prosperity) Loan Scheme** for Small and Medium Enterprises (SMEs).
- **Small and Micro Industries Leader and Entrepreneur Promotion Project III Revolving Fund (SMILE III RF)** for SMEs.
- **Small and Medium-Sized Enterprises Line of Credit** – (SMELoC) for SMEs.
- **Emergency Response Facility** – Working capital loan scheme for SMEs.
- **Tea Smallholder Credit Line** – For tea smallholders to carry out leaf production.
- **Environmentally Friendly Solutions Fund II – Revolving Fund (eFriends II RF)** for pollution reduction and efficiency improvement initiatives.
- **Smallholder Agribusiness Partnership Programme (SAPP)** for out-grower farmers and youth entrepreneurs connected to the agriculture value chain.
- **Rooftop Solar Power Generation Line of Credit (RSPGLoC)** for rooftop solar power systems of up to 50 kW.
- **New Comprehensive Rural Credit Scheme (NCRCS)** for short-term cultivation.

OTHER PROJECT LOANS

Term loans for corporates, SMEs, professionals and individuals.

WORKING CAPITAL FINANCING

Short-term working capital financing – overdrafts, revolving credit or short-term working capital loans for corporates, SMEs, entrepreneurs and current account holders.

Medium, long-term loans to finance permanent working capital requirements for corporates, SMEs and entrepreneurs.

DFCC *"SAHAYA"*

A one-stop financial solution offering loans, leases, bank guarantees and other commercial facilities for MSMEs.

HIRE PURCHASE FACILITIES

Hire purchase facilities for vehicles for corporates, SMEs, entrepreneurs, professionals, and individuals.

GUARANTEE FACILITIES

Bid bonds, advance payment bonds, performance bonds, bank guarantees for credit purchase of goods for corporates, SMEs, entrepreneurs, professionals, and individuals.

LOAN SYNDICATION

Loans provided by a group of lenders which is structured, arranged and administered by one or several banks, for corporates.

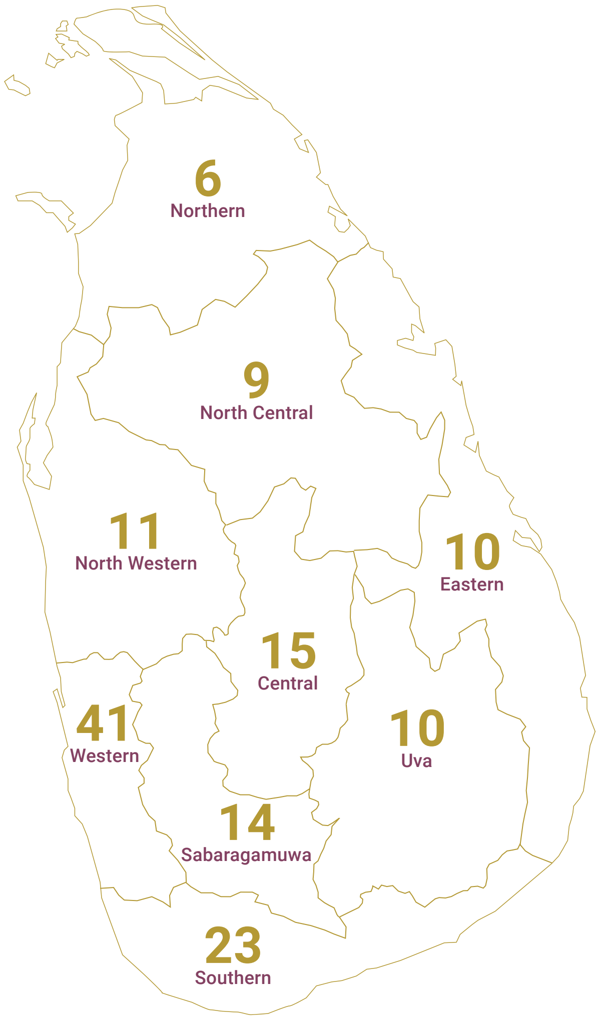
CONSULTANCY AND ADVISORY SERVICES

Provision of legal, tax, finance, market, and other advisory services to start up a new business or revamp existing businesses for corporates, SMEs and entrepreneurs.

BRANCH NETWORK AND SERVICE DELIVERY

DFCC Pinnacle Centre, located in Colombo 7, provides customised banking services encompassing relationship management, wealth management, portfolio management, real estate, legal, and investment. The branches in Welikanda, Kottegoda, Uragasmanhandiya and Homagama were upgraded to provide more banking facilities, while Rambukkana and Hakmana branches were relocated in order to offer increased customer convenience.

Over 5,500 LankaPay ATMs across the island allow customers to access the Bank's Services. Ranking among the most customer-centric and digitally enabled banks in the country, DFCC is able to reach out to customers with ease and convenience. A 24/7 Contact Centre, along with the corporate website, enables customers to communicate with the Bank in English, Sinhala, or Tamil.



NEW PRODUCTS AND SERVICES IN 2021

Taking pride in being the "Bank for Everyone", DFCC launched a number of new propositions, taking a more nuanced approach to segmenting retail customers. This was also in alignment with the Bank's customer-centric approach. Carrying out a strategic analysis of customers' life journeys, the Bank was able to craft a range of propositions which would fulfil their aspirations and help them reach their financial goals at different stages of their lives.

Customers taking up any of our propositions will receive a complementary branded international debit card with enhanced withdrawal and POS limits. It also entitles them to free access to all DFCC Bank ATMs and over 5,500 LankaPay ATMs, in addition to free digital banking services such as DFCC Virtual Wallet. A lifetime free credit card is offered to eligible candidates, providing cashback on transactions and six months' interest-free instalment plans. Each proposition also offers special pricing on banking products, tariffs with exclusive fee waivers, rewards and benefits.

Scan to view the details of the Branch Network
http://dfcc2021.annualreports.lk

MASTERCARD AND MERCHANT ACQUIRING SERVICES

The Bank launched Mastercard issuing with the introduction of the World Card and enabled the card acceptance on the Point of Sale (POS) Machines. The World Card was made available for existing and new customers who can apply by requesting for a new card with a stand-alone limit or by splitting their current credit limit as they see fit. The new card is perfect for professionals, entrepreneurs, and businessmen who are looking for new opportunities to enhance their purchasing power.

The merchant services were enhanced by the Mastercard acceptance on the POS machines which assisted with recruiting high volume merchants. A new Android-based POS machine was introduced which accepts all major credit card transactions via tap-to-pay, CHIP reading or swiping the mag-stripe. A partnership was forged with Visa International to recruit Micro Merchants in a bid to encourage SME business to accept payment cards. The objective of the programme is to bring in financial inclusion to the rural economy and to penetrate the card acceptance by offering preferential pricing to this segment.

DFCC *ALOKA*

The DFCC *Aloka* proposition can be opened with an initial deposit of LKR 1,000/-. It is bundled with a range of special features from higher interest rates of up to 4.25% per annum, several identified lifetime benefits and tailor-made support for businesses. Account holders can also obtain a special debit card with the joining and annual fees waived off, free withdrawals from any DFCC or LankaPay ATM, free digital banking services and access to a home banking service via MTeller. As part of the preferential business support options provided to DFCC *Aloka* customers, special consultations tailored for setting-up and managing MSME's and extensive entrepreneurial support will also be on offer along with exclusive loan schemes.

DFCC *Aloka* customers will also experience further benefits in the form of personal and housing loans at preferential interest rates, special rebates on loan processing fees, access to pawning facilities at preferential interest rates, eligibility for a brand-new credit card with joining and first-year annual fees waived, around the year offers and deals on clothing, supermarket shopping, dining, entertainment, leisure and travel and access to 6-month 0% Easy Payment Plans for credit card transactions above LKR 25,000/-. Customers will also receive free life insurance cover, up to 10 times their average savings balance (up to a maximum of LKR 1 Mn) and receive free digital health solutions via Doc990 for themselves and three family members. To top it off, customers will also be entitled to a range of milestone-related rewards to mark special occasions throughout their time with DFCC Bank, such as childbirth, the 21st birthday of the customer, graduation, weddings and 25th wedding anniversary.

All Sri Lankan women aged 18 years or above can join the DFCC *Aloka* proposition. The proposition is supported by a "24x7" dedicated hotline to ensure preferential service and customer convenience.

DFCC *MEHEWARA*

This special personal loan scheme is designed to cater to the loan requirements of brave heroes of the Sri Lanka Armed Forces. Loans are provided up to LKR 5 Mn with a longer repayment period of 10 years.

DFCC TEACHERS' LOAN

A special personal loan scheme was launched targeting the teachers in government and private sector schools. Executives and senior executives in education administrative service are also eligible to apply for loans under this scheme. Loans are provided up to LKR 4 Mn under this loan scheme with attractive interest rates.

DFCC AUTO LOAN

This product was introduced to maximise the boom in registered vehicle market due to the restrictions imposed in vehicle imports. The product gives the borrower a leverage to afford a vehicle with a structured repayment plan including a residual value. The rollover option embedded in the product enables the client to continue the loan for another five years without settling the residual at the end of the loan period. Client gets the option of even settling the residual by disposing the current vehicle and going for a fresh loan for a new vehicle.

Professionals and salaried individuals who are earning a minimum of LKR 100,000/- as fixed salary or engaged in own private practices are eligible to apply for Auto Loans.

DFCC POWER LEASING

This special leasing product was introduced with a view to enhance the affordability of a vehicle for an individual or SME. Corporate customers also can use this product for financing vehicle fleets. Product is designed with a residual value and option for a rollover at the end of the lease period.

STRUCTURED HOUSING LOANS

This product is designed to match the different cash flow patterns of the clients. Repayment structures are designed with set up plans, grace periods, bullet payments, residual payments etc. The product could be used for outright purchase of a residential bare land, house or apartment as well as construct a residential house on own land or purchase a land and construct a house.

DFCC *"KRUSHIBALA"*

DFCC Bank has introduced "DFCC *Krushibala*", an exclusive concessionary credit line to facilitate the country's agriculture Sector. LKR 3.0 Bn worth of facilities rolled out to the SME sector at the rate of 7% per annum, exclusively to facilitate clients engaged in diverse agricultural related activities such as cultivation, livestock, commercial agriculture, agri export, processing, storage, organic farming and many other agriculture related activities. Considering the critical role played by women in the Sri Lankan agriculture sector, the credit line has given preference to businesses with significant participation of women.

SUPPORTING CUSTOMERS DURING THE CHALLENGES OF COVID-19

In line with CBSL's relief guidelines as well as its own volition, DFCC Bank continued to provide relief to customers affected by the COVID-19 pandemic. While the Government took steps to protect citizens through extended curfews intended to slow down the spread of infections, it impacted the earnings of people, especially daily wage-earners.

CUSTOMER-CENTRICITY

Customer-centricity occupies pride of place as one of the three strategic pillars of the Bank's Vision 2025. Pursuing an unwavering focus on this concept will help the Bank to achieve its long-term objective of acquiring two million customers, and becoming the most customer-centric bank in Sri Lanka. The core banking system is envisaged to play an invaluable role in the Bank's quest to achieve this objective.

CONTACT CENTRE

Creating a customer experience that is prompt, personalised, responsive, and courteous is key to ensuring an enhanced customer-oriented value proposition. The opening of a state-of-the-art Contact Centre in Malabe that can host over 50 customer service agents is one of the steps taken in this direction. Staff at the Contact Centre are well-trained to assist customers with their financial inquiries and activation of products, 24x7, 365 days a year. Dedicated agents have been appointed specifically to cater to the needs of high net-worth segments, who expect a higher level of specialised services.

The Contact Centre continued uninterrupted operations, 24 hours a day, during the pandemic and lockdown periods, working in extended shifts across two locations. Remote working facilities were made available to ensure continuity of service during times when strict compliance with safety protocols was required. The Contact Centre enhanced its service offerings such as; the Video Chat option, to assist customers on-board themselves to digital products. The Live agent chat option which enables customers to obtain instant and tailor made solutions to their inquiries. Virtual on-boarding of Customers to digital services such as the Virtual Wallet, Online Banking continues to encourage customers to fulfil their banking needs from their homes.

In addition The Non-Face To Face (NF2F) digitally enabled account opening facility assist customers with convenience even whilst being overseas.

Existing systems are also being enhanced, along with improving agent skills and product knowledge. Churn management has been added to the agents' skills-set.

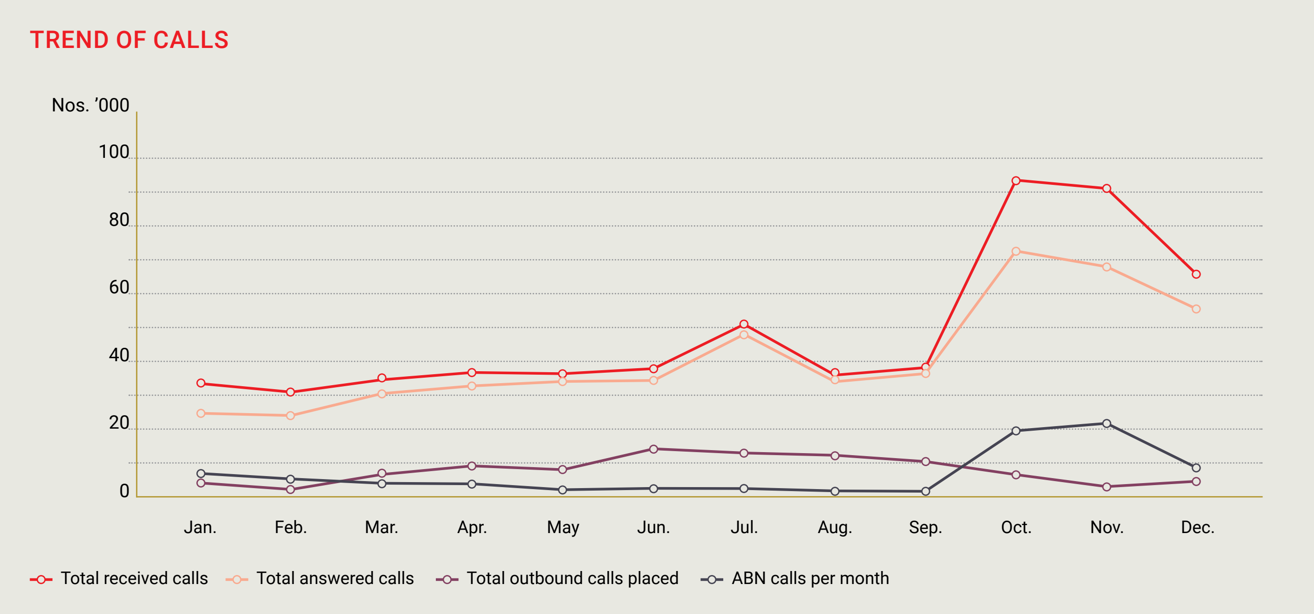
The Contact Centre is a critical service at the Bank, as it functions as the primary point of contact for customers. The Centre is fully geared to operate 24x7, 365 days a year, handling inbound and outbound calls and other functions, playing an invaluable role in the Bank's operations.

582,579	Total number of inbound calls
93,734	Total number of outbound calls
4,660	Non-voice requests via chat service
611	Total video calls

SUMMARY OF INBOUND AND OUTBOUND CALLS 2021

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Inbound 2021												
Total Received calls	32,980	30,446	34,149	36,315	35,949	37,502	50,772	35,527	37,809	94,012	91,497	65,621
Total Answered calls	24,213	23,556	30,126	32,468	33,793	34,112	47,990	33,728	36,140	73,094	68,337	55,536
Average Answered call per day	1,063	1,087	1,101	1,210	1,160	1,250	1,638	1,147	1,260	3,033	3,050	3,120
Average Talk time (MM.SS)	3.32	3.25	3.12	3.19	3.10	3.24	3.25	3.34	3.28	5.14	4.03	3.54
Average ACW time (MM.SS)	11.03	9.09	10.01	10.39	11.30	15.03	18.11	11.56	11.33	21.09	22.39	22.01
Average Answer time (MM.SS)	0.51	0.60	1.10	1.10	0.47	0.53	0.47	0.33	0.51	3.19	2.12	2.23
ABN Summary 2021												
ABN Calls per Month	6,651	4,964	3,662	3,450	1,667	2,064	2,025	1,255	1,151	19,883	22,208	8,373
ABN Calls placed per Month	2,397	3,640	2,189	1,354	901	1,395	819	603	447	7,635	5,676	2,248
Customer Call Back	3,703	468	873	1,343	377	507	684	413	467	4,825	15,630	5,694
Unidentified customer numbers	551	856	600	753	389	162	522	239	237	1,151	902	431
Outbound 2021												
Total Outbound Calls Placed	3,766	1,683	6,519	9,217	7,987	14,685	13,329	12,627	10,584	6,429	2,625	4,283
Average Calls Placed per day (Week Days)	188	84	326	461	400	735	667	631	530	321	131	164
Average Talk Time (MM.SS)	2.33	2.39	2.13	4.13	4.17	4.03	4.09	4.07	3.15	4.39	3.39	3.07

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
None voice service – ChatBot	231	223	239	153	289	281	313	344	400	352	877	958
Video calls	26	20	24	15	66	106	74	49	66	51	72	42



CUSTOMER EXPERIENCE UNIT

In addition to the Contact Centre, the Customer Experience Unit is a centralised section that handles all customer complaints and inquiries, which it directs to the Bank through multiple channels.

The Unit is tasked with redirecting complaints and inquiries to the appropriate department or branch, and ensuring their resolution within the stipulated Service-Level Agreements (SLAs). The Complaint Management System was launched to track complaints, inquiries and service requests, which enables the Unit to assist staff across the Bank's branch network to achieve optimum service levels.

The Customer Experience Unit carries out a series of programmes to evaluate and monitor the level of customer-centricity of the Bank. These include a bank-wide Mystery Shopper programme that allows the Bank to acquire unique insights into the satisfaction levels of customers, evaluating them with their perception and expectations. Customer experiences are regularly evaluated across areas such as customer care, sales drive, professionalism, transparency, and the cleanliness of the branch.

Mystery Caller programmes, carried out periodically, have assisted the Bank in understanding customers' impressions and experience, while they engage a range of transactions. The findings have been invaluable in streamlining the delivery of better first impressions and phone etiquette.

The Unit has the ongoing responsibility for embedding the value of customer-centricity in the Bank's staff through continuous training. The Bank conducted customer service training sessions for (1,062) staff members, which constitutes (48.4%) of the overall staff. Monitoring the service levels within the Bank is of paramount importance in maintaining customer experience at the required high standards. The Unit is also focused on identifying gaps in service across the Bank, which are addressed through refresher training to ensure that service level targets are met.

Details of staff training sessions conducted, as at 31 December 2021.

Category	Participant Count	Percentage %
Customer Service	1,062	48.40
Personality Development	79	3.6
ELearning	30	1.37
Total Staff	1,171	

Details of the orientation programmes conducted.

Category	Participant Count	Percentage %
Orientation	258	11.76

During 2021, the Unit carried out analyses of the root cause of complaints, and focused on implementing preventive measures. The Complaint Management System has now been upgraded to enable customers to receive complaint/inquiry/service request reference numbers via SMS.

"International Customer Service Week", which is commemorated worldwide, was observed by the Bank with a series of programmes organised by the Customer Experience Unit. Service Ambassadors have been appointed across the branch network to enhance customer service. Training programmes and bank-wide communications were also organised to emphasise and inculcate the importance of customer service among staff members. Branches were also included for refresher trainings during this week.

CUSTOMER PRIVACY

Protecting the privacy of customers is crucial to build trust and strengthen relationships. Taking this objective to heart, DFCC Bank considers the privacy of customers as being of utmost importance, making every effort in this regard. DFCC Bank harnesses the latest digital infrastructure to secure its systems and processes across all banking transactions. The new Core Banking system that will power the Bank's products and innovations, has a host of features that take the concept of customer privacy to the next level.

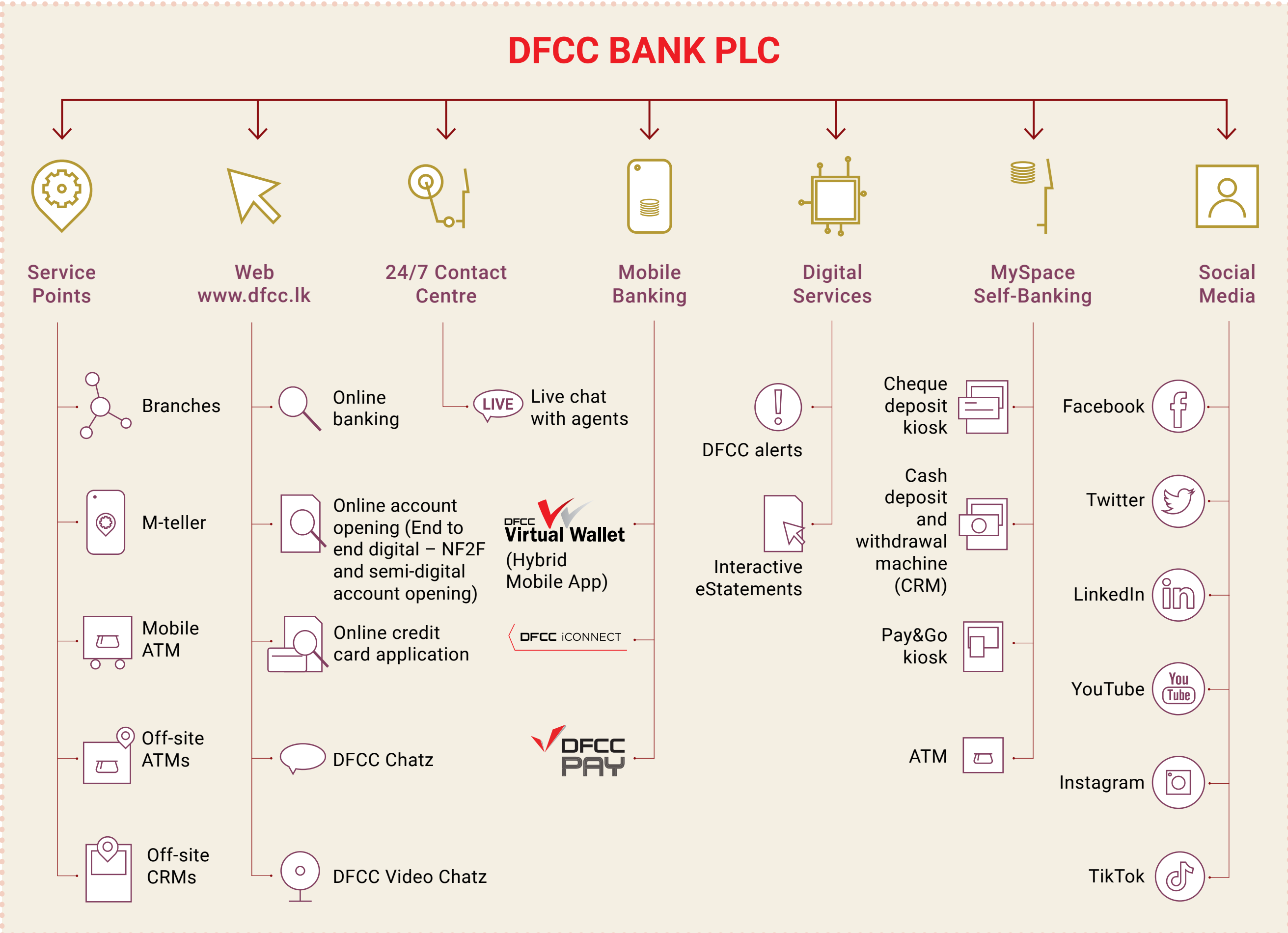
Customer privacy is an integral aspect of the Bank's Employee Code of Conduct. Staff members are provided extensive training to instil in them the importance of protecting the privacy of customers, in order to observe and adhere to the secure systems and procedures of the Bank.

MULTICHANNEL CUSTOMER TOUCHPOINTS

Customer journeys differ from individual to individual, across a wide range of channels and touchpoints. This makes it harder to reach out to diverse segments which comprise the target audience of DFCC Bank. Utilising an extensive network of touchpoints, ranging from conventional branch network to Internet and mobile-enabled digital platforms such as DFCC MySpace, DFCC Virtual Wallet, DFCC Pay, DFCC new Retail Online and Mobile banking, and DFCC iConnect, the Bank has been able to reach out to customers with greater effectiveness.

The practical application of the Bank's digital-first approach achieved realisation during the frequent lockdowns, and the need to maintain social distancing. During this period, customers were compelled to rely on the Bank's digital touchpoints to engage in a virtual banking experience with digital customer onb-oarding. The mobile ATM service also provided convenient access to ATM services to identified locations and Mobile Tellers visited customers to collect cash and offer withdrawal services.

The Bank understands the varying needs of different customers, which has resulted in the provision of banking services through multiple channels and avenues, ranging from conventional island-wide branches, to various digital channels. The digital footprint and transactions of the Bank were considerably increased during the year with DFCC My Space, which includes ATMs, CRMs, cheque deposit kiosks and Pay&Go machines. Large corporations and SMEs were assisted through the DFCC iConnect payments and cash management solution.

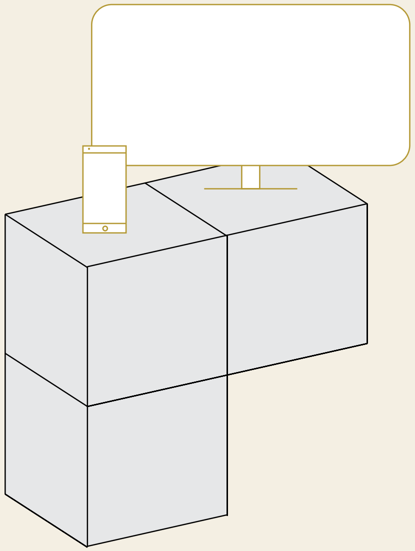


THE NEW DFCC ONLINE BANKING FUNCTIONS CONSIST OF THE FOLLOWING FEATURES

The new DFCC Online Banking (DFCC Online) gives you complete control over your finances with a variety of banking services at your fingertips, allowing you to manage your accounts 24/7 anytime, anywhere. The customers are empowered to do banking online with a wide array of services such as create goal setting savings, open Fixed Deposits and Savings Accounts, block your Credit Cards, configure required DFCC alert services and select your own preferred user ID.

New features:

- Open savings accounts and fixed deposits with a few clicks anytime
- Set up Savings Goals: Open a Goal savings account and automate your savings to achieve your financial goals
- Activate/block your credit card, enable and disable desired currencies and countries for your credit card
- Subscribe for SMS alerts
- Download and view your eStatements
- View summary of your portfolio
- Add travel notification
- View details of lease facilities obtained



Other features:

- Pay utility bills
- Transfer funds to your own accounts or to other accounts at DFCC Bank
- Transfer funds to other bank accounts
- Set up future-dated or standing orders for Transfers and Payments
- Request for cheque Books
- Stop cheques
- Check loan, credit card and lease details
- Download transaction receipts for payment confirmations
- Communicate with the Bank securely through the built-in message facility

PRODUCT RESPONSIBILITY

DFCC Bank approaches product design from the viewpoint of the customer, incorporating many features that correspond with customer utility, accessibility, responsibility and convenience, in addition to the ability to confer a competitive advantage. The Bank emphasises ethical product design, adhering to the necessary statutory and compliance requirements before introducing a new product to the market.

While customers in the modern era are concerned with quality and service, they also show a marked inclination towards knowing all the relevant facts before making a purchase decision, or initiating a business relationship with an institution. This fact is rigorously adhered to by DFCC Bank, which emphasises the provision of transparent and relevant information to customers. Product and service-related information is available in all three languages, which is backed by employees who have been trained to provide more information where necessary. The Bank also conducts regular events through its branch network to educate current and potential customers about the features of its products and services.

MARKETING COMMUNICATIONS

The communications strategy adopted was based on broadening the reach through the use of traditional media as well as digital marketing with the increase in Sri Lankan's consumption of social media. The trilingual approach in communication has facilitated to reach out to all segments across the country, creating the much-needed awareness that DFCC Bank offers a range of product propositions and services in the financial industry. Governed by the Banks Communications and Social Media Policies, communication to all stakeholders are carried out in line with the regulatory requirements at all times.

During the year under review, the Bank carried out a series of brand-building initiatives as well as product specific campaigns with a key focus on digital. Due to the ongoing pandemic even though a fewer number of physical events were conducted, online marketing activities in the form of webinars, forums, customer engagement initiatives etc., were carried out.

EMPLOYEE CAPITAL

As DFCC Bank consolidates its reputation as one of the most customer-centric banks in Sri Lanka, it is imperative that its employees are among the most knowledgeable and technically competent, in keeping with its state-of-the-art, digital infrastructure capabilities and innovative products being launched. Staff members are also required to be engaged, agile and empowered in order to respond to new challenges in the emerging business environment.

The enthusiasm, adaptability and responsiveness displayed by our staff members during COVID-19 pandemic makes it abundantly clear that they are up to the task. The infrastructure and protocols in place played a key role in empowering employees to make the transition to working remotely, while continuing to provide a streamlined and efficient service.

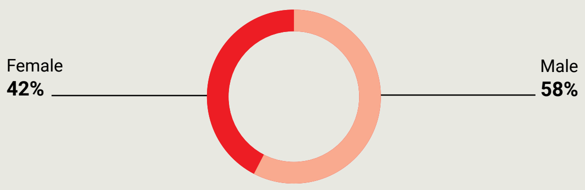
Despite restrictions in mobility due to frequent lockdowns, the Bank continued to update the skills of staff members through online platforms for training and maintaining communication, as they worked from home. The Bank continues to emphasise and uphold the highest standards of ethical practices and the legitimate rights of employees, despite the challenges imposed by the pandemic.

WORKFORCE STATISTICS

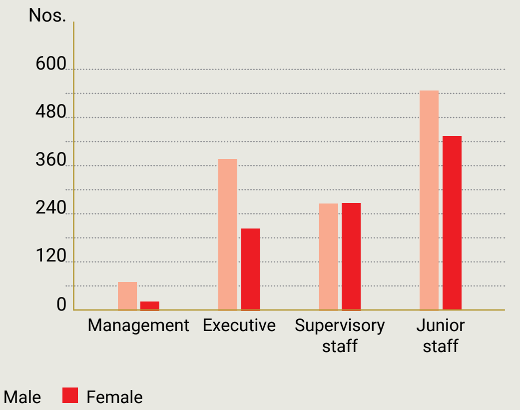
By the end of 2021, staff strength stood at 2,191 employees, with 86% in the permanent cadre, The male:female ratio amounted to 58:42. Approximately 65% of employees in the branch network are based outside the Western Province.

Given below are graphical representations of the Bank's workforce statistics in 2021:

WORKFORCE BY GENDER



WORKFORCE BY GRADE AND GENDER

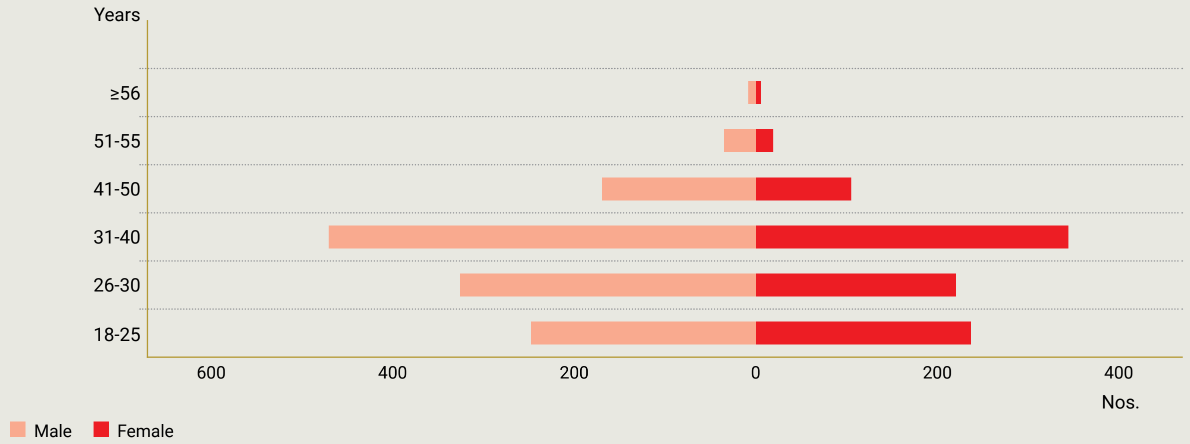


WORKFORCE BY PROVINCE AND GENDER

Province	Number of branches	Male	Female	Total
Central	15	72	51	123
Eastern	10	51	19	70
Northern	6	32	21	53
North Central	9	53	23	76
North Western	11	61	49	110
Sabaragamuwa	14	62	38	100
Southern	23	99	81	180
Uva	10	51	26	77
Western	41	212	205	417
Total	139	693	513	1206

	Number of units	Male	Female	Total
Departments and other business units	94	569	416	985

AGE PYRAMID



RESOURCING

Being constantly on the lookout to employ staff of the highest calibre, in addition to be considered an employer of choice, the Bank regularly takes part in a variety of employment-related events such as held at schools, universities, and higher educational institutions. Internal initiatives such as staff referral schemes, graduate and school leaver internship programmes as well as increased focus on outsourced deployment options for non-core functions were some resourcing strategies pursued during the year.

TALENT ACQUISITION

During the year, planned expansion of the cadre, including new positions, were done on a restrained basis, where replacements were accommodated considering that Bank has consistently operated with minimal numbers. In filling vacancies, the Bank places priority on giving opportunities to internal candidates with "Expressions of Interest" circulated among staff for all vacancies. The Bank intranet, WeConnect, is updated daily with available vacancies. During the year, 402 new employees were recruited, of which 76% were in the junior cadre, and approximately 75% of them were under the age of 30 years.

LEARNING AND DEVELOPMENT

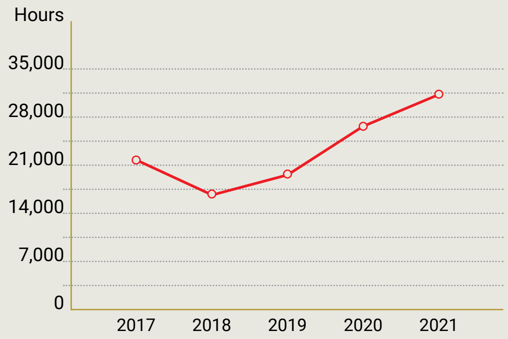
Developing our employees and ensuring they possess the requisite competencies to perform their roles at optimal levels as well as preparing them to take on higher level accountabilities in alignment with the Bank's strategic goals continued to be a priority. Annually, supervisors engage on a one-on-one basis with their staff and together formulate individual development plans for every employee, customised to address their individual development needs. Annual and monthly training plans are formulated based on needs identified in the individual development plans as well as considering the strategic imperatives of the Bank. During the year, considering the prevailing conditions, the Bank continued to focus on provision of training through virtual platforms and deploying blended learning options.

The Bank's upgraded eLearning platform, "eAcademy" incorporates the very latest in teaching methods and technologies, affording more flexibility for content design and data management, including mobile-enabled learning, thereby facilitating our regionally dispersed employees to learn at their own pace and in locations of their choice. During the year, over 19,200 participants attended 493 programmes, of which 95% were conducted utilising virtual platforms. Additionally, through eAcademy, employees accessed 59 technical and soft skills modules, with over 80,900 learning hours accumulated during the year.

	Number of training courses	Training participants
Online training	467	19,010
On-site programmes	26	243
eLearning modules	59	14,931
Total number of trainings	552	34,184

With the objective of further enhancing exposure of our employees, job rotations and transfers are arranged regularly. During the year approximately 95% of planned job role changes were implemented.

E-LEARNING HOURS



The Bank conducts certification programmes covering banking and credit operations. Additionally, employees are encouraged to pursue professional development and accelerate their career progress by obtaining banking, professional and postgraduate qualifications. The bank provides grants and loan-based assistance schemes to assist employees to pursue professional courses of study.

CAREER DEVELOPMENT

The Bank offers several career development programmes aimed at employees in different stages of their career trajectory, with a view to accelerating their progression. One such programme focuses on the high potential talent pool, and grooming these employees to take on higher level roles. These staff have access to customised development plans, coaching and mentoring opportunities, special assignments, broadened job scopes, advanced training etc.

Aligned with the Bank's objective of creating a robust leadership pipeline, several new leadership acceleration programmes were launched during the year, focusing on senior managers, middle management, branch managers and female leaders. Over 100 managers received the opportunity to participate in these customised development initiatives.

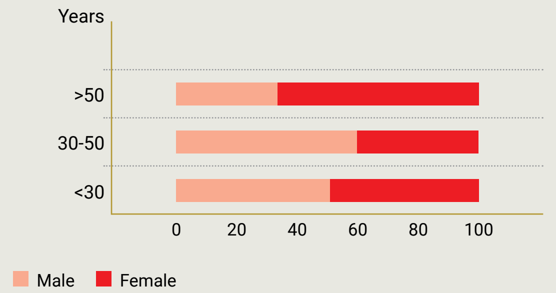
In addition, a cross-section of high performing managers was also nominated for the Great Manager Award programme in which the Bank participated for the first time. This awards programme encompassed a stringent evaluation mechanism, comprising of peer and subordinate assessments as well as interviews with an external assessment panel. Through this process, 10 of our current managers were recognised as "Great Managers" while the Bank too was recognised as an Institution with Great Managers.

EMPLOYEE RETENTION AND TURNOVER

Given the high level of training and development provided to employees over the course of their careers, the Bank attaches considerable importance to employee satisfaction and retention, as part of its human capital strategy. Multiple mechanisms are in place to address employee grievances. Such as a transparent grievance escalation processes, availability of a cross functional grievance committee, availability of a digital platform with the option to maintain anonymity. Additionally, extensive employee engagement activities such as competitions, awards programmes, extracurricular events, mental and physical wellness initiatives, training and advancement programmes are conducted on a regular basis. Human resource policies are reviewed annually and revised as needed to align with the Bank's strategic objectives and industry standards, as well as the needs of employees. Transparency and equability are accorded the highest priority in implementing such policies.

Employee retention at 92% was satisfactory. It is noteworthy that the bulk of turnover was witnessed in the contract and sales staff segments, as these segments generally tend to have higher turnover rates. The last two quarters of the year witnessed higher staff movement with migration also being a significant factor. Though the pandemic has imposed financial and economic implications, the Bank has been committed to ensuring job security, and remuneration standards. As per standard procedure, exit interviews are conducted for departing staff members. The feedback from such interviews are collated and provided to supervisors, and corrective action taken where warranted.

EMPLOYEE TURNOVER BY AGE GROUP AND GENDER



COMMUNICATIONS

In recent years a series of significant changes have been made to the ways in which the Bank manages and communicates with its employees. Many of these changes are in line with the Bank's Vision 2025 strategy to be a digital-first, customer-centric bank. Since a large number of the Bank's employees were compelled to work from home on a roster basis, due to travel restrictions and social-distancing considerations, significant changes were adopted to work systems and processes, communication frameworks and infrastructure to ensure achievement of business needs while also accommodating the interests and welfare of employees.

The Bank's intranet, WeConnect is an active tool through which employees can upload and react to photos, receive updated information on job vacancies within the Bank, view information on training programmes, in addition to obtaining information on Bank policies, regulatory and compliance guidelines, etc.

"Listening Wall" is a digital platform; a formalised system which enables the Bank's employees to express suggestions for process improvements, and ideas in addition to surfacing concerns and issues. The employee feedback raised on this platform is reviewed on a monthly basis by a senior committee, using responses given and follow-up action taken where warranted.

The new cloud-based HR Information System, "People's HR", has played an effective role in supplementing the Bank's human resources-related strategies, in terms of overall efficiencies, this provision, offering attendance flexibilities and conveniences to employees. The second phase of the HRIS implementation has introduced modules for performance management, talent acquisition and on-boarding. The adoption of Google Workspace as the new communications and productivity enhancement platform continues to pay rich dividends in terms of efficiencies. Other virtual platforms have also been successfully adopted as additional communication platforms to facilitate larger virtual meetings, such as the annual townhall meeting, where the Bank's CEO engages directly with the staff. During the last year, although conducted virtually, the townhall meetings provided a very effective mechanism for the CEO to engage with employees and directly respond to their queries and concerns.

GRIEVANCE MANAGEMENT

The Bank takes a concerted effort to address staff grievances as and when they arise. Several grievance management mechanisms are in place to address staff concerns. The Bank's grievance policy details redressal available to employees and the methodology for grievance escalation. The secure environment policy focuses on anti-harassment and workplace safety. These policies are readily accessible to all staff. Additionally, a Grievance Committee, comprising a cross-functional team, addresses concerns raised by employees. The Reach Out Committee, a special all-female Committee is available to assist our female employees with any personal or professional issues they may encounter. The Bank also has an open-door policy and the Senior Management, including the CEO are readily accessible to all staff while additional special "Open Days" are held throughout the year as well. The cumulative effect of such multiple grievance management mechanisms provides employees with improved ways to have their grievances addressed or escalated, while giving them the chance to decide on whom they would like to convey their concerns to.

HAPPINESS AND WELL-BEING

HEALTH AND SAFETY DURING COVID-19

Ensuring the safety of the employees continues to be the focal HR priority. While the entire country was facing periodic lockdowns, the banking sector, designated as an essential service, continued to service our customers. DFCC responded to this "New normal" by shifting most staff to the online mode, providing them with secure VPN access to the Bank's network, as well as the necessary equipment and infrastructure to work seamlessly from their homes.

Roster systems and split work arrangements were implemented, that helped the Bank maintain a reduced staff presence, in line with social-distancing regulations. Regular communications with staff kept them informed of protocols deployed, safety in the workplace, and best practices to be followed at home while all mandated safety protocols were diligently followed on Bank premises. Transport facilities were provided for staff located in main buildings of the Bank to minimise their reliance on public transport. Special safety dispensations were accorded to pregnant and vulnerable staff.

Support was provided to COVID-19 positive staff and their family members through specially set up internal support committees as well as an external engagement with *Ayubo* Life.

FOCUS ON WELLNESS

Times such as these required our employees to be in peak mental and physical condition. Towards this end, during the year under review, special focus was accorded towards ensuring the mental and physical wellness of our employees and their families.

During the year, a special wellness initiative, "OMMM" was launched. The OMMM initiative takes a holistic perspective on wellness and the primary objective of this initiative is motivating and engaging employees towards improving their health and wellness. Towards this end the OMMM Committee organised many activities such as regular fellowship biking events, a team-based step challenge, a FIIT challenge, regular yoga classes including a year-end yoga retreat, workshops on mindfulness etc. Additionally, the Engagement Unit of the HR Department continued to drive health and wellness initiatives through an annual wellness calendar with defined areas of focus for each month, arranging virtual fitness classes, provision of subsidised gym memberships, programmes on mental wellness and stress management, etc. As a new initiative, a confidential wellness hotline and counseling service was launched for staff and their families.

OPPORTUNITIES FOR SOCIAL ENGAGEMENT

Despite the restrictions on physical and social interactions encountered during the year, every effort was made to engage staff through multiple events most of which were conducted virtually. Some of the interactive opportunities provided to staff during the year included the following:

Ride to Work Days	February, March, April, July and December 2021
Mindfulness Programme – Physical and Virtual	February and March 2021
Yoga Class – Physical and Virtual	February 2021 onwards
Women's Day Celebrations – Virtual	March 2021
Virtual Step Challenge	March to May 2021
Virtual Town Hall meeting for all staff with CEO	May 2021
Virtual Annual Art Exhibition	May 2021
Virtual *Poson Bakthi* Gee	June 2021
Virtual Annual Awards Ceremony	July 2021
Virtual Zumba Classes	January 2021 onwards
Youth Day Virtual Programme	August 2021
Connect Virtual Quiz	September 2021
World Children's Day – Virtual kids Programme	October 2021
FHIIT Challenge	December 2021
Yoga Retreat Programme	December 2021
Virtual kids Christmas Party	December 2021
Christmas Carols Event	December 2021

The Bank Welfare and Recreation Club made arrangements to provide subsidised purchases and also provided departments and branches with financial support to organise restricted events within their own respective "bubbles". DFCC REDS, a cross-functional team that has been active in the Bank for over a decade, continued to assist new recruits to assimilate into the culture of the Bank.

Over the years the Bank has remained committed to broader social and community development. Our geographically dispersed extensive branch network actively engages with and supports communities in their surrounding locations. The Bank has provided relief assistance and rebuilding support during times of difficulty. In 2021, to commemorate International Women's Day, several knowledge enhancement workshops covering aspects such as tea and general cultivation, dairy farming and beauty salons were conducted targeting small scale female entrepreneurs. Additionally, the Bank continued its partnership with Caritas Sri Lanka – SEDEC to launch a scholarship programme to provide financial assistance for youth belonging to vulnerable, low-income families while educational assistance was provided to *Lankadhara* Transit Home for girls. Additionally, during the year, participants of the two aforementioned programmes as well as those successfully completing the "*Semata* English" programme have been offered internship and employment opportunities. The island-wide campaign launched during the year, "Digital *Dansala*" focused on providing emergency relief to people impacted through lockdowns while hand washing booths and safety equipment were also distributed to schools to support the recommencement of schools subsequent to prolonged COVID-19 related closures.

Additionally, the Bank continued to actively support staff welfare by providing extended paid leave and financial assistance in the event of serious medical emergencies.

ENSURING AN INCLUSIVE, EQUITABLE AND SUPPORTIVE WORK CULTURE

DFCC has consistently advocated and promoted a diverse and inclusive environment. DFCC is an equal opportunity employer, and as such, Bank policies and processes are transparent, accessible and equitably administered across all relevant stakeholders. In terms of recruitment, transfers, promotions and talent development, decisions are made with the primary objective of selecting most deserving and competent candidates, irrespective of socio-economic status, ethnic, religious, disability or gender considerations. This equability extends to pay parity as very aptly demonstrated by the table below:

Grade	Basic salary ratio (Male:Female)
Management	49:51
Executive	50:50
Supervisory staff	46:54
Junior staff	49:51
Total	49:51

In keeping with the Bank's stand on inclusivity, differently-abled persons are considered in the provision of permanent and contractual employment opportunities based on their abilities and competencies.

During the year, much focus was extended towards furthering gender parity, in accordance with the Bank's 2025 sustainability goals. Multiple workshops on female empowerment were held to encourage our female employees and spur them to take on managerial and higher-level roles. The first targeted leadership development programme was conducted for 28 selected mid-level female employees utilising internal and external resource persons. In another first, two gender sensitisation programmes were conducted targeting about 300 managers and senior executives. The programmes which focused on aspects such as inclusivity and gender sensitivity, unconscious bias, appropriate behaviours etc. were very interactive and participatory, and received a lot of positive feedback from staff. The Reach Out Committee, which focuses on the personal and professional needs of our female staff, continued to be active and enhanced their presence regionally. To further cement our commitment, commencing from 2022, the Bank formally adopted "Diversity, Equity and Inclusion" as an additional core value. Going forward, our Bank policies and programmes will be further reviewed and revised to ensure that they align with and support our values. In recognition of our commitment to gender equality, DFCC Bank was recognized as one of Sri Lanka's Top 10 Women Friendly Workplaces in 2021. The Bank is also a participant in the "Together We Can" initiative driven by International Finance Corporation, Australia Aid and Federation of Chambers of Commerce and Industry in Sri Lanka (FCCISL) and has committed to demonstrate improved gender representation across different grades/roles.

GENDER FOCUS

	Male	Female
Workforce representation	58	42
Leadership representation	71	29
Training and development participation	56	44
Career advancement	53	47
Remuneration (Ratio)	49	51
Recognised as one of Sri Lanka's Top 10 Workplaces		
Participating in "Together We Can" initiative by IFC, Australian Aid and FCCISL		
Special programmes held in 2021 • Gender sensitisation • EmpowHer programme • Leadership programme for 28 female leaders		
External programmes • Asian Women in Leadership Summit • The Women's Finance Exchange: Banking the Female Economy		

COLLECTIVE BARGAINING

DFCC Bank takes an enlightened view of the concerns and grievances of employees, who have the opportunity to utilise multiple avenues of communication to present their viewpoints, concerns and other issues to Senior Management of the Bank. The grievance escalation methodology and workflow has played a successful role in creating sense of contentment, and empowering employees. The open-door policy, which has been a staple at the Bank for a long time, allows employees to raise their concerns directly with any member of the Senior Management, including the CEO and Chairman. The open nature of communication between the Bank's Senior Management and employees addresses issues as and when they arise and creates a sense of camaraderie. As a result, a strong-enough reason to establish any collective bargaining agreements has not arisen among our employees.

BENEFITS

Emoluments and other benefits provided to staff are reviewed from time to time and revised in line with industry practices and internal policies. The following table lists out the benefits provided to full-time employees of the Bank. These benefits are not extended to contract, temporary or part-time employees.

Employment type	Housing loan	Vehicle loan*	Exam*	Professional subscription*	Social Club gymnasium*	Miscellaneous/ Staff loan	Festival advance**	MBA loan	Holiday grant***
Permanent	√	√	√	√	√	√	√	√	√
Contract	x	x	x	x	x	x	x	x	x

* Also provided to Executive Trainees and Management Trainees on fixed term contracts.

** Only for junior staff.

*** Based on the offer of employment, may also be provided to contract staff.

BUSINESS PARTNER CAPITAL

MULTILATERAL AND BILATERAL INSTITUTIONS

Over the years, DFCC Bank has successfully fostered and maintained partnerships with various institutions worldwide. These relationships have had a significant impact on strengthening the Bank's role as an effective credit institution for on-lending funds to end-users, acting as the project manager in implementing credit programmes, administering grant funds, and enabling market development and capacity building. The institutions with which the Bank has strong relationships include:

- Asian Development Bank (ADB)
- BlueOrchard Microfinance Fund – Luxembourg
- Commerzbank Aktiengesellschaft
- Commerzbank Finance and Covered Bond S.A.
- Deutsche Investitions-und Entwicklungsgesellschaft (DEG), a subsidiary of KfW – Germany
- European Investment Bank (EIB)
- Kreditanstalt fur Wiederaufbau (KfW) – Germany
- Nederlandse Financierings – Maatschappijvoor Ontwikkelingslanden N.V. (FMO) – The Netherlands
- Proparco, a subsidiary of Agence Française de Développement (AFD) – France
- RAKBANK, also known as the National Bank of Ras Al Khaimah – United Arab Emirates
- The World Bank
- U.S. International Development Finance Corporation (DFC)

The Bank has retained its role among the top 10 participating financial institutions selected by the Government of Sri Lanka (GoSL) and the Asian Development Bank (ADB) to on-lend ADB's funds to the SME sector and rooftop solar power generation projects. The partnership is aligned with the Bank's mission to accelerate the growth of the country's flourishing SME sector, while contributing to the country's renewable energy generation efforts. Both these issues lie at the core of the Bank's ideological and strategic foundation.

The Resource Mobilisation and Capital Markets Unit continues to build and maintain the existing relationships of the Bank by actively engaging with partner institutions and expanding the Bank's reach to other territories and organisations. This plays a pivotal role in the Bank's endeavour to secure potentially economical funding lines to support its growth and expansion into new sectors.

CORRESPONDENT BANKS

DFCC Bank maintains strong relationships with over 250 global correspondent banks, comprising some of the world's largest financial institutions.

The following entities act as the Bank's nostro agents in their respective countries:

Bank	Currency	Country
Bank of Ceylon (UK) Limited	GBP	UK
Bank of Ceylon	ACU $	India
Bank of Ceylon	ACU $	Maldives
Bank of China	CNY	Sri Lanka
Commerzbank AG	CAD	Germany
Commerzbank AG	EUR	Germany
HDFC Bank	ACU $	India
HSBC Bank USA N.A.	USD	USA
JPMorgan Chase Bank	USD	USA
JPMorgan Chase Bank	AUD	Australia
Kookmin Bank	USD	South Korea
Mashreq Bank PSC	ACU $	India
Mashreq Bank PSC	AED	UAE
Mashreq Bank PSC	USD	USA
Standard Chartered Bank (Pakistan) Limited	ACU $	Pakistan
Standard Chartered Bank	ACU $	Bangladesh
Standard Chartered Bank	ACU $	India
Standard Chartered Bank	AUD	Singapore
Standard Chartered Bank	EUR	Germany
Standard Chartered Bank	GBP	UK
Standard Chartered Bank	SGD	Singapore
Standard Chartered Bank	USD	USA
Sumitomo Mitsui Banking Corporation	JPY	Japan
Uni Credit Bank AG	EUR	Germany
ZurcherKantonal Bank	CHF	Switzerland

SUPPLY CHAIN MANAGEMENT AND PROCUREMENT POLICY

The Bank maintains a fair, transparent and rigorous procurement policy which clearly defines the methods and procedures to be followed in the procurement of goods and services by authorised employees. The policy also lays down clear conditions and guidelines for the selection of suppliers, as well as the acquisition of goods and services to be carried out in an impartial, non-discriminatory and economically sound manner.

The Procurement Committee (PC), under the leadership of an Executive Vice-President, acts as a control mechanism of the procurement function of the Bank. Large-value IT-related procurements are submitted to an IT Steering Committee (ITSC), while other general procurements are either subject to approval by the PC or higher approving authorities. Large-value and/or specialised procurements may be subject to review by independent parties, if deemed necessary.

Suppliers of goods and services are required to register themselves, and obtain the approval of the PC. They are subject to review once in every two years. Suppliers have to undergo a rigorous evaluation process to determine quality, delivery time, pricing, after sales support, technical proficiency and references. As a policy, Bank prefers to source its requirements from local suppliers, as part of its commitment to supporting local communities and businesses. Registered suppliers have the option to receive financial advice and assistance from the Bank.

PARTNERS FOR SERVICE DELIVERY

DFCC Bank partners with a variety of reputable vendors for a range of services, including:

- Agency banking
- Cash handling and management
- Cash collection, counting, storage, delivery, and transport of security goods
- Document archival
- Printing services including printing of account and credit card statements, cheque books, etc.
- Processing of payroll and other reimbursements
- Payroll audit function
- Deployment and maintenance of machinery related to bank operations
- IT/core bank systems support and maintenance
- Personalisation and delivery of chip-based credit cards
- IT support
- Help desk problem management
- Management of the corporate website
- Maintenance of digital platforms for banking, customer experience, and utility payments
- Innovation management process
- Assessment and consultancy on information security
- Business intelligence
- Deployment and maintenance of cash deposit/withdrawal/ cheque deposit machines and reconciliation of transactions
- Recovery related tasks
- Selected Legal tasks and processing of security documents
- Back office tasks of centralised units

STRATEGIC ALLIANCES

DFCC Bank has been diversified into several entities under the DFCC Group, which provides a range of services through the following subsidiaries:

- DFCC Consulting (Pvt) Limited
- Lanka Industrial Estates Limited
- Synapsys Limited
- Acuity Partners (Pvt) Limited (Joint venture)
- National Asset Management Limited (Associate company)

DFCC CONSULTING (PVT) LIMITED

Established in 2004, DFCC Consulting (Pvt) Limited is a fully-owned subsidiary that engages in project consultancy, advisory services and related fields. Through a shared resources model, DFCC Consulting draws upon a resource pool of nearly 600 executive staff from DFCC Bank, and a pool of reputed external experts from various fields. DFCC Consulting through its multifaceted knowledge and expertise, carries out business with external parties in the fields of environment, engineering, renewable energy, and other fields that extend to international consultancy assignments, including partnerships with overseas consulting firms.

LANKA INDUSTRIAL ESTATES LIMITED

Lanka Industrial Estates Ltd., referred to as LINDEL, was incorporated in 1992 as a subsidiary company of DFCC Bank PLC to set up, operate and manage industrial estates in Sri Lanka. Setting up the LINDEL Industrial Estate at Sapugaskanda by upgrading and making use of the remaining infrastructure facilities of the defunct State Fertilizer Manufacturing Corporation was the pioneering project undertaken by the Company. LINDEL takes pride in providing superior infrastructure and allied services to all its clients and pursuing continuous improvements to the services on offer to its clientele. LINDEL is expected to complete the expansion of its rooftop solar power generation capacity up to 1.5 MW in February 2022. Further, LINDEL is currently in the process of listing itself on the Colombo Stock Exchange via an IPO.

SYNAPSYS LIMITED

SYNAPSYS is a dynamic and innovative technology company with a 15-year track record of products and services supporting Banks, Capital Markets, Insurance and Retail Payments across Asia-Pacific and the UK. The success of this fully-owned subsidiary of DFCC Bank stems from the commitment of its Software Engineers, Banking Consultants, Payment Solution Experts, IT Operations and Business Process Outsourcing teams. Leveraging deep domain expertise especially in the Micro, SME and Agri-finance sector, SYNAPSYS forges trusted partnerships to build and operate Cloud-ready FinTech platforms. Stability, security and service quality are some of the hallmarks of value that SYNAPSYS provides to its clients and partners.

NATIONAL ASSET MANAGEMENT LIMITED

National Asset Management Limited (NAMAL), an associate company of DFCC Bank is the pioneer unit trust management company in Sri Lanka, established in 1991. With over 30 years of experience in investing in equity and fixed income markets, NAMAL has the distinction of having launched the first unit trust to be licensed in Sri Lanka (National Equity Fund), and the first listed closed end unit trust (NAMAL Acuity Value Fund). NAMAL operates five unit trusts and offers private portfolio management services to a broad range of clientele. NAMAL's main shareholders comprise Union Bank of Colombo PLC, DFCC Bank PLC and Ennid Capital (Pvt) Limited. The management team consists of highly experienced and qualified professionals with widespread exposure to domestic and international capital markets.

ACUITY PARTNERS (PVT) LIMITED

Acuity Partners is a full-service investment firm promoted as an equally owned joint venture between DFCC Bank and HNB. It is the only integrated, full-service investment firm in Sri Lanka offering a comprehensive suite of products and services in Fixed Income Securities, Stock Brokering, Corporate Finance, Margin Trading, Asset Management and Venture Capital Financing (via its Subsidiary, Lanka Ventures PLC). Acuity is the successor to the investment-related subsidiaries and divisions of DFCC Bank and HNB and was created through the consolidation of all Corporate Finance, Equities and Fixed Income Securities activities of the two banks under a common umbrella.

MEMBERSHIPS IN INDUSTRY ASSOCIATIONS

DFCC Bank has acquired membership and established alliances with various industry associations and organisations that enable networking opportunities and contribution to industry standards. The Associations include:

1. American Chamber of Commerce in Sri Lanka
2. Association of Compliance Officers of Banks Sri Lanka
3. Association of Development Financing Institutions in Asia and the Pacific
4. Association of Professional Bankers Sri Lanka
5. Chamber of Commerce and Industry of Central Province
6. Chamber of Construction Industry Sri Lanka
7. Colombo Stock Exchange
8. European Organisation for Sustainable Development GMBH
9. Genesiis Software (Pvt) Limited
10. International Chamber of Commerce Sri Lanka
11. Lanka Fruit & Vegetable Producers, Processors and Exporters Association
12. LNRS Data Services Ltd.
13. Payment Card Industry Association of Sri Lanka
14. Securities and Exchange Commission of Sri Lanka
15. Sri Lanka Forex Association
16. The Ceylon Chamber of Commerce
17. The Ceylon National Chamber of Industries
18. The Employers' Federation of Ceylon
19. The European Chamber of Commerce of Sri Lanka
20. The Financial Ombudsman Sri Lanka (Guarantee) Limited
21. The Institute of Chartered Accountants of Sri Lanka
22. The Mercantile Service Provident Society
23. The National Chamber of Commerce of Sri Lanka
24. The Sri Lanka Banks' Association (Guarantee) Limited
25. The Sri Lanka Institute of Directors
26. Wayamba Chamber of Commerce and Industry

SOCIAL AND ENVIRONMENTAL CAPITAL

Resilience

The ability of a system to prepare for threats, absorb impacts, recover and adapt following persistent stress or a disruptive event.

Resilience is now on the mainstream sustainability agenda, in looking to build systems and capabilities to face challenges that business and society will have to face in this "exponential decade". DFCC Bank is looking to build internal systems that are resilient in the face of significant changes in the economy and regulatory landscape, as well as add value to its customers by offering services that make them more resilient. Furthermore, the Bank is taking care of its own footprint as well as those in its portfolio to contribute towards greater resilience in its operations, those of its customers, and all its stakeholders, contributing towards a more resilient Sri Lanka.

DFCC BANK'S SUSTAINABILITY POLICY

The case for social and environmental sustainability as a winning business strategy has been gathering strength over the years, as available empirical evidence continues to confirm the numerous benefits that accrue to all stakeholders, as well as the environment and society. More importantly, businesses worldwide have begun to incorporate social and environmental sustainability into their business plans.

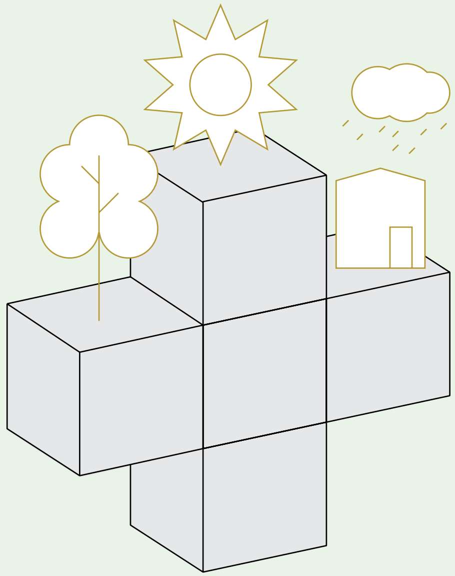
Sustainability vision

DFCC Bank to be the leading bank contributing towards Sustainability by 2030.

Sustainability purpose

Contributing towards a resilient Sri Lanka

The Bank believes that the best sustainability framework to adopt is the Triple Bottom Line (TBL) of People, Planet, and Profit (the three Ps). The Bank is committed to conducting its business in a responsible and inclusive manner that adds value to all its stakeholders on the economic, social, and environmental aspects of sustainability or People, Planet, and Profit.



In applying the TBL framework to the Sustainability Vision the Bank has three key sustainability dimensions:

Resilient Business

Contributing to sustainable economic growth

Impacts for Resilience

Promoting positive environmental and social impacts

Resilient Communities

Advancing sustainable workplaces and lifestyles

DFCC Bank has identified six cross-cutting themes (the six Es):

- **Education**
- **Elderly**
- **Entrepreneurship**
- **Environment**
- **Emergency Relief**
- **Exercise**

SOCIAL AND ENVIRONMENTAL CAPITAL

The Bank's sustainability activities will actively contribute towards specific Sustainable Development Goals (SDGs), as spelled out by the United Nations.

The overall vision of a sustainable DFCC Bank and its goals is conceptualised as follows:

DFCC Sustainability Strategy 2020-2030

Resilience

Ambitions by 2030

Cross-cutting themes:
- Education
- Elderly
- Entrepreneurship
- Environment
- Emergency Relief
- Exercise

Resilient Business

The Bank for Green Finance

Green Finance

Sustainable and Social Entrepreneurs

Impacts for Resilience

Carbon Neutral

Resource efficient

Resilient Communities

Sustainability Culture

Staff and customer well-being

Key enablers

- Collaboration
- Digitising
- Empowerment
- Innovation
- Inclusivity

STRENGTHENING INTERNAL CAPABILITIES TO IMPLEMENT THE SUSTAINABILITY STRATEGY

In 2021, the Bank strengthened its internal capabilities to implement the Sustainability Policy, Strategy and Plan developed in 2020 for the period 2020 to 2030. These include the following:

- Capacity building of staff on Sustainability aspects, including the certification course on the six Electronic-Learning modules of the Sustainable Banking Initiative (SBI) of the Sri Lanka Banks' Association (SLBA). A total of 112 staff members, in addition to the CEO have completed this course by 31 December 2021
- Increasing staff awareness on Sustainability via newsletters, sustainability quizzes, EDMs, attending relevant online and in-person conferences and training programmes etc.
- Formation of a Sustainability Champions Network of 166 Champions, with staff members representing each of the branches/departments
- Appointment of 12 staff as "6E Champions" to develop the six thematic areas
- Formation of several sustainability task forces and subcommittees to develop identified areas required for implementation of the Sustainability Strategy. Accordingly, the following five task forces were set-up under Wave 1 in January 2021 for a period of six months:
  - Energy
  - Resource Efficiency
  - Green Finance
  - Sustainable and Social Entrepreneurship
  - Creation of a Sustainability Trust/Foundation

In July, under Wave 2, four of the above task forces were made into permanent subcommittees, relating to the Bank's sustainability targets and one Task Force was discontinued after achieving its purpose. In addition, three more task forces were also set-up under Wave 2. Accordingly, the following teams were active from July 2021:

- Energy Subcommittee
- Paper Subcommittee
- Green Finance Subcommittee
- Sustainable and Social Entrepreneurship Subcommittee
- HR Sustainability Task Force
- Sustainable Events and Promotions Task Force
- Sustainable Procurement Task Force

- The cross functional Executive Sustainability Management Committee (ESMC) set-up in 2020, ensured the proper implementation of the sustainability strategy, in addition to making strategic decisions on the implementation process and the initiatives. ESMC is headed by the CEO and consists of 19 staff, including several C-level staff. ESMC meetings were held once in every six weeks.
- Working with the HR Department to develop incentives to promote and acknowledge staff participation in sustainability initiatives.
- Setting up of the "DFCC Sustainability Trust", a separate entity to carry on the Sustainability/CSR initiatives of the Bank, so as to provide more transparency and accountability. The trustees comprise the Chairman, two Directors, the CEO and three Senior Management staff.
- Conducting two sessions on "Gender Sensitisation" for Senior Management

SIGNATORIES/MEMBERSHIP OF SUSTAINABILITY INITIATIVES/ NETWORKS

SUSTAINABLE BANKING INITIATIVE

Sri Lanka Banks' Association
Sustainable Banking Initiative

DFCC Bank is a pioneering signatory to the 11 Sustainable Banking Principles of the Sri Lanka Banks' Association (SLBA) under the Sustainable Banking Initiative (SBI).

Globalsustainable financenetwork

GLOBAL SUSTAINABLE FINANCE NETWORK

DFCC Bank is a member of the Global Sustainable Finance Network (GSFN), which is a voluntary membership based global initiative launched in 2011 under the auspices of the World Federation of Development Financing Institutions (WFDFI) by the European Organisation for Sustainable Development (EOSD) and the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP).

The vision of GSFN is a thriving, pre-eminent global community of financial institutions and other stakeholders working together for projects, programmes and activities that are socially beneficial, environmentally responsible and economically viable.

SOCIAL AND ENVIRONMENTAL MANAGEMENT SYSTEM (SEMS)

The Bank's Sustainability Unit is tasked with implementing the Social and Environmental Management System (SEMS) of the Bank, which ensures that projects funded by the Bank adhere to the required environmental and social regulations, while also encouraging clients to be more social and environment friendly.

The following practises which were implemented by the Sustainability Unit in 2020 were continued during the year for all term loans over LKR 25 Mn:

- Conducting an Environmental and Social (E&S) risk assessment during the appraisal stage to arrive at an E&S risk categorisation and providing comments on E&S aspects. This assists loan approving authorities as a decision tool on the level of E&S risks/impacts associated with each loan.

Given below is a summary of this process as at 31 December 2021:

	Number of loans	Percentage of loans
High Impact (A)	134	33
Medium Impact (B)	14	3
Low Impact (C)	40	10
Very Low Impact (D)	218	54
Total	406	100

- Monitoring of E&S aspects during the entire tenure of the loan.
- Sustainability Unit also carries out monitoring of E&S aspects of all loan facilities granted under credit lines and loan facilities
- Approvals for the following were obtained and implemented during the year:
  - A new Exclusion list
  - A Child and Forced Labour Policy

SUSTAINABILITY INITIATIVES

The Bank continued to implement many sustainability initiatives during the year under review.

EDUCATION: "*SAMATA* ENGLISH" – ENGLISH EDUCATIONAL PROGRAMME FOR YOUTH

"*Samata* English" is a programme aimed at enhancing the English competency of youth aged 18-22, grooming them to confidently enter the workforce. This was started in 2017 as a pilot in Gampaha and Kalutara and was extended to Kandy, Kurunegala, and Galle in 2018 and Polonnaruwa, Ampara, Jaffna, and Ratnapura in 2019, benefiting over 400 youth in these areas. Due to the COVID-19 pandemic, the Bank conducted this as an online programme in 2021 for 100 youth in Anuradhapura, Vavuniya, and Badulla Districts. Training of soft-skills, including leadership ability, time management, presentation and writing, and how to face an interview were also added to the 2021 programme, as these skills are invaluable in today's job market and also ensure that youth excel in their careers. Students were also provided with a data allowance and hands-free sets to motivate them to attend the online sessions. DFCC Bank has partnered with Gateway Language Centre to conduct the educational sessions of *Samata* English on behalf of the Bank. Upon successful completion of this 4-month online programme, the top achievers across the regions will be offered the opportunity to join the Bank as interns, creating opportunities for them to apply what they have learnt, gain work experience and develop their skills.

EDUCATION: CARITAS SRI LANKA – SEDEC SCHOLARSHIP PROGRAMME

The Bank continued with the scholarship programme which was commenced in 2020 by teaming up with Caritas Sri Lanka-SEDEC by providing financial assistance to youth of vulnerable low-income families to continue their education without interruption and build their own path to higher education or entrepreneurship. This scholarship programme will be for a duration of five years and have a minimum of 100 recipients at a given time.

EDUCATION: ASSISTANCE TO LANKADHARA SOCIETY

The Bank assisted the Lankadhara Society, a transit home in Colombo 6 with nearly 50 underprivileged girls between the ages of 5 and 18 for their educational needs. These include donation of two laptops in January 2021 to enable the students to continue their studies through online learning, and conducting an online English course through Gateway Language Centre to 18 O/L and A/L students from July 2021 under the Scholarship scheme with Caritas Sri Lanka.

EDUCATION AND EMERGENCY RELIEF: ASSISTING THE EDUCATION OF VICTIMS OF EASTER ATTACK

Staying true to its commitment towards helping during emergencies, the Bank has made donations to 12 children affected by the Easter attack in 2019. This will be continued as grants until they complete their school education.

"Digital *Dansala*" was a programme that enabled customers and staff to donate cash to assist local communities affected by COVID-19

ENVIRONMENT AND RESOURCE EFFICIENCY: REDUCING RESOURCE CONSUMPTION

The two task forces on Energy and Resource Efficiency that was set-up in 2020 to assess baseline consumption of several resources, including paper, electricity, water, etc. were made into two permanent subcommittees for Energy Efficiency and Paper in July 2021. Both subcommittees have made significant contributions with regard to monitoring and reduction of consumption.

EMERGENCY RELIEF: PROVIDING EMERGENCY RELIEF TO PEOPLE AFFECTED BY COVID LOCKDOWNS

The Bank conducted a "Digital *Dansala*" in May and June 2021 powered by DFCC Virtual Wallet to raise funds to provide dry rations to local communities affected by the COVID-19 pandemic. Through "Digital *Dansala*", customers and staff were able to make cash donations of any value towards this initiative from the DFCC Virtual Wallet and the Bank matching the amount collected. The distribution of dry rations to the communities in all parts of the country were coordinated by the nine Regional Offices through the assistance of the branches. Special emphasis was given to the selection of the recipients, so as to ensure that the most deserving people were provided with this assistance. More than 550 relief packs were distributed through this initiative.

RESILIENT COMMUNITIES – HAND WASHING BOOTHS IN RURAL SCHOOLS

The Bank donated and installed hand-washing booths in selected rural schools across the country, in keeping with hygienic practices required to control the spread of COVID-19. DFCC Bank received support from the Ministry of Education, and carried out considerable level of ground-level research in order to select the schools which were the most in need of such support.

"*Samata* English" was conducted virtually to develop soft skills of youth to help them advance their careers

ENTREPRENEURSHIP: SUPPORTING WOMEN ENTREPRENEURS

Female participation in the workforce in general, and entrepreneurship in particular, is relatively low in Sri Lanka due to sociocultural factors, which has prevented the economy from reaching its full potential. Addressing this important issue, the Bank launched "DFCC *Aloka*", an exclusive women's proposition that will enable female entrepreneurs and professionals to fully benefit from financial services and financial inclusion, in addition to promoting female entrepreneurship development. This proposition is being actively pursued, with the participation of the branch network across the island supporting all income levels of females towards empowering.

We also support educational loans, housing loans and SME and MSME loans with special pricing, including non-financial services such as career development programmes, which will enable "*Aloka*" customers to fulfil their dreams and reach greater heights and be successful in their career or business.

RESILIENT BUSINESS: SUPPORTING SMEs AND MSMEs

As a number of SMEs and MSMEs were financially affected by the COVID-19 pandemic, the Bank provided a reprieve by way of moratoriums, in line with the CBSL guidelines. The "DFCC *Sahanaya*" was one such concessionary loan scheme that helped to sustain and revive the sector.

This loan scheme was specifically intended to finance innovative projects, employment generating projects, export-oriented projects, livestock and agricultural projects, and other development projects that could help reinvigorate the economy.

In 2021 the Bank initiated "*Krushibala*", a loan scheme exclusively to assist the individuals and business entities in the SME sector engaged in Agriculture at a concessionary rate of interest to overcome the difficulties they faced during the pandemic and to rebound their activities, and as a support for Government initiatives on the Agriculture sector.

As an institution which has its roots in development banking, DFCC will continue to support and provide financial and advisory support to SMEs across a variety of sectors, including agriculture, export, manufacturing, health, education, construction, and others in the years ahead.

RESILIENT BUSINESS: THE BANK FOR GREEN FINANCE

As a part of the goal of becoming "The Bank for Green Finance" under its sustainability strategy 2020-2030, DFCC will continue to focus on promoting projects that make products or develop technologies that are primarily aimed at reducing greenhouse gas emissions or supporting the use of renewable energy.

ENVIRONMENT AND EXERCISE: CYCLING

Riding bicycles to school or work is an integral aspect of provincial life in Sri Lanka, keeping the population in these areas healthy and relatively disease-free, which is not the case in urban areas, especially Colombo. The Bank has recognised the need to promote cycling for health and fitness, as part of its new Sustainability Strategy. The Pinnacle Centre in Colombo – 7 has been designed to accommodate customers who are cycling enthusiasts, and is equipped with changing rooms and shower facilities.

DFCC Bank's Wellness Committee (OMMM) commenced a "Bike to Work" initiative, with a day in each month devoted for staff members to ride bicycles to work. This is another bank-wide initiative to encourage employees to maintain a sustainable and healthy lifestyle. DFCC Bank has also made a commitment to give cycling a high priority by encouraging staff to take on cycling as a hobby, so as to make it a lifestyle choice.

EXERCISE: INITIATIVES BY THE DFCC BANK'S WELLNESS COMMITTEE – OMMM

"Achieving Sustainable Work-Lifestyles by 2030" is one of the Big Goals that DFCC Bank has identified in its Sustainability Strategy for 2020-2030. The Bank seeks to advance sustainable workplaces and lifestyles via governance, including sustainable workplace practices, as well as lifestyles for clients and staff in general. This includes a range of elements from promoting diversity and inclusivity, to productivity-oriented wellness and sustainable consumption and lifestyle practices.

DFCC BANK'S SUSTAINABLE FUTURE

The Bank's commitment to sustainability is integrated into its business planning and operations by establishing and maintaining a transparent, time-sequenced Sustainability Strategy and Plan. The Plan includes detailing of its goals and tracking the relevant metrics, to ensure its success. The Bank, during last year, has been developing its systems, to embed sustainability into its business practices.

The Bank lives up to the change it wishes to see by raising its employees' awareness of sustainability and responsible behaviour through relevant training on sustainability. This is intended to motivate them to play a pivotal role in implementing the Bank's Sustainability Policy and Strategy.

DFCC Bank is steadfast in its commitment to comply and encourage its clients, to adhere to all applicable environmental and social laws, rules, and regulations of Sri Lanka, as well as with international best practices.

The Bank, aims to be a bank for Sustainable and Green Finance, in drawing on its history of financing landmark renewable energy initiatives in Sri Lanka. It also looks to develop sustainable and social entrepreneurs who seek to develop solutions to the challenges affecting the society. In doing so, the Bank contributes towards strengthening the resilience of Sri Lanka.

RECOGNITION FOR SUSTAINABILITY IN 2021

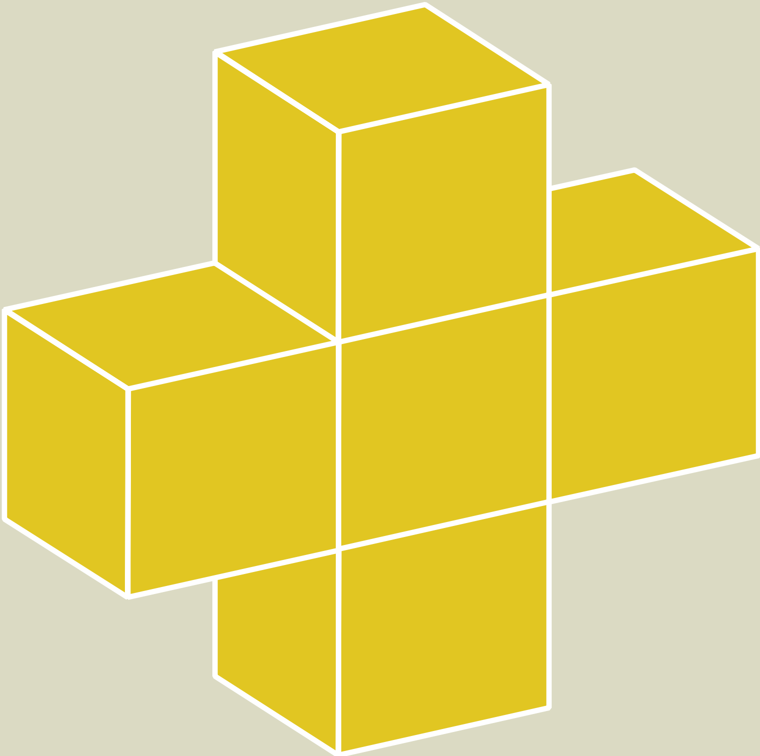
GLOBAL SUSTAINABLE FINANCE AWARDS 2021 – CITY OF KARLSRUHE, GERMANY

- Merit Award – Outstanding Business Sustainability Achievement for incorporating sustainability in its corporate strategy and its business processes
- Merit Award – Sustainability Leader of the Year for Mr Lakshman Silva, former CEO, DFCC Bank PLC to recognise his exceptional leadership in driving the business performance of the Bank through creating social, economic, and environmental values

ASSOCIATION OF DEVELOPMENT FINANCING INSTITUTIONS IN ASIA AND THE PACIFIC (ADFIAP) AWARDS 2021

- Merit Award – Outstanding Development Project Award for Financial Inclusion for its MSME project, “Supplier Financing Scheme for Export Agricultural Crops”.

RECOGNITION



AWARDS AND ACCOLADES

Category	Awards	Project	Institution	Month
1. Sri Lanka's most valuable and most strongest Top 100 brands	Position – 27	DFCC Bank, Corporate Brand	Brand Finance, Sri Lanka	May 2021
2. Banking and Finance	Most Trusted Retail Banking Brand in Sri Lanka	DFCC Bank, Corporate Brand	The Global Brands Magazine, UK	July 2021
3. Banking and Finance	Best Customer Service Banking Brand in Sri Lanka	DFCC Bank, Corporate Brand		July 2021
4. Outstanding Development Project Awards, Category 8	Merit	Supplier Financing Scheme for Export Agricultural Crops	Association of Development Financing Institutions in Asia and the Pacific (ADFIAP)	July 2021
5. Special Awards	Winner	DFCC Bank Corporate website www.dfcc.lk		July 2021
6. Best Banking Website	Silver	DFCC Bank Corporate website www.dfcc.lk	LK Domain Registry, best web.lk competition	July 2021
Best Sinhala Website	Silver			
Best Tamil Website	Silver			
7. Corporate Banking Awards	Most Innovative Corporate Banking App Sri Lanka 2021	DFCC iConnect (DFCC BANK PLC)	Global Banking & Finance Review Magazine, UK	October 2021
8. Digital Banking Awards	Best Digital Wallet Sri Lanka 2021	DFCC Virtual Wallet		
9. Most Admired Companies of Sri Lanka	Top 5 Honourable Mention	Corporate	Chartered Institute of Management Accountants (CIMA) and the International Chamber of Commerce Sri Lanka (ICCSL)	October 2021
10. Outstanding Business Sustainability Achievement	Merit	incorporating sustainability in its corporate strategy and its business processes	Global Sustainable Finance Conference, City of Karlsruhe, Germany	November 2021
Sustainability Leader of the Year	Merit	Mr Lakshman Silva, former CEO, DFCC Bank PLC to recognise his exceptional leadership in driving the business performance of the Bank through creating social, economic and environmental values		
11. Cash Management	Market Leader in Cash Management Sri Lanka	Payments and Cash Management	Euromoney Awards, Euromoney Magazine	November 2021
12. Business Today Top – 40 (2020/21)	Position – 36	DFCC Bank, Corporate	Business Today Magazine	November 2021

AWARDS AND ACCOLADES

KEY EVENTS OF THE YEAR

DFCC Virtual Awards Ceremony

DFCC Bank received USD 150 Mn Bilateral Loan from DFC United States to support the MSME Sector


DFCC Christmas Carols


DFCC Cycling Day


Donating dry rations from the funds collected through DFCC Digital *Dansala*


DFCC *Garusaru Vishraama Pranama* Pensioners' Event


DFCC Kiddies Virtual Christmas Party


DFCC Offsite ATM opened at Koggala

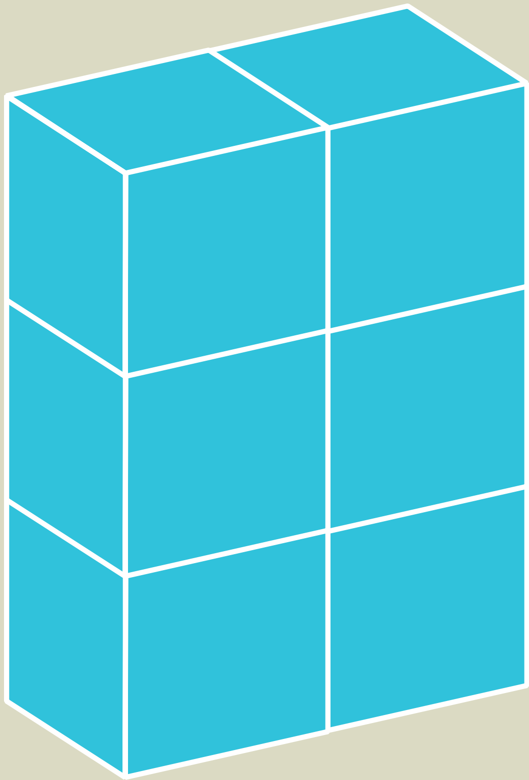

The Launch of DFCC *Aloka*

Women Friendly Workplace Award


Women's Day Celebration


Yoga Retreat

STEWARDSHIP



INTEGRATED RISK MANAGEMENT

RISK CULTURE AND VISION

DFCC Bank PLC (the Bank) adopts a comprehensive and well-structured mechanism for assessing, quantifying, managing and reporting risk exposures which are material and relevant for its operations within a well-defined risk management framework. An articulated set of limits under the risk management framework explains the risk appetite of the Bank for all material and relevant risk categories and the risk capital position. Risk management is integrated with strategic, business and financial planning and customer/client transactions, so that business and risk management goals and responsibilities are aligned across the organisation. Risk is managed in a systematic manner by focusing on a group basis as well as managing risk across the enterprise, individual business units, products, services, transactions, and across all geographic locations.

The following broad risk categories are in focus:

Risks covered under Pillar I of Basel regulations

- Credit risk
- Market risk including foreign currency risk, equity prices risk, and interest rate risk in the trading book
- Operational risk

Other risks covered under Pillar II of Basel regulations

- Business risk and strategic risk
- Liquidity risk
- Settlement risk in treasury and international operations
- Credit concentration risk
- Cybersecurity risk
- Interest rate risk in the banking book
- Legal risk
- Compliance risk
- Reputational risk
- Country risk

Credit risk amounts to the highest quantum of quantifiable risk faced by the Bank based on the quantification techniques currently in use. The Bank's credit risk accounted for 92% of the total risk-weighted assets. Additionally, the Bank takes necessary measures to proactively manage operational and market risks as very important risk categories considered as Pillar I risks under the Basel regulations. Operational risk incidents may be either high frequency but low impact or with low frequency but high impact, yet all of them warrant being closely monitored and managed prudently.

The Bank's general policies for risk management are outlined as follows:

a. The Board of Directors' responsibility for maintenance of a prudent integrated risk management function in the Bank.

b. Communication of the risk policies to all relevant employees of the Bank.

c. Structure of "Three Lines of Defence" in the Bank for management of risks which consists of the risk-assuming functions, independent risk management and compliance functions and the internal and external audit functions.

d. Ensuring compliance with regulatory requirements and other laws underpinning the risk management and business operations of the Bank.

e. Centralised integrated risk management function which is independent from the risk assuming functions.

f. Ensuring internal expertise, capabilities for risk management, and ability to absorb unexpected losses when entering into new business and delivery channels, developing products, or adopting new strategies.

g. An assessment of risk exposures on an incremental and portfolio basis when designing and redesigning new products and processes before implementation. Such analyses include among other areas, business opportunities, target customer requirements, core competencies of the Bank and the competitors and financial viability.

h. Adoption of the principle of risk-based pricing.

i. Ensuring that the Board approved target capital requirements, which are more stringent than the minimum regulatory capital requirements, are not compromised. For internal purposes, economic capital is quantified using Basel recommended guidelines together with the Internal Capital Adequacy Assessment Process (ICAAP). A cushion for the regulatory capital requirement is maintained to cover part of stress losses and losses caused by other risks such as strategic risk, liquidity and reputation risks which are not in Pillar I of Basel guidelines. Capital requirement is monitored on a quarterly basis based on certain stress scenarios.

j. Aligning risk management strategy to the Bank's business strategy.

k. Ensuring comprehensive, transparent, and objective risk disclosures to the Board, Senior Management, Regulator, shareholders, and other stakeholders.

l. Continuous review of risk management framework and ICAAP to align with Basel recommendations and regulatory guidelines.

m. Maintenance of internal prudential risk limits based on the risk appetite of the Bank and wherever relevant, over and above the required regulatory limits.

n. Ensuring a prudent risk management culture within the Bank.

o. Periodic review of risk management policies and practices to be in line with the developments in regulations, business environment, internal environment and industry best practice.

A risk management culture has been created across the Bank that promotes its business objectives and an environment that enables Management to execute the business strategy in a more efficient and sustainable manner. The Board of Directors regularly reviews the risk profile of the Bank and its Group, and every business or function is included in developing a strong risk culture within the Bank. Further, the Bank ensures that, every employee has a clear understanding of his/her responsibilities in terms of risks undertaken in every step in their regular business activities. This has been inculcated mainly through the Code of Conduct, periodically conducted training programmes, clearly defined procedural manuals and integrated risk management function's involvement as a review process in business operations.

RISK GOVERNANCE

APPROACH OF "THREE LINES OF DEFENCE"

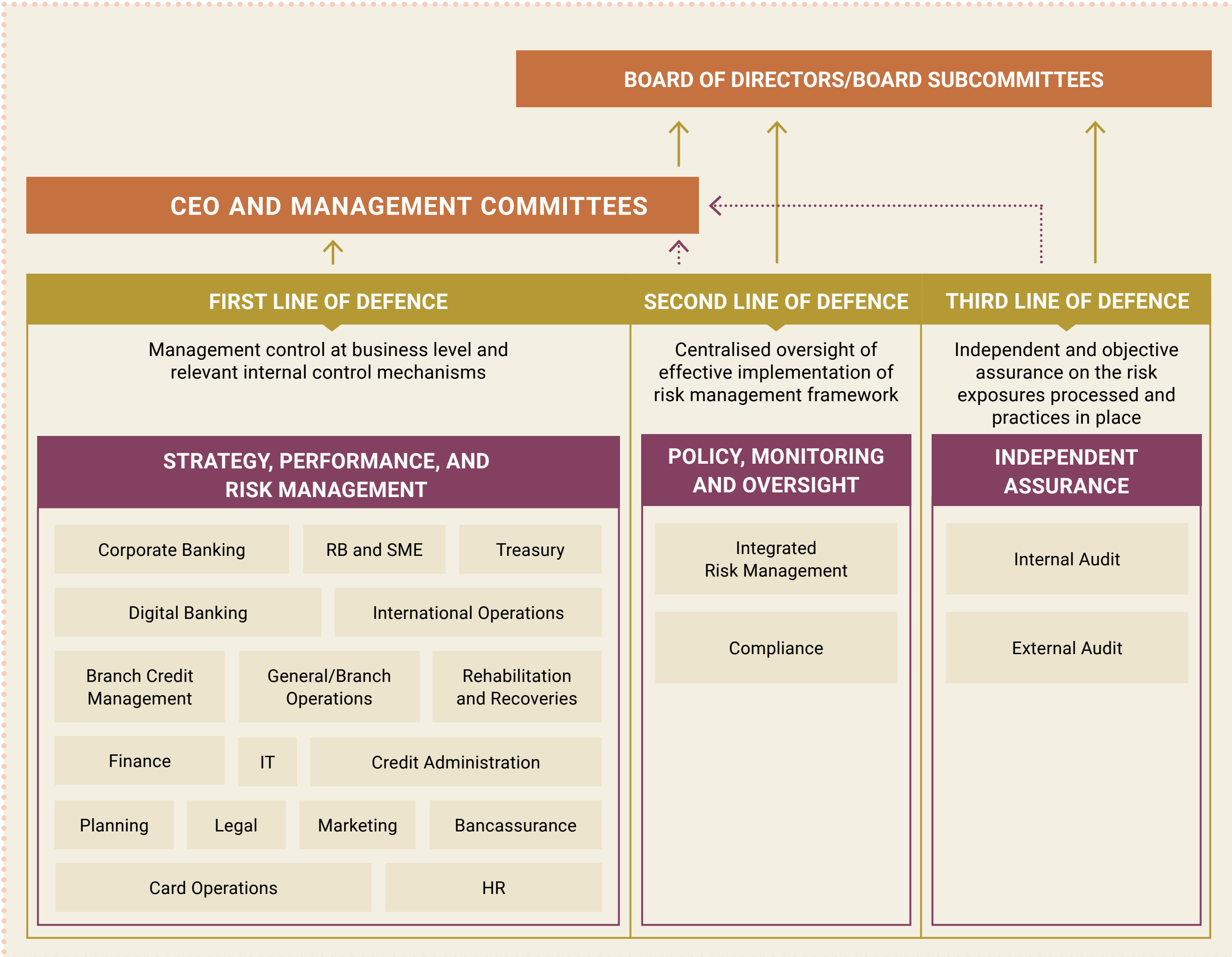
The Bank advocates strong risk governance applied pragmatically and consistently with a strong emphasis on the concept of "Three Lines of Defence". The governance structure encompasses accountability, responsibility, independence, reporting, communication and transparency, both internally and with our relevant external stakeholders.

The First Line of Defence involves management control at business level and adhering to relevant internal control mechanisms while discharging the responsibilities and accountability for day-to-day management of business operations. Independent risk monitoring, validation, centralised oversight of effective implementation of risk management framework, policy review and compliance by the Integrated Risk Management Department (IRMD), and the Compliance Department constitute the Second Line of Defence. The Third Line of Defence is provided by the independent check and quality assurance of the internal and external audit functions.

Risk governance of the Bank includes setting and defining the risk appetite statement, risk limits, risk management functions, capital planning, risk management policies, risk infrastructure, and risk profile analysis. The Bank exhibits an established risk management culture with effective risk management approaches, systems and controls. Policy manuals, internal controls, segregation of duties, clearly demarcated authority limits and internal audit form a part of key risk management tools. The Bank has developed a risk management framework covering risk governance, which includes, risk management structure comprising different subcommittees and clearly defined reporting lines ensuring risk management unit is functioning independently. The Chief Risk Officer (CRO), functions with direct access to the BIRMC.

GOVERNANCE STRUCTURE FOR RISK MANAGEMENT

THE CONCEPT OF "THREE LINES OF DEFENCE" FOR INTEGRATED RISK MANAGEMENT FUNCTION



RISK POLICIES AND GUIDELINES

A set of structured policies and frameworks recommended by the Board Integrated Risk Management Committee and approved by the Board forms a key part of the risk governance structure. Integrated Risk Management Framework stipulates, in a broader aspect, the policies, guidelines, and organisational structure for the management of overall risk exposures of the Bank in an integrated approach. This framework defines risk integration and aggregation approaches for different risk categories. In addition, separate policy frameworks detail the practices for the management of key specific risk categories such as credit risk, market risk, credit concentration risk, liquidity risk, operational risk, reputation risk, and other policies governing information security risk. These policy frameworks are reviewed annually and communicated across the Bank. Respective staff members are required to adhere to the specifications of these frameworks when conducting business transactions.

RISK APPETITE

Risk appetite of the Bank has been defined in the Overall Risk Limits System. It consists of risk limits arising from regulatory requirements, borrowing covenants, and internal limits for prudential purposes. The Limits System forms a key part of the risk indicators and covers key risk areas such as credit, interest rate, liquidity, operational, foreign exchange, concentration, and risk capital position amongst others. Lending limits have been established to manage credit concentration to industry sectors, rating grades, borrowers and countries as part of the prudential internal limits. Industry sector limits for the lending portfolio considers the inherent diversification within the subsectors and the borrowers within broader sectors. These limits are monitored monthly and quarterly on a "Traffic Light" system. These risk appetite limits are reviewed at least annually in line with the risk management capacities, business opportunities, business strategy of the Bank, and regulatory specifications.

In the event the risk appetite threshold has been breached or it is approaching the levels not desirable by the Bank, risk mitigating measures and business controls are implemented to bring the exposure level back within the accepted range. Risk appetite, therefore, translates into operational measures such as new or enhanced limits or qualitative checks for the dimensions such as capital, earnings volatility, and concentration of risks.

TOLERANCE LIMITS FOR KEY TYPES OF RISKS

Risk area	Risk appetite criteria	Limit/Range
Integrated risk and capital management	Total Tier I capital adequacy ratio (under Basel III) (Total Tier I capital as a percentage of total risk-weighted assets)	>8% (Regulatory) Internal limit is based on ICAAP
	Total capital adequacy ratio (under Basel III) (Total capital as a percentage of total risk-weighted assets)	>12% (Regulatory) Internal limit is based on ICAAP
Credit quality and concentration	NP ratio	< Industry average as published by CBSL (Internal)
	Single borrower limit – Individual	< 30% (Regulatory) < 28% (Internal)
	Single borrower limit – Group	< 33% (Regulatory) < 30% (Internal)
	Aggregate large accommodation	< 55% (Regulatory) < 45% (Internal)
	Exposures to industry sectors	< 5% to 20% (Internal)
	Aggregate limit for related parties	< 25% (Internal)
Liquidity risk	Liquid asset ratio for DBU and FCBU	> 20% (Regulatory) > 21% (Internal)
	Leverage ratio	> 3% (Regulatory)
	NSFR	> 100% (Regulatory) > 110% (Internal)
	Liquidity coverage ratio (All currencies and rupee only)	> 100% (Regulatory) > 110% (Internal)
Market risk	Forex net open long position/short position	As prescribed by the Central Bank of Sri Lanka
Operational risk	Reputation risk of the Bank Operational risks due to internal and external frauds, employee practices and workplace safety, client products, data leakages and business practices, damage to physical assets, business disruption and systems failures and failures in execution, delivery, and process management	Zero or very low risk appetite

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE (BIRMC)

The BIRMC is a Board Subcommittee, which oversees the risk management function and the provisions of Basel III implementation as required by the Regulator from time to time in line with Board-approved policies and strategies. The BIRMC functions under the responsibilities set out in the Board-approved Charter for the BIRMC, which incorporates corporate governance requirements for Licensed Commercial Banks issued by the Central Bank of Sri Lanka (CBSL). BIRMC sets the policies for bank-wide risk management including credit risk, market risk, operational risk, cybersecurity risk, and liquidity risk.

In addition to the Board representatives, the BIRMC consists of the CEO and the CRO as members. Further, Heads representing Credit, Finance, Treasury, Information Technology, Operations, Internal Audit and Compliance attend the meeting as invitees. A summary of the responsibilities and functions of the BIRMC is given in the Report on the Board Integrated Risk Management Committee on page 153 of this Annual Report.

The BIRMC meets at least on a quarterly basis and reviews the risk information and exposures as reported by the Integrated Risk Management Department, Treasury, Finance, Compliance, and the other business and service units. Risk reporting includes reports on overall risk analysis relating to the Bank's capital, risk appetite, limits position, stress testing, any strategic risks faced by the Bank, top and emerging risks to the Bank and risk analysis of the Group companies. Additionally, they include reports covering the main risk areas such as credit risk, market risk, liquidity risk, operational risk, information systems security risk, and compliance risk.

During 2021, the Committee paid more attention on reviewing risk in the increased operating environment due to COVID-19 pandemic. The Committee reviewed the adequacy of the risk mitigating actions taken and stress testing results under pandemic condition.

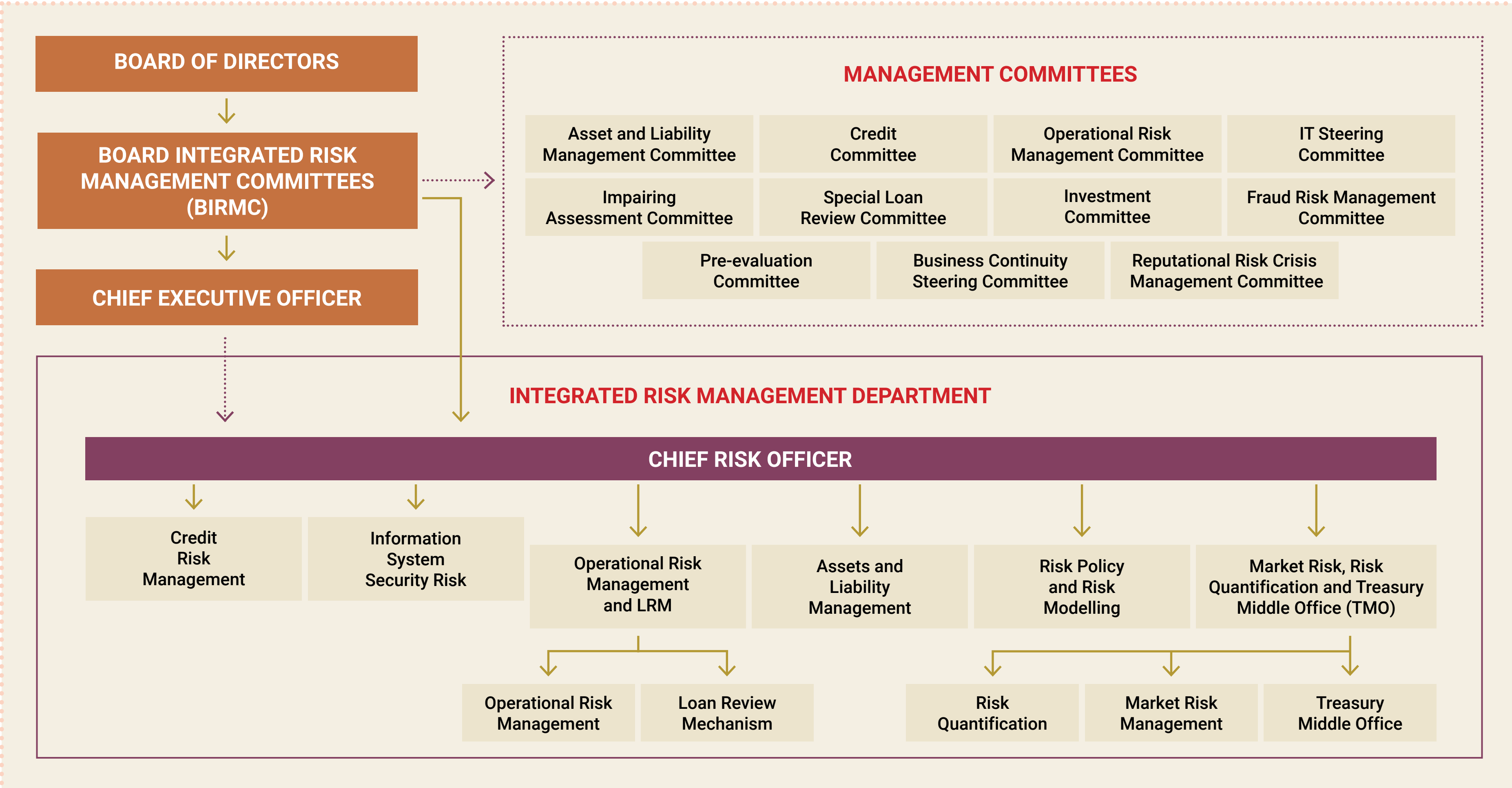
SCOPE AND MAIN CONTENT OF RISK REPORTING TO BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

Risk type	Scope and main content of risk reporting
Overall risk	• Review of the Internal Capital Adequacy Assessment Process (ICAAP) • Regulatory Capital Adequacy position and trends compared with limits • Overall risk limit system including regulatory and internal limits • Stress testing of key risks and overall exposures • Reports on top and emerging strategic and business risks • Risk analysis of Group companies • Risk analysis of new products and changes to products • Review of risk management policies and frameworks
Credit risk	• Credit portfolio analysis and risk quantifications • Analysis of concentration of the lending portfolio (HHI computation) • Summary of Loan Review Mechanism • Reports on validation results and changes implemented for risk rating models
Market and liquidity risk	• Reports on liquidity and foreign exchange risk management by Treasury • Market risk analysis by Treasury Middle Office and review of any limits • Equity portfolio analysis • Liquidity risk monitoring under stock and flow approaches • Status report of margin trading facilities • Analysis of investment, trading and fixed income trading portfolios • Minutes of the ALCO including the key decisions and recommendations made by ALCO
Operational risks	• Minutes of the ORMC and FRMC including the key decisions and recommendations made by committees • Reports on Business Continuity Plan and disaster recovery drills undertaken
IT and systems security risk	• External and internal vulnerability assessment reports • Penetration testing reports • Information security policies and the status of implementation • Reports of the ORMC on information security • Risk assessment plan with the status update
Compliance risk	• Status of the Bank's compliance with rules and regulations • Results of compliance tests undertaken and assessment of compliance risk levels • Report on new rules and regulations • Review of compliance related policies and procedures

INVOLVEMENT OF MANAGEMENT COMMITTEES

Management Committees such as the Credit Committees (CC), Asset and Liability Management Committee (ALCO), Operational Risk Management Committee (ORMC), Fraud Risk Management Committee (FRMC), Special Loan Review Committee (SLRC), IT Steering Committee (ITSC), Investment Committee (IC), Pre-Evaluation Committee (PEC) and Impairment Assessment Committee (IAC) are included in the organisational structure for integrated risk management function. The responsibilities and tasks of these committees are stipulated in the Board-approved Charters and Terms of References (TORs) and the membership of each committee is defined to bring an optimal balance between business and risk management.

ORGANISATION STRUCTURE FOR INTEGRATED RISK MANAGEMENT



The Integrated Risk Management Department (IRMD) is responsible for measuring and monitoring risk on an ongoing basis to ensure compliance with the parameters set out by the Board/BIRMC and other Management Committees for carrying out the overall risk management function in the Bank. It consists of separate units such as Risk Policy and Modelling, Credit Risk Management, Market Risk Monitoring, Operational Risk Management, Assets and Liability Management, Loan Review Mechanism, Risk Quantification, Information Systems Security Risk Management, and Treasury Middle Office. IRMD is involved with product or business strategy development and entering into new business lines and gives input from the initial design stage throughout the process from a risk management perspective.

KEY DEVELOPMENTS IN RISK MANAGEMENT FUNCTION DURING THE PERIOD UNDER REVIEW

Several significant initiatives were undertaken focusing continuously on regulatory developments and reassessing the Bank's existing risk management policies, guidelines, and practices for necessary improvements. In addition to these regulatory specifications, changes in business strategy, industry factors and international best practices were also considered in the improvement process. The following are the key initiatives during the period under review which led to further improvements in the overall integrated risk management function.

Prudential risk limits were reviewed in order to reflect the current risk appetite of the Bank by setting new limits wherever necessary. Internal limits were put in place to better manage the regulatory limits as trigger points, which are much stricter than the regulatory limits. Based on the current risk appetite and the business requirements, the Bank enhanced the exposure limit to the consumption sector which is a part of industry sector limits that is in place to manage the sector concentration.

All the Board-approved risk management frameworks, charters, and TORs were reviewed during the period, especially considering the changes in new regulations and the Bank's business model.

An independent validation for all the credit rating models was carried out during the year by an external consultant. It is a best practice in risk management to validate the credit rating models by an external party in order to ensure unbiased assessment of model performance. The required calibrations/amendments to the rating models were identified based on the results of the model validation process and all the credit rating models were revised for better performance.

With the onset of COVID-19 in Sri Lanka, the potential impact to the credit portfolio of the Bank was evaluated based on exposure to high to low impacted industries.

Industry sectors were placed in four stress segments; minimal, short term, medium term and long term, based on magnitude of impact and expected timing of recovery.

Such categorisation was reviewed at regular intervals throughout the year, considering the evolving situation. Proactive precautionary measures were taken in lending decisions and disbursement of funds.

Risk quantification under ICAAP was strengthened by introducing a scorecard-based evaluation process for certain qualitative risk categories. This enables better assessment of Pillar II risks leading to better reflection of the economic capital requirement of the Bank.

Necessary amendments to the facility upgrading under SLFRS 9 policy were introduced to enhance the upgrading process given the increased operating environment related risks.

Treasury Middle Office (TMO) which is functionally segregated from the Treasury Department, directly reports to the CRO and monitors the Treasury-related market risk limits. The process of call recording of Treasury transactions was further improved during the year.

Scenario analysis and simulations by the ALM unit to assess the expected behaviour of interest margins enabled ALCO to take proactive measures to manage the erosion of margins. Looking at the trends in the market rates, ALCO proactively changed the pricing methods, thus managing net interest margins of the Bank.

IRMD continued to calculate loss ratios for key lending products using historical recovery data in support of impairment assessment under IFRS 9. As part of the risk management practices, the Bank computed the key credit risk quantification parameters such as Probability of Default (PD), Exposure at Default (ED), Loss Given Default (LGD) and the loss ratios which are defined and recommended under the Basel III and IFRS. The results indicated improvements in the credit risk rating process, rating models, recovery process and the collateral quality in the Bank.

The credit workflow ensures that every credit proposal except for centrally processed retail loans, small value loans and leases that do not require rating validation, is evaluated by an independent authority not connected to business lines, being the Credit Risk Management Unit of IRMD. The credit workflow of the Bank was further improved during the year, taking business requirements and changes in market conditions into consideration.

To conform with the CBSL requirement of Loan Review Unit independent from the Credit Risk Management Unit, a separate Loan Review Unit has been established. The Unit has taken specific actions to increase the sample selection and the scope of the loan reviews and to obtain feedback from business units with regard to the improvements brought into the post credit management that would contribute to the quality of the loan portfolio.

Having duly recognised the global trend on increasing threats on systems and information security, the Bank increased its focus on IT systems security under its operational risk management practices. The scope of the Information Systems Security Unit was further enhanced during the year under the Integrated Risk Management Department to proactively manage the information security risk of the Bank.

The Operational Risk Management Committee oversees the effectiveness of security initiatives and directs the Management of information security risks within the Bank.

Server network, business application security reviews, technology risk assessments, network and other device security reviews are being conducted internally on regular basis to ensure required attention is given for rectifying known vulnerabilities and security weaknesses in a timely manner. Furthermore, the Unit is involved in new system implementations from request for proposal (RFP) stage to Go-live confirmation and make sure new systems are compliant with industry security best practices. Further, the Unit works with reputed external parties to ensure that critical and customer facing systems are appropriately secured.

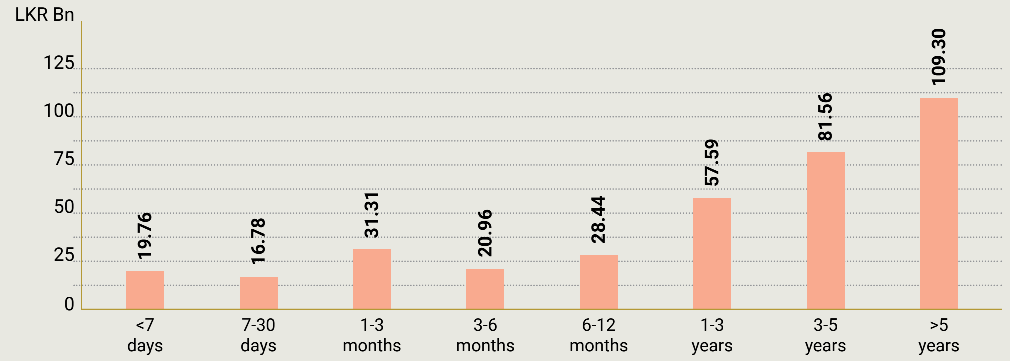
Staff awareness programmes on operational risk were held for staff at various levels, from new recruits to Branch Managers. The Bank has developed a model for Risk and Control Self-Assessment (RCSA), and Key Risk Indicators (KRI) for operational risks across all major functions and departments, and continues to monitor closely their applicability, trends and effectiveness of the controls on a semi-annual basis.

CREDIT RISK

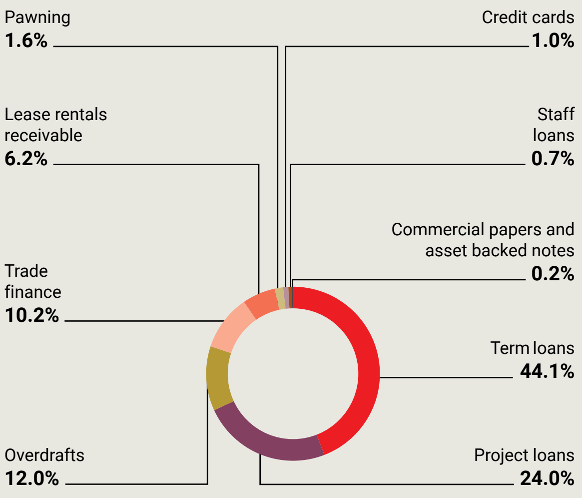
Credit risk is the risk of loss to the Bank if a customer or counterparty fails to meet its financial obligations in accordance with agreed terms and conditions. It arises principally from on-balance sheet lending such as loans, leases, trade finance, and overdrafts as well as through off-balance sheet products such as guarantees and letters of credit. A deterioration of counterparty credit quality can lead to potential credit-related losses for a bank. Credit risk is the largest component of the quantified risk accounting for 92.2% of the total risk-weighted assets of the Bank.

The challenge of credit risk management is to maximise the risk adjusted rate of return by maintaining the credit risk exposure within acceptable levels. With the implementation of SLFRS 9, a proactive approach has been adopted by the Credit Risk Management Unit in monitoring credit risk parameters and indicators which include watch listing of customers through quantitative and qualitative indicators.

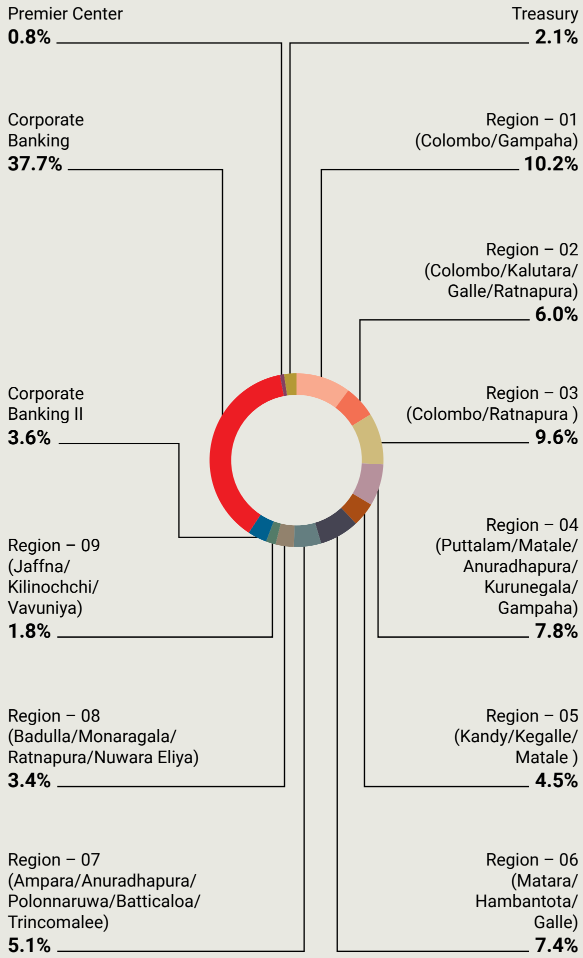
RESIDUAL MATURITY OF TOTAL ADVANCES



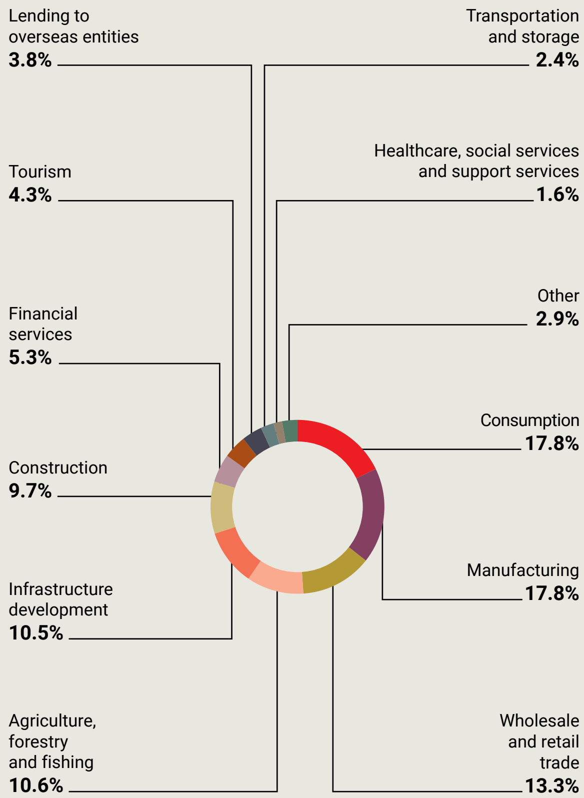
PRODUCT COMPOSITION



GEOGRAPHICAL DISTRIBUTION OF GROSS LOANS AND ADVANCES

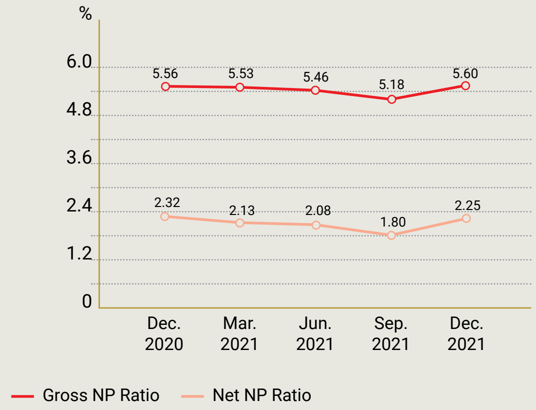


SECTOR-WISE PORTFOLIO DISTRIBUTION

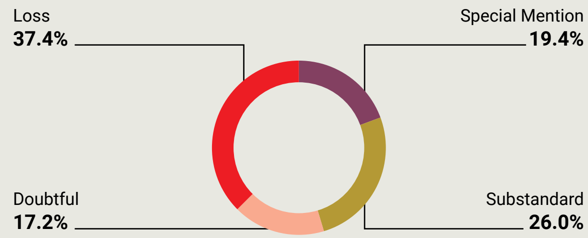


Note: “Other” category includes “Education”, “Information Technology and Communication Services”, “Professional, Scientific and Technical Activities” and “Arts, Entertainment and Recreation”

MOVEMENT OF NPL



NPL COMPOSITION



CREDIT RISK MANAGEMENT PROCESS

The Bank's credit policies approved by the Board of Directors define the credit objectives, outlining the credit strategy to be adopted at the Bank. The policies are based on CBSL Directions on integrated risk management, Basel recommendations, business practices, and risk appetite of the Bank.

Credit risk management guidelines identify target markets and industry sectors, define risk tolerance limits and recommend control measures to manage concentration risk. Standardised formats and clearly documented processes and procedures ensure uniformity of practices across the Bank.

Credit risk culture	Credit risk management framework and credit policy Governance structure and specific organisational structure for credit risk management IRMD creates awareness of credit risk management through training programmes and experience sharing sessions, including online channels and infographic e-learning modules
Credit approval process	Structured and standardised credit approval process as documented in the credit manual. The entire gamut of activities involving credit appraisal, documentation, funds disbursement, monitoring performance, restructuring and recovery procedures are described in detail in the manual which is reviewed annually Standardised appraisal formats and workbooks have been designed for each facility type and are being reviewed annually or as and when required to be in line with the business needs Clearly defined credit workflow ensures segregation of duties among credit originators, independent review and approval authority Delegation of Lending Authority sets out approval limits based on a combination of risk levels, as defined by risk rating and security type, loan size, proposed tenure, borrower, and group exposure IRMD's involvement in independent rating review of every credit proposal with the exception of centrally processed retail loans, small value loans and leases that do not require rating validations CRO is an observer of the Credit Committee and evaluates credit proposals from a risk perspective Risk-based pricing is practised at the Bank, any deviations being allowed only for funding through credit lines and where strong justification is made due to business development purposes
Control measures	Exclusion list and special clearance sectors are identified based on the country's laws and regulations, the Bank's corporate values and policies and level of risk exposure. Exclusion list specifies the industry sectors to which lending is disallowed while special clearance sectors specify industry sectors and credit products to which the Bank practices caution in lending Exposure limits on single borrower, group exposure, and advisory limits on industry sectors and large group borrowers are set by the Board of Directors on recommendation of IRMD

Credit risk management	Timely identification of problem credits through product-wise and concentration analysis in relation to industries, specific products and geographical locations such as branches/regions Industry reports/periodical economic analysis provide direction to lending units to identify profitable business sectors to grow the Bank's portfolio and to identify industry-related risk sources and their impact Evaluation of new products from a credit risk perspective Independent rating review by the Credit Risk Management Unit of IRMD ensures an assessment of credit quality at the time of credit origination and annual credit reviews Post sanction review of loans within a stipulated time frame is in place in accordance with Loan Review Policy to ensure credit quality is maintained. Separate Loan Review Unit is established independent of Credit Risk Management Unit Periodic validation of credit rating models and introducing necessary adjustments to the models for better discriminatory power, based on model validation results and existing macroeconomic outlook
Credit risk monitoring and reporting	Analysis of total portfolio in terms of NP movement, product distribution, industry sectors, Top 20 borrower exposures, borrower rating distribution, branch-wise portfolio distribution, and collateral distribution is carried out periodically and reported to the BIRMC Watch listing of clients that demonstrate signs of increased credit risk and obtaining feedback from business units on recovery action taken to regularise arrears on a need basis Disseminating information to decision-makers on frequently watch-listed clients based on overdue exposures, frequent excess positions, frequent cheque returns, restructured and extended facilities, rating downgrades monitored over a period of time, and crossovers to NP of watch-listed borrowers A traffic light system is employed to identify watch-listed clients with varying levels of impact to the portfolio Reporting to Board Credit Committee on watch-listed borrowers with significantly large exposures demonstrating high rate of deterioration in credit quality Reporting quarterly to BIRMC on credit concentration risk positions with regard to regulatory limits such as single borrower and group exposure limits and internal advisory limits on industry sectors, large group borrowers, and selected geographical regions as well as exposure based on credit rating grades Reporting on top key risks to the BIRMC and the Board Continuous contribution to effective financial reporting through loss ratio calculation, stage upgrades in accordance with SLFRS 9 and involvement in the Impairment Committee
Credit risk mitigation	Borrower's ability to pay is the primary source of recovery, whereas collateral acts as the secondary source in the event the borrower's cash inflow is impaired

KEY CREDIT RISK MEASUREMENT TOOLS AND REPORTING FREQUENCIES

The following credit risk measurement tools are being used in managing credit risk by the Bank and reported in the stipulated frequencies:

Credit risk measure/indicator	Frequency
Rating model validation results	Annually
Probability of default	Annually
LGD under Basel III and IFRS	Quarterly/Annually
Top and emerging risks under credit risk	Monthly
Credit portfolio analysis	Quarterly
Rating-wise distribution across business segments	Quarterly
Summary of rating reviews including overridden ratings	Quarterly
Watch-listed clients	Monthly to the Senior Management and quarterly to the Board
Summary of reviews done under Loan Review Mechanism	Quarterly

DIMENSIONS FOR ANALYSIS AND MONITORING OF CREDIT CONCENTRATION RISK

Credit concentration risk measure/indicator	Frequency
Industry sector limits positions	Quarterly
Top 20 borrower exposures	Quarterly
Top 20 borrower group exposures	Quarterly
Industry sector HHI*	Quarterly
Product distribution of the credit portfolio	Quarterly
Borrower distribution across rating grades	Quarterly
Collateral concentration	Quarterly

* The Herfindahl-Hirschman Index (HHI) is a measure of concentration, calculated by squaring the share of each sector and then summing-up the resulting numbers.

LOAN REVIEW MECHANISM

Loan Review Mechanism (LRM), an effective tool for constantly evaluating the quality of the loan book and bringing about qualitative improvements in credit function, is a regulatory requirement on integrated risk management.

LRM increased the percentage of loan portfolio reviewed during the year 2021 ensuring more reviews are carried out covering Branch Banking segment as well as Corporate Banking segment.

The LRM function was enriched by analytical review to include studying the clients whose facilities were reviewed in depth to ascertain the facility utilisation levels, current account performance, and trends in credit risk of such clients. Further, the scope was enhanced by capturing BB and below grade branch facilities. Based on the findings carried out with the business units, LRM recommendations are reported to the Credit Committee and to the BIRMC to ensure that the remedial actions are taken to enhance the quality of the credit portfolio.

MARKET RISK

Market risk is the possibility of losses arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, equity prices, and commodity prices.

As a financial intermediary, the Bank is exposed primarily to the interest rate risk and as an authorised dealer, is exposed to exchange rate risk on foreign currency portfolio positions. Market risk could impact the Bank mainly in two ways: viz, loss of cash flows or loss of economic value. Market risk can be looked at in two dimensions; as traded market risk, which is associated with the trading book and non-traded market risk, which is associated with the banking book.

The ALCO oversees the management of both the traded and the non-traded market risks. The Treasury manages the foreign exchange risk with permitted hedging mechanisms. Trends in relevant local as well as international markets are analysed and reported by IRMD and the Treasury to ALCO and BIRMC. The market risks are controlled through various limits. These limits are stipulated by the Investment Policy, TMO Policy, Treasury Manual, and Overall Limits System of the Bank. Interest rate sensitivity analysis (Modified duration analysis), Value-at-risk (VAR), simulation and scenario analysis, stress testing and marking-to-market of the positions are used as quantification tools for the purpose of risk monitoring and management of market risks.

Treasury Middle Office (TMO) is segregated from the Treasury Front Office (TFO) and Treasury Back Office (TBO) and reports to the CRO. The role of the TMO includes the day-to-day operational function of monitoring and controlling risks assumed in the TFO based on clearly defined limits and controls. Being independent of the dealers, the TMO provides an objective view on front office activities and monitors the limits. TMO has the authority to escalate limit excesses as per delegation of authority to the relevant hierarchy. The Bank has allocated haircuts on Repo/Reverse Repo transactions according to the CBSL Direction No. 01 of 2019. TMO independently verifies the sufficient allocation of security with the minimum haircut as specified in the circular. There were no penalties on haircuts for repo and reverse repo transaction as the direction was complied.

Treasury implemented a new system in 2018. The new system has enhanced TMO's capability to report crucial data with better accuracy and on real time basis. The strengthened Treasury and market risk management practices contribute positively to the overall risk rating of the Bank and efficiency in the overall Treasury operations. TBO which reports to the Chief Financial Officer is responsible for accounting, processing settlement and valuations of all Treasury products, and transactions. The Treasury transaction-related information is independently submitted by TBO to relevant authorities.

Market Risk Unit initiated computing product profitability in 2020. The process has been refined and improved in the last year to match the market dynamics.

INTEREST RATE RISK

Interest rate risk can be termed as the risk of loss in the net interest income (earnings perspective) or the net worth (economic value perspective) due to adverse changes in the market interest rates. Interest rate risk can consist of –

- Repricing risk, which arises from the inherent mismatch between the Bank's assets and liabilities resulting in repricing timing differences
- Basis risk, which arises from the imperfect correlation between different yield and cost benchmarks attached to repricing of assets and liabilities
- Yield curve risk, which arises from shifts in the yield curve that have a negative impact on the Bank's earnings or asset values

The Bank manages its interest rate risks primarily through asset liability repricing gap analysis, which distributes interest rate sensitive asset and liability positions into several maturity buckets. Board defined limits are in place for interest rate gaps and positions, which are monitored on a periodic basis to ensure compliance to the prescribed limits.

The Asset and Liability Management (ALM) Unit routinely assesses the Bank's asset and liability profile in terms of interest rate risk and the trends in costs and yields are reported to ALCO for necessary realignment in the asset and liability structure and the pricing mechanism. ALM performed a number of scenario analysis and simulations on the effect of interest rate changes to the Bank's interest income during the year, to facilitate pricing decisions taken at ALCO.

FOREIGN EXCHANGE RATE RISK

Foreign exchange rate risk can be termed as possibility of adverse impact to the Group's capital or earnings due to fluctuations in the market exchange rates. This risk arises due to holding of assets or liabilities in foreign currencies. Net Open Position (NOP) on foreign currency indicates the level of net foreign currency exposure that has been assumed by the Bank at a point of time. This figure represents the unhedged position of the Bank in all foreign currencies. The Bank accrues foreign currency exposure through purchase and sale of foreign currency from customers in its commercial banking and international trade business and through borrowing and lending in foreign currency.

The Bank manages the foreign exchange risk using a set of tools which includes limits for net unhedged exposures, hedging through forward contracts and hedging through creating offsetting foreign currency assets or liabilities. TMO monitors the end of the day NOP as calculated by the TBO and the NOP movement in relation to the spot movement. TMO also conducts VAR for daily forex position and the NOP. Stress testing is also performed on a daily basis and reported by TMO. The daily interbank foreign currency transactions are monitored for consistency with preset limits and any excesses are reported to the Management and the BIRMC.

The Bank has obtained approval from the Central Bank of Sri Lanka for its foreign currency borrowings and credit lines as per regulatory requirements. The unhedged foreign currency exposure of the Bank is closely monitored and necessary steps are taken to hedge in accordance with the market volatilities.

INDIRECT EXPOSURES TO COMMODITY PRICES RISK – GOLD PRICES

The Bank's pawning portfolio amounted to LKR 5,970 Mn as at 31 December 2021, which is less than 2% of total assets. The Market Risk Management Unit (MRMU) manages the risk emanating from Gold through constant analysis of the international and local market prices and adjusting the Bank's preferred loan to value (LTV) ratio. MRMU also conducts stress testing for the Gold portfolio by forecasting adverse Loss Given Default and PD rates. Stress results are reported to ALCO, BIRMC and the Board.

EQUITY PRICES RISK

Equity prices risk is the risk of losses in the marked-to-market equity portfolio, due to the decline in the market prices. The direct exposure to the equity price risk by the Bank arises from the equity portfolios classified as fair valued through profit and loss and other comprehensive income. Indirect exposure to equity price risk arises through the margin lending portfolio of the Bank in the event of crystallisation of margin borrower's credit risk. The Investment Committee of the Bank is responsible for managing equity portfolio in line with the policies and the guidelines as set out by the Board and the BIRMC. Allocation of limits for equities taken as collateral for loans and margin trading activities of customers and for the Bank's investment/trading portfolio forms part of the tools for managing the equity portfolio. Rigorous appraisal, proper market timing and close monitoring of the portfolio performance in relation to the market performance facilitate the management of the equity portfolio within the framework of investment strategy and the risk policy.

LIQUIDITY RISK

Liquidity risk is the risk of not having sufficient funds to meet financial obligations on time and in full, at a reasonable cost. Liquidity risk arises from mismatched maturities of assets and liabilities. The Bank has a well set out framework for liquidity risk management and contingency funding plan. The liquidity risk management process includes regular analysis and monitoring of the liquidity position by ALCO and maintenance of market accessibility. Regular cash flow forecasts, liquidity ratios and maturity gap analysis are used as analytical tools by the ALCO. Any negative mismatches up to the immediate three months revealed through cash flow gap statements are matched against cash availability either through incremental deposits or committed lines of credit. Whilst meeting the regulatory requirements relating to liquidity, for internal monitoring purposes, the Bank takes into consideration the liquidity of each eligible instrument relating to the market at a given point in time as well as undrawn commitments to borrowers when stress testing its liquidity position.

The maintenance of a strong credit rating and reputation in the market enables the Bank to access domestic wholesale funds. For short-term liquidity support, the Bank also has access to the money market at competitive rates. In line with the long-term project financing business, the Bank focuses on long-term funding through dedicated credit lines while its growing share of commercial banking business focuses on Current Accounts and Savings Accounts (CASA) and Term Deposits as the key source of funding for its lending. The structure and procedures for Asset and Liability Management at the Bank have been clearly set out in the Board approved ALCO Charter, which is reviewed on an annual basis.

The CBSL Direction No. 07 of 2011 specifies that liquidity can be measured through stock or flow approaches. Under the stock approach, liquidity is measured in terms of key ratios which portray the liquidity in the balance sheet. Under the flow approach banks should prepare a statement of maturities of assets and liabilities placing all cash inflows and outflows in the time bands according to their residual time to maturity in major currencies. The Bank has adopted both methods in combination to assess liquidity risk.

LIQUIDITY RISK MANAGEMENT UNDER FLOW APPROACH

A statement of Maturities of Assets and Liabilities (MAL) is prepared by the Bank placing all cash inflows and outflows in the time bands according to their residual time to maturity and non-maturity items as per CBSL recommended and the Bank specific behavioural assumptions.

The gap analysis of assets and liabilities highlights the cash flow mismatches which assists in managing the liquidity obligations in a prudential manner.

LIQUIDITY RATIOS UNDER STOCK APPROACH

The Bank regularly reviews the trends of the following ratios for liquidity risk management under the stock approach in addition to the regulatory ratios. During the year, the Bank maintained liquidity indicators comfortably above the regulatory minimums and the internal limits defined by the risk appetite statement.

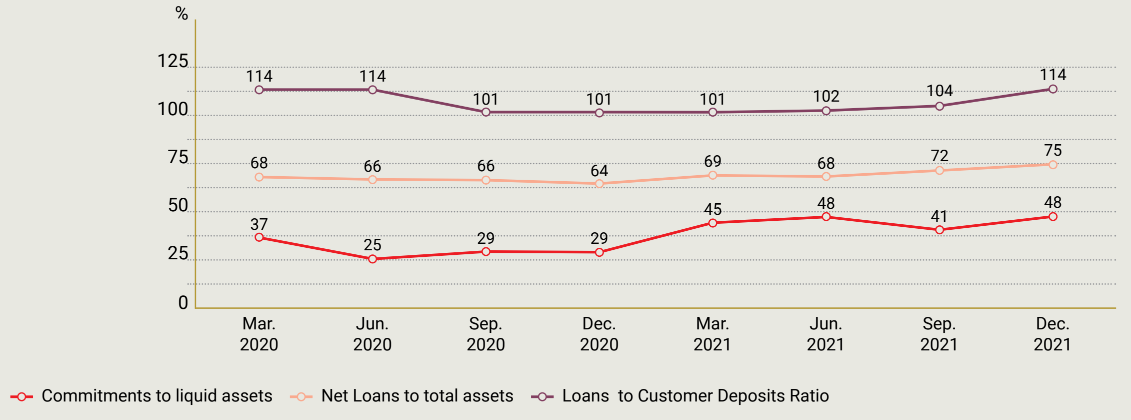
The minimum liquidity standards (Liquidity Coverage Ratio) under Basel III were implemented from April 2015 and amended in November 2018 and November 2019. Accordingly, banks are required to maintain an adequate level of unencumbered High Quality Liquid Assets (HQLAs) that can be easily and readily converted into cash to meet their liquidity needs for a 30-calendar day time horizon under a significantly severe liquidity stress scenario. The computations of LCR performed for the Bank indicated that the Bank was comfortably in compliance with the Basel III minimum requirements, having sufficient High Quality Liquid Assets well in excess of the minimum requirements specified by the Central Bank of Sri Lanka (CBSL) throughout the year.

The Central Bank of Sri Lanka (CBSL) issued consultative guidelines for Net Stable Funding Ratio (NSFR) in November 2017, and progressively increased the requirement to 100% from 1 July 2019 onwards. However, due to COVID-19 concessions CBSL relaxed the requirement to 90% till June 2021 for both LCR and NSFR ratios and subsequently both ratio requirements were increased back to 100%. NSFR standards are designed to reduce funding risk over a longer time horizon by requiring banks to fund with sufficiently stable sources to mitigate the risk of future funding stress and require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet exposures.

KEY LIQUIDITY RISK MEASUREMENT TOOLS AND REPORTING FREQUENCIES

Liquidity risk measure/indicator	Minimum frequency
Stock approach – Ratio analysis	
Net loans to total assets	Quarterly
Loans to customer deposits	Quarterly
Large liabilities to earnings assets excluding temporary investments	Quarterly
Purchased funds to total assets	Quarterly
Commitments to total assets	Quarterly
Trends in the statutory liquid assets ratio	Monthly
Trends in Liquidity Coverage Ratio (LCR) and forecasts	Monthly
Net Stable Funding Ratio (NSFR)	Quarterly
Flow approach	
Maturity gap report (on static basis)	Quarterly
Net funding requirement through dynamic cash flows	Quarterly
Scenario analysis and stress testing	Quarterly
Contingency funding plan	Annual Review

LIQUIDITY RATIOS UNDER STOCK APPROACH



The Bank has in place a contingency plan which provides guidance on managing liquidity requirements in stressed conditions based on different scenarios of severity. The contingency funding plan provides guidance in managing liquidity in bank specific or market specific scenarios. It outlines how assets and liabilities of the Bank are to be monitored, pricing strategies are to be devised and growth strategies to be reconsidered emphasising avoidance of a liquidity crisis based on the risk level. The management and reporting framework for ALCO identifies evaluating a set of early warning signals both internal and external in the form of a Liquidity Risk Matrix on a monthly basis in order to assess the applicable scenario ranging from low risk to extreme high liquidity risk and proposes a set of strategies to avoid and mitigate possible crises proactively. The action plan for each of the high risk contingency level scenarios is to be considered by a liquidity contingency management team which includes the CEO, Head of Treasury, CRO, Business Unit Heads and a few other members of Senior Management. The liquidity contingency plan was further improved during the year with quantified scenarios and further specifying responsibilities of the liquidity contingency management team. During the year, the Bank did not come across a high liquidity risk scenario and the Bank had sufficient standby liquidity facility agreements (Reciprocal agreements) to buffer against sudden liquidity stresses.

OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, systems, and external events. It covers a wide area ranging from losses arising from fraudulent activities, unauthorised trade or account activities, human errors, omissions, inefficiencies in reporting, technology failures or from external events such as natural disasters, cyberattacks, terrorism, theft, political instability and extraordinary events such as the COVID-19 pandemic. The objective of the Bank is to manage, control and mitigate operational risk in a cost-effective manner consistent with the Bank's risk appetite. The Bank has ensured an escalated level of rigour in operational risk management approaches for sensitive areas of its operations.

COVID-19 pandemic challenges continued in 2021. Keeping in adherence to the health guidelines, staff members were provided facilities to work from home on a roster basis. Further, staff members were split to various other locations to ensure the continuity of the business whilst managing the operational risk.

The Operational Risk Management Committee (ORMC) oversees and directs the management of operational risk of the Bank at an operational level with facilitation from the Operational Risk Management Unit (ORMU) of the IRMD. Active representation of the relevant departments and units of the Bank ensure the process of operational risk management through Operational Risk Coordination Officers (ORCOs).

Segregation of duties with demarcated authority limits, internal and external audit, strict monitoring facilitated by the technology platform and back-up facilities for information are the fundamental tools of operational risk management. Audit findings of high-risk nature and Management responses are forwarded to the Board's Audit Subcommittee for their examination. Effective internal control systems, supervision by the Board, Senior Management and the line managers form part of the First Line of Defence for operational risk management at Bank. The Bank demands application of high level of technical skills, professionalism and ethical conduct from its staff and these serve as insulators for many operational risk factors.

The following are other key aspects of the operational risk management process at DFCC Bank PLC:

- Monitoring of Risk and Control Self-Assessment (RCSA) and Key Risk Indicators (KRIs) for the functions under defined threshold limits using a "Traffic Light" system
- Maintaining internal operational risk incident reporting system and carrying out an independent analysis of the incidents by IRMD to recognise necessary improvements in the systems, processes, and procedures
- Trend analysis on operational risk incidents and review at the ORMC
- Review of downtime of the critical systems and assessment of the causes. The risk and business impact are evaluated. Rectification measures are introduced whenever the tolerance levels are compromised
- Review of HR attrition and exit interview comments in detail evaluated at the ORMC in an operational risk perspective

- Establishment of the Bank's complaint management process under the Board Approved Complaints Management Policy. IRMD analyses the complaints received to identify any systemic issues and reports to ORMC
- Conduct product and process reviews in order to identify the operational risks and recommend changes to the products and related processes
- Evaluate the operational risks associated with any new product developments
- Maintaining an external loss database in order to take proactive action to mitigate operational risks that may arise from the external environment
- Assist in the Business Continuity Planning and Disaster Recovery (DR) processes and review the results of DR drills conducted in the Bank to provide recommendations for future improvements
- Conduct Fraud Risk Management Committee meetings periodically in order to identify potential fraud risks that might impact the Bank and to take timely remedial actions

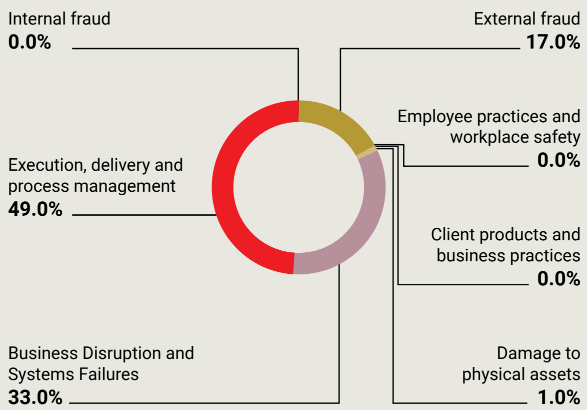
Operational risk reporting

Risk identification	Risk assessment	Risk monitoring and controlling
• Risk and Control Self-Assessments (RCSA) • Operational risk incident analysis (internal and external) • Risk analysis of products/services • Analysis of customer complaints	• Evaluation of risks against the controls through RCSA • Key Risk Indicators (KRIs) • Incident assessment and escalation (internal and external) • Stress testing	• Action plans based on incident analysis, RCSA and KRI • Insurance • Business Continuity Plan and periodic testing
Culture and awareness		
Policies and guidelines		

OPERATIONAL RISK LOSSES

The Bank has improved its operational risk incident reporting system overtime by creating an increased level of awareness among the employees with regard to operational risks and the importance of timely incident reporting. A total of 169 incidents were reported in 2021. The Operational Risk Coordination Officers (ORCO) are required to send a monthly report to the Operational Risk Management Unit (ORMU) regarding operational risk related incidents if any took place at their respective branches or departments. The operational risk incidents reported in 2021 based on the event type are given in the graph.

OPERATIONAL RISK INCIDENTS



The majority of the incidents reported were as a result of a failure in the execution, delivery and process management, and they also included near misses and no loss incidents. Due to the stringent controls that are in place, current losses from operational risk events have been kept to the barest minimum, with no significant losses.

RISK AND CONTROL SELF-ASSESSMENTS (RCSAs) AND KEY RISK INDICATORS (KRIs) PROCESS OF THE BANK

Monitoring of Risk and Control Self-Assessments (RCSAs) and Key Risk Indicators (KRIs) in key functions of the Bank, was further strengthened by identifying the new units of processes within the Bank and developing KRIs and RCSAs, during the year as a measure to allow the early detection of operational risks before actual failure occurs.

RCSA requires self-evaluation of operational risk exposures of processes in the Bank by respective departments semi-annually. Each department will assess the risks based on impact and likelihood of occurrence, while controls are assessed based on control design and control performance. The results are evaluated at ORMC for additional controls or mitigants in order to minimise risk exposure to the Bank.

Regular KRI monitoring assists business line managers by providing them with a quantitative, verifiable risk measurement which is evaluated against the thresholds. A summary of KRIs is presented to ORMC based on a traffic light system.

INSURANCE AS A RISK MITIGANT

Insurance policies are obtained to transfer the risk of low frequency and high severity losses which may occur as a result of events such as fire, theft/frauds, natural disasters, errors and omissions. Insurance plays a key role as an operational risk mitigant in the banking context due to the financial impact that any single event could trigger.

Insurance policies in force covering losses arising from undermentioned assets/processes include –

- Cash and cash equivalents
- Pawned articles
- Premises and other fixed assets

- Public liability
- Employee infidelity
- Negligence
- Personal accidents and workmen's compensation
- Losses from counterfeit, forged, fraudulently altered, stolen cards and associated court costs and legal expenses

The Insurance Unit of the Bank reviews the adequacy and effectiveness of insurance covers on an annual basis and carries out comprehensive discussions with insurance companies on any revisions required at the time of renewal of the insurance covers.

OUTSOURCING OF BUSINESS FUNCTIONS

Outsourcing takes place when the Bank uses another party to perform non-core banking functions that would traditionally have been undertaken by the Bank itself. As a result, the Bank will be benefited in focusing on its core banking activities while having the non-core functions being taken up by outside experts.

The Bank has outsourced some business functions under its outsourcing policy after evaluating whether the services are suitable for outsourcing based on an assessment of the risks involved. Further, the Bank undertakes due diligence tests on the companies concerned such as credibility and ability of the owners, BCP arrangements, technical and skilled manpower capability and financial strength. Archival of documents, certain IT operations, security services, and selected recovery functions are some of the outsourced activities of the Bank. The Bank is concerned and committed in ensuring that the outsourced parties continue to uphold and extend the high standard of customer care and service excellence.

A report on outsourced activities is annually submitted to the CBSL for their review while adhering to the Banking Direction on Outsourcing of Business Operations.

KEY OPERATIONAL RISK MEASUREMENT TOOLS AND REPORTING FREQUENCIES

Operational Risk Measure/Indicator	Frequency
Operational risk incidents reported during the period (Internal)	Quarterly
Risk and control self-assessments and key risk indicators	Semi-annually
Status and reports of any BCP/DR activities undertaken	As required
Customer complaints during the period	Quarterly
System and ATM downtime reports	Quarterly
Attrition information	Quarterly
Review of Outsourced Services Unit	Annually

MANAGEMENT OF INFORMATION SYSTEMS SECURITY (ISS) RISK UNDER IRMD

Information security risk management (ISRM) is the process of managing the risks associated with the use of information technology and evaluating risks to the confidentiality, integrity, and availability (CIA) of Bank's information assets and processes.

The established information security management system is designed to provide a systematic approach to managing the Bank's sensitive information and processes by considering all aspects of people, processes, technology controls. Further, the Bank's information security management system is ISO 27001:2013 certified since 2016.

Main objectives of ISRM are to ensure compliance with regulatory and contractual requirements while adopting industry security best practices and aligning information security risk management with corporate risk management objectives.

ISRM is an ongoing process of identifying, assessing, and responding to security risks. To manage risks effectively, the Bank has adopted international security standards such as ISO 27001:2013 and PCI-DSS while being compliant with SWIFT customer security controls framework, Baseline Security Standard (BSS) and payment related mobile application security guidelines of CBSL.

Bank's current ISRM strategy focuses on the following activities:

- Improve the existing Information Security Management System (ISMS) by adopting recent CBSL Regulatory Framework on Technology Risk Management and Resilience and the Data Protection Act.
- Improve information security policies, procedures and guidelines considering the regulatory requirements and dynamic threat landscape.
- Continuous assessment of security risks related to the Bank's information assets and processes to ensure technology-related residual risks are maintained at acceptable levels.
- Review and monitor information security KPIs and report the status of the indicators to the Operational Risk Management Committee.
- Conduct internal vulnerability assessment and penetration testing covering IT infrastructure on defined time intervals to ensure known vulnerabilities are properly managed.
- Perform trend analysis on the Bank cybersecurity posture and manage information security incidents to minimise the risk.
- Ensure adequate information security awareness is given to staff members to follow security best practices and detect and report information security events and incidents.

As improvements to the management framework, Bank adopted a process-oriented risk assessment methodology for better clarity of risks involved in processes and the corresponding risk factors through an objective oriented risk identification approach last year. As a result of the establishment of a new independent user access review process covering common user access risk scenarios, the system user account management process was streamlined according to the information security policy of the Bank.

By understanding the complexity of current supply chain-based cybersecurity threats, the Bank consulted a specialised service provider due diligence and a risk assessment process to quantify risks associated with third-party vendors who are providing technology services to the Bank.

The Bank adopted new information security controls and processes to ensure the continuity of information security while empowering users to work remotely during the COVID-19 pandemic. Early adoption of information security controls helped the Bank maintain the same customer experience by increasing resource availability during rapid surges in demand for digital capabilities.

Further, the Bank revised the cybersecurity risk reporting process during the last year to improve the visibility of information security posture of the Bank to Senior Management considering the importance of cybersecurity to business continuation.

The Bank considers its customer information as a priceless asset and keeps on improving its information security governance processes factoring current cybersecurity threats and security best practices.

During the last year, the Bank undertook a few initiatives to improve the security of its digital assets by introducing new technologies.

- Improve the frequency of security assessments on critical business applications.
- Improve anomaly detection process based on a machine learning and AI based Endpoint Detection and Response (EDR) solution.
- Improving the existing security event monitoring and security incident management process by integrating cyberthreat intelligence feeds to improve the threat visibility and early detection capabilities.
- Implementation of SD-WAN solution for enhancing branch level information security and visibility while improving the performance and user experience.
- Performing technology and operational security gap assessments to the payment card related business functions and initiated control implementations to improve the security posture by aligning with the PCI-DSS security standard requirements.
- Implementation of Data Leakage Prevention (DLP) solution to ensure the protection of customer and business-sensitive data of the Bank as a part of the Bank's data governance process.
- Implementation of endpoint data encryption solution to better align with data protection governance requirements.
- Improving Bank policy and procedure coverage to accommodate work from home requirements and strengthening the security controls and monitoring mechanisms to ensure the security continuation during a crisis situation.
- Improving information security training and awareness programme by introducing new modules to the existing computer-based training (CBT) platform.

Key Information Security risk measurement tools and reporting frequencies

Operational Risk Measure/Indicator	Frequency
IT infrastructure vulnerability assessments (internal)	Quarterly
Business application vulnerability assessment (internal)	Quarterly
3rd party Penetration Testing	Annually
Technology related risk assessment (internal)	Semi-annually
Vendor security assessment (internal)	Annually
Information security incident reporting	Quarterly
Top and emerging risk reporting (internal)	Monthly

REPUTATIONAL RISK

Reputational risk is the risk of losing public trust or tarnishing of the Bank's image in the public eye. It could arise from environmental, social, regulatory, or operational risk factors. Events that could lead to reputational risk are closely monitored, utilising an early warning system that includes inputs from frontline staff, media reports, and internal and external market survey results. Though all policies and standards relating to the conduct of the Bank's business have been promulgated through internal communication and training, a specific policy was established to take action in case of an event which may affect the reputation. The Bank has zero tolerance for knowingly engaging in any business, activity, or association where foreseeable reputational damage has not been considered and mitigated. While there is a level of risk in every aspect of business activity, appropriate consideration of potential harm to the Bank's good name is a part of all business decisions. The complaint management process and the whistle-blowing process of the Bank include a set of key tools to recognise and manage reputational risk. Based on the operational risk incidents, any risks which could lead to reputational damage are presented to the Board and suitable measures are taken by the Bank to mitigate and control such risks.

BUSINESS RISK

Business risk is the risk of deterioration in earnings due to the loss of market share, changes in the cost structure and adverse changes in industry or macroeconomic conditions. The Bank's medium-term strategic plan and annual business plan form a strategic roadmap for sustainable growth. Continuous competitor and customer analysis and monitoring of the macroeconomic environment enables the Bank to formulate its strategies for growth and business risk management. Processes such as Planning, ALM, IT and Product Development in collaboration with business functions facilitate the management of business risk through recognition, measurement, and implementation of tasks. Business risk relating to customers is assessed in the credit rating process and is priced accordingly.

LEGAL RISK

Legal risk arises from unenforceable transactions in a court of law or the failure to successfully defend legal action instituted against the Bank. Legal risk management commences from prior analysis, and a thorough understanding of, and adherence to related legislation by the staff. Necessary precautions are taken at the design stage of transactions to minimise legal risk exposure.

In the event of a legal risk factor, the Legal Unit of the Bank takes immediate action to address and mitigate these risks. External legal advice is obtained or counsel retained when required.

COMPLIANCE RISK

Compliance from a banking perspective can be defined as acting in accordance with a law, rule, regulation or a standard. Basel Committee on Banking Supervision in 2005 defines "compliance risk" as "the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules related self-regulatory organisation standards, and Codes of Conduct applicable to its banking activities".

Bank's governing principles on compliance are to: Ensure compliance starts from top, to emphasise standards of honesty and integrity and hold itself to high standards when carrying on business, at all times strive to observe the spirit as well as the letter of the law. Further, it sets compliance as an integral part of the Bank's business activities and part of the culture of the Organisation and at all times will be observing proper standards of market conduct, managing conflicts of interest, treating customers fairly, and ensuring the suitability of customer advice.

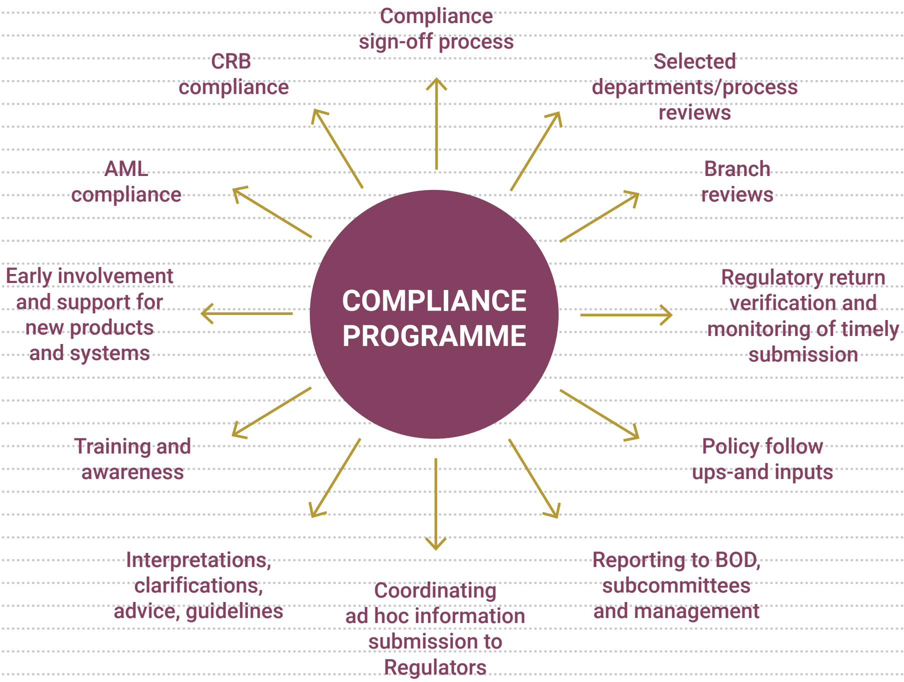
Compliance Governance Structure of the Bank has been set up to manage the compliance risk of the Bank independently. DFCC Bank has adopted a globally accepted compliance governance structure set following such recommendations, which is also ratified by the Central Bank of Sri Lanka. Accordingly, the Compliance Officer independently reports to the Board Integrated Risk Management Committee through which the Board of Directors of the Bank get updated on the compliance matters frequently.

The Bank's Board of Directors are responsible for overseeing the management of the Bank's compliance risk. Towards this; Board has delegated its powers to the Board Integrated Risk Management Committee which takes appropriate action to establish a permanent, independent and effective compliance function in the Bank, ensure that compliance issues are resolved effectively and expeditiously by Senior Management of the Bank with the assistance of the compliance function and assess the extent to which the Bank is managing its compliance risk effectively.

The Bank's Corporate/Senior Management is responsible for the effective management of the Bank's compliance risk and an independent robust compliance culture has been established within the Bank with processes and workflows designed with the required checks and balances to facilitate compliance. The compliance function works closely with the business and operational units to ensure consistent management of compliance risk.

Scope of the Compliance function encompasses legislative enactments: rules, regulations, directions, determinations, operating instructions, circulars issued by regulators; Bank's internal policies, circulars, guidelines; Industry best practices and standards issued by professional bodies; and international regulations. In order to manage the compliance risk of the Bank, Compliance Function on a proactive basis, identifies, documents and assesses the compliance risks associated with the Bank's business activities, including the development of new products and business practices. It has set in place, a Compliance Programme based on a risk-based approach to be carried out under a set of scheduled activities annually, that consists of, compliance testing, branch visits, verification of returns, developing and reviewing compliance KRIs and methodologies, ensuring of timely submission of regulatory returns, clarifications of regulatory circulars, reporting to Board and/or subcommittee and educating staff on compliance matters, conducting Bank-wide compliance training. It also manages and ensures information accuracy of the Data submitted to the Credit Information Bureau of Sri Lanka.

The compliance functions carried out to mitigate the compliance risk can be illustrated as follows:



Banking being the largest segment in the global financial system, is the most vulnerable sector used by the criminals and terrorists to launder money. Regulators all over the world are therefore adopting strict measures to ensure that banks have in place adequate systems and processes to mitigate the Money Laundering (ML) and Terrorism Financing (TF) risk. Sri Lanka as a country and its Regulator, the Financial Intelligence Unit (FIU) are also subject to assessment by the international organisations on the commitment towards global Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF) efforts. Therefore, any non-compliance in banks related to this area is taken seriously and is subject to fines and penalties by the FIU.

Thus, AML and CTF related compliance programme of the Bank creates a core activity of the Compliance Function. To make the Bank safe and sound in terms of AML and STF, compliance department spearheads a number of activities such as formulating policies, procedures connected with KYC and Customer Due Diligence, Transaction Monitoring to identify suspicious transactions, Name Screening process to ensure that the Bank is not dealing with sanctioned persons or entities, Politically Exposed Persons (PEP) related Enhanced Due Diligence process etc. Further, in line with the Customer Due Diligence (CDD) rules issued by the Financial Intelligence Unit and the Financial Action Task Force Recommendations, the Bank has adopted a risk based approach in identifying ML/TF exposure of the Bank relating to customers, products, services, channels, countries, geographic regions and transaction volumes.

With implementation of the new core banking system, the Bank has also implemented a new Financial Crime Mitigation (FCM) system by replacing the existing AML Software. FCM has sound functionalities such as sanctions screening, identifying the Politically Exposed Persons (PEPs), KYC Risk scoring and categorisation, AML Transaction Monitoring and fraud mitigation and support all user functions including alert management, case management, reporting and dashboards and the same is used in managing the ML/TF Risk that the Bank is exposed to.

The FCM has features in line with the CDD rules, supporting risk-based customer reviews through the system. Front staff can now update the customer risk at the time of on-boarding using the FCM KC+ Module and it is capable of retaining data on changes of risk rating. Further reviews based on the risk category can also be managed through the system on a timely basis. Using the real time screening, all new on-boarding customers, inward and outward Telegraphic Transfers (TT) and other trade transactions are closely monitored.

Further, Compliance Department uses a Risk Matrix consisting of regulatory ratios as well as a number of other quantifiable compliance Key Risk Indicators (KRI) to assess the Bank wide compliance risk level. Results are presented to the Operational Risk Management Committee and to the Board Integrated Risk Management Committee every quarter. Based on this matrix, the Bank is rated low in compliance risk category for the last three consecutive years.

BUSINESS CONTINUITY MANAGEMENT

The Business Continuity Plan (BCP) of the Bank ensures timely recovery of critical operations that are required to meet stakeholder needs based on identified disruptions categorised into various severity levels. BCP has been designed to minimise risk to human and other resources and to enable the resumption of critical operations within reasonable time frames specified according to Recovery Time Objectives (RTOs) with minimum disruption to customer services and payment and settlement systems. The Disaster Recovery (DR) site, which is located in a suburb of Colombo is used for periodic testing drills. These DR drills are subject to independent validation by the Internal Audit Department. A report on the effectiveness of the drill is submitted to the BIRMC/Board and also to the Central Bank with the observations. Learnings and improvements to disaster recovery activities are discussed and implemented through the ORMC and the BIRMC. Training is carried out to ensure that employees are fully aware of their role within the BCP.

STRESS TESTING OF KEY RISKS

DFCC Bank PLC has been conducting stress testing on a regular basis. The Bank has in place, a comprehensive Stress Testing Policy and Framework, which is in line with the regulatory guidelines as well as international best practices. The Policy describes the purpose of stress testing and governance structure and the methodology for formulating stress tests, whilst the framework specifies in detail the Stress Testing Programme including the stress tests, frequencies, assumptions, tolerance limits and remedial action.

Stress testing and scenario analysis have played a major role in the Bank's risk mitigation efforts. Stress testing has provided a dynamic platform to assess, "What If" scenarios and to provide the Bank with an assessment on areas to improve. The Bank covers a wide range of stress tests that checks the resilience of the Bank's capital, liquidity, profitability, etc.

The outcome of stress testing process is monitored carefully and remedial actions taken and used by the Bank as a tool to supplement other risk management approaches.

The details of stress tests carried out by the Bank for 2021 are given below:

Risk area and methodologies adopted	Results
Credit and concentration risk	
• Impact of increase in the Non-Performing Assets (NPAs) • Impact to the Bank due to fall in value of collaterals of NPA • Sector concentration, concentration of credit ratings, concentration of products, concentration of borrowers such as the top 10 clients • Capital Adequacy Ratios (CAR) were stressed to see if the ratios fall below the regulatory levels • Additional capital was computed for all extreme concentration risks and was reported to Senior Management	• The CAR remained above the minimum regulatory limit even under stressed conditions
Market risk	
• Stress testing and VAR calculations of currency exposure • Stress testing and VAR calculations for equity portfolio • Change of interest rates and its effect on Bank's profitability and capital	• VAR on currency exposure and equity portfolio were within the Bank's acceptable risk matrices • Change of interest rates did not affect the Capital of the Bank significantly
Operational risk	
• Stress on Bank's capital against increase of possible operational losses	• No significant effect on capital and is well within the Bank's risk absorption capability
Liquidity risk	
• Stress on liquidity due to settlement risk, decline in collections, and bulk deposit redemption • Stress on liquid assets ratio due to run on liabilities • Erosion of deposits due to sudden reputation risk and associated liquidity risks	• Liquid asset ratio was maintained above 20% at low level of shock while slightly falls below at medium level of shock. At high level of shock, the ratio can fall below 20%, which is extreme and highly unlikely
Multifactor stress testing	
• Combined stress of all risks	• Except for the worst-case scenario, the regulatory capital was not breached. The worst-case scenario is an extreme scenario where all types of risks will emerge under extreme conditions at the same time

The findings of the Bank's stress testing activities are an input into several processes including capital computation under Internal Capital Adequacy Assessment Process (ICAAP), strategic planning and risk management. As an integral part of ICAAP under Pillar II, stress testing is used to evaluate the sensitivity of the current and forward risk profile relative to the stress levels which are defined as low, moderate and high in the Stress Testing Policy. The resultant impact on the capital through these stress tests is carefully analysed and BIRMC conducts regular review stress testing outcomes including assumptions that underpin them.

As it provides a broader view of all risks borne by the Bank in relation to its risk tolerance and strategy in a hypothetical stress situation, stress testing has become an effective communication tool to Senior Management, risk owners, risk managers as well as supervisors and regulators. The results of the stress testing are reported to the BIRMC and the Board on a quarterly basis for appropriate and proactive decision-making.

RISK CAPITAL POSITION AND FINANCIAL FLEXIBILITY

The Bank adopts a proactive approach to ensure satisfactory risk capital level throughout its operations. In line with its historical practice and the capital targets, the Bank aims to maintain its risk capital position above the regulatory minimum requirements for Tier I and total capital under Basel guidelines.

As a regulatory measure introduced under the pandemic condition, the Bank was allowed to draw down 0.5% of the capital conservation buffer setting the regulatory minimum requirement as 8% for Tier I ratio and 12% for total capital ratio.

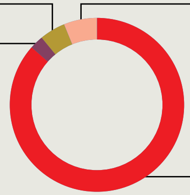
As at 31 December 2021, DFCC Bank PLC maintained a risk capital position of 9.305% Tier I capital ratio and 13.029% total capital ratio based on the Basel III regulatory guidelines.

Capital adequacy measures the adequacy of the Bank's aggregate capital in relation to the risk it assumes. The capital adequacy of the Bank has been computed under the following approaches of the Basel regulations which are currently effective in the local banking industry:

- Standardised approach for credit risk
- Standardised approach for market risk
- Basic Indicator approach for operational risk

The graph below shows the Bank's capital allocation and available capital buffer as at 31 December 2021, based on the quantified risk as per the applicable regulatory guidelines. Out of the regulatory risk capital (total capital) available as at 31 December, capital allocation for credit risk is 84.9% of the total capital while the available capital buffer is 7.9%.

CAPITAL DISTRIBUTION



CAPITAL ADEQUACY MANAGEMENT

BASEL III is the global regulatory standard on managing capital and liquidity of banks which is currently in effect. With the introduction of Basel III from mid-2017, the capital requirements of banks have increased with an aim to raise the quality, quantity, consistency and transparency of capital base and improve the loss absorbing capacity.

Additionally, the Pillar II (Supervisory Review Process – SRP) under the Basel regulations requires banks to implement an internal process, of Internal Capital Adequacy Assessment Process (ICAAP), for assessing capital adequacy in relation to the risk profiles as well as a strategy for maintaining capital levels. The Bank has in place an ICAAP, which has strengthened the risk management practices and capital planning process. It focuses on formulating a mechanism to assess the Bank's capital requirements covering all relevant risks and stress conditions in a futuristic perspective in line with the level of assumed risk exposures through its business operations. The ICAAP formulates the Bank's capital targets, capital management objectives and capital augmentation plans.

The ICAAP demonstrates that the Bank has implemented methods and procedures to capture all material risks and adequate capital is available to cover such risks. This document integrates Pillar I and Pillar II processes of the Bank wherein Pillar I deals with regulatory capital, primarily covering credit, market and operational risks whilst Pillar II deals with economic capital involving all other types of risks.

As per the direction issued by the CBSL, under supervisory review of Basel III, CBSL encourages banks to enhance their risk management framework and manage emerging risks in a more proactive manner. This is to ensure that the Bank maintains adequate capital buffer in case of a crisis while more importance has been placed on Pillar II and ICAAP. The Bank uses a mix of quantitative and qualitative assessment methods to measure Pillar II risks. A quantitative assessment approach is used for concentration risk, liquidity risk, and interest rate risk whilst qualitative approaches are used to assess the risks such as reputational risk and strategic risk.

The Senior Management team is closely involved in formulating risk strategy and governance, thereby considering the Bank's capital planning objectives under the strategic planning process. Capital forecasting for the next three years covering envisaged business projections is considered in the budgeting process. This forward-looking capital planning helps the Bank to be ready with additional capital requirements in the future. It integrates strategic plans and risk management plans with the capital plan in a meaningful manner with inputs from Senior Management, Management Committees, Board Committees and the Board.

Capital adequacy ratio and risk-weighted assets of DFCC Bank PLC on a solo and group basis under Basel III

Quantified as per the CBSL Guidelines	31 December 2021		31 December 2020	
	Bank	Group	Bank	Group
Credit risk-weighted assets (LKR Mn)	339,261	339,722	293,506	293,920
Market risk-weighted assets (LKR Mn)	10,006	10,006	12,956	12,956
Operational risk-weighted assets (LKR Mn)	18,910	19,381	17,400	17,752
Total risk-weighted assets (LKR Mn)	368,177	369,109	323,862	324,628
Total Tier I capital adequacy ratio – Basel III (%)	9.305	9.283	10.820	10.816
Total capital adequacy ratio – Basel III (%)	13.029	12.997	15.764	15.749

FINANCIAL FLEXIBILITY IN THE DFCC GROUP'S CAPITAL STRUCTURE

The Bank has access to contributions from shareholders as well as it possesses built-up capital reserves over a period of time by adopting prudent dividend policies, maintaining an increased level of retained profits and issuing Tier II eligible capital instruments as and when necessary.

Apart from the capital position reported on balance sheet, the Bank maintains financial flexibility through the stored value in its equity investment portfolio. The unrealised capital gain of the listed equity portfolio is included in the fair value reserve.

ASSESSMENT OF INTEGRATED RISK

In the process of assessment of integrated risk, the Bank reviews key regulatory developments in order to anticipate changes and their potential impact on performance. The nature and impact of changes in economic policies, laws and regulations, are monitored and considered in the way the Bank conducts business and manages capital and liquidity.

The Bank has complied with all the currently applicable risk-related regulatory requirements while closely monitoring the internal limits as shown in the table below:

Risk category	Impact	Key risk indicators	Limit type
Integrated risk management	An adequate level of capital is required to absorb unexpected losses without affecting the Bank's stability. (Total capital as a percentage of total risk-weighted assets.)	Common Equity Tier I Ratio (Common Equity Tier I as a percentage of total risk-weighted assets)	Regulatory
		Total Tier I Capital Ratio (Total Tier I Capital as a percentage of total risk-weighted assets)	Regulatory Internal
		Total Capital Ratio (Total capital as a percentage of total risk-weighted assets)	Regulatory Internal
Concentration/ Credit risk management	When the credit portfolio is concentrated on a few borrowers or a few groups of borrowers with large exposures, there is a high risk of a substantial loss due to failure of one such borrower.	Single Borrower Limit – Individual (Amount of accommodation granted to any single company, public corporation, firm, association of persons or an individual/capital base)	Regulatory Internal
		Single Borrower Limit – Group	Regulatory Internal
		Aggregate large accommodation limit (Sum of the total outstanding amount of accommodation granted to customers whose accommodation exceeds 15% of the capital base/outstanding amount of accommodation granted by the Bank to total customers excluding the Government of Sri Lanka)	Regulatory Internal
		Aggregate limits for related parties (Accommodation to related parties as per the CBSL Direction/Regulatory Capital)	Internal
		Exposure to agriculture sector as defined by CBSL Direction	Regulatory
		Exposure to each industry sector (Exposure to each industry as a percentage of total lending portfolio)	Internal

Risk category	Impact	Key risk indicators	Limit type
		Leases portfolio (On-balance sheet exposure to the leasing product as a percentage of total lending portfolio plus securities portfolio)	Internal
		Exposure to GOSL	Internal
		Exposure to institutions in the Maldives	Internal
		Non-performing Ratio	Internal
		Industry HHI	Internal
		Project lending	Regulatory
		Loan and OD – Exposure in BB grade	Internal
		Loan and OD – Exposure in B and below grades	Internal
		Leasing – Exposure in BB and below grades	Internal
		Leasing – Exposure in B and below grades	Internal
		Limit on margin lending for individual borrowers	Regulatory
		Margin trading (Aggregate exposure of margin loans extended/total loans and advances)	Internal
Liquidity risk management	If adequate liquidity is not maintained, the Bank will be unable to fund the Bank's commitments and planned assets growth without incurring additional costs or losses.	Liquid Assets Ratio for DBU (Average monthly liquid assets/total monthly liabilities)	Regulatory Internal
		Liquid Assets Ratio for FCBU	Regulatory
		Liquidity Coverage Ratio (All currencies and Rupee only)	Regulatory
		Liquidity Coverage Ratio (Rupee only)	Internal
		Single Depositor Limit (Highest Single Depositor/Total fixed deposits)	Internal
		Statutory Reserve Ratio	Regulatory
		Foreign Currency Borrowing Limit – Short-term borrowings	Regulatory
		Foreign Currency Borrowing Limit – Total borrowings	Regulatory
		Net Stable Funding Ratio	Regulatory
		Leverage Ratio	Regulatory

Risk category	Impact	Key risk indicators	Limit type
Market risk management		Forex Net Open Long Position	Regulatory
		Forex Net Open Short Position	Regulatory
		Limit for counterparty off-balance sheet market risk	Internal
		Max holding period for trading portfolio	Internal
		Maximum Fx Swap	Internal
		Clean Money Market Borrowing Limit	Internal
		Treasury trading securities portfolio	Internal
		Portfolio limit on HTM	Internal
Investment risk		Equity exposure – Individual (Equity investment in a private or public company/Capital funds of the Bank)	Regulatory
		Equity exposure – Individual (Equity investment in a private or public company/Paid-up capital of the Company)	Regulatory
		Aggregate equity exposure in public companies (Aggregate amount of equity investments in public companies/capital funds of the Bank)	Regulatory
		Equity exposure (Equity exposure as a percentage of Total Lending Portfolio plus Securities Portfolio)	Internal
		Equity exposure in each sector	Internal
		Single equity exposure out of the quoted equity portfolio	Internal
Operational efficiency		Operational efficiency ratio	Internal

Risk category	Impact	Key risk indicators	Limit type
Operational risk	Adequately placed policies, processes and systems will ensure and mitigate against excessive risks which may result in direct financial impact, reputational damages and/or regulatory actions	Regulatory breaches (Zero risk appetite)	Internal
		Inability to recover from business disruptions over and above the Recovery Time Objectives (RTO) as defined in the BCP of the Bank (Zero risk appetite)	Internal
		Internal fraud (Zero tolerance for losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or Bank policy, excluding diversity/discrimination events, which involve at least one internal party)	Internal
		External fraud (Very low appetite for losses due to act of a type intended to defraud, misappropriate property or circumvent laws, by a third party)	Internal
		Employee practices and workplace safety (Zero appetite for losses arising from acts inconsistent with employment, health or safety laws or agreements from payment of personal injury claims, or from diversity/discrimination events)	Internal
		Client products and business practices (Zero risk appetite for losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements) or, from the nature or design of a product)	Internal
		Damage to physical assets (Very low appetite for loss arising from loss or damage to physical assets from natural disasters or other events)	Internal
		Business disruption and systems failures (Low appetite for business disruptions/system failures for more than 30 minutes during service hours)	Internal
		Execution, delivery, and process management (Low appetite for losses from failed transaction processing or process management)	Internal

CORPORATE GOVERNANCE

CHAIRMAN'S STATEMENT

I am pleased to present the Bank's Corporate Governance Report on behalf of our Board. The Report includes details of how governance underpins and supports our business and the decisions made to deliver our strategy and create long-term value for our shareholders.

The Bank believes that corporate governance remains to be a dynamic concept with a framework of rules, systems and processes adopted by the organisation. Good governance facilitates effective management and enables the Bank to maintain a high level of business ethics. The Board sets the example for employees of the Bank by implementing the highest standards of business ethics and corporate governance. The Bank subscribes to the philosophy of exercising a zero-tolerance policy towards bribery and corruption and expects all staff members to comply with the relevant laws, regulations and guidelines in place to prevent bribery and corruption. The Bank is committed to initiate stern measures against all staff members, irrespective of their position or experience, under the covenants of the Bank's Disciplinary Policy.

The high standards of corporate governance continue to be a key priority for the Board. Corporate governance practices of the Bank are in accordance with the Board approved Corporate Governance Charter of the Bank. The Bank's existing corporate governance framework governs the responsibilities and duties of the Board and the Management to the shareholders and other stakeholders towards the promotion of a strong corporate governance culture. The Bank's corporate governance framework is well-structured and is supported by a strong focus on integrity, accountability, transparency in the manner of doing business, and clear and timely communication.

We continually review the framework within which we operate and the processes implemented, to ensure that they reflect the complexities of our business and meet the needs of our stakeholders. The Board understands the benefits of annual performance evaluations, both for Directors on an individual basis as well as for the Board as a whole and looks for ways in which it can improve and develop.

I confirm to the best of my knowledge that there were no material violations of any of the provisions of the Directions of the Central Bank of Sri Lanka, other applicable laws and regulations, codes of conduct, and other related policies and procedures of the Bank.

J DURAIRATNAM
CHAIRMAN
17 February 2022

MANDATE OF THE BOARD

The Board is responsible for the Bank's system of corporate governance and is committed to maintaining high standards and to developing governance arrangements to comply with best practice. Ultimate responsibility for the management of the Bank rests with the Board of Directors. The Board focuses primarily upon strategic and policy issues and is responsible for the Bank's long-term success. It sets the Bank's strategy, oversees the allocation of resources and monitors the performance of the Bank. It is also responsible for effective risk assessment and management. The Board has a formal schedule of matters reserved to it and delegates certain matters to its committees. Board meetings are held ordinarily on twelve scheduled occasions during any given year, as well as holding ad hoc meetings to consider non-routine business, if required.

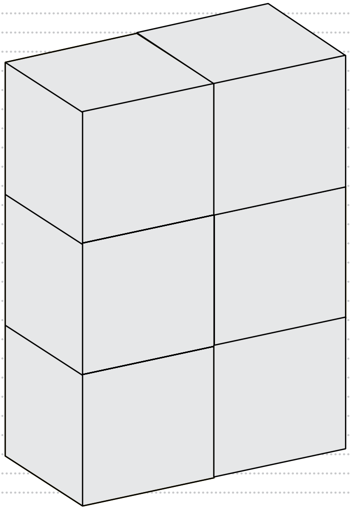
The interactions in the governance process are shown in the schematic below:

THE BOARD

Responsible for strategy, risk management, succession planning, and policy issues. Sets the tone, values and culture of the Bank. Monitors Bank's progress against the set targets.

CEO

Develops strategy for approval of the Board. Directs, monitors, and maintains the operational performance of the Bank. Responsible for application of policies and implementation of strategy. Accountable for the Bank's performance.



NON-EXECUTIVE DIRECTORS

Exercise a strong independent voice, challenging and supporting Executive Directors. Scrutinise performance against objectives and monitor financial reporting. Monitor and oversee risks and controls, determine Executive Directors, and Key Management Personnel (KMP) remuneration and manage Board and KMP succession through their committee responsibilities.

CHAIRMAN

Provides leadership and guidance to the Board promoting high standards of corporate governance. He is the link between the Executive and Non-Executive Directors.

COMPANY SECRETARY

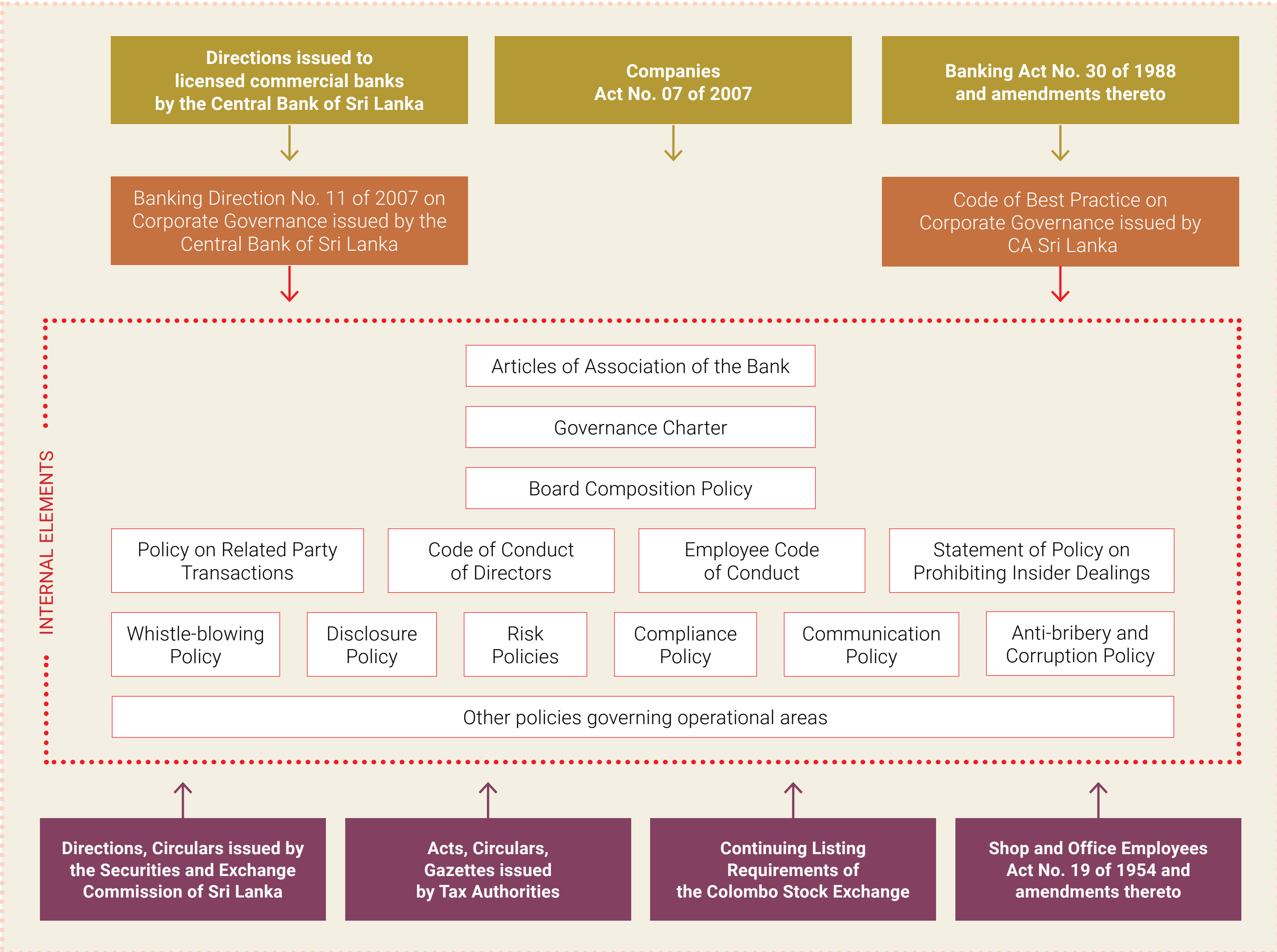
Advises the Chairman on Governance, together with updates on regulatory and compliance matters. Supports the Board agenda with clear information flow. Acts as link between the Board and its committees and between Non-Executive Directors and the Senior Management.

SENIOR DIRECTOR

Acts as a confidant to the Chairman and provides support to the delivery of his role. Is an alternate contact to the shareholders and intermediary for other Non-Executive Directors.

GOVERNANCE FRAMEWORK OF THE BANK

Main elements which encompass the governance framework of the Bank.



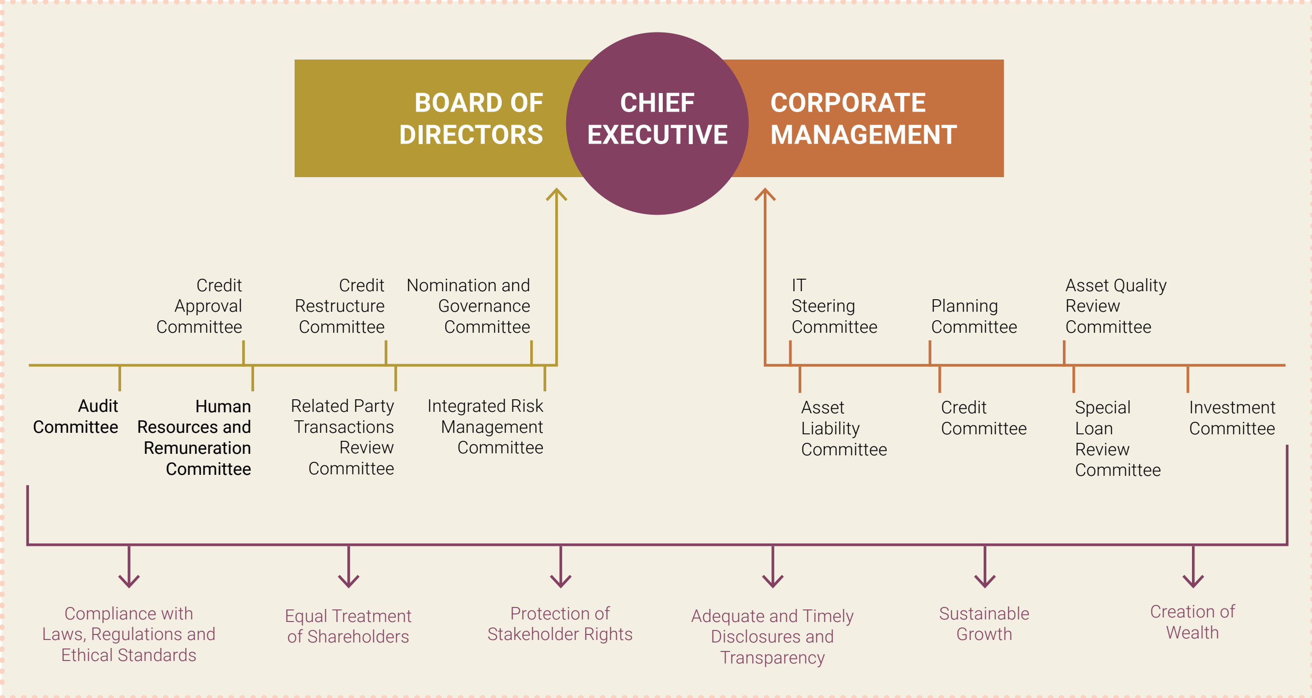
CORPORATE GOVERNANCE

Good corporate governance is a mechanism that harmonises the interests of a wide range of stakeholders of an institution, while contributing to sustainable growth by attracting outside sources of capital. The Bank practices high standards of corporate governance based on the Organisation of Economic Cooperation and Development (OECD) principles of good governance.

OECD principles of good governance are based on the following six guidelines:

- Promoting transparency, being consistent with laws, and clearly articulating division of responsibilities
- Protecting and facilitating the exercise of shareholder rights and ensuring equitable treatment of all shareholders
- Exercising due diligence and responsibility in capital market operations
- Recognising the rights of stakeholders and encouraging cooperation between stakeholders in creating wealth and sustainability
- Timely and accurate disclosure on all material matters regarding the Bank including financial situation, performance, ownership, and governance
- Ensuring the strategic guidance of the Bank, effective monitoring of management of the Board, and the Board's accountability to the Bank and its shareholders

DFCC BANK'S GOALS OF GOOD CORPORATE GOVERNANCE



BOARD CULTURE

Directors are encouraged to be open and forthright in their approach, with active debate encouraged during Board meetings before any decisions are taken. We believe this helps to forge strong and open working relationships while enabling our Directors to engage fully with the Bank and allowing them to make their best possible contribution.

CONDUCT AND ETHICAL FRAMEWORK

The Code of Conduct for Directors adopted by the Bank to which the Directors are expected to abide by, encompasses the following:

- Compliance with laws, rules, and regulations
- Avoidance of conflicts of interest
- Maintenance of confidentiality of information
- Fair dealing with stakeholders
- Protection of the Bank's assets

Employee behaviour is governed by a separate Code of Conduct including other policies and procedures such as the Anti-Bribery and Corruption Policy, Disciplinary Code, Statement Prohibiting Insider Trading, Whistle-blowing Policy, Anti-Money Laundering Policy, Compliance Policy, Disclosure Policy etc.

The Bank is committed to transparency in all its dealings. This includes transparency in managing actual, potential or perceived conflict of interest, and transparency in Bank's dealings with the customers and suppliers. Transparency also extends to the way in which relationships are managed with people who are politically exposed, recruitment, remuneration process and dealings with the regulators. The Bank opposes all forms of bribery and corruption. As such in terms of the Bank's Code of Conduct employees are prohibited from soliciting or accepting gifts and inducements from clients and other external parties. In terms of the Code, employees are also prohibited from giving contributions or using Bank's property/channels to support candidates for political office or political parties and should not in any way give any impression that the Bank supports any political party or candidate. Employees are also expected to bear in mind that they represent the Bank and should exercise caution and sound consideration when giving their views and opinions on political situation and persons.

BOARD HIGHLIGHTS 2021

- Approved the Business Plan for 2021
- Decision to circulate the Annual Report to shareholders by way of sharing a web link
- Decision to hold the AGM as a Virtual Meeting
- Decision to retain the DFCC's International rating by S&P Global Ratings agency as a Private Rating
- Approved the adoption of a policy on verification of the Title to Properties
- Approved the payment of a scrip dividend for the Year 2020
- Approved the formation of a trust to carry out CSR activities
- Decision to conduct a training for Directors on areas relating to risks
- Reviewed and endorsed the KPIs of Key Management Personnel for 2021
- Approved the revision to the DFCC Bank Organisation Structure
- Approved a Proposal for a DFCC Funded Loan Scheme for the Agriculture Sector
- Approved the revised Credit Rating Models
- Approved assistance by way of Debt Moratorium for COVID-19 affected Businesses and Individuals
- Revised the Delegation of Authority Limits
- Revised Board Committee Charters/Terms of Reference
- Review of all major policies
- Approved a Mobile Application Payments Policy
- Approved to setup an Innovation Centre of Excellence
- Approved the upgrading of Business Continuity Management System (BCMS), BCMS Policy and Procedure Documents and Recovery Plans
- Approved the appointment of two new Directors
- Revised the Remuneration for Staff of Junior Grades
- Approved the Recovery Plan Framework for DFCC Bank
- Decided the issue of up to Seven Million (7,000,000) Basel III Compliant, Additional Tier 1, Rated, Listed, Unsecured, Subordinated, Perpetual, Callable, Convertible Bond with a non-viability full conversion and convertible into listed Ordinary Voting Shares of the Bank at the option of the Bond Holders, each at an issue price (par value) of LKR 1,000/-
- Approved the "DFCC *Aloka*" product campaign targeted for women
- Approved to implement a Credit Card Application and Behavioural Model
- Decision to procure communication methodology using CITRIX VPN
- Approved to implement Union Pay Direct Connectivity for Card Issuing and Acquiring
- Approved a Strategic Leadership Development Programme for mid-level staff

PERMANENT BOARD COMMITTEES AS AT 31 DECEMBER 2021

* The Credit Restructure Committee approves papers by circulation.

Name of Director	Attendance of Directors at meetings: Main Board	Audit Committee	Human Resources and Remuneration Committee	Nomination and Governance Committee	Integrated Risk Management Committee	Credit Approval Committee	Related Party Transactions Review Committee
Total number of meetings	12	10	3	5	6	12	12
J Durairatnam	12/12		3/3	5/5		12/12	12/12
Ms L K A H Fernando	12/12	10/10			6/6		
P M B Fernando	12/12	10/10		5/5		12/12	12/12
Ms H M N S Gunawardana	12/12		3/3		5/6		
N K G K Nemmawatta	12/12					12/12	
N H T I Perera	12/12						
Ms V J Senaratne	11/12			5/5	6/6		
L H A L Silva	12/12				6/6	11/11	12/12
Ms A L Thambiayah	3/3						
Ms S R Thambiayah	8/8		2/2			1/1	
N Vasantha Kumar	4/4				3/3		
H A J de S Wijeyeratne	12/12	10/10					

Attended/Eligible to attend

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 the Bank are freely transferable through the Colombo Stock Exchange but subject to limitations stated in the Articles of Association of the Bank and the Banking Act.

The Board approved Corporate Communications Policy ensures that information relating to the financial performance and the progress of the Bank is made available to shareholders through timely disclosures 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 the Bank and the Group. All important information is given publicity through the press and electronic media and posted on the Bank's website.

The 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 Chief Financial Officer advises closed periods for trading in the Bank's shares by employees and Directors. The Board has formally adopted a Statement of Policy Prohibiting Insider Trading. As a general rule, the period after the end of each quarter up until two market days after the financial information is released, is treated as closed periods. Procedures are in place to detect any violations.

During the year under review, the Bank shared a reasonable portion of its profit with shareholders in the form of a scrip dividend in order to retain the funds and augment the capital to support its growth and development.

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

SHAREHOLDER MEETINGS

The Annual General Meeting (AGM) of the Bank is normally held within a period of one year from the date of the previous Meeting after giving adequate notice to shareholders as required by the Articles of Association. Due to the COVID-19 pandemic, and in view of the Government's Directive on social distancing and limitations on gatherings, the AGM was held as a virtual meeting on 30 March 2021, assembled at the "Auditorium" of the Bank, with shareholders/proxy holders connecting via an online platform.

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.

ANNUAL CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 PUBLISHED IN TERMS OF SECTION 3 (1) (XVI) OF THE BANKING ACT DIRECTION NO. 11 OF 2007

Rule	Governance principle	Compliance	Remarks
3.1 Responsibilities of the Board			
3.1 (i)	Safety and soundness of the Bank		
	The Board has strengthened the safety and soundness of the Bank through the implementation of the following:		
	(a) Strategic objectives and corporate values	Compliant	The Bank sets its strategic objectives and goals through the Annual Business Plan which is approved by the Board. These goals and the corporate values approved by the Board are communicated to the business units and other staff. The corporate values are posted on the internal web and all employees are guided by these values.
	(b) Overall business strategy	Compliant	The Bank's Strategic Plan for the medium term was approved by the Board in February 2021. The Board engages in the strategic planning and control of the Bank by overseeing the formulation of business objectives and targets, assessing risks by engaging qualified and experienced personnel, delegating them with the authority for conducting operational activities and monitoring the performance through a formal reporting process. A separate item has been included in the agenda at every Board meeting under the heading "Strategic Discussion" to take up any matter of strategic importance to the Bank. Directors are encouraged to identify and communicate any matter they consider to be of strategic importance.
	(c) Principal risks	Compliant	The identification of principal risks, approving of overall risk policy and risk appetite is carried out through the Board Integrated Risk Management Committee and reviewed annually.

Rule	Governance principle	Compliance	Remarks
	(d) Communication with stakeholders	Compliant	The Board approved Corporate Communications Policy ensures that information is made available to shareholders and other stakeholders through timely disclosures made to the Colombo Stock Exchange (CSE), by publicity through the press and electronic media and posts on the Bank's website. The Bank has an internally developed Code of Conduct for its employees which is posted on the internal web and is accessible by all employees. The Bank has also adopted a separate Code of Conduct for the Directors.
	(e) Bank's internal control and management information systems	Compliant	The Audit Committee assists the Board in reviewing and evaluating the integrity, adequacy, and effectiveness of the internal control system including management information systems and controls over financial reporting of the Bank. The internal audit carries out periodic reviews to ensure that the internal control systems are functioning as appropriate. The Report by the Board of Directors on internal control over financial reporting is given on page 157 The Independent Assurance Report by the External Auditor on the Directors Statement on Internal Control is given on page 160.
	(f) Key Management Personnel (KMP)	Compliant	The Board has identified and designated its Key Management Personnel.
	(g) Authority and responsibility	Compliant	Areas of authority and key responsibilities of Directors have been set out in the Corporate Governance Charter which has been adopted by the Board. The Board has also identified matters specifically reserved for the Board. The duties and responsibilities of other KMPs are formally documented in their job descriptions. Delegation of authority levels for KMPs has also been clearly specified in Board approved circulars.
	(h) Oversight of the affairs of the Bank by KMPs	Compliant	Oversight is exercised through Board committees, reporting to the Board as appropriate. Policies and decisions of the Board requiring appropriate follow up are communicated by the Board Secretary to the relevant KMPs. Minutes of relevant management committee meetings headed by the Chief Executive Officer (CEO) are submitted to the Board for information. KMPs are called upon to clarify matters and make presentations on matters within their purview at the monthly Board meetings.
	(i) Board's own governance practices	Compliant	An annual self-assessment is carried out on a structured format where the Directors submit their individual responses direct to the Board Secretary. The responses are collated by the Board Secretary and submitted to the Board. The effectiveness of the Board's own governance practices is reviewed by the Board and areas for improvement are discussed for necessary action. During this year too, in addition to the assessments carried out by the individual members, the Nomination and Governance Committee, based on a separate checklist, carried out an evaluation of the Board and the results were shared with the other members of the Board and an opportunity was provided to them to comment on the findings of the Committee.
	(j) Succession plan for KMPs	Compliant	The Bank has in place a succession plan for Senior Management which is reviewed annually by the Nomination and Governance Committee and approved by the Board. The Committee which was formed comprising a member of the Audit Committee, CEO, and Head of HR to improve the process of succession planning met during the year and reviewed the progress on the development initiatives that have been put in place.

Rule	Governance principle	Compliance	Remarks
	(k) Regular meetings with KMPs to monitor progress	Compliant	Meetings are attended by relevant executives when required. Additional information sought by Directors on papers submitted to the Board is clarified by the respective officers. The Board has free access to Senior Management. During the year, the Board reviewed the performance in order to monitor progress against the business plan. These presentations provided an opportunity for the Board members to interact with the Senior Management to clarify reasons for variations against the budget and to suggest corrective action.
	(l) Regulatory environment	Compliant	The Board Secretary/Compliance Officer provides all regulatory information required to the Board members. The CEO briefs the Board on specific issues. Senior Management maintains continuous dialogue with the Regulator to ensure an effective relationship.
	(m) Due diligence in hiring and oversight of External Auditor	Compliant	The primary responsibility for making recommendations on the appointment of the External Auditor rests with the Audit Committee. A formal policy approved by the Board on engagement of External Auditor to perform non-audit services is in place.
3.1 (ii)	Appointment and segregation of the roles of the Chairman and CEO	Compliant	The Board elects the Chairman and appoints the CEO. 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.
3.1 (iii)	Board meetings	Compliant	The Board held 12 Board meetings during the year. The Directors actively participated in the Board's decision-making process as evident from the Board minutes. Seeking approval of the Board by circulation was 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 suggest topics for consideration at the Board meetings, they are included in the agenda under "open discussion" which is an integral part of every Board meeting 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 seven 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 start 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 made available well 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 128.

Rule	Governance principle	Compliance	Remarks
3.1 (vii)	Duties and qualifications of the Company Secretary	Compliant	The Company Secretary possesses the qualifications specified in Section 43 of the Banking Act. The Company Secretary while performing the secretariat services to the Board and shareholders' meetings, is responsible to the Board in ensuring that Board procedures and applicable rules and regulations are followed. All new Directors are provided with the necessary documentation on Directors' responsibilities and specific banking-related directions/policies that are required to perform their function effectively.
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 meetings 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 and the Secretary. Copies of minutes are provided and Directors have access to the original minute 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, if considered material, is included in the minutes.
3.1 (xi)	Independent professional advice on request for Directors to perform their duties	Compliant	The Board has put in place a procedure where the Directors can obtain independent professional advice, at the Bank's expense, to perform their duties.
3.1 (xii)	The Directors' avoidance of conflicts of interest	Compliant	The Companies Act No. 07 of 2007 requires Directors who are directly or indirectly interested in contracts or a proposed contract with the Bank to declare the nature of such interest. The Directors have declared their interests in contracts involving the Bank and have not participated in the decision-making.
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 under review, the Bank remained solvent and no event has or is likely to occur that would make the Bank not able to meet its obligations.

Rule	Governance principle	Compliance	Remarks
3.1 (xv)	Adequacy of capital	Compliant	The 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 the 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. The performance of the respective committees is also evaluated by the other members who are not members of the respective committees in order to ensure that they function effectively. The findings are discussed at the Board meetings and action is taken on areas identified for improvement. The performance assessment criteria of the CEO are given in 3.5 (xi).
3.2 (i)	Number of Directors	Compliant	During the year under review, the Board of Directors comprised a minimum of ten and a maximum of eleven Directors.
3.2 (ii)	Period of service of a Director	Compliant	No Director has held the position of a Director of the Bank for more than nine years.
3.2 (iii)	Number of Executive Directors	Compliant	The CEO and DCEO were the only Executive Directors on the Board.
3.2 (iv)	Number of Independent Directors	Compliant	There were eight Independent Directors on the Board at the end of the year under review. The Board has adopted a format of a declaration to be obtained annually from Non-Executive Directors so that each Director shall independently confirm their status against specific criteria applicable to the ascertainment of independence. As such, all Non-Executive Directors have submitted their declaration in compliance with the Board decision.
3.2 (v)	Alternate Directors to represent Independent Directors	Compliant	Persons who are appointed as Alternate Directors to existing Independent Directors of the Board are subject to the same criteria applicable to such Directors. During the year, Independent Directors did not appoint any Alternates.
3.2 (vi)	The skills, experience, and track records of Non-Executive Directors	Compliant	Non-Executive Directors who held office had professional backgrounds, strong track records, and high level managerial experience in banking, business, industry, law, finance, or auditing.
3.2 (vii)	Number of Non-Executive Directors required to form a quorum of Board meetings	Compliant	The Bank has been compliant with this rule at all times as monitored by the Company Secretary.

Rule	Governance principle	Compliance	Remarks
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)	Appointments of new Directors	Compliant	Appointments of new Directors are formally evaluated by the Nomination and Governance Committee and recommended to the Board of Directors for approval.
3.2 (x)	Appointment of a Director to fill a casual vacancy	Compliant	The Articles of Association of the 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 details of retirement of Directors from office during the year under review are given in the Directors' Report. None of the Directors resigned or were removed during the year under review.
3.2 (xii)	Appointment of a Director or an employee to another bank	Compliant	No Director or employee of the Bank is a Director of another bank.
3.3 (i)	Maximum age of Directors	Compliant	All Directors who reached the age of 70 have relinquished office.
3.3 (ii)	Holding of Director's position in more than 20 companies in all	Compliant	All Directors comply with this requirement.
3.3 (iii)	Appointment of a Director or a Chief Executive Officer who has held office in another licensed commercial bank, not to be considered before the expiry of a period of 6 months from the date of cessation of his/her office at the licensed bank in Sri Lanka	Compliant	All newly appointed Directors comply with this requirement. There was no new appointment of a Chief Executive Officer during the year.
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 the 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.

Rule	Governance principle	Compliance	Remarks
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 the Bank. Material decisions made under delegated authority are reported to the Board for information.
3.5 (i)	Separation of the roles of the Chairman and CEO	Compliant	The Chairman and the CEO are two separate individuals.
3.5 (ii)	The Chairman to be a Non-Executive Director	Compliant	The Chairman is an Independent Non-Executive Director. P M B Fernando continues to function as the Senior Director. The Board has approved Terms of Reference (TOR) for the Senior Director.
3.5 (iii)	Disclosure of relationship between the Chairman, CEO, and other Directors	Compliant	No relationships exist between the current Chairman, the CEO, DCEO and the other Non-Executive Directors according to the declarations made by them except being Directors of companies in the DFCC Group.
3.5 (iv)	Role of the Chairman	Compliant	The Chairman provides leadership to the Board and ensures that the Board discharges its responsibilities effectively. The Chairman encourages members to actively participate and to raise their independent judgement 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 relevant to the policies and operations of the Bank proposed by other Directors are included in the agenda upon approval by the Chairman.
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. The agenda and all Board papers are circulated electronically to Board members prior to the meeting.
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. An agenda item has been included which is an integral part of every Board meeting, for a "Discussion among Non-Executive Directors" (without the presence of the Executive Directors) so as to enable them to bring up any issue that needs to be highlighted.
3.5 (ix)	The Chairman not to engage in executive functions	Compliant	The Chairman is a Non-Executive Director and does not supervise any management personnel of the Bank directly.

Rule	Governance principle	Compliance	Remarks
3.5 (x)	Communication with shareholders	Compliant	The Chairman has assigned the CEO to maintain a dialogue with institutional investors and to bring any matters of concern to the notice of the Board. The Corporate Communication Policy approved by the Board includes a provision for communication with shareholders.
3.5 (xi)	CEO to be in charge of the management of operations and business	Compliant	The CEO is the Head of the Management team and is in charge of day-to-day management of the Bank's operations and business. At the beginning of each year, the Board discusses the business plan with the CEO and Senior Management, and agrees on the medium and short-term financial and non-financial targets to be achieved and action plans to be implemented by the Bank. Progress is monitored on an ongoing basis and the assessment of the performance of the Bank is carried out by the Board at the end of each year based on the initiatives laid down in the business plan.
3.6 (i)	Four Board appointed committees	Compliant	The Board has appointed the four committees required by the direction. The reports on their duties, performance, and roles are published in the Annual Report.
3.6 (ii)	Board Audit Committee		Please refer page 148.
	(a) Chairman of the Committee	Compliant	During the year under review, the Audit Committee was chaired by an Independent Non-Executive Director who is a qualified Chartered Accountant.
	(b) Composition of the members	Compliant	All members of the Committee are Non-Executive Directors.
	(c) External Auditor	Compliant	The Audit Committee assists the Board in implementing a transparent process in the engagement and remuneration of the External Auditor and assists in the general oversight of financial reporting, internal controls, and compliance with laws, regulations, and Codes of Conduct. The Committee ensures that the engagement of the audit partner does not exceed five years.
	(d) Independence and effectiveness of the audit process	Compliant	The Committee reviewed the statement issued by the External Auditor pursuant to Section 163 (3) of the Companies Act No. 07 of 2007. The Committee discussed with the External Auditors, the nature and scope of the audit, and the effectiveness of the audit process in respect of the financial year 2021.
	(e) Non-audit services	Compliant	A formal policy approved by the Board on engagement of the External Auditor to perform non-audit services is in place.
	(f) Nature and scope of external audit	Compliant	The Committee met with the External Auditor to discuss and finalise the scope of the audit to ensure that it is in compliance with guidelines issued by the Central Bank of Sri Lanka.
	(g) Review of financial information of Bank	Compliant	The Committee reviewed all quarterly unaudited interim Financial Statements and the Financial Statements for the year ended 31 December 2021.

Rule	Governance principle	Compliance	Remarks
	(h) Meetings with External Auditor	Compliant	The Committee met with the External Auditor on three occasions and at two of those meetings without the presence of the Management.
	(i) Review of Management Letter	Compliant	The Committee considered the Management Letter issued by the External Auditor for the year ended 31 December 2020 and the Management responses thereto.
	(j) Internal audit function	Compliant	The Committee reviews the adequacy of the internal audit function to ensure that it is in conformity with the Audit Committee Charter. The annual audit plan is approved by the Committee. The plan covers the scope and resource requirement. The annual performance appraisal of the Head of Internal Audit and the Senior Staff Members are reviewed by the Committee. The internal audit function is independent of the activities it audits and the findings are reported directly to the Audit Committee.
	(k) Internal audit findings	Compliant	The Committee reviewed the Internal Audit Reports and considered the findings, recommendations, and corrective action.
	(l) Attendance of non-audit committee members	Compliant	Vice President, Head of Internal Audit attends all Committee meetings. CEO, CFO, other heads of units, and the External Auditors attend meetings on invitation. During the year, the Committee met with the External Auditor on two occasions without the presence of the Executive Directors.
	(m) Terms of Reference	Compliant	The Committee is guided by the Audit Committee Charter.
	(n) Meetings	Compliant	During the financial year ended 31 December 2021, 10 meetings were held. Attendance of Committee members is given in the table on page 128.
	(o) Audit Committee activities	Compliant	Please refer Committee Report on page 148.
	(p) Secretary	Compliant	Vice President, Head of Internal Audit serves as the Secretary of the Committee.
	(q) Process of raising issues in confidence	Compliant	The Board has adopted a Whistle-blowing Policy to encourage employees to communicate legitimate concerns on any illegal or unethical practices. Arrangements are in place to ensure that all employees are duly informed of the effective use of this process.
3.6 (iii)	Board Human Resources and Remuneration Committee		Please refer page 151.
	(a) Remuneration Policy	Compliant	A formal Remuneration Policy approved by the Board is in place.
	(b) Goals and targets for KMPs	Compliant	The business plan which is approved by the Board encompasses the annual goals and targets of the CEO and other KMPs.

Rule	Governance principle	Compliance	Remarks
	(c) Review of performance of KMPs	Compliant	The Committee annually reviews the performance against the set targets of the CEO and other KMPs, and the remuneration levels of the CEO and other KMPs, while ensuring appropriate compensation levels are maintained in order to retain and motivate staff.
	(d) CEO's presence	Compliant	The CEO attends meetings and participates in deliberations except when matters relating to him are discussed. He also functions as the Secretary to the Committee.
3.6 (iv)	Board Nomination and Governance Committee		Please refer page 152.
	(a) Appointment of new Directors and KMPs	Compliant	During the year, the Committee considered and recommended to the Board, the appointment of two new Directors and candidates to fill Key Management Positions. The Committee has documented the procedure to select/appoint Directors and other KMPs.
	(b) Re-election of Directors	Compliant	During the year, the Committee considered and recommended to the Board, the re-election of the Directors retiring under Articles 44 and 46 (ii) while ensuring that they are fit and proper persons to hold such office.
	(c) Criteria relating to appointment of KMPs	Compliant	The Committee evaluates the qualifications, experience, and key attributes required for eligibility for appointment of KMPs.
	(d) Fit and proper test	Compliant	The fitness and propriety of KMPs are monitored by the Committee.
	(e) Succession planning	Compliant	The Committee evaluates the need for additional/new expertise to the Board and succession for retiring KMPs.
	(f) Composition	Compliant	The Committee consists of three Non-Executive Directors and is chaired by an Independent Director.
3.6 (v)	Board Integrated Risk Management Committee (BIRMC)		Please refer page 153.
	(a) Composition	Compliant	Please refer page 153.
	(b) Assessment of risk	Compliant	The Committee has put in place a Board approved risk framework. The risk exposures of the Bank are assessed on a monthly basis through Key Risk Indicators. The risk assessment of subsidiaries, joint venture, and the associate is reviewed quarterly.
	(c) Review of adequacy of Management Committees	Compliant	The Committee assesses the effectiveness of all Management Committees.
	(d) Controlling risks within prudent limits	Compliant	The Committee assesses possible risks, reviews, and takes appropriate action to mitigate such risks.

Rule	Governance principle	Compliance	Remarks
	(e) Frequency of meetings	Compliant	The Committee met on a quarterly basis and on two other occasions.
	(f) Corrective action on any management failure to identify risks	Compliant	Action is taken by the Committee with regard to any officer responsible for failure to identify specific risks, and appropriate corrective action is taken to remedy such situations.
	(g) Submission of Risk Assessment Reports to the Board	Compliant	The Board is kept informed of Committee proceedings by submitting the BIRMC minutes to the Board. The required approvals are obtained through specific submissions to the Board.
	(h) Compliance function	Compliant	The compliance function is headed by a dedicated officer identified as a KMP in terms of the Corporate Governance Direction. The Compliance Officer reports to the BIRMC. The Committee oversees the function and reviews the quarterly reports on compliance.
3.7 (i) to (iii)	Avoidance of conflicts of interest and favourable treatment in transactions with related parties	Compliant	The 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 Board ensures that no related party benefits from any favourable treatment except as indicated in 3.7 (vi). A Related Party Transactions Review Committee has been established by the Board. The Committee Report is on page 156. The Board has also adopted a policy on Related Party Transactions. The Bank has put in place a mechanism to obtain, on a quarterly basis, a confirmation from all Key Management Personnel on a structured format to assist in the process of collating related party transactions.
3.7 (iv)	Accommodation granted to Directors or their close relations	Compliant	The 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 during the year.
3.7 (vi)	Avoidance of favourable treatment in granting 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 granted to employees, close relations of employees and/or entities in which any employee or close relation of such employee holds substantial interest are subject to normal commercial terms applicable to such transactions and secured by security approved by the Monetary Board except in the 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. 11 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.

(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 163.
(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 157.
(c)	The External Auditors' Certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after 31 December 2008.	Complied with. Please refer Assurance Report of the External Auditor on page 160.
(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 to pages 18 to 21, 144 and Note 58.2 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	Complied with.

	31 December 2021	
Category of related party	LKR '000	Percentage
Directors	2,015	–
Other Key Management Personnel	26,615	0.06
Close Family Members of Directors and Key Management Personnel	2,871	0.01
Total Net Accommodation	31,501	0.07
Regulatory capital – solo basis	47,968,017	–

The total net accommodation was 0.07% of the Bank's regulatory capital on solo basis. Maximum limit determined by Directors is 25% of the Bank's regulatory capital on solo basis.

(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. The aggregate value of compensation and transactions with the Bank by Key Management Personnel as defined by LKAS 24 for financial reporting purposes are given in Note 58.2 to the Financial Statements. Further, in addition to the above, compensation, total deposits, and investments made and accommodation obtained as at 31 December 2021 by the other Key Management Personnel (officers performing executive functions referred to in Banking Act Determination No. 1 of 2019) amounted to LKR 109.20 Mn, LKR 346.49 Mn and LKR 85.57 Mn respectively.
(g)	All findings of the "Factual Findings Report" of the External Auditor to be incorporated in this Report.	Complied with.
(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 Board of Directors on the State of Affairs of the Bank.
(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 directed any disclosure to be made.

INDEPENDENT ASSURANCE

The External Auditors have performed procedures set out in Sri Lanka Related Services Practice Statement 4750 (SLRSPS 4750) issued by The Institute of Chartered Accountants of Sri Lanka, to meet the compliance requirement of the Corporate Governance Direction. Their findings presented in their Report addressed to the Board are consistent with the matters disclosed above and did not identify any inconsistencies to those reported above by the Board.

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 below:

Section	Disclosure requirement	Reference to annual report
168 (1) (a)	The nature of the business of the Bank and the Group	Page 179 (Note 1.4 to the Financial Statements)
168 (1) (b)	Signed Financial Statements of the Bank in accordance with Section 152	Page 173 (Financial Statements)
168 (1) (c)	Auditor's Report on Financial Statements of the Bank and the Group	Page 165
168 (1) (d)	Changes in accounting policies made during the accounting period	Page 188 (Note 6 to the Financial Statements)
168 (1) (e)	Particulars of entries in the interest register made during the accounting period	Page 145 of this Report
168 (1) (f)	Remuneration and other benefits of Directors during the accounting period	Pages 144, 237 and 301 (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 145 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 144 of this Report
168 (1) (i)	Amounts payable to the Auditors as audit fees and fees for other services rendered during the accounting period as a separate disclosure	Page 237 (Note 20 to the Financial Statements)
168 (1) (j)	Auditors relationship or any interest with the Bank and its subsidiaries	Page 143 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 147 (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 170 to 309 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

DFCC Bank continued to serve the Bank's customers across the country by providing essential banking services without interruption even during 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 took all measures required to ensure the safety of its employees and other stakeholders.

During this year too Bank 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 2021	LKR '000
Profit for the period	3,221,863
Appropriations	
Transfer to:	
Reserve Fund (statutory requirement)	163,000
First and final dividend approved for financial year ended 31 December 2021	961,567
Unappropriated profit for the period	2,097,296

ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the Financial Statements of the Bank and the Group are stated on pages 182 to 309 of the Annual Report.

There were no changes to the accounting policies of the Group in the year under review, other than as disclosed in Note 6 to the financial statements.

AUDITORS' REPORT

The Auditors' Report on the Financial Statements, which is unqualified, is given on page 165.

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 2022. 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. 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 18 to 21.

The following are the present 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:

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 V J Senaratne

Ms A L Thambiayah

N Vasantha Kumar

H A J de S Wijeyeratne

Non-Independent Non-Executive Director

Ms H M N S Gunawardana

Executive Director

N H T I Perera – Chief Executive Officer
(Functioned as Deputy Chief Executive Officer/Director until 31 December 2021)

APPOINTMENT, RETIREMENT/ RESIGNATION AND RE-ELECTION OF DIRECTORS

N Vasantha Kumar and Ms A L Thambiayah were appointed as Directors of the Bank on 1 September 2021 and 1 October 2021 respectively. 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 N Vasantha Kumar and Ms A L Thambiayah 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.

Ms S R Thambiayah retired from the Board with effect from 27 September 2021 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.

L A H L Silva retired on completion of his contract of employment as Director/Chief Executive Officer on 31 December 2021.

There were no resignations during the year.

RETIREMENT BY ROTATION AND RE-ELECTION OF DIRECTORS

The Directors retiring by rotation in terms of Article 44 of the Articles of Association are, N K G K Nemmawatta and Ms L K A H Fernando 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 2021 is given below:

	Year ended 31 December 2021 LKR '000	Year ended 31 December 2020 LKR '000
Bank	117,463	77,310
Group	137,647	96,644

DIRECTORS' MEETINGS

The Bank held 12 Board meetings during the year. The Table on page 128 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 2021	Number of shares as at 31 December 2020
J Durairatnam	Nil	Nil
Ms L K A H Fernando	Nil	Nil
P M B Fernando	2,106	2,011
Ms H M N S Gunawardana	Nil	Nil
N K G K Nemmawatta	Nil	Nil
N H T I Perera	17,701	16,899
Ms V J Senaratne	1,909	1,823
L H A L Silva (Retired on 31 December 2021)	26,200	25,013
Ms A L Thambiayah (Appointed on 1 October 2021)	95,432	–
Ms S R Thambiayah (Retired on 27 September 2021)	–	Nil
N Vasantha Kumar (Appointed on 1 September 2021)	Nil	–
H A J de S Wijeyeratne	8,850	8,449

DIRECTORS' INTERESTS IN DEBENTURES

	31 December 2021 LKR '000	31 December 2020 LKR '000
L H A L Silva (Retired on 31 December 2021)	7,000	7,000

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 2021 is as follows:

	LKR '000
J Durairatnam	
Assetline Leasing Company Limited Asian Hotels and Properties PLC Aggregate amount of accommodation	5,200,000
Asian Hotels and Properties PLC Aggregate amount of payment for services	247
Ms L K A H Fernando	
RIL Property PLC Aggregate amount of accommodation	2,700,000
United Motors Lanka PLC Aggregate amount of payment for services	567
P M B Fernando	
Lanka Hospitals Diagnostics (Pvt) Limited Aggregate amount of payment for services	293
Ms H M N S Gunawardana	
Sri Sathya Sai Karunaniliyam Foundation Aggregate amount of accommodation	150,000
N H T I Perera	
Aggregate amount of accommodation	800
Acuity Stock Brokers (Pvt) Limited Aggregate amount of accommodation	250,000
L H A L Silva	
Aggregate amount of accommodation	2,800
Lanka Clear (Pvt) Limited Lanka Financial Services Bureau Limited Sri Lanka Banks' Association (Guarantee) Limited Aggregate amount of payments for services	10,388
Ms A L Thambiayah	
Aggregate amount of accommodation	500
N Vasantha Kumar	
Aggregate amount of accommodation	500
H A J de S Wijeyeratne	
Aggregate amount of accommodation	8,300
Trans Asia Hotels PLC Aggregate amount of payment for services	423

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.

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
Ms A L Thambiayah
*Non-voting member

Credit Restructure Committee

J Durairatnam – Chairman
N K G K Nemmawatta
N Vasantha Kumar

Human Resources and Remuneration Committee

J Durairatnam – Chairman
Ms H M N S Gunawardana
Ms A L Thambiayah

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
N H T I Perera
Ms V J Senaratne
N Vasantha Kumar
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
N H T I Perera

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 962 Mn (LKR 918 Mn in the previous period), which amounts to 31% 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 2,068 Mn, of which intangible assets amounted to LKR 1,728 Mn. Details of these are given in Notes 39 and 40 to the Financial Statements.

RESERVES

Total reserves and retained profit amounted to LKR 40,386 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 2021 was LKR 8,600 Mn. The number of shares in issue as at 31 December 2021 was 320,522,436.

Consequent to the Scrip Issue approved during the year, the stated capital was increased by LKR 918 Mn.

Further information is given on pages 295 and 296.

SHARE INFORMATION

Information relating to earnings, net asset and market value per share are given on pages 61 and 65 of the Annual Report and also contain information pertaining to the share trading during the period.

SHAREHOLDERS

As at 31 December 2021, there were 10,595 registered shareholders and the distribution is indicated on page 63.

The 20 largest shareholders as at 31 December 2021 are listed on page 64.

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 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 123 to 141.

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 170 to 309
3 (8) (ii) (a)	Affirmative assurance of compliance with accounting standards and requirements	Directors' Responsibility Statement on page 163
3 (8) (ii) (b)	Affirmative assurance of the integrity of financial reporting system	Directors' Statement of Internal Control on page 157
3 (8) (ii) (c)	Assurance report issued by the External Auditor	Independent Assurance Report on page 160
3 (8) (ii) (d)	Information on Directors	Pages 18 to 21
3 (8) (ii) (d)	Remuneration of Directors	Annual Report of the Board of Directors on the State of Affairs of the Bank on page 144
3 (8) (ii) (e)	Net accommodation granted to each category of related party	Corporate Governance Report. Table on page 140
3 (8) (ii) (f)	Compensation and other transactions with Key Management Personnel	Corporate Governance Report on page 141
3 (8) (ii) (h)	Compliance with prudential requirements and regulations	This report

ANNUAL GENERAL MEETING

Taking into consideration the current regulations on social distancing and limitations on gatherings due to the COVID-19 pandemic, the Board of Directors decided to hold the Sixty-sixth Annual General Meeting as a Virtual Meeting on 30 March 2022 at 10.00am in line with the guidelines issued by Colombo Stock Exchange (CSE) on holding virtual shareholder meetings.

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

N H T I PERERA
DIRECTOR AND CHIEF EXECUTIVE OFFICER

MS A WITHANA
COMPANY SECRETARY

17 February 2022

REPORT OF THE AUDIT COMMITTEE

COMPOSITION

The Board appointed Audit Committee comprises three Independent Non-Executive Directors. The Committee is chaired by Mr P M B Fernando who is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka and possesses considerable experience in the field of finance and auditing.

The members of the Board appointed Audit Committee are as follows:

Mr P M B Fernando – Chairman

Ms Hiroshini Fernando

Mr H A J de Silva Wijeyeratne

There were no changes in the membership of the Committee during the year.

Brief profiles of the members are given on pages 18 to 21.

MANDATE AND ROLE

The Terms of Reference of the Committee, which is subject to review periodically by the Board of Directors, clearly defines the mandate and role of the Committee. The Terms of Reference of the Committee was last reviewed and approved by the Board in October 2021. The Committee is responsible to the Board of Directors and reports on its activities regularly. The Committee assists the Board of Directors in fulfilling its general oversight of financial reporting, internal controls, internal and external audits.

Further the functions of the Committee are structured and regulated in line with the Rule No. 3 (6) (ii) of the Corporate Governance Direction No. 11 of 2007, issued by the Central Bank of Sri Lanka, the Rules on Corporate Governance as per Section 7.10 of Listing Rules issued by the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance 2017 issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

Where appropriate, more details are provided under separate headings in this Report.

MEETINGS

The Head of Group Internal Audit functioned as the Secretary to the Committee for the year ended 31 December 2021. During the year, 10 Audit Committee meetings were held and proceedings of the Audit Committee meetings were reported regularly to the Board.

Most of the meetings during the year were held virtually due to the continued pandemic and attendance by the Committee members at the meetings is given in the table on page 128 of this Annual Report.

The Chief Executive Officer, Chief Financial Officer and Chief Operating Officer attend meetings by invitation. Senior Management also attends the meetings on invitation in order to brief the Audit Committee on specific matters. The Committee held two meetings with the External Auditor; KPMG independently, without the presence of the Executive Management, to discuss the progress and conclusion of the audits.

PRINCIPAL ACTIVITIES CONDUCTED DURING 2021

REVIEW OF FINANCIAL REPORTING

The Committee reviewed the effectiveness of the Financial Reporting System in place, to ensure reliability of information provided to the stakeholders. The Committee reviewed that to the best of its knowledge and belief, the Financial Statements issued for external purposes by DFCC Bank PLC (the Bank), complied with generally accepted principles of accounting as enunciated in Sri Lanka Accounting Standards, and complies with the statutory provisions of Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988 and subsequent amendments thereto.

The Committee assisted 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. In carrying out the overseeing responsibilities, the Committee reviewed:

- 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.
- All critical accounting policies, practices, related changes thereto, alternative accounting treatments, major judgement areas, material audit adjustments, compliance with accounting standards, going concern assumptions, financial reporting controls and compliance with applicable laws and regulations that could impact the Bank's Financial Statements, its Annual Report and its Quarterly Financial Statements prepared for publication in conjunction with the Management, Internal Auditors and where relevant, External Auditors. Special attention was made to discuss and decide on the changes in accounting treatments necessitated from the COVID-19 pandemic continued throughout 2021 as well and the resulting impacts based on the circulars issued by the Regulator and Accounting Profession from time to time.
- During the year the Audit Committee placed additional focus on the assessment of adequacy of provision for Expected Credit Loss (ECL) recognised in the Financial Statements based on the internal models, management overlay computed based on stress testing the exposures to risk elevated sectors, to address the potential implications of COVID-19 pandemic and the continuing moratorium schemes directed to support the recovery of the economy.
- All quarterly Unaudited Interim Financial Statements and Financial Statements for the year ended 31 December 2021, together with supporting information that included significant assumptions and judgements made in the preparation of Financial Statements.
- Internal Audit Reports, Management Letter issued by the External Auditor and the responsibility statements in relation to the Financial Statements issued by the Chief Financial Officer and Chief Executive Officer in making an overall assessment on the integrity of the Financial Reporting System.

- The operations, future prospects, and sustainability indicators of the Bank and discussed with the Management regularly to ensure that all relevant matters have been taken into account in the preparation of the Financial Statements and that the 2021 Financial Statements are reliable and presents a true and fair view of the state of affairs of the Bank.

CORE BANKING SYSTEM MIGRATION

During the year, the audit committee placed additional focus on core banking system migration. Progress of the core-banking system implementation was discussed at the Audit Committee on a periodic basis. Pre and post migration progress was reviewed with the senior management and the project steering committee, time to time focusing on key controls, financial reporting and MIS areas. The Committee was apprised on the results of post migration verifications performed and noted that all critical exceptions are been addressed progressively.

REVIEW OF INTERNAL CONTROL SYSTEM

The Audit Committee assessed the effectiveness of internal controls over financial reporting as at 31 December 2021 as required to comply with Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks, issued by the Central Bank of Sri Lanka. This process assesses the adequacy and effectiveness of the internal controls and the processes for controlling business risks to ensure compliance with laws and regulations. The Committee ensures that appropriate action is taken by the Management on the recommendations of the Internal Auditors to improve the effectiveness of the internal control system of the Bank. The Board of Directors performs its responsibilities on the basis of the internal control framework, which enables the Board to pursue its functions and take necessary measures. The Board's statement on effectiveness of the Bank's internal control mechanism is published on pages 157 to 159.

GROUP INTERNAL AUDIT

The Audit Committee ensures that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care. The Audit Charter authorises and guides the Head of Group Internal Audit (HGIA) in carrying out independent audit functions of the Bank and its subsidiaries. The HGIA enjoys operational independence in conducting duties and has the authority to initiate, carry out, and report on any action, which is considered necessary. For the performance of duties, the HGIA and audit staff shall have unrestricted, unlimited, direct and prompt access to all records of the Bank and subsidiaries, officials or personnel holding any contractual status of the Bank and subsidiaries, and to all the premises of the Bank and subsidiaries. The Committee had necessary interactions with the Head of Internal Audit throughout the year. The Audit Committee monitored and reviewed the scope, resources, extent, and effectiveness of the activities of the Bank's Internal Audit Department.

The Group Audit function is governed by the Group Audit Charter which defines the internal audit's purpose, authority, independence, reporting, responsibility and access in order to assist Group Audit to discharge its function independently. The Group Audit Charter and Audit Manual were revised and approved in September 2021 by the Board Audit Committee.

The Committee reviewed the progress of the risk based audits carried out in accordance with the Internal Audit Plan approved by the Committee for the year 2021. During the year, the Internal Audit Department has reviewed business lines, critical operational processes, risk and compliance functions, branches, and subsidiary operations. Further, the Department has conducted thematic audits focusing on particular audit objective across the audited units/branches. Process Audits were conducted on specific business processes to review the adequacy, efficiency and effectiveness of the procedures, processes, related controls and further to ensure that the intended objectives and benefits are derived from the related processes of the Bank. The Potential Fraud Monitoring Unit under Internal Audit carried out testing and data analytics related to potential fraud risk areas on a continuous basis.

The start of the COVID-19 pandemic increased the level of attention of Internal Auditors to re-evaluate the internal audit activities and audit methodologies. A Centralised Monitoring Function was commenced on selected high risk areas during the travel restricted period which continued in most times during 2021 as well to assess the emerging risks and reassessment of internal control environment by internal audit as directed by the Board Audit Committee.

In 2021, the Board Audit Committee reviewed 223 audit reports of branches and departments, Information System Audits, Thematic Audits, Process Audits, and Special Investigations of the Bank. The Committee reviewed the Internal Audit Reports of the Bank's subsidiaries as well.

The Board Audit Committee advised Corporate Management to take precautionary measures on significant audit findings and obtained required assurances through affirmative confirmations from business units on the remedial action in respect of the identified risks to maintain the effectiveness of the internal control system.

INDEPENDENCE OF EXTERNAL AUDIT

The Committee reviewed and monitored the External Auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements. The Committee approved the policy in place as reviewed on non-audit services provided by the External Auditors in September 2021.

The Committee ensured that the lead audit partner was rotated every five years in accordance with the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka. The Committee discussed with the Auditors their audit plan, scope and the methodology they propose to adopt in conducting the annual audit prior to its commencement. The Auditors were also provided with the opportunities to meet the Audit Committee separately, without the presence of Executive Management, to ensure that the Auditors had the independence to discuss and express their opinions on any matter. Further, additional meetings were held with the External Auditors from time to time to discuss the Bank's interim audit findings and financial reporting improvements and changes required as a result of the COVID-19 pandemic situation.

There was no limitation of scope and the Management has fully provided all information and explanations requested by the Auditors. The Committee also met the Auditors to review the Management Letter with the responses from the Management.

REAPPOINTMENT OF EXTERNAL AUDITOR

The Committee performed an evaluation of the Bank's External Auditor Messrs KPMG based on certain key areas and recommended to the Board of Directors that, KPMG Chartered Accountants, to be reappointed for the financial year ending 31 December 2022 subject to the approval of shareholders at the next Annual General Meeting.

GOOD GOVERNANCE AND WHISTLE-BLOWING POLICY

The Committee continuously emphasised on sustaining ethical conduct amongst staff members. In this regard, the Whistle-blowing Policy of the Bank and its subsidiaries was reviewed during the year 2021 and all members of staff were educated and encouraged to practice whistle blowing if they suspect any wrong doing while further strengthening the policy as a communication channel to raise any genuine concerns. The Policy is subject to annual review in order to further improve its effectiveness.

All appropriate procedures and techniques are in place to conduct independent investigations into incidents reported through whistle blowing or identified through other channels. The Whistle-blowing Policy guarantees the maintenance of strict confidentiality of the identity of the whistle blowers.

EVALUATION OF THE COMMITTEE

The effectiveness of the Committee is self-evaluated annually by its members. An independent evaluation of the effectiveness of the Committee was carried out by the other members of the Board and the Committee has been found to be effective.

P M B FERNANDO
CHAIRMAN – AUDIT COMMITTEE
17 February 2022

REPORT OF THE HUMAN RESOURCES AND REMUNERATION COMMITTEE

COMPOSITION

The Human Resources and Remuneration Committee appointed by the Board of Directors, presently consists of three Non-Executive Directors. J Durairatnam is the Chairman of the Committee. Ms A L Thambiayah and Ms H M N S Gunawardana are the other members. Ms S R Thambiayah functioned as a member of the Committee until 27 September 2021.

The Chief Executive attended meetings and participated in its deliberations except when his own evaluation and remuneration was under discussion. He also served as the Secretary until December 2021. The Head of Human Resources assisted the Committee by providing relevant information and functions as the Secretary of the Committee with effect from January 2022. The Committee obtains input from external specialists as and when required.

The Committee's composition met the requirements of Rule 7.10.5 of Listing Rules of the Colombo Stock Exchange.

MANDATE

Terms of Reference of the Committee adopted by the Board encompasses the tasks specified in Section 3 (6) (iii) of Direction No. 11 of 2007 of the Central Bank of Sri Lanka on corporate governance for licensed commercial banks.

The Committee in determining the remuneration policy relating to Directors, Chief Executive, and Key Management Personnel of DFCC Bank, in terms of Directions ensures appropriate compensation levels in order to attract, retain, and motivate talented staff with the core capabilities matched to its strategy and also to ensure that the Bank consistently delivers value to all stakeholders and to make the organisation more competitive. To achieve this, the Committee uses a mixture of fixed and variable pay to reward employees. During the year, the Committee oversaw a review of the remuneration benchmarking study carried out by a firm of external consultants among comparable institutions in respect of staff in junior grades.

PROCEDURE

The Committee assists the Board in exercising its oversight on matters related to human resource strategies and policies and makes recommendations to the Board. Apart from the general review of remuneration, in keeping with the policy of pay for performance, the Committee reviewed the performance of the Bank against the historical performance, key performance indicators agreed at the beginning of the year as well as against a peer group when determining and recommending to the Board the annual salary increment pool and the performance based variable pay pool for DFCC Bank. The Committee also appraised the performance of the Chief Executive based on the pre-agreed targets and desired skills and reviewed his remuneration.

In addition, the Committee considers and recommends to the Board of Directors from time to time, the requirements of additional/new expertise/skills and also salary revisions. The Committee annually assesses the succession plan for key management positions and took appropriate steps to induct external skills to strengthen the Management of the Bank where it was deemed necessary.

MEETINGS

The Committee held three meetings during the financial year to carry out its task. The attendance by members is given on page 128 of the Annual Report.

J DURAIRATNAM

CHAIRMAN –
HUMAN RESOURCES AND REMUNERATION COMMITTEE

17 February 2022

REPORT OF THE NOMINATION AND GOVERNANCE COMMITTEE

COMPOSITION

The Nomination and Governance Committee of the Board of Directors presently consists of three Non-Executive Directors. P M B Fernando an Independent Director is the Chairman with J Durairatnam, and Ms V J Senaratne serving as members.

The Chief Executive Officer attends the meeting by invitation, while the Secretary to the Board functions as the Secretary of the Committee.

The Committee's composition met the requirements of Rule 3.6 (iv) (f) of the Banking Act Direction No. 11 of 2007 of the Central Bank.

MANDATE

During the year under review, the Committee carried out the tasks as set out in the Terms of Reference approved by the Board. The Terms of Reference approved by the Board encompasses the tasks set out in Section 3 (6) (iv) of Direction No. 11 of 2007 of the Central Bank of Sri Lanka on corporate governance in licensed commercial banks.

In terms of the mandate the role of the Committee is to review governance policies and procedures, evaluate the performance of the Board and identify, and evaluate persons with the required skills, knowledge, standing, fitness, and propriety to join the Board of the Bank and to evaluate the suitability of Directors who are seeking re-election. The Committee is also responsible for the task of implementing a procedure for the appointment of the CEO and Key Management Personnel.

PROCEDURE

The Committee meets when required and acts within its mandate approved by the Board of Directors and makes recommendations to the Board for consideration.

MEETINGS

Five meetings were held during the year. The Committee considered and recommended to the Board the appointment of two new Directors. The Committee also identified persons to fill other key management positions after reviewing many candidates from time to time to ascertain the best fit for the Bank in terms of qualifications, ability and character, reviewed succession planning and assessed the fitness and propriety of Directors, and Key Management Personnel, in terms of the requirements of the Banking Act. The Committee which was formed to improve the process for succession planning for KMPs comprising a member of the Audit Committee, CEO, and Head of HR met and reviewed the progress.

During the year, Committee reviewed the job descriptions (JD's) of Key Management Personnel and incorporated necessary changes to the JD's of the respective KMP's. As per the previous practice adopted, a declaration was obtained based on the format adopted by the Committee from Non-Executive Directors, confirming their status of independence. In addition to the annual evaluation of the Board carried out by the individual members, this year too an evaluation of the Board was carried out by the Nomination and Governance Committee members based on a separate check list approved by the Committee and the results were shared with the other members of the Board.

Individual Committee members do not participate in discussions in matters relating to them. The attendance by Directors at meetings is given on page 128 of the Annual Report. The Committee has recommended the re-election of the Directors offering themselves for re-election at the Annual General Meeting.

P M B FERNANDO
CHAIRMAN –
NOMINATION AND GOVERNANCE COMMITTEE
17 February 2022

REPORT OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

COMPOSITION OF BOARD INTEGRATED RISK MANAGEMENT COMMITTEE (BIRMC)

During the financial year ended in December 2021, the composition of the Board Integrated Risk Management Committee (BIRMC) of DFCC Bank was enhanced with the appointment of Mr V Kumar, (Non-Executive Director of DFCC Bank), to the BIRMC as a member.

There are four Non-Executive Directors and an Executive Director as at 31 December 2021 as members of the Committee. The 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, Information Technology, Internal Audit, and Compliance attend the meetings on invitation. The membership of the BIRMC as at 31 December 2021 was as follows:

Ms L K A H Fernando – Chairperson of the Committee/ Non-Executive Director of DFCC Bank

L H A L Silva – Executive Director/Chief Executive Officer of DFCC Bank

Ms V J Senaratne – Non-Executive Director of DFCC Bank

Ms H M N S Gunawardana – Non-Executive Director of DFCC Bank

V Kumar – Non-Executive Director of DFCC Bank

A Goonesekere – 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 DFCC Bank are within acceptable parameters and to make recommendations to the Board of Directors on any action required

D. Review 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 Group's operations with relevant laws, regulations, and standards including the adherence to the CBSL Direction on Corporate Governance.

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

BIRMC MEETINGS

As per the Charter, BIRMC should meet on quarterly basis. During 2021, DFCC Bank convened six BIRMC meetings. The attendance of members is listed on page 128 of the Annual Report. The Committee continued to review policy frameworks, risk management strategies, risk capital position, key risk indicators and top and emerging risks at these meetings and was satisfied that the risk exposures of the Bank and the Group were being appropriately managed. During the financial year, the following key initiatives were achieved by the Committee:

A. Reviewed and approved the Internal Capital Adequacy Assessment Process (ICAAP) of DFCC Bank, which was a regulatory requirement with effect from January 2014. BIRMC will continue monitoring and proposing future capital requirements as per the Bank's growth targets for the next few years.

B. In relation to the management of compliance risk, compliance risk indicators with different risk scales were reviewed and specific areas of focus were recognised based on the possible impact and the probability of occurrence.

C. Risk controls and monitoring tools were further improved with revisions to the overall risk limits system of the Bank from time to time as required. New advisory limits were put in place as trigger limits as required.

D. All existing risk policies and practices were reviewed by the Committee in line with the Bank's specific requirements, industry dynamics, and regulatory specifications and approved the necessary amendments to further strengthen the risk management processes in the Bank.

E. The annual review of effectiveness and adequacy of the Management Committees was conducted by the BIRMC during the first quarter of 2021. The review results were shared with the respective committees for necessary improvements.

F. Reviewed and approved all the new products and redesign of any existing products of the Bank while taking both business and risk management perspective.

G. Reviewed and implemented the CBSL recommendations based on the examination report requirements in relation to the integrated risk management function of the Bank.

H. Having duly recognised the trends in increasing threats on systems and information security, the Committee paid increased attention by reviewing the adequacy of the security in information systems and closely monitoring the action plans and implementation of new projects for further improving information systems security in the Bank.

I. During 2021, the Committee paid more attention on reviewing risk in the increased operating environment due to COVID-19 pandemic. The Committee reviewed the adequacy of the risk mitigating actions taken and stress testing results under pandemic condition

REPORTING

The proceedings of the BIRMC meetings are reported to the Board through submission of the meeting minutes. Monthly Top and Emerging Risks and other specific matters are submitted separately for the Board's information. The recommendations made by the BIRMC during the year under review were duly approved by the Board.

MS L K A H FERNANDO

CHAIRMAN –
BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

17 February 2022

REPORT OF THE CREDIT APPROVAL COMMITTEE

COMPOSITION

The Credit Approval Committee of the Board of Directors presently consists of four Non-Executive Directors J Durairatnam is the Chairman with P M B Fernando, N K G K Nemmawatta, and Ms A L Thambiayah serving as members. Ms S R Thambiayah functioned as a member of the Committee until 14 February 2021 and L H A L Silva functioned as a member until 31 December 2021.

The Company Secretary functions as the Secretary of the Committee.

MANDATE

The Committee carried out the tasks set out in the Terms of Reference approved by the Board. The primary purpose of the Committee is to review and where appropriate recommend or approve credit facilities which require approval above the delegated limit of the Management Credit Committee of the Bank.

PROCEDURE

The Committee normally meets at least once a month and as and when required. The Committee invites the relevant officers to these meetings to clarify issues and for discussion relating to proposals that are submitted for review and also guides the Management in improving the credit policies, procedures and on process improvements for monitoring and recovery action.

MEETINGS

The Committee held twelve meetings during the financial year to carry out its task. The attendance by members is given on page 128 of the Annual Report. The proceedings of the Committee meetings have been regularly reported to the Board of Directors. Credit facilities recommended by the Committee were submitted to the monthly meeting of the Board for approval.

J DURAIRATNAM
CHAIRMAN – CREDIT APPROVAL COMMITTEE
17 February 2022

REPORT OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

COMPOSITION

The Related Party Transactions Review Committee appointed by the Board of Directors, presently consists of two Non-Executive Directors and the Chief Executive Officer. P M B Fernando an Independent Director is the Chairman of the Committee. J Durairatnam and N H T I Perera are the other members. L H A L Silva functioned as a member of the Committee until 31 December 2021.

The Company Secretary functions as the Secretary of the Committee.

The Committee's composition met the requirements of the Rule 9.2.2 of Listing Rules of the Colombo Stock Exchange.

MANDATE

The Committee adopted as its mandate, the tasks specified in Section 9 of the Colombo Stock Exchange (CSE) Listing Rules. The Board has formally adopted the Terms of Reference of the Committee.

The primary purpose of the Committee is to evaluate and consider all transactions with related parties of the Bank except the exempted transactions as set out in Rule 9.5 of the Listing Rules of the CSE, in order to ensure that transactions with related parties are on normal commercial terms similar to those afforded to non-related parties.

PROCEDURE

The Committee meets as and when required and at least once in a calendar quarter and makes recommendations to the Board for consideration.

The Committee has put in place the necessary processes to identify, review, disclose, and monitor related party transactions according to the provisions contained in the Board approved Related Party Transactions Policy of the Bank.

The Bank obtains on a quarterly basis a declaration from all Key Management Personnel on a structured format to assist in the process of collating related party transactions. Relevant officers are aware of the applicable regulatory requirement relating to related party transactions and they submit a report in the prescribed format, to the Committee for transactions that require a review by the Committee.

MEETINGS

The Committee held 12 meetings during the financial year to carry out its task. The attendance by members is given on page 128 of the Annual Report. The Committee reviewed the related party transactions carried out during the year at its meetings and the proceedings of the Committee meetings were regularly reported to the Board of Directors.

P M B FERNANDO

CHAIRMAN –
RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

17 February 2022

DIRECTORS' STATEMENT OF INTERNAL CONTROLS

INTRODUCTION

Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007 requires the Board of Directors ("the Board") to report on 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. This Report is prepared in line with the said regulatory requirements and Principle D.1.5 of the code of best practices on Corporate Governance issued by Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

RESPONSIBILITY

The Board acknowledges the responsibility for the adequacy and effectiveness of the DFCC Bank's ("the Bank") system of internal controls, which is designed to provide assurance on the maintenance of proper accounting records and the reliability of financial information generated and safeguarding of the assets of the Bank.

However, such systems are designed to manage the Bank's key exposures to risk within acceptable risk parameters rather than to eliminate the risk of failure to achieve the business goals and objectives of the Bank. Therefore, the system of internal controls can only provide reasonable and not absolute assurance against errors or material misstatement of management and financial information and records or against financial losses and frauds.

FRAMEWORK OF MANAGING MATERIAL RISKS OF THE BANK

The Board has set up an ongoing process for identifying, evaluating and managing the material risks faced by the Bank. This process has been in place for the year under review which includes enhancing the system of Internal controls as and when there are changes to the business environment and regulatory guidelines.

The Management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

The process is regularly reviewed by the Board and is in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued by CA Sri Lanka. The Board has assessed the internal control over financial reporting taking into account relevant principles for the assessment of internal control over financial reporting system as given in the guidance.

The board is of the view that the framework and the system of internal controls in place is sound and robust to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

KEY FEATURES OF THE PROCESS ADOPTED IN APPLYING AND REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- The Board has established Committees to assist them in exercising oversight on the effectiveness of the Bank's daily operations and ensuring that they are in accordance with the corporate objectives, strategies and the budgetary targets as well as the policies and business directions that have been approved.
- Policies/Charters are developed covering all functional areas of the bank and these are recommended by Board appointed committees and are approved by the Board. Such Policies and Charters are reviewed and approved periodically.
- The Internal Audit Department of the Bank verifies compliance of operations with policies and procedures and the adequacy and effectiveness of the internal control systems including information system controls on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non-compliance. On-site and Off-site audits are carried out on all units and branches, the frequency of which are determined by the level of risk assessed to provide an independent and objective report on operational and management activities of these units and branches. The annual audit plan is reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review at their periodic meetings.

  The Initiatives taken by internal audit department to conduct off-site/remote audits and centralized monitoring audits during the COVID-19 Pandemic were expanded covering the branch network and departments as well as selected processes and significant risk areas in 2021. The Offsite auditing initiatives were further strengthened to review the design and the effectiveness of the internal control system utilizing appropriate tools/techniques and resources. In addition, monitoring over implementation of the new core banking system, reviews on Data base security and cyber security updates were performed during the year and submitted to Board audit committee on periodic basis.
- The Bank adopted a robust process in implementing the new Core banking system which was lead by a "Core Banking Project steering committee" for the system migration. A well planned approach was deployed by the bank taking all necessary steps relating to data migration. Some of such steps included performing comprehensive reconciliations and matching data horizontally and vertically with legacy systems with involvement of branch banking and all business units. Progress of the core-banking system implementation was discussed at the audit committee on a periodic basis. A post migration verification was carried out and all critical exceptions are been addressed progressively.

- The Audit Committee of the Bank reviews internal control issues identified by the internal audit, the External Auditors, regulatory authorities, and management and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit function focusing on the scope of audits and the quality of reporting. The minutes of the Audit Committee meetings are tabled for the information of the Board on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the Report of the Audit Committee on page 148.
- The Board Integrated Risk Management Committee (BIRMC) was established by the Board to assist the Board to oversee the overall management of principal areas of risk of the Bank. The BIRMC includes representation from all key business and operations areas of the Bank and assists the Board in the implementation of policies, procedures and controls identified by the BIRMC.
- Operational Committees have also been established with appropriate mandates to ensure effective management and supervision of the Bank's core areas of business operations. These committees include the Management Committee, Credit Committees, the Asset/Liability Committee, the Impairment Assessment Committee, and the Information Technology Steering Committee.
- In assessing the internal controls over financial reporting identified officers of the bank continued to review and update all procedures and controls that are connected with significant accounts and disclosures of the financial statements of the bank. The Internal Audit Department continued to verify the suitability of design and effectiveness of these procedures and controls on an ongoing basis. Further special focus areas were identified and assessed for strengthening the control setup including information system controls adopted in the core banking system and the MIS reporting. The bank continuously evaluates the evolving internal control environment with the implementation of the new core banking system and the effects of the ongoing digitalisation drive.

The Bank adopted SLFRS 9 from 1 January 2018 and made an assessment of the objective of the business model and classification of financial assets as it best reflects the way the business is managed and information is provided to management.

With the introduction of "expected credit loss" under SLFRS 9, the Bank developed models to calculate Expected Credit Losses (ECLs). Number of key assumptions were made by the Bank in applying the requirements of SLFRS 9 to the models including selection and input of forward looking information. These models are inherently complex and judgment is applied in determining the correct construction of the same. These models were developed over the past years and reviewed by the management and amendments were made to the initial assumptions where necessary to reflect the recent and updated data and such amendments made were independently reviewed by External Auditors. The Committee reviewed the related Policies on principles, methodologies and assumptions during the year 2021 with consideration of elevated risks due to implications from the Pandemic Situation and applied the moratorium scheme while aligning with the governing requirements. Further related changes were reviewed and approved by the Board Audit Committee and the Board.

The Bank continues to focus on strengthening the review and testing process of the models developed and the Bank's Internal Audit Department also will continue to review the same with more focus and robust approach in the future.

The computation of impairment losses from loans and receivables has not been automated yet. Considering the complexity and level of estimation involved in this process, the Bank is in the process of evaluating the options available for automation. This evaluation process will also address the new parameter requirements, level of integration with the Core systems and minimizing the manual intervention.

MANAGEMENT INFORMATION

The comments made by the External Auditors in connection with internal control system for the financial year ended 31 December 2020 were reviewed during the year and appropriate steps have been taken to rectify the same.

The recommendations made by the External Auditors in the financial year ended to 31 December 2021 in connection with the internal control system will be addressed in future.

The Bank has implemented new core banking system during the year and independent post implementation review is in progress. Findings and recommendations, if any will be addressed by the bank during the next financial year.

The Directors are of the opinion that these recommendations are intended to further improve the internal control system and they do not in any way detract from the conclusion that the financial reporting system is reliable to provide reasonable assurance that the Financial Statements for external use are true and fair and complies with Sri Lanka Accounting Standards and the regulatory requirements of the Central Bank of Sri Lanka.

CONFIRMATION

Based on the above detailed internal control mechanism and related processes of the Bank, the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes is in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors, Messrs KPMG, have reviewed the above Directors statement on Internal Control over financial reporting for the year ended 31 December 2021 and reported that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system over financial reporting of the Bank. Their independent assurance report on the "Directors' Statement of Internal Control Over Financial Reporting" is given on page 160 of this Annual Report.

By Order of the Board,

P M B FERNANDO
CHAIRMAN – AUDIT COMMITTEE

J DURAIRATNAM
CHAIRMAN – BOARD OF DIRECTORS

N H T I PERERA
CHIEF EXECUTIVE/DIRECTOR
17 February 2022

INDEPENDENT ASSURANCE REPORT

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TO THE BOARD OF DIRECTORS OF DFCC BANK PLC

We were engaged by the Board of Directors of DFCC Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control ("Statement") included in the Annual Report for the year ended 31 December 2021.

MANAGEMENT'S RESPONSIBILITY FOR THE STATEMENT ON INTERNAL CONTROL

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007, by The Institute of Chartered Accountants of Sri Lanka.

SCOPE OF THE ENGAGEMENT IN COMPLIANCE WITH SLSAE 3050

Our responsibility is to issue a report to the Board on the statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by The Institute of Chartered Accountants of Sri Lanka.

SUMMARY OF WORK PERFORMED

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for Directors and appropriately reflects the process the Directors have adopted in reviewing the system of internal control for the Bank.

To achieve this objective, appropriate evidence has been obtained by performing the following procedures:

(a) Enquired the Directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the Directors in the Annual Report.

(b) Reviewed the documentation prepared by the Directors to support their statement made.

(c) Related the statement made by the Directors to our knowledge of the Bank obtained during the audit of the Financial Statements.

(d) Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.

(e) Attended meetings of the Audit Committee at which the Annual Report, including the Statement on Internal Control is considered and approved for submission to the Board of Directors.

(f) Considered whether the Directors' Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.

(g) Obtained written representations from Directors on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Bank' s risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the Annual Report will, in fact, remedy the problems.

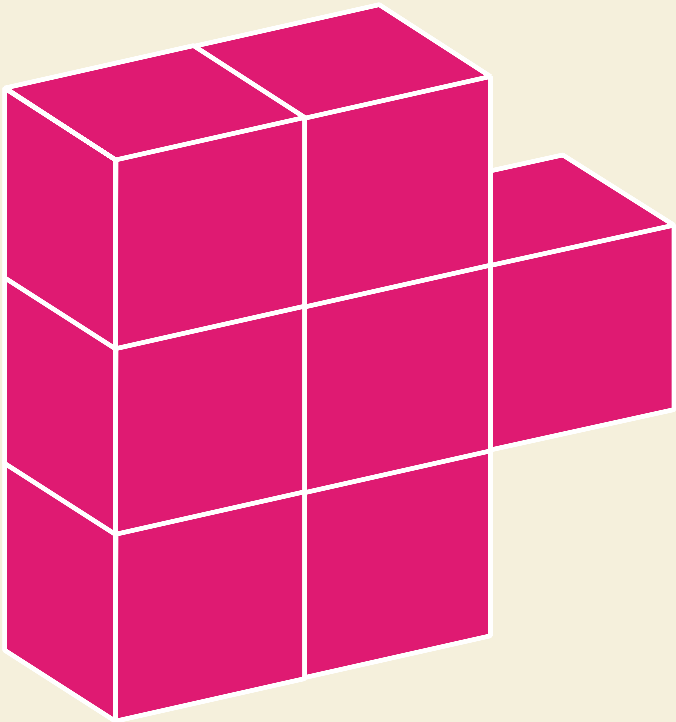
OUR CONCLUSION

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included on pages 157 to 159 of this Annual Report is inconsistent with our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Bank.

CHARTERED ACCOUNTANTS

Colombo
17 February 2022

FINANCIAL REPORTS



FINANCIAL CALENDAR

2021

LKR 3.00 per share Final Dividend for 2020 paid on	10 March 2021
Audited Financial Statements signed on	17 February 2022
66th Annual General Meeting to be held on	30 March 2022
First and Final Dividend of LKR 3.00 per share by way of Scrip Dividend for 2021	by 15 March 2022
1st Quarter Interim Results released on	4 May 2021
2nd Quarter Interim Results released on	6 August 2021
3rd Quarter Interim Results released on	29 October 2021

PROPOSED FINANCIAL CALENDAR 2022

1st Quarter Interim Results to be released in	May 2022
2nd Quarter Interim Results to be released in	August 2022
3rd Quarter Interim Results to be released in	November 2022
67th Annual General Meeting to be held in	March 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

The Auditors' Report sets out the respective responsibilities of the Directors and Auditors relating to the Financial Statements and this Statement provides additional information.

The Directors are required by relevant statutory provisions to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank and the Group for that year. The statutory provisions are in the Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988 and amendments thereto. The application of principal qualitative characteristics and appropriate accounting standards and regulatory requirements inclusive of specific disclosures would result in financial statements that convey a true and fair view of financial information and financial position.

The Directors are satisfied that the Bank and Group have the resources to continue in business for the foreseeable future and therefore, these financial statements are prepared on a going concern basis.

The financial statements for the year ended 31 December 2021 and the comparative period have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS).

The Directors are responsible for keeping proper accounting records and to take reasonable steps as far as practicable, to ensure the accuracy and reliability of accounting records, to enable the preparation of financial statements. The Directors have a general responsibility to take reasonable steps to safeguard the assets of the Bank. In discharging these responsibilities, the Directors have instituted a system of internal financial controls and a system for monitoring its effectiveness. These provide reasonable but not absolute assurance of safeguarding of the Bank's assets, maintenance of proper accounting records and the reliability of financial information.

The Board appointed Audit Committee chaired by an Independent Non-Executive Director who possesses qualifications and experience in accountancy and audit assists the Directors to discharge their responsibility on the integrity of financial reporting system and monitoring the effectiveness and adequacy of internal control system. This Committee has made an independent assessment of the financial reporting system of the Bank and confirmed that to the best of its knowledge and belief the financial statements issued for external purposes by the Bank complied with Sri Lanka Accounting Standards and complies with the statutory provisions of the Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988 as amended. The Report of the Audit Committee is on pages 148 to 150.

The Directors are in agreement with the assessment of the Audit Committee on the reliability of financial reporting system of the Bank and confirm that the financial statements prepared for external use is in accordance with relevant accounting principles and regulatory requirements. As part of institutional checks and balances and accountability, in addition to this Statement of Directors' Responsibilities in relation to Financial Statements, the Directors have included the Chief Executive's and Chief Financial Officer's Statement of Responsibility on page 164.

By Order of the Board,

Ms A Withana
COMPANY SECRETARY
Colombo
17 February 2022

CHIEF EXECUTIVE'S AND CHIEF FINANCIAL OFFICER'S STATEMENT OF RESPONSIBILITY

The financial statements of DFCC Bank PLC ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries as at 31 December 2021 are prepared and presented in compliance with the requirements of the following:

- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka),
- Companies Act No. 07 of 2007,
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995,
- Banking Act No. 30 of 1988 (as amended),
- Listing Rules of the Colombo Stock Exchange,
- Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka (as amended from time to time), and
- Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka.

The formats used in the preparation of the financial statements and disclosures made comply with the formats prescribed by the Central Bank of Sri Lanka.

Financial statements are prepared in compliance with the Sri Lanka Financial Reporting Standards (SLFRS) issued by The Institute of Chartered Accountants of Sri Lanka, Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988 as amended and Directions issued thereunder relating to financial statements formats and disclosure of information.

The accounting policies used in the preparation of the financial statements are appropriate and are consistently applied by the Group. There are no departures from the prescribed accounting standards in their adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation. The Board of Directors and the Management of the Bank accept responsibility for the integrity and objectivity of these financial statements. The estimates and judgements relating to the financial statements were made on a prudent and reasonable basis, in order that the financial statements reflect true and fair view. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis.

The Board of Directors assessed the effectiveness of the Bank's internal controls over financial reporting during the year ended 31 December 2021, as required by the Banking Act Direction No. 11 of 2007, result of which is given on pages 157 to 159 in the Annual Report, the "Directors' Statement on Internal Control". External Auditor's Independent Assurance Report on the "Directors' Statement on Internal Control" is given on page 160 of the Annual Report.

It is confirmed that the Bank has adequate resources to continue its operations in the foreseeable future. Therefore, the Bank will continue to adopt the "going concern" basis in preparing these financial statements.

Bank's Internal Auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

The financial statements of the Group were audited by Messrs KPMG. The Joint Venture company Acuity Partners (Pvt) Ltd. and the Associate company National Asset Management Limited, are also audited by Messrs KPMG.

The Audit Committee of the Bank meets periodically with the Internal Auditors and the Independent Auditors to review the manner in which the External Auditor performs their responsibilities, and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the Independent Auditor and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance. Details of which are given in the "Audit Committee Report" on pages 148 to 150.

The Audit Committee approves the audit and non-audit services provided by External Auditor, Messrs KPMG, in order to ensure that the provision of such services do not impair KPMG's independence.

We confirm that,

- the Bank and its subsidiaries have complied with all applicable laws, regulations, and prudential requirements;
- there are no material non-compliances; and
- there are no material litigations that are pending against the Group other than those disclosed in the Note 57.2 to the financial statements in this Annual Report.
- All taxes, duties, levies and all statutory payments payable by the Group and the Bank and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Group and the Bank as at 31 December 2021 have been paid or were relevant provided for.

N H T I Perera
DIRECTOR/CHIEF EXECUTIVE OFFICER

Chinthika Amarasekara
CHIEF FINANCIAL OFFICER

Colombo
17 February 2022

INDEPENDENT AUDITORS' REPORT

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TO THE SHAREHOLDERS OF DFCC BANK PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of DFCC Bank PLC ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group"), which comprise the statement of financial position as at 31 December 2021, and income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 170 to 309 of this Annual Report.

In our opinion, the accompanying financial statements of the Bank and the Group give a true and fair view of the financial position of the Bank and the Group as at 31 December 2021, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

BASIS FOR OPINION

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka ("Code of Ethics") that are related to our audit of financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Bank financial statements and the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the Bank's financial statements and the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

ALLOWANCES FOR EXPECTED CREDIT LOSSES

Refer to Note 4 (Use of judgements and estimates), Note 17 (impairment for loans and other losses), and Note 32 (Financial Assets at Amortised Cost – Loans to and receivables from other customers), to these financial statements.

Risk Description	Our response
As disclosed in Note 32 to these financial statements, the Bank has recorded loans to and receivables from other customers of LKR 384,959 Mn as at 31 December 2021. High degree of complexity and judgments are involved in estimating individual and collective impairment of LKR 19,058 Mn as at that date. Allowance for expected credit losses is a key audit matter due to the significance of the loans to and receivables balance to the financial statements and the inherent complexity of the Bank's Expected Credit Loss (ECL) models used to measure ECL allowances. These models are reliant on data and a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk (SICR). SLFRS 9 Financial Instruments requires the Bank to measure ECLs on a forward-looking basis reflecting a range of economic conditions. Post-model adjustments are made by the Bank to address known ECL model limitations or emerging trends in the loan portfolios. We exercise significant judgement in evaluating the economic scenarios used and the judgmental post model adjustments the Bank applies to the ECL results. The Bank's criteria selected to identify a SICR are key areas of judgement within the Bank's ECL methodology as these criteria determine if a forward-looking 12 month or lifetime allowance is recorded. The current economic condition has meant that assumptions regarding the economic outlook are more uncertain which, combined with varying government responses, increases the level of judgement required by the Bank in calculating the ECL, and the associated audit risk. Additionally, allowances for individually significant loans exceeding specific thresholds are individually assessed by the Bank. We exercise significant judgment in challenging the assessment of specific allowances based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the Bank in respect of the loans.	Our audit procedures for the allowances for ECL included the following: Testing key controls of the Bank in relation to: • Reconciliation of the data used in the ECL calculation process to gross balances recorded in the general ledger as well as source systems; • IT system controls for days past due, and non- performing loan classification. • Board's approval for key assumptions **Assessing impairment for individually significant customers** Selecting a sample of larger customers where impairment indicators have been identified by management and assessed as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Bank as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions). Obtaining management's assessment of the recoverability of these exposures (including individual impairment calculations) and assessed whether individual impairment provisions were appropriate. **This included the following procedures** • Assessing the recoverability of the forecasted cash flows by comparing them to the historical performance of the customers and the expected future performance where applicable. • Assessing external collateral valuer's credentials and comparing external valuations to values used in management's impairment assessments. • Exercising our judgment, our procedures included using our understanding of relevant industries and the macroeconomic environment and comparing with the data and assumptions used by the Bank in recoverability assessment. Where relevant we assessed the forecast timing of future cash flows in the context of underlying valuations and business plans. • For a sample of customers loans which were not identified as displaying indicators or impairment by management, we reassessed the conclusions made by the management by reviewing the historical performance of the customers and formed our own view whether any impairment indicators were present. **Assessing the adequacy of collectively assessed provisions** We tested key controls of the Bank in relation to: • The ECL model governance and validation processes. • The assessment and approval of the forward-looking macroeconomic assumptions and scenario weightings, trends in the credit risk concentration of specific portfolios and our understanding of economic conditions. As part of this work we assessed the reasonableness of the Bank's considerations of the prevailing economic uncertainties.

Risk Description	Our response
The disclosures regarding the Bank's application of SLFRS 9 are key to explaining the key judgements and material inputs to the SLFRS 9 ECL results.	Our further audit procedures included; • Assessing the ongoing effectiveness of the SICR criteria and independently calculated the loans' stage. In addition, we assessed the reasonableness of the Bank's treatment of COVID-19 payment relief customers (moratorium/debt concessionary) from a SICR perspective. • Evaluating key assumptions in the components of the Bank's post-model adjustments to the ECL allowance balance. This included assessing the requirement for additional allowances considering the Bank's ECL model data limitations, and estimation uncertainties particularly in light of the extreme volatility in economic scenarios caused by prevailing economic uncertainties; • Working with our own specialists, we assessed the reasonability of the adjustments made by the Bank to the forward looking macro economic factors and assumptions used in the ECL model. • Assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the loan portfolios against the Bank's assessment. • Assessing the appropriateness of the Bank's disclosures in the financial report using our understanding obtained from our testing and against the requirements of the Sri Lanka Accounting Standards.

NEW IT SYSTEM AND CONTROLS OVER FINANCIAL REPORTING

Refer to Note 40 (Intangible Assets) to these financial statements.

Risk Description	Our response
The Bank utilises many complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. The Bank has made investments on upgrading systems in particular the development of new core banking system. The implementation of a new system has an inherent risk of possible loss of key financial data being migrated, error in mapping relevant balances and completeness and accuracy of relevant reconciliations. The temporary laps in operating or monitoring of IT dependent controls within critical business processes such as lending, deposit and recording transections which could lead to error in financial reporting. Therefore, controls over access and changes to IT systems are critical to the recording of financial information and the preparation of financial statements which provides a true and fair view of the Bank's financial position and performance.	We work with our IT specialists to perform audit procedures to test the technology control environment for key IT applications including new core banking system used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems which link the technology-enabled business processes. Our further audit procedures included: • Assessing the governance and higher-level controls in place across the IT Environment, including the approach to Group policy design, review and awareness, and IT Risk Management practices. • Obtaining an understanding and testing operating effectiveness of the sample of key controls operating over the information technology in relation to financial accounting and reporting systems, including system access and system change management, program development and computer operations. • Data integrity of critical system reporting used by us in our audit to select samples and analyse data used by management to generate financial statements. • In relation to system migration, on a sample basis we assessed and tested the accuracy and completeness of the key financial data migrated from previous system to new core banking system. • Inquiries and reviewing of the Management's controls over the system migration; • On sample basis, re-performed selected automated computations and compared our results with those from the system and the general ledger;

Risk Description	Our response
The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter as our audit approach could significantly differ depending on the effective operation of the Bank's IT controls.	**User access controls operation** • Assessing the management's evaluation of access rights granted to applicants relevant to financial accounting and reporting systems and tested resolution of a sample of exceptions. • Assessing the operating effectiveness of controls over granting, removal and appropriateness of access rights.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence,' and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 3272.

Chartered Accountants

COLOMBO, SRI LANKA

17 February 2022

INCOME STATEMENT

For the year ended 31 December	Note	Page No.	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Gross income	10	222	42,648,762	43,299,800	43,029,280	43,604,447
Interest income			36,599,000	39,089,986	36,599,512	39,095,445
Interest expenses			23,946,256	28,083,159	23,918,895	28,052,259
Net interest income	11	222	12,652,744	11,006,827	12,680,617	11,043,186
Fee and commission income			2,888,346	2,193,474	2,887,711	2,192,557
Fee and commission expenses			292,468	132,157	292,468	132,157
Net fee and commission income	12	225	2,595,878	2,061,317	2,595,243	2,060,400
Net gain from trading	13	226	844,898	479,153	844,898	479,153
Net loss from financial instruments at fair value through profit or loss	14	227	(247,268)	(497,931)	(247,268)	(497,931)
Net gains from derecognition of financial assets	15	227	1,391,008	510,386	1,391,008	510,386
Net other operating income	16	228	1,172,778	1,524,732	1,553,419	1,824,837
Total operating income			18,410,038	15,084,484	18,817,917	15,420,031
Impairment for loans and other losses	17	229	4,485,288	3,297,892	4,485,288	3,327,892
Net operating income			13,924,750	11,786,592	14,332,629	12,092,139
Operating expenses						
Personnel expenses	18	235	3,897,725	3,399,704	4,078,512	3,588,172
Depreciation and amortisation	19	237	1,023,851	919,657	1,074,173	970,958
Other expenses	20	237	3,459,642	3,067,229	3,400,862	2,995,346
Operating profit before taxes on financial services			5,543,532	4,400,002	5,779,082	4,537,663
Taxes on financial services	21	238	1,217,068	1,001,562	1,217,068	1,001,562
Operating profit after taxes on financial services			4,326,464	3,398,440	4,562,014	3,536,101
Share of profits of associate and joint venture			–	–	296,662	407,785
Profit before income tax			4,326,464	3,398,440	4,858,676	3,943,886
Income tax expense	22	239	1,104,601	1,010,405	1,193,565	1,097,101
Profit for the year			3,221,863	2,388,035	3,665,111	2,846,785
Profit attributable to:						
Equity holders of the Bank			3,221,863	2,388,035	3,548,938	2,744,961
Non-controlling interests			–	–	116,173	101,824
Profit for the year			3,221,863	2,388,035	3,665,111	2,846,785
Earnings per share						
Basic/diluted earnings per ordinary share (LKR)	23	242	10.14	7.83	11.17	9.00

The notes to the financial statements from pages 179 to 309 form part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	BANK		GROUP	
For the year ended 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Profit for the year	3,221,863	2,388,035	3,665,111	2,846,785
Other comprehensive income/(expenses) for the year, net of tax				
Items that are or may be reclassified subsequently to income statement				
Movement in fair value reserve [fair value through other comprehensive income (FVTOCI) debt instruments]:				
Net change in fair value	(2,469,369)	2,563,943	(2,469,384)	2,563,943
Reclassified to income statement	(2,062,305)	52,918	(2,062,305)	52,918
Share of other comprehensive income of equity accounted joint venture and associate	–	–	61,748	26,284
Movement in hedging reserve:				
Cash flow hedges – effective portion of changes in fair value	673,546	(13,622)	673,546	(13,622)
Cash flow hedges – reclassified to income statement	(795,779)	15,420	(795,779)	15,420
Related deferred tax	1,142,242	(777,899)	1,142,242	(777,899)
Total other comprehensive (expenses)/income that are or may be reclassified subsequently to income statement	(3,511,665)	1,840,760	(3,449,932)	1,867,044
Items that will not be reclassified to income statement				
Losses on remeasurements of defined benefit liability/(asset)	(59,388)	(37,766)	(56,323)	(36,738)
Equity investments at FVTOCI – Net change in fair value	(35,606)	(1,533,286)	(35,599)	(1,533,286)
Share of other comprehensive income of equity accounted associate and joint venture	–	–	1,108	483
Related deferred tax	4,204	(26,297)	4,277	(26,322)
Total other comprehensive expenses on items that will not be reclassified to income statement	(90,790)	(1,597,349)	(86,537)	(1,595,863)
Other comprehensive (expenses)/income for the year, net of tax	(3,602,455)	243,411	(3,536,469)	271,181
Total comprehensive (expenses)/income for the year	(380,592)	2,631,446	128,642	3,117,966
Total comprehensive (expenses)/income attributable to:				
Equity holders of the Bank	(380,592)	2,631,446	12,173	3,016,442
Non-controlling interests	–	–	116,469	101,524
Total comprehensive (expenses)/income for the year	(380,592)	2,631,446	128,642	3,117,966

The notes to the financial statements from pages 179 to 309 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Page No.	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Assets						
Cash and cash equivalents	26	246	10,688,255	7,724,364	10,690,873	7,728,969
Balances with Central Bank of Sri Lanka	27	247	9,359,241	4,901,753	9,359,241	4,901,753
Placements with banks	28	247	6,288,006	15,414,287	6,332,533	15,431,962
Derivative financial assets	29	247	280,235	835,464	280,235	835,464
Financial assets measured at fair value through profit or loss	30	251	218,875	609,717	218,875	609,717
Financial assets at amortised cost – Loans to and receivables from banks	31	252	–	4,152,717	–	4,152,717
Financial assets at amortised cost – Loans to and receivables from other customers	32	253	365,900,540	301,909,337	365,900,540	301,909,337
Financial assets at amortised cost – Debt and other instruments	33	260	26,674,962	31,604,175	26,674,962	31,604,175
Financial assets measured at fair value through other comprehensive income	34	261	54,329,436	88,718,002	54,333,429	88,718,002
Investments in subsidiaries	35	267	217,436	217,436	–	–
Investments in associate	36	268	35,270	35,270	35,608	31,699
Investments in joint venture	37	270	755,000	755,000	2,804,871	2,449,262
Investment property	38	273	9,879	9,879	469,841	345,857
Property, plant and equipment	39	274	3,237,124	3,406,600	3,389,102	3,587,019
Intangible assets and goodwill	40	278	2,227,577	1,713,052	2,408,816	1,884,806
Deferred tax asset	41	281	1,358,895	–	1,358,895	2,919
Other assets	42	283	3,924,505	3,070,234	3,998,987	3,153,277
Asset held for sale	43	283	–	–	–	19,600
Total assets			485,505,236	465,077,287	488,256,808	467,366,535
Liabilities						
Due to banks	44	284	3,349,836	14,909,937	3,349,836	14,909,937
Derivative financial liabilities	29	247	814,219	267,883	814,219	267,883
Financial liabilities at amortised cost – Due to depositors	45	284	319,861,013	310,026,892	319,362,372	309,566,423
Financial liabilities at amortised cost – Due to other borrowers	46	286	69,589,129	46,847,076	69,589,129	46,847,076
Debt securities in issue	47	287	16,297,256	16,291,279	16,297,256	16,291,279
Employee retirement benefits	48	288	688,598	643,118	716,477	671,041
Current tax liabilities	49	293	951,645	1,012,645	1,031,557	1,081,864
Deferred tax liability	41	281	–	243,949	112,514	341,691
Other liabilities	50	293	6,580,166	6,119,854	6,831,147	6,323,094
Subordinated term debt	51	295	18,387,276	19,357,497	18,387,276	19,357,497
Total liabilities			436,519,138	415,720,130	436,491,783	415,657,785

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Page No.	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Equity						
Stated capital	52	296	8,600,457	7,682,465	8,600,457	7,682,465
Statutory reserve	53	297	2,746,968	2,583,968	2,746,968	2,583,968
Retained earnings	54	297	22,091,649	19,652,169	25,831,589	23,061,084
Other reserves	55	298	15,547,024	19,438,555	14,268,853	18,098,644
Total equity attributable to equity holders of the Bank			48,986,098	49,357,157	51,447,867	51,426,161
Non-controlling interests	56	298	–	–	317,158	282,589
Total equity			48,986,098	49,357,157	51,765,025	51,708,750
Total equity and liabilities			485,505,236	465,077,287	488,256,808	467,366,535
Contingent liabilities and commitments	57	299	148,131,691	130,764,147	148,131,691	130,764,147
Net asset value per share, LKR			152.83	161.30	160.51	168.06

The notes to the financial statements from pages 179 to 309 form part of these financial statements.

I certify that these financial statements comply with the requirements of the Companies Act No. 07 of 2007.

Amarasekara

Chinthika Amarasekara
Chief Financial Officer

The Board of Directors is responsible for the preparation of these financial statements.

For and on behalf of the Board of Directors,

J Durairatnam
Chairman

Thimal Perera
Director and Chief Executive Officer

Colombo
17 February 2022

STATEMENT OF CHANGES IN EQUITY

		Statutory reserve	Other reserves				
	Stated capital LKR '000	Reserve fund LKR '000	Fair value reserve LKR '000	Hedging reserve LKR '000	General reserve LKR '000	Retained earnings LKR '000	Total equity LKR '000
Bank							
Balance as at 1 January 2020	7,530,371	2,461,968	5,704,644	(225,389)	13,779,839	18,228,086	47,479,519
Profit for the year	–	–	–	–	–	2,388,035	2,388,035
Other comprehensive income/(expenses), net of tax	–	–	306,180	1,294	–	(64,063)	243,411
Total comprehensive income for the year	–	–	306,180	1,294	–	2,323,972	2,631,446
Transfers	–	122,000	–	–	–	(122,000)	–
Transfer of gains/(losses) on disposal/write-off of equity investments at fair value through other comprehensive income to retained earnings	–	–	(128,013)	–	–	128,013	–
Transactions with equity holders of the Bank, recognised directly in equity							
Forfeiture of unclaimed dividends	–	–	–	–	–	6,664	6,664
Final dividend for 2019 – Scrip	152,094	–	–	–	–	(152,094)	–
Final dividend for 2019 – Cash	–	–	–	–	–	(760,472)	(760,472)
Total contributions from and distribution to equity holders	152,094	–	–	–	–	(905,902)	(753,808)
Balance as at 31 December 2020	7,682,465	2,583,968	5,882,811	(224,095)	13,779,839	19,652,169	49,357,157
Balance as at 1 January 2021	7,682,465	2,583,968	5,882,811	(224,095)	13,779,839	19,652,169	49,357,157
Profit for the year	–	–	–	–	–	3,221,863	3,221,863
Other comprehensive expenses, net of tax	–	–	(3,441,924)	(105,347)	–	(55,184)	(3,602,455)
Total comprehensive (expenses)/income for the year	–	–	(3,441,924)	(105,347)	–	3,166,679	(380,592)
Transfers	–	163,000	–	–	–	(163,000)	–
Transfer of gains/(losses) on disposal/write-off of equity investments at fair value through other comprehensive income to retained earnings	–	–	(344,260)	–	–	344,260	–
Transactions with equity holders of the Bank, recognised directly in equity							
Forfeiture of unclaimed dividends	–	–	–	–	–	9,533	9,533
Final dividend for 2020 – Scrip	917,992	–	–	–	–	(917,992)	–
Total contributions from and distribution to equity holders	917,992	–	–	–	–	(908,459)	9,533
Balance as at 31 December 2021	8,600,457	2,746,968	2,096,627	(329,442)	13,779,839	22,091,649	48,986,098

The notes to the financial statements from pages 179 to 309 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Attributable to the equity holders of the Bank									
		Statutory reserves	Other reserves							
	Stated capital LKR '000	Reserve fund LKR '000	Fair value reserve LKR '000	Exchange equalisation reserve LKR '000	Hedging reserve LKR '000	General reserve LKR '000	Retained earnings LKR '000	Total LKR '000	Non-controlling interests LKR '000	Total LKR '000
Group										
Balance as at 1 January 2020	7,530,371	2,461,968	4,260,073	78,377	(225,389)	13,779,839	21,278,288	49,163,527	262,965	49,426,492
Profit for the year	–	–	–	–	–	–	2,744,961	2,744,961	101,824	2,846,785
Other comprehensive income/(expenses), net of tax	–	–	307,786	24,677	1,294	–	(62,276)	271,481	(300)	271,181
Total comprehensive income for the year	–	–	307,786	24,677	1,294	–	2,682,685	3,016,442	101,524	3,117,966
Transfers	–	122,000	–	–	–	–	(122,000)	–	–	–
Transfer of gains/(losses) on disposal/write-off of equity investments at fair value through other comprehensive income to retained earnings	–	–	(128,013)	–	–	–	128,013	–	–	–
Transactions with equity holders of the Bank, recognised directly in equity										
Forfeiture of unclaimed dividends	–	–	–	–	–	–	6,664	6,664	–	6,664
Final dividend 2019 – Scrip	152,094	–	–	–	–	–	(152,094)	–	–	–
Final dividend 2019 – Cash							(760,472)	(760,472)		(760,472)
Dividend distributed to non-controlling interest by subsidiaries	–	–	–	–	–	–	–	–	(81,900)	(81,900)
Total contributions from and distribution to equity holders	152,094	–	–	–	–	–	(905,902)	(753,808)	(81,900)	(835,708)
Balance as at 31 December 2020	7,682,465	2,583,968	4,439,846	103,054	(224,095)	13,779,839	23,061,084	51,426,161	282,589	51,708,750
Balance as at 1 January 2021	7,682,465	2,583,968	4,439,846	103,054	(224,095)	13,779,839	23,061,084	51,426,161	282,589	51,708,750
Profit for the year	–	–	–	–	–	–	3,548,938	3,548,938	116,173	3,665,111
Other comprehensive (expenses)/income, net of tax	–	–	(3,440,331)	60,147	(105,347)	–	(51,234)	(3,536,765)	296	(3,536,469)
Total comprehensive (expense)/income for the year	–	–	(3,440,331)	60,147	(105,347)	–	3,497,704	12,173	116,469	128,642
Transfers	–	163,000	–	–	–	–	(163,000)	–	–	–
Transfer of gains/(losses) on disposal/write-off of equity investments at fair value through other comprehensive income to retained earnings	–	–	(344,260)	–	–	–	344,260	–	–	–
Transactions with equity holders of the Bank, recognised directly in equity										
Forfeiture of unclaimed dividends	–	–	–	–	–	–	9,533	9,533	–	9,533
Final dividend for 2020 – Scrip	917,992	–	–	–	–	–	(917,992)	–	–	–
Dividend distributed to non-controlling interest by subsidiaries	–	–	–	–	–	–	–	–	(81,900)	(81,900)
Total contributions from and distribution to equity holders	917,992	–	–	–	–	–	(908,459)	9,533	(81,900)	(72,367)
Balance as at 31 December 2021	8,600,457	2,746,968	655,255	163,201	(329,442)	13,779,839	25,831,589	51,447,867	317,158	51,765,025

The notes to the financial statements from pages 179 to 309 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Cash flows from operating activities					
Interest receipts		29,236,132	30,020,544	29,236,849	30,016,182
Interest payments		(24,807,821)	(28,898,275)	(24,785,372)	(28,867,010)
Net commission receipts		2,791,414	2,194,100	2,791,414	2,194,100
Net trading income		740,546	33,140	740,546	33,140
Recoveries from loans previously written-off		66,380	42,021	66,380	42,021
Receipts from other operating activities		1,965,634	3,220,616	2,586,364	3,942,850
Payments on other operating activities		(2,972,426)	(3,235,643)	(2,974,520)	(3,539,577)
Cash payments to employees		(3,220,515)	(3,509,801)	(3,646,484)	(3,509,801)
Taxes on financial services		(1,295,997)	(1,028,489)	(1,295,997)	(1,028,489)
Operating cash flows before changes in operating assets and liabilities		2,503,347	(1,161,787)	2,719,180	(716,584)
(Increase)/decrease in operating assets:					
Balances with Central Bank/deposits held for regulatory or monetary control purposes		(4,457,488)	3,764,794	(4,457,488)	3,764,794
Financial assets at amortised cost – Loans to and receivables from other customers		(64,446,256)	(31,967,075)	(64,446,256)	(31,967,075)
Others		915,872	910,313	1,290,203	833,751
Increase/(decrease) in operating liabilities:					
Financial liabilities at amortised cost – Due to depositors		10,583,256	60,833,677	10,217,972	60,451,771
Negotiable certificate of deposits		(148,495)	1,576,253	(148,495)	1,576,253
Others		(1,750,936)	(1,492,634)	(1,754,127)	(1,334,358)
Net cash flows (used in)/from operating activities before income tax		(56,800,700)	32,463,541	(56,579,011)	32,608,552
Income tax paid	49	(1,621,286)	(615,096)	(1,681,790)	(671,516)
Net cash flows (used in)/from operating activities		(58,421,986)	31,848,445	(58,260,801)	31,937,036

The Statement of Cash Flows of the Bank includes the results of associate, joint venture and subsidiary companies only to the extent of the cash flows between Bank and respective companies as required by Sri Lanka Accounting Standards.

STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Cash flows from investing activities					
Dividends received from investment in subsidiaries, joint venture, and associate	16	89,277	139,276	–	50,000
Dividends received from other investments		685,279	419,077	685,272	419,076
Interest received		8,319,619	8,094,360	8,344,867	8,134,721
Government Securities – net		33,646,475	(16,828,764)	33,646,475	(16,828,764)
Proceeds from sale and redemption of securities		7,279,798	5,580,763	7,295,398	5,601,163
Purchase of financial investments		(6,881,648)	(3,040,582)	(6,881,648)	(3,040,582)
Purchase of property, equipment, intangibles and investment property	39 to 40	(1,417,208)	(1,761,511)	(1,421,785)	(1,761,967)
Proceeds from sale of equipment, investment property and others		37,920	–	43,506	–
Net cash flows from/(used) in investing activities		41,759,512	(7,397,381)	41,712,085	(7,426,353)
Cash flows from financing activities					
Issue of debentures		–	9,523,000	–	9,523,000
Redemption of debentures		(956,860)	(5,000,000)	(956,860)	(5,000,000)
Borrowing, medium and long-term		36,582,813	16,212,712	36,582,813	16,212,712
Other borrowings – net		(9,585,177)	(14,571,228)	(9,585,177)	(14,571,228)
Repayment of borrowing, medium and long-term		(15,540,186)	(12,334,236)	(15,540,186)	(12,334,236)
Dividends paid		(506)	(757,900)	(89,399)	(839,800)
Net cash flows from/(used in) financing activities		10,500,084	(6,927,652)	10,411,191	(7,009,552)
Net (decrease)/increase in cash and cash equivalents		(6,162,390)	17,523,412	(6,137,525)	17,501,131
Cash and cash equivalents at the beginning of year		23,138,651	5,615,239	23,160,931	5,659,800
Cash and cash equivalents at the end of year		16,976,261	23,138,651	17,023,406	23,160,931
Reconciliation of cash and cash equivalents with items reported in the statement of financial position					
Cash and cash equivalents	26	10,688,255	7,724,364	10,690,873	7,728,969
Placements with banks	28	6,288,006	15,414,287	6,332,533	15,431,962
		16,976,261	23,138,651	17,023,406	23,160,931

The Statement of Cash Flows of the Bank includes the results of associate, joint venture, and subsidiary companies only to the extent of the cash flows between Bank and respective companies as required by Sri Lanka Accounting Standards.

The notes to the financial statements from pages 179 to 309 form part of these financial statements.

RECONCILIATION OF PROFIT FOR THE YEAR TO OPERATING CASH FLOWS BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES

		BANK		GROUP	
	Note	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Profit before income tax		4,326,464	3,398,440	4,858,676	3,943,886
Add/(deduct) items not using (providing) cash:		5,856,107	4,846,088	5,614,618	4,525,559
Depreciation					
– Property, plant and equipment, and investment property	19	415,353	383,461	458,900	428,726
– Right-of-use assets	19	287,629	292,457	287,629	292,757
Amortisation –					
Intangible assets	19	320,869	243,739	327,644	249,475
Unrealised gains on trading securities	13	(197,804)	(90,525)	(197,804)	(90,525)
Net loss from financial instruments at fair value					
Contracts with commercial banks	14	217,548	543,169	217,548	543,169
Foreign exchange loss/(gain)	16	304,580	(23,292)	303,218	(23,292)
Impairment for loans and other losses	17	4,485,288	3,297,892	4,485,288	3,327,892
Share of profits of associate and joint venture		–	–	(296,662)	(407,785)
Provision for defined benefit plans	18	22,644	199,187	28,857	205,142
Deduct items reported under investing activities		(9,666,876)	(8,394,133)	(9,584,596)	(8,269,847)
Dividend income		(1,043,071)	(883,303)	(953,794)	(744,026)
Gain on sale of Government Securities	15	(1,325,748)	(505,284)	(1,325,748)	(505,284)
Gain on sale of equity securities	15	(65,260)	(5,102)	(65,260)	(5,102)
Gain on sale of property, plant and equipment	16	10,388	(13,708)	(1,723)	(23,240)
Interest income from investments		(7,243,185)	(6,986,736)	(7,238,071)	(6,992,195)
Deduct changes in operating assets and liabilities:		1,987,652	(1,012,182)	1,830,482	(916,182)
Decrease/(increase) in account receivables		1,491,565	(733,669)	853,850	(450,322)
Increase/(decrease) in account payables		496,087	(278,513)	976,632	(465,860)
Operating cash flows before changes in operating assets and liabilities		2,503,347	(1,161,787)	2,719,180	(716,584)

The notes to the financial statements from pages 179 to 309 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

1.1 CORPORATE INFORMATION

DFCC Bank PLC ("Bank") is a limited liability public company incorporated and domiciled in Sri Lanka.

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

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 the Bank was incorporated under the Companies Act No. 07 of 2007 as a public limited company listed in the Colombo Stock Exchange with the name "DFCC Bank PLC" with effect from 6 January 2015.

DFCC Bank PLC (DFCC) 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.

The registered office of the Bank is at 73/5, Galle Road, Colombo 3.

Total staff strength of the Bank and the Group on 31 December 2021 was as follow:

Group	2,308 (31 December 2020 – 2,182)
Bank	2,191 (31 December 2020 – 2,072)

1.2 CONSOLIDATED FINANCIAL STATEMENTS

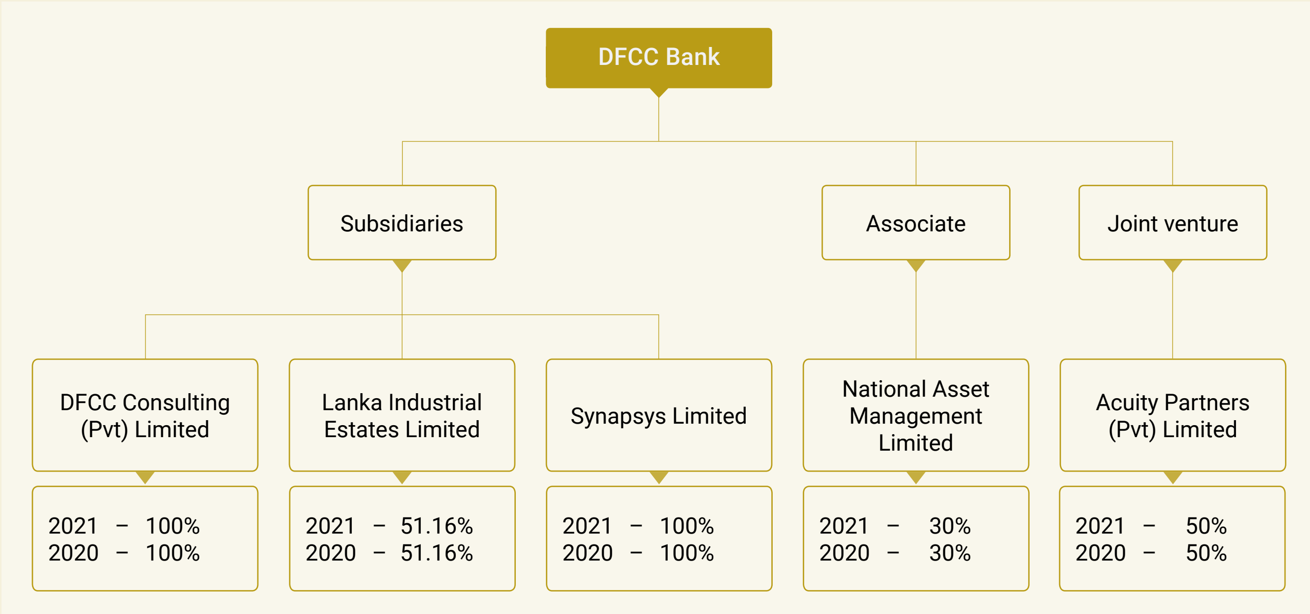
DFCC Bank PLC as the parent of subsidiaries under its control is required to present only the consolidated financial statements as per Sri Lanka Accounting Standard – SLFRS 10 on "Consolidated Financial Statements" and the proportionate share of the profit or loss and net assets of its Associates and joint Ventures in terms of the Sri Lanka Accounting Standard – LKAS 28 on "Investments in Associates and Joint Ventures". In addition to the consolidated financial statements, separate financial statements are also presented as per the Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988 and amendments thereto.

The Bank's financial statements comprise the amalgamation of the financial statements of the Domestic Banking Unit (DBU) and the Foreign Currency Banking Unit (FCBU).

1.3 PARENT ENTITY AND ULTIMATE PARENT ENTITY

The Bank does not have an identifiable parent of its own. The Bank is the ultimate parent of the Group companies.

1.4 Principal business activities, nature of operations of the Group and ownership by the Bank in its subsidiaries, associate and joint venture.



A summary of principal activities of DFCC Bank PLC, its subsidiary companies, associate company and joint venture company is as follows:

Entity	Principal business activity
DFCC Bank PLC	Range of financial services such as accepting deposits, corporate credit and retail banking, personal financial services, project financing, investment banking, foreign currency operations, trade finance and dealing in Government Securities and Treasury-related products.
Subsidiaries	
DFCC Consulting (Pvt) Limited	Technical, financial, and other professional consultancy services in Sri Lanka and abroad.
Lanka Industrial Estates Limited	Leasing of land and buildings to industrial enterprises.
Synapsys Limited	Information technology services and information technology enabled services.
Associate	
National Asset Management Limited	Management of Unit Trust and private portfolios.
Joint venture	
Acuity Partners (Pvt) Limited	Investment banking-related financial services.

There were no significant changes in the nature of the principal activities of the Group during the financial year under review.

1.5 APPROVAL OF FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2021 were authorised for issue by the Directors on 17 February 2022.

1.6 RESPONSIBILITY FOR FINANCIAL STATEMENTS

The responsibility of the Board of Directors in relation to the financial statements is set out in the Statement of Directors' Responsibility report in the Annual Report.

2. BASIS OF ACCOUNTING

2.1 STATEMENT OF COMPLIANCE

The consolidated financial statements of the Group and the separate financial statements of the Bank, which comprise the Statement of Financial Position, Income Statement, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes thereto, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act No. 07 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto, and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange (CSE).

These financial statements, except for information on cash flows have been prepared following the accrual basis of accounting.

Details of the Group's significant accounting policies followed during the year are given on Note 5 on pages 182 to 188.

These financial statements include the following components:

- an Income Statement and Statement of Profit or Loss and Other Comprehensive Income providing information on the financial performance of the Group and the Bank for the year under review; (Refer pages 170 and 171).
- a Statement of Financial Position providing information on the financial position of the Group and Bank as at the year end; (Refer page 172).
- a Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Group and Bank; (Refer pages 174 and 175).
- a Statement of Cash Flows providing information to the users, on the ability of the Group and Bank to generate cash and cash equivalents and the needs of the entity to utilise those cash flows; (Refer pages 176 and 178).
- Notes to the financial statements comprising accounting policies and other explanatory information. (Refer pages 179 to 309)

The format used in the preparation and presentation of the financial statement and the disclosures made therein also comply with the specified formats prescribed by the Central Bank of Sri Lanka in the Circular No. 2 of 2019 on "Publication of Annual and Quarterly Financial Statements and Other Disclosures by Licensed Banks".

2.2 BASIS OF MEASUREMENT

These financial statements have been prepared on the historical cost convention except for the following material items, which are measured on an alternative basis on each reporting date:

FINANCIAL INSTRUMENTS

Item	Basis of measurement	Note	Page
Financial assets measured at fair value through profit or loss	Fair value	30	251
Derivative financial assets and derivative financial liabilities	Fair value	29	247
Financial assets measured at fair value through other comprehensive income	Fair value	34	261

NON-FINANCIAL ASSETS/LIABILITIES

Item	Basis of measurement	Note	Page
Employee retirement benefits	Present value of the defined benefit pension obligation less the net total of the pension assets maintained in DFCC Bank Pension Fund, a trust separate from the Bank.	48	288
	Present value of the defined benefit gratuity obligation.	48	288

No adjustments have been made for inflationary factors affecting the financial statements.

2.3 MATERIALITY AND AGGREGATION

Each item which is similar in nature is presented separately if material. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard – LKAS 1 on "Presentation of financial statements".

2.4 GOING CONCERN

The Directors have made an assessment of the Group's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

2.5 COMPARATIVE INFORMATION

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's financial statements and to enhance the inter period comparability.

The presentation and classification of the financial statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

3. FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements are presented in Sri Lankan Rupees, which is the Bank's functional currency. All amounts have been rounded to the nearest thousand, except when otherwise indicated.

There was no change in the Group's presentation and functional currency during the year under review.

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

CORONAVIRUS (COVID-19) PANDEMIC

The COVID-19 pandemic and its effect on the global economy have impacted the customers, operations and Group performance. The outbreak necessitated the government to respond at unprecedented levels to protect the health of the population, local economy and livelihoods. Thus the pandemic has significantly increased the estimation uncertainty in the preparation of these financial statements including, the extent and duration of the disruption to businesses, expected economic downturn, and subsequent recovery.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant notes of these financial statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

4.1 JUDGEMENTS

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements are included in the following Notes:

Item	Note	Page
Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Loss (ECL) and selection and approval models used to measure ECL.	17	229
Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are Solely Payment of Principal and Interest (SPPI) on the principal amount outstanding.	5.3.2	184
Determination of control over investees.	36, 37	268, 270

4.2 ASSUMPTIONS AND ESTIMATION UNCERTAINTIES

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments to the carrying amounts of assets and liabilities is included in the following Notes:

Item	Note	Page
Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward looking information and key assumptions used in estimating recoverable cash flows.	17, 32	229, 253
Determination of the fair value of financial instruments with significant unobservable inputs.	9.3.1	215
Measurement of defined benefit obligations: key actuarial assumptions.	48.2.2	291
Recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be utilised.	41	281
Impairment testing for Cash Generating Units (CGU) containing goodwill: key assumptions underlying recoverable amounts.	5.4	187
Recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.	57	299
Fair values of the assets held for sale: Determination of fair value less costs to sell on the basis of significant unobservable inputs.	43	283

5. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies set out below have been applied consistently to all periods presented in the financial statements of the Group.

These accounting policies have been applied consistently by Group entitles.

Set out below is an index of the significant accounting polices:

FINANCIAL REPORTS

5.1 BASIS OF CONSOLIDATION

5.1.1 BUSINESS COMBINATIONS

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group.

From 1 January 2020, in determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Group has an option to apply a “concentration test” that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in income statement.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in Income Statement.

5.1.2 SUBSIDIARIES

Details of the Bank's subsidiaries, how they are accounted in the financial statements and their contingencies are set out in Note 35 on pages 267 to 268.

5.1.3 NON-CONTROLLING INTERESTS (NCI)

Details of non-controlling interests are given in Note 56 on page 298.

5.1.4 LOSS OF CONTROL

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

5.1.5 INTERESTS IN EQUITY-ACCOUNTED INVESTEES

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

Details of the Bank's equity-accounted investees, how they are accounted in the financial statements and their contingencies are set out in Note 36 and 37 on pages 268 to 270.

5.1.6 TRANSACTIONS ELIMINATED ON CONSOLIDATION

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

5.1.7 FINANCIAL STATEMENTS OF SUBSIDIARIES, ASSOCIATE COMPANY, AND JOINT VENTURE COMPANY INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements of DFCC Consulting (Pvt) Limited, Acuity Partners (Pvt) Limited, Synapsys Limited and National Asset Management Limited included in the consolidation have financial years ending on 31 December.

Financial statements of Lanka Industrial Estates Limited included in the consolidation has financial year ending on 31 March.

Audited financial statements are used for consolidation of companies which have a similar financial year end, as the Bank and for other a special review is performed.

5.2 FOREIGN CURRENCY

5.2.1 FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest, impairment and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- qualifying cash flow hedges to the extent that the hedges are effective

5.2.2 FOREIGN OPERATIONS

The Bank does not have any foreign operations that is a subsidiary, associate, joint venture or a branch. Therefore, there is no exchange differences recognised in other comprehensive income.

5.3 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.3.1 RECOGNITION AND INITIAL MEASUREMENT

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

5.3.2 CLASSIFICATION

5.3.2.1 FINANCIAL ASSETS

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

5.3.2.1.1 BUSINESS MODEL ASSESSMENT

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether Management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's Management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;

- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

The Group's retail, small and medium enterprises and corporate banking business comprises primarily loans to customers that are held for collecting contractual cash flows. In the retail business the loans comprise mortgages, overdrafts, unsecured personal lending and credit card facilities. Sales of loans from these portfolios are very rare.

Certain debt securities are held by the Group Central Treasury in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The group considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows.

Certain other debt securities are held by the Group Central Treasury in separate portfolios to meet everyday liquidity needs. The Group Central Treasury seeks to minimise the costs of managing these liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual cash flows as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Group considers that these financial assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

5.3.2.1.2 ASSESSMENT OF WHETHER CONTRACTUAL CASH FLOWS ARE SOLELY PAYMENTS OF PRINCIPAL AND INTEREST

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

Equity instruments have contractual cash flows that do not meet the SPPI criterion. Accordingly, all such financial assets are measured at FVTPL unless the FVOCI option is selected.

5.3.2.2 FINANCIAL LIABILITIES

On initial recognition, the Bank classifies financial liabilities, other than financial guarantees and loan commitments, into one of the following categories:

- Financial liabilities at amortised cost; and
- Financial liabilities at fair value through profit or loss

5.3.2.2.1 FINANCIAL LIABILITIES AT AMORTISED COST

Financial Liabilities issued by the Bank that are not designated at fair value through profit or loss are recognised initially at fair value plus any directly attributable transaction costs, by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method. Deposit liabilities including savings deposits, current deposits, fixed/time deposits, call deposits, certificates of deposit and debentures are classified as financial liabilities measured at amortised cost.

The EIR amortisation is included in "Interest expense" in the income statement. Gains and losses too are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

5.3.2.2.2 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial liabilities at fair value through profit or loss include derivative liabilities held for risk management purposes.

5.3.3 RECLASSIFICATIONS

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. Financial Liabilities are not reclassified as such reclassification are not permitted by SLFRS 9.

5.3.4 DERECOGNITION

5.3.4.1 FINANCIAL ASSETS

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

5.3.4.2 FINANCIAL LIABILITIES

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

5.3.5 MODIFICATIONS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.3.5.1 FINANCIAL ASSETS

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

5.3.5.2 FINANCIAL LIABILITIES

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

5.3.6 OFFSETTING

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Income Statement, unless required or permitted by an Accounting Standard or Interpretation (issued by the SLFRS Interpretations Committee and Standard Interpretations Committee) and as specifically disclosed in the significant accounting policies of the Bank/Group.

5.3.7 FAIR VALUE MEASUREMENT

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as "active" if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

5.3.8 IMPAIRMENT

Details of impairment is given in Note 17 on page 229.

5.3.9 DESIGNATION AT FAIR VALUE THROUGH PROFIT OR LOSS

On initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI or at FVTPL, if doing so eliminated or significantly reduces an accounting mismatch that would otherwise arise.

The Bank has not designated any financial asset upon initial recognition at fair value through profit or loss as at the reporting date.

5.4 IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

6. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

Interest Rate Benchmark Reform – Phase 2 (Amendments to SLFRS 9, LKAS 39, SLFRS 7), (the phase 2 amendments) became effective on 1 January 2021. The Group has no other transactions that are affected by newly effective requirements.

7. STANDARDS ISSUED BUT NOT YET ADOPTED

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Group has not early adopted the new and amended standards in preparing these consolidated financial statements.

7.1 A. Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

The Company and Group accounts for deferred tax on leases applying the "integrally linked" approach, resulting in a similar outcome to the amendments, except that the deferred tax impacts are presented net in the statement of financial position. Under the amendments, the Company & Group will recognise a separate deferred tax asset and a deferred tax liability. As at 31 December 2021, the taxable temporary difference in relation to the right-of-use asset is LKR 1,284 Mn. (Note 39) and the deductible temporary difference in relation to the lease liability is LKR 1,366 Mn. (Note 59), resulting in a net deferred tax asset of LKR 20 Mn. (Note 41). Under the amendments, the Company & Group will present a separate deferred tax liability of LKR 308 Mn. and a deferred tax asset of LKR 328 Mn. There will be no impact on retained earnings on adoption of the amendments.

B. Other standards

The following new and amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to LKAS 37).
- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to SLFRS 16).
- Annual Improvements to SLFRS Standards 2018-2020.
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to LKAS 16).
- Reference to Conceptual Framework (Amendments to SLFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to LKAS 1).
- SLFRS 17 Insurance Contracts and amendments to SLFRS 17 Insurance Contracts.
- Disclosure of Accounting Policies (Amendments to LKAS 1 and SLFRS Practice Statement 2).
- Definition of Accounting Estimates (Amendments to LKAS 8).

8. FINANCIAL RISK REVIEW

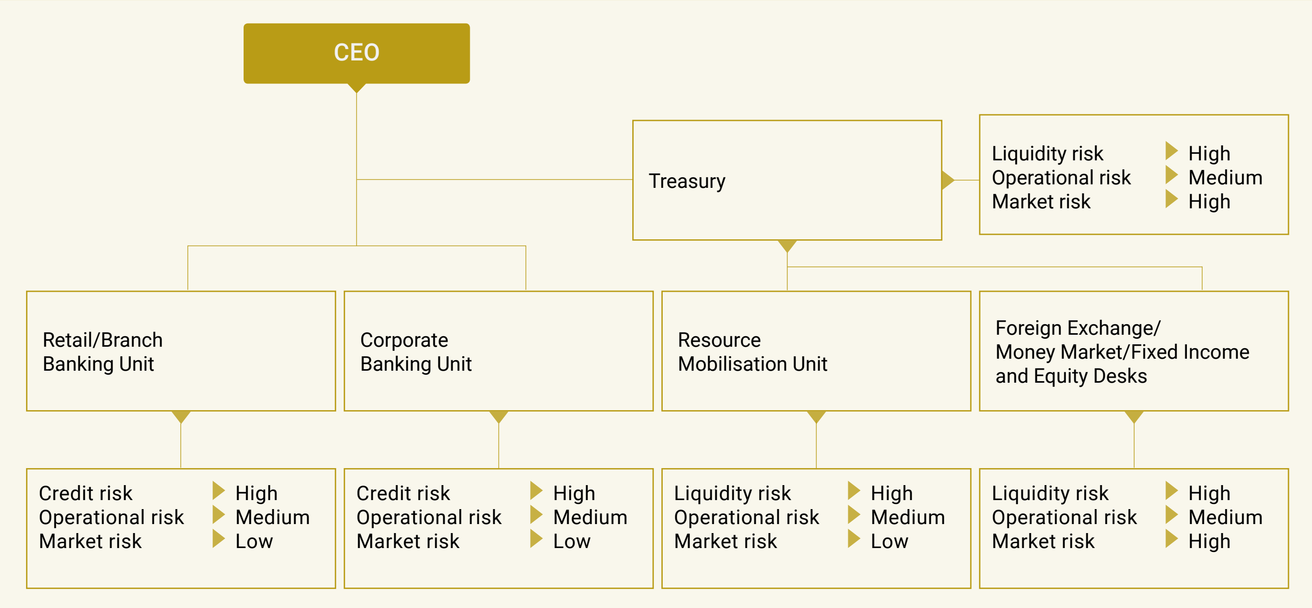
This note presents information about the Bank's exposure to financial risks and the Bank's management of capital.

8.1 INTRODUCTION AND OVERVIEW

The Bank has exposure to the following key risks from financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risks

The following chart provides a link between the Bank's main business units and the principal risks that they are exposed to. The significance of risk is assessed within the context of the Bank as a whole and is measured based on allocation of the regulatory capital within the Bank.



This note presents information about the Bank's exposure to each of the above risks, the objectives, policies and processes for measuring and managing such risk.

RISK MANAGEMENT FRAMEWORK

The Board of Directors has the overall responsibility for the establishment and oversight of the Bank's risk management framework.

The Board Integrated Risk Management Committee (BIRMC) provides the Board, the assurance that risk management strategies, policies and processes are in place to manage events/outcomes that have the potential to impact significantly on earnings performance, reputation and capital.

Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank activities. The bank through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Bank Audit Committee.

8.2 CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Bank's loans and advances to customers and other banks and investment in debt securities.

8.2.1 SETTLEMENT RISK

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. "Settlement risk" is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

8.2.2 MANAGEMENT OF CREDIT RISK

The Board of Directors, BIRMC and the Credit Committee are responsible for the oversight of credit risk. Management of credit risk includes the following:

1. Formulating credit policies in consultation with business units covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
2. Authority for establishing the authorisation structure for the approval and renewal of credit facilities is vested with the Board of Directors. Authorisation limits are allocated to business unit Heads. Approval by Branch Managers, Regional Managers, Head of Branch Banking, Head of Corporate Banking, Credit Committee or the Board of Directors would be required based on loan quantum and risk levels as appropriate.
3. Reviewing and assessing credit risk: Bank credit assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
4. Limiting concentrations of exposure to counterparties, industries (for loans and advances, financial guarantees and similar exposures), credit ratings and countries.
5. Developing and maintaining the Bank's processes for measuring ECL: This includes processes for:
   - initial approval, regular validation and back-testing of the models used;
   - determining and monitoring significant increase in credit risk; and
   - incorporation of forward-looking information.
6. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Bank Credit, which may require appropriate corrective action to be taken. These include reports containing estimates of Expected Credit Loss (ECL) allowances.
7. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to follow Bank credit policies and procedures, and each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and Bank Credit processes are undertaken by Internal Audit.

Broader level of credit risk management approaches as described in 1 to 7 above are revised annually and strengthened as required in line with the regulatory requirements and economic environment. During the year, all relevant policies, guidelines and processes have been reviewed and updated accordingly.

8.2.3 CREDIT QUALITY ANALYSIS

The following table sets out information about the overdue status of loans and advances to customers in Stages 1, 2 and 3.

LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST – GROSS CARRYING AMOUNT

As at 31 December	2021			
In LKR '000	Stage 1	Stage 2	Stage 3	Total
Current	231,739,069	2,111,642	2,342,596	236,193,307
Overdue < 30 days	77,364,183	3,144,710	3,291,210	83,800,103
Overdue > 30 days	–	40,356,388	24,608,792	64,965,180
Total	309,103,252	45,612,740	30,242,598	384,958,590

As at 31 December	2020			
In LKR '000	Stage1	Stage2	Stage3	Total
Current	184,609,999	8,446,879	2,200,563	195,257,441
Overdue < 30 days	66,108,438	9,292,992	2,618,816	78,020,246
Overdue > 30 days	–	24,412,315	19,542,611	43,954,926
Total	250,718,437	42,152,186	24,361,990	317,232,613

8.2.3.1 The following table shows an analysis of counterparty credit exposures arising from derivative transactions. Derivative transactions of the Bank are generally fully collateralised by cash. For further discussion of collateral and other credit enhancements:

As at 31 December 2021	Derivative type									
	Forward		SWAP		Spot		Cross currency SWAP		Total	
In LKR '000	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
Derivative financial assets (Note 1)	–	–	45,417,700	206,441	40,976	6	1,371,696	73,788	46,830,372	280,235
Derivative financial liabilities (Note 2)	–	–	45,690,089	(814,193)	40,996	(26)	–	–	45,731,085	(814,219)
Note 1										
Derivative financial assets by counterparty type										
With banks	–	–	45,417,700	206,441	40,976	6	1,371,696	73,788	46,830,372	280,235
With other customers	–	–	–	–	–	–	–	–	–	–
Total	–	–	45,417,700	206,441	40,976	6	1,371,696	73,788	46,830,372	280,235
Note 2										
Derivative financial liabilities by counterparty type										
With banks	–	–	45,690,089	(814,193)	40,996	(26)	–	–	45,731,085	(814,219)
With other customers	–	–	–	–	–	–	–	–	–	–
Total	–	–	45,690,089	(814,193)	40,996	(26)	–	–	45,731,085	(814,219)

As at 31 December 2020	Derivative Type									
	Forward		SWAP		Spot		Cross currency SWAP		Total	
In LKR '000	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
Derivative financial assets (Note 1)	8,874,370	30,895	39,541,236	276,665	81,690	27	11,852,637	527,877	60,349,933	835,464
Derivative financial liabilities (Note 2)	8,881,730	(28,002)	39,512,159	(239,805)	81,739	(76)	–	–	48,475,628	(267,883)
Note 1										
Derivative financial assets by counterparty type										
With banks	6,128,972	22,862	39,541,236	276,665	81,690	27	11,852,637	527,877	57,604,535	827,431
With other customers	2,745,398	8,033	–	–	–	–	–	–	2,745,398	8,033
Total	8,874,370	30,895	39,541,236	276,665	81,690	27	11,852,637	527,877	60,349,933	835,464
Note 2										
Derivative financial liabilities by counterparty type										
With banks	6,125,797	(17,276)	39,512,159	(239,805)	81,739	(76)	–	–	45,719,695	(257,157)
With other customers	2,755,933	(10,726)	–	–	–	–	–	–	2,755,933	(10,726)
Total	8,881,730	(28,002)	39,512,159	(239,805)	81,739	(76)	–	–	48,475,628	(267,883)

8.2.4 COLLATERAL HELD AND OTHER CREDIT ENHANCEMENTS

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure:

As at 31 December	2021		2020	
	Gross loan balance LKR '000	Security value LKR '000	Gross loan balance LKR '000	Security value LKR '000
Stage 1				
Cash collateral	13,700,373	32,428,966	13,448,486	21,939,627
Property, plant and machinery	81,148,479	283,971,161	88,492,471	234,118,285
Treasury guarantee	9,761,892	14,054,807	4,184,616	8,019,987
Others	156,675,101	25,198,860	85,911,585	12,780,184
Unsecured	32,702,116	–	39,410,513	–
Total	293,987,961	355,653,794	231,447,671	276,858,083
Stage 2				
Cash collateral	2,008,907	3,077,989	1,186,142	1,453,731
Property, plant and machinery	13,269,267	46,147,047	16,774,823	36,954,269
Treasury guarantee	–	–	5,194,358	6,043,468
Others	19,935,954	3,934,887	11,042,254	43,659
Unsecured	3,305,529	–	3,489,676	–
Total	38,519,657	53,159,923	37,687,253	44,495,127
Stage 3				
Cash collateral	348,981	1,076,080	181,950	235,006
Property, plant and machinery	11,458,713	29,420,878	10,015,522	14,402,036
Treasury guarantee	1,169	2,298	–	–
Others	13,570,519	37,616	6,670,291	21,594
Unsecured	3,309,990	–	6,102,588	–
Total	28,689,372	30,536,872	22,970,351	14,658,636

The above analysis does not include balances relating to lease rentals receivables, as the Bank holds the absolute ownership of lease assets.

8.2.4.1 DERIVATIVES, REVERSE SALE-AND-REPURCHASE AGREEMENTS AND SECURITIES BORROWING

The Bank mitigates the credit risk of derivatives, reverse sale-and-repurchase agreements and securities lending by entering into master netting agreements and holding collateral in the form of cash and marketable securities.

DFCC requires counterparties to sign an ISDA master agreement (International Swaps and Derivative Association) in order to enter into swaps and other derivative transactions. The agreement outlines the terms and conditions to be applied to the derivative transactions agreed by DFCC and other parties. Any Dispute of the transaction will be handled according to the agreement terms.

The Bank's sale-and-repurchase, and reverse sale-and-repurchase, transactions and securities borrowing and lending are covered by master agreements. A master agreement has to be signed by both parties to enter such transactions. All terms and conditions are stipulated in the master agreement.

8.2.4.2 LOAN TO VALUE RATIO OF RESIDENTIAL MORTGAGE LENDING

The following tables stratify credit exposures by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral is based on valuations made by independent professional valuers.

As at 31 December	BANK/GROUP 2021 LKR '000	BANK/GROUP 2020 LKR '000
LTV ratio		
Stage 1		
Less than 50%	4,063,363	3,436,521
51%-70%	3,590,858	3,007,785
71%-90%	2,303,450	1,501,625
More than 90%	3,079,027	2,668,369
Total	13,036,698	10,614,300
Stage 2		
Less than 50%	798,948	635,284
51%-70%	899,574	471,268
71%-90%	472,597	301,826
More than 90%	368,958	446,969
Total	2,540,077	1,855,347
Stage 3		
Less than 50%	379,664	371,676
51%-70%	462,999	369,005
71%-90%	179,485	191,354
More than 90%	246,450	130,806
Total	1,268,598	1,062,841
Carrying amount – amortised cost	16,845,373	13,532,488

8.2.4.3 ASSETS OBTAINED BY TAKING POSSESSION OF COLLATERAL

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank does not generally use the non-cash collateral for its own operations.

8.2.5 AMOUNTS ARISING FROM ECL

8.2.5.1 LOSS ALLOWANCE

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. The basis for determining transfers due to changes in credit risk is set out in our accounting policy; see Note 17.

FINANCIAL ASSETS AT AMORTISED COST – LOANS TO AND RECEIVABLES FROM OTHER CUSTOMERS – ECL

	2021				2020			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Balance as at 1 January	1,305,740	1,065,570	12,951,966	15,323,276	901,871	1,563,877	9,940,734	12,406,482
Transfer to Stage 1	458,386	(310,328)	(148,058)	–	662,248	(563,585)	(98,663)	–
Transfer to Stage 2	(154,222)	406,248	(252,026)	–	(84,923)	172,478	(87,555)	–
Transfer to Stage 3	(53,608)	(142,167)	195,775	–	(27,796)	(173,925)	201,721	–
Net remeasurement of loss allowance	(386,947)	640,505	1,120,996	1,374,554	(577,698)	(161,992)	1,788,137	1,048,447
New financial assets originated or purchased	1,033,386	329,956	1,108,204	2,471,546	432,750	232,572	1,227,042	1,892,364
Write-off*	(67)	(200)	(213,315)	(213,582)	(712)	(3,855)	(27,398)	(31,965)
Foreign exchange and other movement	–	–	102,256	102,256	–	–	7,948	7,948
Balance as at 31 December	2,202,668	1,989,584	14,865,798	19,058,050	1,305,740	1,065,570	12,951,966	15,323,276

* The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2021 and that are still subject to enforcement activity is LKR 186 Mn.

FINANCIAL ASSETS AT AMORTISED COST-DEBT AND OTHER INSTRUMENTS – ECL

	2021		2020	
	Stage 1 LKR '000	Total LKR '000	Stage 1 LKR '000	Total LKR '000
Balance at beginning	271,515	271,515	82,571	82,571
Transferred from FVOCI during the year	–	–	67,231	67,231
Net remeasurement of loss allowance	291,959	291,959	121,713	121,713
Balance as at 31 December	563,474	563,474	271,515	271,515

LOAN COMMITMENTS AND FINANCIAL GUARANTEE CONTRACTS – ECL

	2021			2020		
	Stage 1 LKR '000	Stage 2 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Total LKR '000
Balance at beginning	343,598	13,292	356,890	164,144	16,487	180,631
Net remeasurement of loss allowance	232,692	18,670	251,362	179,454	(3,195)	176,259
Balance as at 31 December	576,290	31,962	608,252	343,598	13,292	356,890

8.2.5.2 SENSITIVITY OF ECL TO FUTURE ECONOMIC CONDITIONS

The ECL are sensitive to judgements and assumptions made regarding formulation of forward looking scenarios and how such scenarios are incorporated into the calculations. Management performs a sensitivity analysis on the ECL recognised on material classes of its assets.

SENSITIVITY OF FACTORS USED TO DETERMINE IMPAIRMENT PROVISIONS

The uncertainty of the impact of COVID-19 introduces significant estimation uncertainty in relation to the measurement of the Bank's allowance for expected credit losses. The rapidly evolving consequences of COVID-19 and government, business and consumer responses could result in significant adjustments to the allowance in future financial years.

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Bank should be considered as a best estimate within a range of possible estimates.

The table below shows the sensitivity of the impairment provision of the Bank as at 31 December 2021 to a reasonably possible change in PDs, LGDs, and forward looking information.

	Sensitivity effect on Statement of Financial Position Increase/(Decrease) in impairment provision				
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Sensitivity effect on Income Statement LKR '000
PD 1% increase across all age buckets	1,356,631	250,295	–	1,606,926	(1,606,926)
PD 1% decrease across all age buckets*	(1,204,107)	(249,871)	–	(1,453,978)	1,453,978
LGD 5% increase	294,898	312,485	415,259	1,022,642	(1,022,642)
LGD 5% decrease	(294,898)	(312,485)	(415,259)	(1,022,642)	1,022,642
Probability weighted economic scenarios					
– Worst case 5% decrease and base case 5% Increase	(10,418)	(8,223)	–	(18,641)	18,641
– Worst case 5% Increase and base case 5% decrease	10,418	8,214	–	18,632	(18,632)

* The PD decrease is capped to 0%, if applicable

8.2.6 CONCENTRATION OF CREDIT RISK

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances, loan commitments, financial guarantees and investment securities is shown below:

In LKR '000	Loans to and receivable from banks		Loans to and receivable from customers		Investment in debt securities		Loan commitments and financial guarantees issued	
As at 31 December	2021	2020	2021	2020	2021	2020	2021	2020
Gross carrying amount	–	4,152,717	384,958,590	317,232,613	69,014,083	108,079,830	–	–
Amount committed/guaranteed	–	–	–	–	–	–	117,609,177	124,612,897
Concentration by sector								
Agriculture, forestry, and fishing	–	–	40,827,861	34,483,557	–	–	7,336,743	9,554,167
Manufacturing	–	–	68,451,049	55,769,741	–	–	21,669,988	29,282,013
Tourism	–	–	16,537,932	15,990,359	–	–	3,009,414	2,612,852
Transportation and storage	–	–	9,379,401	9,108,654	–	–	991,193	643,732
Construction	–	–	37,306,964	34,175,044	–	–	13,587,240	6,700,539
Infrastructure development	–	–	40,393,111	34,465,896	–	–	19,392,260	21,722,145
Wholesale and retail trade	–	–	51,206,160	41,871,503	–	–	28,818,181	31,324,334
Information technology and communication services	–	–	2,330,228	1,712,933	–	–	1,056,371	1,294,637
Financial services	–	4,152,717	20,393,853	13,286,037	879,281	661,941	5,302,922	4,793,138
Professional, scientific, and technical activities	–	–	3,289,367	3,203,777	–	–	398,058	318,401
Arts, entertainment, and recreation	–	–	1,016,926	756,676	–	–	159,239	36,875
Education	–	–	4,392,320	3,751,677	–	–	681,853	1,631,020
Health care, social services, and support services	–	–	6,107,068	6,077,955	–	–	690,845	1,089,879
Consumption	–	–	68,626,259	50,166,517	–	–	14,313,150	13,234,405
Lending to ministry of finance	–	–	–	33,923	–	–	–	–
Lending to overseas entities	–	–	14,700,091	12,378,364	–	–	201,720	374,760
Government	–	–	–	–	68,134,802	107,417,889	–	–
Other	–	–	–	–	–	–	–	–
Total	–	4,152,717	384,958,590	317,232,613	69,014,083	108,079,830	117,609,177	124,612,897

8.2.7 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

8.3 LIQUIDITY RISK

"Liquidity risk" is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to the Bank's operations and investments.

8.3.1 MANAGEMENT OF LIQUIDITY RISK

The Bank's Board of Directors sets the Bank's strategy for managing liquidity risk and oversight of the implementation is administered by Assets and Liability Management Committee (ALCO). ALCO approves the Bank's liquidity policies and procedures. Treasury manages the Bank's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of both the Bank and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted to ALCO on a monthly basis or ad hoc when predefined thresholds are breached.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The key elements of the Bank's liquidity strategy are as follows:

- Monitoring maturity mismatches, behavioural characteristics of the Bank's financial assets and financial liabilities, and the extent to which the Group's assets are encumbered and so not available as potential collateral for obtaining funding.
- Monitoring the Bank's liquidity through the Liquid Assets Ratio (statutory minimum is currently 20%) and Liquidity Coverage Ratios using a stock approach.
- Effecting threshold limits relevant for liquidity management as part of the overall risk limits system of the Bank.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.

8.3.2 EXPOSURE TO LIQUIDITY RISK – REGULATORY LIQUIDITY (BANK)

As at 31 December	2021	2020
Statutory liquid assets (LKR '000)	124,519,853	137,237,163
Statutory liquid assets ratio (minimum requirement 20%)		
Domestic banking unit (%)	21.60	33.78
Off-shore banking unit (%)	41.79	35.45
Liquidity coverage ratio (minimum requirement 100% in 2021 and 90% in 2020)		
All currencies (%)	136.18	204.44
Rupee only (%)	152.86	288.27

Details of the consolidated liquid assets ratio during the reporting period were as follows:

As at 31 December	2021 %	2020 %
Average for the period	28.48	31.98
Maximum for the period	32.23	34.99
Minimum for the period	21.12	28.27

8.3.3 MATURITY ANALYSIS FOR FINANCIAL LIABILITIES AND FINANCIAL ASSETS

The following tables set out the remaining contractual maturities of the Bank's gross nominal (undiscounted) financial liabilities and financial assets.

As at 31 December 2021 **BANK**	Carrying amount LKR '000	Gross nominal amount LKR '000	Up to 3 months LKR '000	3 to 12 months LKR '000	1 to 3 years LKR '000	3 to 5 years LKR '000	More than 5 years LKR '000	Total LKR '000
Financial liability by type								
Non-derivative liabilities								
Due to banks	3,349,836	3,349,836	1,995,803	1,354,033	–	–	–	3,349,836
Financial liabilities at amortised cost – Due to depositors	319,861,013	327,681,290	81,601,821	130,346,356	25,433,646	22,937,555	67,361,912	327,681,290
Financial liabilities at amortised cost – Due to other borrowers	69,589,129	83,745,373	11,971,958	8,898,713	16,922,493	15,393,628	30,558,581	83,745,373
Debt securities in issue	16,297,256	24,840,225	475,186	857,065	4,940,183	9,715,044	8,852,747	24,840,225
Other liabilities	4,470,497	4,470,497	2,603,484	180,183	466,470	392,836	827,524	4,470,497
Subordinated term debt	18,387,276	23,616,937	27,223	446,151	11,221,832	11,606,585	315,146	23,616,937
	431,955,007	467,704,158	98,675,475	142,082,501	58,984,624	60,045,648	107,915,910	467,704,158
Derivative liabilities								
Risk management:	814,219	814,219	814,219	–	–	–	–	814,219
	814,219	814,219	814,219	–	–	–	–	814,219
Financial assets by type								
Non-derivative assets								
Cash and cash equivalents	10,688,255	10,688,255	10,688,255	–	–	–	–	10,688,255
Balances with Central Bank	9,359,241	9,359,241	9,359,241	–	–	–	–	9,359,241
Placements with banks	6,288,006	6,288,006	6,288,006	–	–	–	–	6,288,006
Financial assets measured at fair value through profit or loss	218,875	218,875	218,875	–	–	–	–	218,875
Financial assets at amortised cost – Loans to and receivables from other customers	365,900,540	481,668,878	61,273,808	67,029,941	93,803,084	128,363,162	131,198,883	481,668,878
Financial assets at amortised cost – Debt and other instruments	26,674,962	27,333,991	2,434,964	15,898,873	6,334,236	2,665,918		27,333,991
Financial assets measured at fair value through other comprehensive income	54,329,436	54,894,914	16,294,094	10,064,019	7,571,114	4,713,767	16,251,920	54,894,914
Other assets	2,855,254	2,855,254	2,572,622	95,529	45,210	85,755	56,138	2,855,254
	476,314,569	593,307,414	109,129,865	93,088,362	107,753,644	135,828,602	147,506,941	593,307,414
Derivative assets								
Risk management:	280,235	280,235	280,235	–	–	–	–	280,235
	280,235	280,235	280,235	–	–	–	–	280,235

As at 31 December 2020 BANK	Carrying amount LKR '000	Up to 3 months LKR '000	3 to 12 months LKR '000	1 to 3 years LKR '000	3 to 5 years LKR '000	More than 5 years LKR '000	Total LKR '000
Financial liability by type							
Non-derivative liabilities							
Due to banks	14,909,937	3,631,087	3,765,692	7,513,158	–	–	14,909,937
Financial liabilities at amortised cost – Due to depositors	310,026,892	98,852,578	105,106,743	28,970,585	16,457,256	60,639,730	310,026,892
Financial liabilities at amortised cost – Due to other borrowers	46,847,076	12,641,905	10,124,287	12,393,268	3,553,834	8,133,782	46,847,076
Debt securities in issue	16,291,279	1,025,771	305,890	–	8,764,378	6,195,240	16,291,279
Other liabilities	4,783,877	2,298,859	724,698	383,163	421,465	955,692	4,783,877
Subordinated term debt	19,357,497	617,851	1,173,506	8,956,610	8,404,530	205,000	19,357,497
	412,216,558	119,068,051	121,200,816	58,216,784	37,601,463	76,129,444	412,216,558
Derivative liabilities							
Risk management:	267,883	267,883	–	–	–	–	267,883
	267,883	267,883	–	–	–	–	267,883
Financial assets by type							
Non-derivative assets							
Cash and cash equivalents	7,724,364	7,724,364	–	–	–	–	7,724,364
Balances with Central Bank	4,901,753	4,901,753	–	–	–	–	4,901,753
Placements with banks	15,414,287	15,414,287	–	–	–	–	15,414,287
Financial assets measured at fair value through profit or loss	609,717	564,837	–	–	–	44,880	609,717
Financial assets at amortised cost – Loans to and receivables from banks	4,152,717	4,152,717	–	–	–	–	4,152,717
Financial assets at amortised cost – Loans to and receivables from other customers	301,909,337	53,502,826	35,148,436	58,850,180	57,608,042	96,799,853	301,909,337
Financial assets at amortised cost – Debt and other instruments	31,604,175	5,374,610	13,359,011	10,929,576	1,940,978	–	31,604,175
Financial assets measured at fair value through other comprehensive income	88,718,002	15,805,674	25,872,632	17,342,423	7,691,826	22,005,447	88,718,002
Other assets	1,999,405	1,921,049	13,550	11,747	31,747	21,312	1,999,405
	457,033,757	109,362,117	74,393,629	87,133,926	67,272,593	118,871,492	457,033,757
Derivative assets							
Risk management:	835,464	835,464	–	–	–	–	835,464
	835,464	835,464	–	–	–	–	835,464

The following tables set out the remaining contractual maturities of the Group's financial liabilities and financial assets.

As at 31 December 2021 GROUP	Carrying amount LKR '000	Gross nominal amount	Up to 3 months LKR '000	3 to 12 months LKR '000	1 to 3 years LKR '000	3 to 5 years LKR '000	More than 5 years LKR '000	Total LKR '000
Financial liability by type								
Non-derivative liabilities								
Due to banks	3,349,836	3,349,836	1,995,803	1,354,033	–	–	–	3,349,836
Financial liabilities at amortised cost – Due to depositors	319,362,372	327,182,649	81,103,180	130,346,356	25,433,646	22,937,555	67,361,912	327,182,649
Financial liabilities at amortised cost – Due to other borrowers	69,589,129	83,745,373	11,971,958	8,898,713	16,922,493	15,393,628	30,558,581	83,745,373
Debt securities in issue	16,297,256	24,840,225	475,186	857,065	4,940,183	9,715,044	8,852,747	24,840,225
Other liabilities	4,601,683	4,601,683	2,476,266	308,783	596,274	392,836	827,524	4,601,683
Subordinated term debt	18,387,276	23,616,937	27,223	446,151	11,221,832	11,606,585	315,146	23,616,937
	431,587,552	467,336,703	98,049,616	142,211,101	59,114,428	60,045,648	107,915,910	467,336,703
Derivative liabilities								
Risk management:	814,219	814,219	814,219	–	–	–	–	814,219
	814,219	814,219	814,219	–	–	–	–	814,219
Financial Assets by type								
Non-derivative assets								
Cash and cash equivalents	10,690,873	10,690,873	10,690,873	–	–	–	–	10,690,873
Balances with Central Bank	9,359,241	9,359,241	9,359,241	–	–	–	–	9,359,241
Placements with banks	6,332,533	6,332,533	6,332,533	–	–	–	–	6,332,533
Financial assets measured at fair value through profit or loss	218,875	218,875	218,875	–	–	–	–	218,875
Financial assets at amortised cost – Loans to and receivables from other customers	365,900,540	481,668,878	61,273,808	67,029,941	93,803,084	128,363,162	131,198,883	481,668,878
Financial assets at amortised cost – Debt and other instruments	26,674,962	27,333,991	2,434,964	15,898,873	6,334,236	2,665,918	–	27,333,991
Financial assets measured at fair value through other comprehensive income	54,333,429	54,894,914	16,294,094	10,064,019	7,571,114	4,713,767	16,251,920	54,894,914
Other assets	2,916,565	2,916,565	2,518,797	95,529	131,331	114,770	56,138	2,916,565
	476,427,018	593,415,870	109,123,185	93,088,362	107,839,765	135,857,617	147,506,941	593,415,870
Derivative Assets								
Risk management:	280,235	280,235	280,235	–	–	–	–	280,235
	280,235	280,235	280,235	–	–	–	–	280,235

As at 31 December 2020 **GROUP**	Carrying amount LKR '000	Up to 3 months LKR '000	3 to 12 months LKR '000	1 to 3 years LKR '000	3 to 5 years LKR '000	More than 5 years LKR '000	Total LKR '000
Financial Liability by type							
Non-derivative liabilities							
Due to banks	14,909,937	3,631,087	3,765,692	7,513,158	–	–	14,909,937
Financial liabilities at amortised cost – Due to depositors	309,566,423	98,392,109	105,106,743	28,970,585	16,457,256	60,639,730	309,566,423
Financial liabilities at amortised cost – Due to other borrowers	46,847,076	12,641,905	10,124,287	12,393,268	3,553,834	8,133,782	46,847,076
Debt securities issued	16,291,279	1,025,771	305,890	–	8,764,378	6,195,240	16,291,279
Other liabilities	4,900,958	2,298,860	724,698	500,243	421,465	955,692	4,900,958
Subordinated term debt	19,357,497	617,851	1,173,506	8,956,610	8,404,530	205,000	19,357,497
	411,873,170	118,607,583	121,200,816	58,333,864	37,601,463	76,129,444	411,873,170
Derivative Liabilities							
Risk management:	267,883	267,883	–	–	–	–	267,883
	267,883	267,883	–	–	–	–	267,883
Financial Assets by type							
Non-derivative assets							
Cash and cash equivalents	7,728,969	7,728,969	–	–	–	–	7,728,969
Balances with Central Bank	4,901,753	4,901,753	–	–	–	–	4,901,753
Placements with banks	15,431,962	15,431,962	–	–	–	–	15,431,962
Financial assets measured at fair value through profit or loss	609,717	564,837	–	–	–	44,880	609,717
Financial assets at amortised cost – Loans to and receivables from banks	4,152,717	4,152,717	–	–	–	–	4,152,717
Financial assets at amortised cost – Loans to and receivables from other customers	301,909,337	53,502,826	35,148,436	58,850,180	57,608,042	96,799,853	301,909,337
Financial assets at amortised cost – Debt and other instruments	31,604,175	5,374,610	13,359,011	10,929,576	1,940,978	–	31,604,175
Financial assets measured at fair value through other comprehensive income	88,718,002	15,805,674	25,872,632	17,342,423	7,691,826	22,005,447	88,718,002
Other assets	2,066,621	1,988,265	13,550	11,747	31,747	21,312	2,066,621
	457,123,253	109,451,613	74,393,629	87,133,926	67,272,593	118,871,492	457,123,253
Derivative Assets							
Risk management:	835,464	835,464	–	–	–	–	835,464
	835,464	835,464	–	–	–	–	835,464

The amounts in the table above have been compiled as follows:

Type of financial instrument	Basis on which amounts are compiled
Non-derivative financial liabilities and financial assets	Undiscounted cash flows, which include estimated interest payments.
Issued financial guarantee contracts, and unrecognised loan commitments	Earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.
Derivative financial liabilities and financial assets held for risk management purposes	Contractual undiscounted cash flows. The amounts shown are the gross nominal inflows and outflows for derivatives that have simultaneous gross settlement (e.g. forward exchange contracts and currency swaps) and the net amounts for derivatives that are net settled.
Trading derivative liabilities and assets forming part of the Group's proprietary trading operations that are expected to be closed out before contractual maturity.	Fair values at the date of the statement of financial position. This is because contractual maturities do not reflect the liquidity risk exposure arising from these positions. These fair values are disclosed in the "up to 3 months" column.
Trading derivative liabilities and assets that are entered into by the Bank with its customers	Contractual undiscounted cash flows. This is because these instruments are not usually closed out before contractual maturity and so the Group believes that contractual maturities are essential for understanding the timing of cash flows associated with these derivative positions.

The Bank's expected cash flows on some financial assets and financial liabilities vary significantly from the contractual cash flows. The principal differences are as follows:

- demand deposits from customers are expected to remain stable or increase;
- unrecognised loan commitments are not all expected to be drawn down immediately;

8.3.4 LIQUIDITY RESERVES

As part of the management of liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents, and debt securities issued by sovereigns, which can be readily sold to meet liquidity requirements. In addition, the Bank maintains agreed lines of credit with other banks and holds unencumbered assets eligible for use as collateral with central banks (these amounts are referred to as the "Bank's liquidity reserves").

The following table sets out the components of the Bank's liquidity reserves:

As at 31 December	2021 Carrying amount LKR '000	2021 Fair value LKR '000	2020 Carrying amount LKR '000	2020 Fair value LKR '000
Cash and cash equivalents	10,688,255	10,688,255	7,724,364	7,724,364
Balances with Central Bank of Sri Lanka	9,359,241	9,359,241	4,901,753	4,901,753
Placements with banks	6,288,006	6,288,006	15,414,287	15,414,287
Unencumbered debt securities issued by sovereigns	58,121,647	58,121,647	98,472,348	98,472,348
Total liquidity reserves	84,457,149	84,457,149	126,512,752	126,512,752

8.3.5 FINANCIAL ASSETS AVAILABLE TO SUPPORT FUTURE FUNDING

The following table sets out the availability of the Bank's financial assets to support future funding.

		Encumbered		Unencumbered		
	Note	Pledged as collateral LKR '000	Other* LKR '000	Available as collateral LKR '000	Other** LKR '000	Total LKR '000
31 December 2021						
Cash and cash equivalents	26	–	–	10,688,255	–	10,688,255
Balances with Central Bank of Sri Lanka	27	–	9,359,241	–	–	9,359,241
Placements with banks	28	–	–	6,288,006	–	6,288,006
Derivative financial assets	29	–	–	280,235	–	280,235
Financial assets measured at fair value through profit or loss	30	–	–	218,875	–	218,875
Financial assets at amortised cost – Loans to and advances to banks	31	–	–	–	–	–
Financial assets at amortised cost – Loans to and receivables from customers	32	–	–	365,900,540	–	365,900,540
Financial assets at amortised cost – Debt and other instruments	33	865,200	–	25,809,762	–	26,674,962
Financial assets measured at fair value through other comprehensive income	34	4,424,434	–	49,909,002	–	54,329,436
Other assets		–	–	–	2,855,254	2,855,254
Non-financial assets		–	–	–	8,910,432	8,910,432
Total assets		5,289,634	9,359,241	459,090,675	11,765,686	485,505,236
31 December 2020						
Cash and cash equivalents	26	–	–	7,724,364	–	7,724,364
Balances with Central Bank of Sri Lanka	27	–	4,901,753	–	–	4,901,753
Placements with banks	28	–	–	15,414,287	–	15,414,287
Derivative financial assets	29	–	–	835,464	–	835,464
Financial assets measured at fair value through profit or loss	30	–	–	609,717	–	609,717
Financial assets at amortised cost – Loans to and receivables from banks	31	–	–	4,152,717	–	4,152,717
Financial assets at amortised cost – Loans to and receivables from other customers	32	–	–	301,909,337	–	301,909,337
Financial assets at amortised cost – Debt and other instruments	33	308,951	–	31,295,224	–	31,604,175
Financial assets measured at fair value through other comprehensive income	34	8,674,356	–	80,043,646	–	88,718,002
Other assets		–	–	–	1,999,405	1,999,405
Non-financial assets		–	–	–	7,208,066	7,208,066
Total assets		8,983,307	4,901,753	441,984,756	9,207,471	465,077,287

* Represents assets that are not pledged but that the Group believes it is restricted from using to secure funding, for legal or other reasons.

** Represents assets that are not restricted for use as collateral, but that the Group would not consider readily available to secure funding in the normal course of business.

8.4 MARKET RISK

"Market risk" is the possibility of losses arising from changes in market variables such as interest rates, equity prices, foreign exchange rates, and credit spreads. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Bank's solvency while optimising the return on risk.

8.4.1 MANAGEMENT OF MARKET RISK

The Bank separates its exposure to market risks between trading and non-trading portfolios. Trading portfolios are mainly include positions arising from market making and proprietary position taking, together with financial assets and financial liabilities that are managed on a fair value basis and non-trading portfolios from positions arising from financial investments measured at fair value through other comprehensive income (FVOCI) and financial investments at amortised cost and from derivatives held for risk management purposes.

Overall authority for market risk is vested with the Board of Directors through the Board Integrated Risk Management Committee (BIRMC). The operational authority for managing market risk is vested with ALCO. Foreign exchange risk is managed within approved limits of the Bank.

The Bank employs a range of tools to monitor and limit market risk exposures. These are discussed below, separately for trading and non-trading portfolios.

The following table sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios.

			Market risk measure	
	Note	Carrying amount LKR '000	Trading portfolio LKR '000	Non-trading portfolio LKR '000
31 December 2021				
Assets subject to market risk				
Cash and cash equivalents	26	4,606,253	–	4,606,253
Placements with banks	28	6,288,006	–	6,288,006
Derivative financial assets	29	280,235	–	280,235
Financial assets measured at fair value through profit or loss	30	218,875	185,165	33,710
Financial assets at amortised cost – Loans to and receivables from banks	31	–	–	–
Financial assets at amortised cost – Loans to and receivables from other customers	32	365,900,540	–	365,900,540
Financial assets at amortised cost – Debt and other instruments	33	26,674,962	–	26,674,962
Financial assets measured at fair value through other comprehensive income	34	54,329,436	–	54,329,436
Liabilities subject to market risk				
Due to banks	44	3,349,836	–	3,349,836
Derivative financial liabilities	29	814,219	–	814,219
Financial liabilities at amortised cost – Due to depositors	45	319,861,013	–	319,861,013
Financial liabilities at amortised cost – Due to other borrowers	46	69,589,129	–	69,589,129
Debt securities in issue	47	16,297,256	–	16,297,256
Subordinated term debt	51	18,387,276	–	18,387,276

In LKR '000	Note	Carrying amount LKR '000	Market risk measure	
			Trading portfolio LKR '000	Non-trading portfolio LKR '000
31 December 2020				
Assets subject to market risk				
Cash and cash equivalents	26	2,895,117	–	2,895,117
Placements with banks	28	15,414,287	–	15,414,287
Derivative financial assets	29	835,464	–	835,464
Financial assets measured at fair value through profit or loss	30	609,717	48,620	561,097
Financial assets at amortised cost – Loans to and advances to banks	31	4,152,717	–	4,152,717
Financial assets at amortised cost – Loans to and receivables to customers	32	301,909,337	–	301,909,337
Financial assets at amortised cost – Debt and other instruments	33	31,604,175	–	31,604,175
Financial assets measured at fair value through other comprehensive income	34	88,718,002	–	88,718,002
Liabilities subject to market risk				
Due to banks	44	14,909,937	–	14,909,937
Derivative financial liabilities	29	267,883	–	267,883
Financial liabilities at amortised cost – Due to depositors	45	310,026,892	–	310,026,892
Financial liabilities at amortised cost – Due to other borrowers	46	46,847,076	–	46,847,076
Debt securities in issue	47	16,291,279	–	16,291,279
Subordinated term debt	51	19,357,497	–	19,357,497

8.4.2 EXPOSURE TO MARKET RISKS – TRADING PORTFOLIOS

The principal tool used to measure and control market risk exposure within the Bank's trading portfolios is VaR. The VaR of a trading portfolio is the maximum estimated loss that can arise with a specified probability (confidence level) in the portfolio over a specified period of time (holding period) from an adverse market movement.

The VaR model used by the Bank is based on a 99% confidence level and assumes 1, 10 and 60-day holding periods (Depending on product type). The VaR model used is based mainly on historical simulation. Taking account of market data, and observed correlation between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following.

- The holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for illiquid assets or in situations in which there is severe market illiquidity.
- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a 1% probability that losses could exceed the VaR in any given period.
- VaR is calculated does not reflect exposures that may arise on positions during the trading day.
- The use of historical data as a basis for determining the possible range of future outcomes does not cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent on the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if market price volatility declines and vice versa.

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position. The Bank determines the scenarios as follows:

- sensitivity scenarios consider the impact of any single risk factor or set of factors that are unlikely to be captured within the VaR models;
- technical scenarios consider the largest move in each risk factor without consideration of any underlying market correlation; and
- hypothetical scenarios consider potential macro-economic events – e.g. periods of prolonged market illiquidity, reduced fungibility of currencies, natural disasters or other catastrophes, health pandemics, etc.

The analysis of scenarios and stress tests is reviewed by ALCO.

8.4.2.1 EQUITY PRICE RISK

Equity price risk is part of market risk which is defined as the risk of possible losses arising from the equity market investments due to changes in the market prices of the invested shares. The Bank is exposed to equity prices risk through its investments in the equity market which has been shown in the FVOCI portfolio and the trading portfolio.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS PORTFOLIO

Parameter	Position as at 31 December 2021 LKR '000	Position as at 31 December 2020 LKR '000
Marked-to-market value of the total quoted equity portfolio	181,425	44,880
Value-at-risk (under 99% probability for a quarterly time horizon)	36.83%	28.93%
Maximum possible loss of value in the marked-to-market value of the portfolio as indicated by the VaR over a quarterly period	66,818	12,984
Unrealised gains in the trading equity portfolio reported in the fair value reserve	49,014	11,069

Equity price risk is quantified using the Value at Risk (VAR) approach based on the Historical Loss Method. Historical four-year portfolio returns is adopted to compute VAR as a measure of the equity prices risk exposure by the Bank. This VAR computation for the equity Trading portfolio considers a quarterly time horizon.

8.4.3 EXPOSURE TO MARKET RISKS – NON-TRADING PORTFOLIOS

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Parameter	Position as at 31 December 2021 LKR '000	Position as at 31 December 2020 LKR '000
Marked-to-market value of the total quoted equity portfolio	12,337,187	12,299,552
Value-at-risk (under 99% probability for a quarterly time horizon)	25.18%	27.48%
Maximum possible loss of value in the marked-to-market value of the portfolio as indicated by the VaR over a quarterly period	3,106,503	3,379,917
Unrealised gains in the trading equity portfolio reported in the fair value reserve	2,419,120	2,801,795

Equity price risk is quantified using the Value at Risk (VAR) approach based on the Historical Loss Method. Historical three-year portfolio returns is adopted to compute VAR as a measure of the equity prices risk exposure by the Bank. This VAR computation for the equity Trading portfolio considers a quarterly time horizon.

8.4.4 INTEREST RATE RISK

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates.

DURATION ANALYSIS AS AT 31 DECEMBER 2021

Portfolio	Face value LKR '000	Marked-to market value LKR '000	Duration	Interpretation of duration
Treasury securities measured at FVOCI/ LKR Bonds	40,636,810	40,780,663	1.21	Portfolio value will decline approximately by 1.21% as a result of 1% increase in the interest rates.
Treasury securities measured at FVOCI/ Sovereign Bonds	1,412,040	994,984	0.81	Portfolio value will decline approximately by 0.81% as a result of 1% increase in the interest rates.

Market risk exposure for interest rate risk in the Trading portfolio as at 31 December 2021 is Nil. Market risk exposure for interest rate risk in the FVOCI Rupee portfolio as at 31 December 2021 is depicted by duration of 1.21%.

This level of interest rate risk exposure in the Rupee FVOCI portfolio can be interpreted as a possible potential loss in the marked-to-market value amounting to LKR 496.4 Mn, as at 31 December 2021.

Market risk exposure for interest rate risk in the FVOCI US Dollar portfolio as at 31 December 2021 is depicted by duration of 0.81%.

This level of interest rate risk exposure in the FVOCI US Dollar portfolio can be interpreted as a possible potential loss in the marked-to-market value amounting to LKR 8.1 Mn, as at 31 December 2021.

8.4.4.1 POTENTIAL IMPACT TO NII DUE TO CHANGE IN MARKET INTEREST RATES

Overall up to the 12-month time bucket, the Bank carried a net liability sensitive position. This sensitivity will vary for each time bucket up to the 12-month period where up to one month there is a net asset sensitive position.

The interest rate risk exposure as at 31 December 2021 is quantified based on the assumed change in the interest rates for each time period and is given in table below:

	Over 0 up to 1 month LKR '000	Over 1 up to 3 months LKR '000	Over 3 up to 6 months LKR '000	Over 6 up to 12 months LKR '000	Over 12 months LKR '000
31 December 2021					
Cash and cash equivalents	844,731	–	–	–	–
Placements with banks	6,288,006	–	–	–	–
Loans to and receivables from banks	–	–	–	–	–
Loans to and receivables from other customers	246,322,818	18,918,758	23,714,679	14,306,803	54,326,519
Investment securities	4,676,892	14,964,475	18,817,129	6,918,328	23,073,785
	258,132,447	33,883,233	42,531,808	21,225,131	77,400,304
Due to banks	–	1,105,860	–	1,105,860	–
Deposits from banks	5,117,887	6,606,257	5,116,823	3,621,298	49,126,864
Deposits from customers	111,704,490	51,549,556	57,791,338	74,085,686	12,556,723
Debt securities in issue	–	–	–	–	16,297,256
Subordinated liabilities	–	–	–	–	18,387,276
	116,822,677	59,261,673	62,908,161	78,812,844	96,368,119
Net rate sensitive assets/(liabilities)	141,309,770	(25,378,440)	(20,376,353)	(57,587,713)	(18,967,815)
Assumed change in interest rates (%)	0.50	1.00	1.50	2.00	–
Impact	706,549	(232,636)	(229,234)	(575,877)	–
Total net impact if interest rates increase	–	–	–	(331,198)	–
Total net impact if interest rates decline	–	–	–	331,198	–

	Over 0 up to 1 month LKR '000	Over 1 up to 3 months LKR '000	Over 3 up to 6 months LKR '000	Over 6 up to 12 months LKR '000	Over 12 months LKR '000
31 December 2020					
Cash and cash equivalents	317,034	–	–	–	–
Placements with banks	15,414,287	–	–	–	–
Loans to and receivables from banks	4,152,717	–	–	–	–
Loans to and receivables from other customers	151,094,075	24,374,012	12,864,586	16,170,593	89,643,442
Investment securities	4,861,228	16,635,784	5,113,290	34,151,804	47,046,209
	175,839,341	41,009,796	17,977,876	50,322,397	136,689,651
Due to banks	1,792,092	7,927,554	–	–	5,000,000
Deposits from customers	7,492,850	12,453,461	10,591,793	1,239,278	15,069,694
Due to other borrowers	89,795,761	58,804,855	68,468,382	53,354,008	30,962,639
Debt securities in issue	–	–	–	–	16,291,279
Subordinated liabilities	–	–	–	1,791,357	17,566,140
	99,080,703	79,185,870	79,060,175	56,384,643	84,889,752
Net rate sensitive assets/(liabilities)	76,758,638	(38,176,074)	(61,082,299)	(6,062,246)	51,799,899
Assumed change in interest rates (%)	0.50	1.00	1.50	2.00	–
Impact	383,793	(349,947)	(687,176)	(60,622)	–
Total net impact if interest rates increase	–	–	–	(713,952)	–
Total net impact if interest rates decline	–	–	–	(713,952)	–

The Bank has assumed that the assets and liabilities are repriced at the beginning of each time bucket and has also taken into account the remaining time from the repricing date up to one year.

8.4.4.2 INTEREST RATE BENCHMARK REFORM

OVERVIEW

A fundamental reform of major interest rate benchmarks is being undertaken globally, replacing some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as "IBOR reform"). The Bank has exposure to certain IBORs on its financial instruments that are being reformed as part of these market-wide initiatives.

The main risks to which the Bank has been exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use IBOR curves and revision of operational controls related to the reform and regulatory risks. Financial risk is predominantly limited to interest rate risk.

The Asset and Liability Management Commitee (ALCO) and Treasury department of DFCC Bank PLC is working on its transition to alternative rates. The objectives of this task include evaluating the extent to which loans advanced, loan commitments, liabilities and derivatives reference IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. It provides periodic reports to ALCO and Central Treasury to support the management of interest rate risk and works closely with the Group Operational Risk Committee to identify operational and regulatory risks arising from IBOR reform.

The Bank is in the process of applying a policy to require that retail products, such as its residential mortgage portfolio, are amended in a uniform way, and bespoke products, such as loans and advances to corporates, are amended in bilateral negotiations with the counterparties.

As at 31 December 2021, the IBOR reform in respect of currencies to which the Bank has exposure is in the process of reforming. The table below sets out the IBOR rates that the Group had exposure to, the new benchmark rates to which these exposures have or are being transitioned.

Currency	Benchmark before reform	Benchmark after reform	Status
GBP	GBP LIBOR	SONIA	In progress
USD	USD LIBOR	SOFR	In progress
EURO	EONIA	€STR	In progress
EURO	EURIBOR	EURIBOR reformed	In progress

Exposures subject to benchmark reform as at 31 December 2021

The table below shows the Group's exposure to interest rate benchmarks subject to IBOR reform. These are financial instruments that contractually reference an IBOR benchmark planned to transition to an risk free rate, and have a contractual maturity date beyond the planned IBOR cessation date.

	Financial Instruments to be transferred to risk free rate			
	USD Libor		GBP Libor	
	USD Mn	LKR Mn	GBP Mn	LKR Mn
Non-derivative financial assets				
Loans and advances to customers	202	40,752	2	565
Non-derivative financial liabilities				
Borrowings	59	11,873	–	–
Derivative instruments				
Cross currency swaps	7	1,371	–	–

8.4.5 FOREIGN EXCHANGE RISK

FOREIGN EXCHANGE RISK IN NET OPEN POSITION (NOP)/UNHEDGED POSITION OF BANK

The following table indicates the DFCC's exchange rate risk exposure based on its size of the NOP/unhedged positions in the foreign currency assets/liabilities. By 31 December 2021, DFCC carried a USD equivalent net open/unhedged "Oversold" position of LKR 4.408 Bn. The impact of exchange rate risk is given below:

	Amount
Net exposure – USD equivalent	(21,852,440)
Value of position in LKR '000	(4,408,074)
Exchange rate (USD/LKR) as at 31 December 2021	201.72
Possible potential loss to Bank – LKR '000	
– If Exchange rate (USD/LKR) depreciates by 1%	(44,081)
– If exchange rate depreciates by 10%	(440,807)
– If exchange rate depreciates by 15%	(661,211)

The estimated potential exchange loss is off set by the interest gain due to interest differential between Sri Lankan Rupee and the respective foreign currencies.

8.4.6 MARKET RISK EXPOSURES FOR REGULATORY CAPITAL ASSESSMENT

Under the standardised approach of Basel III with effect from July 2017, market risk exposures are quantified for regulatory capital purposes. The computation results as at 31 December 2021 are as follows:

	Risk-weighted assets LKR '000	**Quantified possible exposure LKR '000**
Interest rate risk	5,235,125	628,215
Equity price risk	81,692	9,803
Foreign exchange and gold risk	4,689,108	562,693
Total	10,005,925	1,200,711

8.5 OPERATIONAL RISK

"Operational risk" is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks – e.g. those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, Bank's policy requires compliance with all applicable legal and regulatory requirements.

The following are included in the process of the operational risk management in the Bank.

a. Monitoring of the Key Risk Indicators (KRIs) for the departments/functions under the defined threshold limits using a traffic light system. Develop Risk and Control Self-Assessments to identify the risk exposure of all processes.

b. Operational risk incident reporting system and the independent analysis of the incidents by the IRMD, and recognise necessary improvements in the systems, processes and procedures.

c. Analyse downtime of the critical systems, attrition information, exit interview comments and complaints to identify operational risks and recommend mitigating controls. The key findings of the analysis are evaluated at the ORMC and the BIRMC meetings in an operational risk perspective.

The primary responsibility for the development and implementation of controls to address operational risk lies with IRMD whilst implementation is assigned to Senior Management within each business unit. Operational Risk Coordinating Officers are appointed withing each department/Branch to assist in managing the Operational Risk. This responsibility is supported by the development of overall standards for management of operational risk in the following areas:

a. Requirements for appropriate segregation of duties, including independent authorisation of transactions.
b. Requirements for reconciliation and monitoring of transactions.
c. Compliance with regulatory and other legal requirements.
d. Documentation of controls and procedures.
e. Requirements for periodic assessment of operational risks faced and the adequacy of controls and procedures to address the identified risks.
f. Requirements for reporting of operational losses and propose remedial action.
g. Development of contingency plans.
h. Training and professional development to establish ethics and business standards.
i. Insurance covering risk due to threats arising from external and other events.

Compliance with the Bank's standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the business unit to which they relate, with summaries submitted to the Audit Committee and Senior Management.

Group operational risk assessments are conducted at the Board level.

8.5.1 CAPITAL MANAGEMENT

The Bank manages its capital at Bank and Group level considering both regulatory requirement and risk exposures. Its regulatory capital position is analysed by the BIRMC on a quarterly basis and recommendations and decisions are made accordingly. The Group capital management goals are as follows:

a. Ensure regulatory minimum capital adequacy requirements are not compromised.
b. Bank to maintain its international and local credit rating and to ensure that no downgrading occurs as a result of deterioration of risk capital of the Bank other than in an extreme change in external operating environment.
c. Ensure capital impact of business decisions including strategic business plans are properly assessed and taken into consideration.
d. Ensure capital consumption by business actions are adequately priced.
e. Optimising ROE

Central Bank of Sri Lanka sets and monitors regulatory capital requirement on both consolidated and solo basis. The Bank is required to comply with the provisions of the Basel III requirements in respect of regulatory capital commencing from July 2017. The Bank currently uses the standardised approach for credit risk and market risk and basic indicator approach for operational risk.

The Basel III capital regulations, which are currently in force, will continue to be based on the three-mutually reinforcing Pillars introduced under Basel II, i.e., minimum capital requirement, supervisory review process and market discipline. Basel III focuses on increasing the quality and quantity of capital especially the Core Capital, through redefining the common equity capital and introducing new capital buffers such as the Capital Conservation Buffer and a Capital Surcharge on domestic systematically important banks. DFCC Bank started reporting capital computations under the Basel III requirements from mid 2017 as per the regulatory requirements.

Regulatory capital comprises Tier 1 capital and Tier 2 capital. The Bank's policy is to maintain a strong capital base so as to ensure investor, creditor, and market confidence to sustain future development of the business. DFCC Bank and its Group have complied with the minimum capital requirements imposed by the Central Bank of Sri Lanka throughout the year.

Extraordinary regulatory measures issued by Central Bank of Sri Lanka on 27 March 2020, to provide flexibility to Licensed Banks to support business and individuals affected by the outbreak of COVID-19, allowed the Bank to draw down 0.5% of the capital conservation buffer setting the regulatory minimum requirement as 8% for Tier 1 capital ratio and 12% for Total capital ratio.

8.5.1.1 KEY REGULATORY RATIOS – CAPITAL ADEQUACY

Item	31 December 2021		31 December 2020	
	Bank	**Group**	Bank	Group
Regulatory capital (LKR '000)				
Common equity Tier 1	34,259,288	34,265,838	35,041,771	35,113,117
Tier 1 Capital	34,259,288	34,265,838	35,041,771	35,113,117
Total Capital	47,968,017	47,974,567	51,055,165	51,126,511
Regulatory capital ratios (%)				
Common equity Tier 1 Capital ratio	9.31%	9.28%	10.82%	10.82%
Minimum requirement – 6.50%				
Tier 1 capital ratio	9.31%	9.28%	10.82%	10.82%
Minimum requirement – 8.0%				
Total capital ratio	13.03%	13.00%	15.76%	15.75%
Minimum requirement – 12.0%				

BASEL III COMPUTATION OF CAPITAL RATIOS

Item	31 December 2021		31 December 2020	
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
Common Equity Tier 1 (CET1) Capital after adjustments	34,259,288	34,265,838	35,041,771	35,113,117
Common Equity Tier 1 (CET1) Capital	46,687,119	50,436,550	45,423,144	48,839,196
Equity Capital (Stated Capital)/Assigned Capital	8,600,457	8,600,457	7,682,465	7,682,465
Reserve fund	2,746,968	2,746,968	2,583,968	2,583,968
Published retained earnings/(accumulated retained losses)	22,091,649	25,831,589	19,652,168	23,061,080
Published accumulated Other Comprehensive Income (OCI)	(531,794)	(522,303)	1,724,704	1,731,844
General and other disclosed reserves	13,779,839	13,779,839	13,779,839	13,779,839
Unpublished current year's profit/loss and gains reflected in OCI	–	–	–	–
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–	–	–
Total Adjustments to CET1 Capital	12,427,831	16,170,712	10,381,373	13,726,079
Goodwill (net)	–	156,226	–	156,226
Intangible assets (net)	2,227,577	2,252,589	1,713,052	1,728,580
Investment in capital of banks and financial institutions	10,200,254	13,761,897	8,571,286	11,838,354
Others	–	–	97,035	2,919
Additional Tier 1 (AT1) Capital after adjustments				
Additional Tier 1 (AT1) Capital				
Qualifying Additional Tier 1 Capital Instruments	–	–	–	–
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–	–	–
Total adjustments to AT1 Capital				
Investment in own shares	–	–	–	–
Others (specify)	–	–	–	–
Tier 2 Capital after adjustments	13,708,729	13,708,729	16,013,394	16,013,394
Tier 2 Capital	13,708,729	13,708,729	16,013,394	16,013,394
Qualifying Tier 2 Capital Instruments	10,511,268	10,511,268	14,174,868	14,174,868
Revaluation gains	–	–	–	–
Loan loss provisions	3,197,461	3,197,461	1,838,526	1,838,526
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–	–	–

Item	31 December 2021		31 December 2020	
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
Total adjustments to Tier 2				
Investment in own shares	–	–	–	–
Others (specify)	–	–	–	–
CET1 Capital	34,259,288	34,265,838	35,041,771	35,113,117
Total Tier 1 Capital	34,259,288	34,265,838	35,041,771	35,113,117
Total Capital	47,968,017	47,974,567	51,055,165	51,126,511
Total Risk Weighted Assets (RWA)				
RWAs for credit risk	339,260,886	339,722,423	293,505,729	293,920,302
RWAs for market risk	10,005,925	10,005,925	12,956,450	12,956,450
RWAs for operational risk	18,909,993	19,380,488	17,400,093	17,751,642
CET1 Capital Ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	9.31	9.28	10.82	10.82
of which: Capital Conservation Buffer (%)	1.2	1.2	1.2	1.2
of which: Countercyclical Buffer (%)	N/A	N/A	N/A	N/A
of which: Capital Surcharge on D-SIBs (%)	N/A	N/A	N/A	N/A
Total Tier 1 Capital Ratio (%)	9.31	9.28	10.82	10.82
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer and Surcharge on D-SIBs) (%)	13.03	13.00	15.76	15.75
of which: Capital Conservation Buffer (%)	1.2	1.2	1.2	1.2
of which: Countercyclical Buffer (%)	N/A	N/A	N/A	N/A
of which: Capital Surcharge on D-SIBs (%)	N/A	N/A	N/A	N/A

9. FAIR VALUES OF FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

See accounting policy in Note 5.3.7.

9.1 VALUATION MODELS

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like government securities, interest rate and currency swaps that use mostly observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, government securities and simple over the counter derivatives like forward exchange contracts and interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes that a third party market participant would take them into account in pricing a transaction.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and management uses judgement to select the most appropriate point in the range.

9.2 VALUATION FRAMEWORK

The established control framework with respect to the measurement of fair values, includes an oversight which is independent of front office management. Treasury Middle Office has overall responsibility for independently verifying the results of trading and investment operation.

Specific controls include:

- Verification of observable pricing
- Review and approval process for new models and changes to models involving both product control and group market risk
- Calibration and back testing of models
- Stress Testing

When third party information, such as broker quotes or pricing services is used to measure fair value, the evidence so obtained to support the conclusion that such valuations meet the requirements of SLFRSs/LKASs is documented.

This includes:

- Verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument
- Several quotes obtained from randomly selected brokers for the same financial instrument and the fair value determined on this basis

Any changes to the fair value methodology is reported to the Bank's Audit Committee.

9.3 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE – FAIR VALUE HIERARCHY

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position. The fair values include any deferred differences between the transaction price and the fair value on initial recognition when the fair value is based on a valuation technique that uses unobservable inputs.

A. BANK/GROUP

As at 31 December 2021	Note	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial assets					
Derivative financial assets	29				
Forward foreign exchange contracts		–	280,235	–	280,235
Financial assets measured at fair value through profit or loss	30				
Equity securities – quoted		181,425	–	–	181,425
Units in unit trusts – quoted		3,740	–	–	3,740
Units in unit trusts – unquoted		–	33,710	–	33,710
Financial assets measured at fair value through other comprehensive income	34				
Government of Sri Lanka Treasury Bills and Bonds		40,780,663	–	–	40,780,663
Sri Lanka sovereign bonds		994,984	–	–	994,984
Equity shares – quoted		12,337,187	–	–	12,337,187
Equity shares – unquoted		–	–	216,602	216,602
Preference shares		–	–	–	–
		54,297,999	313,945	216,602	54,828,546
Financial Liabilities					
Derivative financial liabilities	29				
Forward foreign exchange contracts		–	814,219	–	814,219
		–	814,219	–	814,219

As at 31 December 2020	Note	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial assets					
Derivative financial assets	29				
Forward foreign exchange contracts		–	835,464	–	835,464
Financial assets measured at fair value through profit or loss	30				
Equity securities – quoted		44,880	–	–	44,880
Units in unit trusts – quoted		3,740	–	–	3,740
Units in unit trusts – unquoted		–	561,097	–	561,097
Financial assets measured at fair value through other comprehensive income	34				
Government of Sri Lanka Treasury Bills and Bonds		75,272,434	–	–	75,272,434
Sri Lanka sovereign bonds		931,706	–	–	931,706
Equity shares – quoted		12,299,552	–	–	12,299,552
Equity shares – unquoted		–	–	213,810	213,810
Preference shares		–	–	500	500
		88,552,312	1,396,561	214,310	90,163,183
Financial liabilities					
Derivative financial liabilities	29				
Forward foreign exchange contracts		–	267,883	–	267,883
		–	267,883	–	267,883

As Treasury Bills/Bonds are valued using Central Bank published rates, investments in Treasury Bills/Bonds are classified under level 1.
Other securities which are listed in Colombo stock exchange are also classified as Level 1 asset by referring to the quoted prices.

9.3.1 VALUATION TECHNIQUES AND SIGNIFICANT UNOBSERVABLE INPUTS

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values for financial instruments in the statement of financial position, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Unquoted equity shares	Net asset approach: The fair value is determining based on the net assets value of the unquoted equity share	Net asset value per share	The estimated fair value would increase/(decrease) if the adjusted net asset value per share were higher/(lower)
Forward exchange contracts	Forward pricing: The fair value is determined using quoted forward exchange rates at the reporting date and present value calculations based on high credit quality yield curves in the respective currencies.	Not applicable	Not applicable
Interest rate swaps/Cross currency swaps	Swap models: The fair value is calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates, futures prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the Group and of the counterparty; this is calculated based on credit spreads derived from current credit default swap or bond prices.	Not applicable	Not applicable
Units in unit trusts – unquoted	The fair value is determined by using the Daily Prices published by the Unit Trust managers (which is derived by dividing the net asset value by the number of units)	Not applicable	Not applicable

9.3.2 TRANSFERS BETWEEN LEVELS 1 AND 2

There were no transfers from Level 1 to 2 or Level 2 to Level 1 in 2021 and no transfers in either direction in 2020.

9.3.3 LEVEL 3 RECURRING FAIR VALUES

9.3.3.1 RECONCILIATION OF LEVEL 3 FAIR VALUES

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values:

	EQUITY SECURITIES BANK/GROUP	
	2021 LKR '000	2020 LKR '000
Balance at 1 January	213,810	200,357
Purchased during the year	–	–
Gain included in OCI		
– Net change in fair value (unrealised)	2,792	13,453
Balance at 31 December	216,602	213,810

9.3.3.2 TRANSFER OUT OF LEVEL 3

There were no transfers out of Level 3 and no transfers out of Level 2 in 2021.

9.3.3.3 SENSITIVITY ANALYSIS

For the fair values of equity securities, reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects:

	OCI, NET OF TAX	
As at 31 December 2021	Increase LKR '000	Decrease LKR '000
Equity securities		
Adjusted net assets value (5% movement)	10,830	(10,830)

ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, those are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement to establish fair values. The valuation of financial instruments is described in more detail in Note 4 to the financial statements.

COVID-19 CONSIDEREATIONS

The Group evaluates the material accuracy of the valuations incorporated in the financial statements as they can involve a high degree of judgement and estimation in determining the carrying values of financial assets and financial liabilities at the reporting date.

The majority of valuation models the Group uses employ only observable market data as inputs. This has not changed as a result of COVID-19, However the Group has considered the impact of related economic and market disruptions on fair value measurement assumptions and the appropriateness of valuation inputs, notably valuation adjustments, as well as the impact of COVID-19 on the classification of exposures in the fair value hierarchy.

For certain financial instruments, the Group may use data that is not readily observable in current markets. If we use unobservable market data, then more judgement is exercised to determine fair value depending on the significance of the unobservable input to the overall valuation. Generally, unobservable inputs are derived from other relevant market data and compare them to observed transaction prices where available.

When establishing the fair value of a financial instrument using a valuation technique, the Group considers valuation adjustments in determining the fair value. The Group may apply adjustments (such as bid/offer spreads, credit valuation adjustments and funding valuation adjustments – refer Note 29 Derivative Financial Instruments) to reflect the Group's assessment of factors that market participants would consider in setting fair value.

9.4 FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised:

A. BANK

As at 31 December 2021	Note	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Fair value LKR '000	Carrying amount LKR '000
Assets						
Cash and cash equivalents	26	–	10,688,255	–	10,688,255	10,688,255
Balances with Central Bank of Sri Lanka	27	–	9,359,241	–	9,359,241	9,359,241
Placements with banks	28	–	6,288,006	–	6,288,006	6,288,006
Financial assets at amortised cost - Loans to and receivables from banks	31	–	–	–	–	–
Financial assets at amortised cost - Loans to and receivables from other customers	32	–	–	348,256,773	348,256,773	365,900,540
Financial assets at amortised cost - Debt and other instruments	33	24,847,144	1,315,778	–	26,162,922	26,674,962
Other assets	42	–	–	2,855,254	2,855,254	2,855,254
Total		24,847,144	27,651,280	351,112,027	403,610,451	421,766,258
Liabilities						
Due to banks	44	–	3,349,836	–	3,349,836	3,349,836
Financial liabilities at amortised cost- Due to depositors	45	–	–	319,604,601	319,604,601	319,861,013
Financial liabilities at amortised cost - Due to other borrowers	46	–	–	69,589,129	69,589,129	69,589,129
Debt securities in issue	47	–	14,932,065	–	14,932,065	16,297,256
Other liabilities	50	–	–	4,470,497	4,470,497	4,470,497
Subordinated term debt	51	–	16,580,539	–	16,580,539	18,387,276
		–	34,862,440	393,664,227	428,526,667	431,955,007

As at 31 December 2020	Note	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Fair value LKR '000	Carrying amount LKR '000
Assets						
Cash and cash equivalents	26	–	7,724,364	–	7,724,364	7,724,364
Balances with Central Bank of Sri Lanka	27	–	4,901,753	–	4,901,753	4,901,753
Placements with banks	28	–	15,414,287	–	15,414,287	15,414,287
Financial assets at amortised cost - Loans to and receivables from banks	31	–	4,152,717	–	4,152,717	4,152,717
Financial assets at amortised cost - Loans to and receivables from other customers	32	–	–	295,969,708	295,969,708	301,909,337
Financial assets at amortised cost - Debt and other instruments	33	18,412,228	13,221,152	–	31,633,380	31,604,175
Other assets	42	–	–	1,999,405	1,999,405	1,999,405
Total		18,412,228	45,414,273	297,969,113	361,795,614	367,706,038
Liabilities						
Due to banks	44	–	14,909,937	–	14,909,937	14,909,937
Financial liabilities at amortised cost- Due to depositors	45	–	–	304,408,686	304,408,686	310,026,892
Financial liabilities at amortised cost - Due to other borrowers	46	–	–	46,847,076	46,847,076	46,847,076
Debt securities in issue	47	–	17,124,659	–	17,124,659	16,291,279
Other liabilities	50	–	–	4,783,877	4,783,877	4,783,877
Subordinated term debt	51	–	20,476,257	–	20,476,257	19,357,497
		–	52,510,853	356,039,639	408,550,492	412,216,558

B. GROUP

As at 31 December 2021	Note	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Fair value LKR '000	Carrying amount LKR '000
Assets						
Cash and cash equivalents	26	–	10,690,873	–	10,690,873	10,690,873
Balances with Central Bank of Sri Lanka	27	–	9,359,241	–	9,359,241	9,359,241
Placements with banks	28	–	6,332,533	–	6,332,533	6,332,533
Financial assets at amortised cost - Loans to and receivables from banks	31	–	–	–	–	–
Financial assets at amortised cost - Loans to and receivables from other customers	32	–	–	348,256,773	348,256,773	365,900,540
Financial assets at amortised cost - Debt and other instruments	33	24,346,886	1,315,778	–	25,662,664	26,674,962
Other assets	42	–	–	2,916,565	2,916,565	2,916,565
Total		24,346,886	27,698,425	351,173,338	403,218,649	421,874,714
Liabilities						
Due to banks	44	–	3,349,836	–	3,349,836	3,349,836
Financial liabilities at amortised cost- Due to depositors	45	–	–	319,105,960	319,105,960	319,362,372
Financial liabilities at amortised cost - Due to other borrowers	46	–	–	69,589,129	69,589,129	69,589,129
Debt securities in issue	47	–	16,297,256	–	16,297,256	16,297,256
Other liabilities	50	–	–	4,601,683	4,601,683	4,601,683
Subordinated term debt	51	–	–	16,580,539	16,580,539	18,387,276
		–	19,647,092	409,877,311	429,524,403	431,587,552

As at 31 December 2020	Note	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Fair value LKR '000	Carrying amount LKR '000
Assets						
Cash and cash equivalents	26	–	7,728,969	–	7,728,969	7,728,969
Balances with Central Bank of Sri Lanka	27	–	4,901,753	–	4,901,753	4,901,753
Placements with banks	28	–	15,431,962	–	15,431,962	15,431,962
Financial assets at amortised cost – Loans to and receivables from banks	31	–	4,152,717	–	4,152,717	4,152,717
Financial assets at amortised cost – Loans to and receivables from other customers	32	–	–	295,969,708	295,969,708	301,909,337
Financial assets at amortised cost – Debt and other instruments	33	18,412,228	13,221,152	–	31,633,380	31,604,175
Other assets	42	–	–	2,066,621	2,066,621	2,066,621
Total		18,412,228	45,436,553	298,036,329	361,885,110	367,795,534
Liabilities						
Due to banks	44	–	14,909,937	–	14,909,937	14,909,937
Financial liabilities at amortised cost – Due to depositors	45	–	–	303,948,217	303,948,217	309,566,423
Financial liabilities at amortised cost – Due to other borrowers	46	–	–	46,847,076	46,847,076	46,847,076
Debt securities in issue	47	–	17,124,659	–	17,124,659	16,291,279
Other liabilities	50	–	–	4,900,958	4,900,958	4,900,958
Subordinated term debt	51	–	20,476,257	–	20,476,257	19,357,497
		–	52,510,853	355,696,251	408,207,104	411,873,170

Given below is the basis adopted by the Bank/Group in order to establish the fair values of the financial instruments.

9.4.1 CASH AND CASH EQUIVALENTS AND PLACEMENTS WITH BANKS

Carrying amounts of cash and cash equivalents and placements with banks approximates their fair value as these balances have a remaining maturity of less than three months from the reporting date.

9.4.2 LOANS TO AND RECEIVABLES FROM OTHER CUSTOMERS – LEASE RENTALS RECEIVABLE

The estimated fair value of lease rentals receivable is the present value of future cash flows expected to be received from such finance lease facilities calculated based on current interest rates for similar type of facilities.

9.4.3 LOANS TO AND RECEIVABLES FROM OTHER CUSTOMERS – OTHER LOANS

	Composition %
Floating rate loan portfolio	64
Fixed rate loans	
– With remaining maturity less than one year	11
– Others	25

Since the floating rate loans can be repriced monthly, quarterly and semi-annually in tandem with market rates fair value of these loans is approximately same as the carrying value. Carrying amount of fixed rate loans with a remaining maturity of less than one year approximates the fair value.

Based on the results of the fair value computed on the lease rentals receivable, it is estimated that the fair value of the other loans at fixed interest rates with maturity of more than one year is not materially different to its carrying value as at the reporting date.

9.4.4 FINANCIAL ASSETS AT AMORTISED COST – DEBT AND OTHER INSTRUMENTS

Fair value of the fixed rate debentures are based on prices quoted in the Colombo Stock Exchange, where there is an active market for quoted debentures.

Where there is no active market, fair value of the fixed rate debentures has been determined by discounting the future cash flows by the interest rates derived with reference to Government Treasury Bond rates with adjustments to risk premiums at the time of investment.

9.4.5 DUE TO BANKS

The carrying value of amounts due to banks with a remaining maturity of less than one year approximate their fair value.

The others are repriced either monthly, quarterly or semi-annually and rates are revised in line with changes in market rates. Hence, the carrying value of these borrowings approximate the fair value.

9.4.6 DUE TO OTHER DEPOSITORS

The carrying value of deposits with a remaining maturity of less than one year approximates the fair value.

Fair values of deposits with a remaining maturity of more than one year is estimated using discounted cash flows applying current interest rates offered for deposits of similar remaining maturities.

The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the reporting date and the savings account balances are repriced frequently to match with the current market rates, therefore the demand and saving deposits carrying amounts are reasonable approximation to the fair values as at the reporting date.

9.4.7 DUE TO OTHER BORROWERS

This consists of borrowings sourced from multilateral and bilateral institutions. 70% of these borrowing are repriced either monthly, quarterly or semi-annually and rates are revised in line with changes in market rates. Hence the carrying value of these borrowings approximates the fair value.

The others at fixed rates which relates to borrowings on credit lines are based on interest rates which are specific to each refinancing arrangement and as such there are no comparable market rates. Hence, the fair value approximates the carrying value.

9.4.8 DEBT SECURITIES IN ISSUE

Debts issued comprise the LKR debentures. The LKR debentures are fair valued by reference to current Government Treasury Bond rates with a risk premium.

10. GROSS INCOME

For the year ended 31 December	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Interest income (Note 11.1)	36,599,000	39,089,986	36,599,512	39,095,445
Fee and commission income (Note 12.1.1)	2,888,346	2,193,474	2,887,711	2,192,557
Net gain from trading (Note 13)	844,898	479,153	844,898	479,153
Net loss from financial instruments at fair value through profit or loss (Note 14)	(247,268)	(497,931)	(247,268)	(497,931)
Net gain from derecognition of financial assets (Note 15)	1,391,008	510,386	1,391,008	510,386
Net other operating income (Note 16)	1,172,778	1,524,732	1,553,419	1,824,837
	42,648,762	43,299,800	43,029,280	43,604,447

11. NET INTEREST INCOME

ACCOUNTING POLICY

EFFECTIVE INTEREST RATE

Interest income and expense are recognised in profit or loss using the effective interest method.

The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

– the gross carrying amount of the financial asset; or

– the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

AMORTISED COST AND GROSS CARRYING AMOUNT

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

CALCULATION OF INTEREST INCOME AND EXPENSE

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date on which amortisation of the hedge adjustment begins.

As per the internal risk management policies of the Bank, the facilities are considered to be credit impaired when three or more instalments are in arrears and the Bank has estimated that the probability of recoverability of the interest income from such loan facilities are low. Accordingly the Bank discontinues recognition of interest income on such loan facilities and cash flows are assessed based on the amortised cost net of interest. If the asset is no longer credit impaired the calculation of interest income reverts to the gross basis.

11.1 COMPOSITION

For the year ended 31 December	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Interest income (Note 11.1.1)	36,599,000	39,089,986	36,599,512	39,095,445
Interest expenses (Note 11.1.2)	(23,946,256)	(28,083,159)	(23,918,895)	(28,052,259)
Net interest income	12,652,744	11,006,827	12,680,617	11,043,186

11.1.1 INTEREST INCOME

For the year ended 31 December	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Placements with banks	306,823	273,321	307,335	278,780
Financial assets measured at fair value through profit or loss	294	2,969	294	2,969
Financial assets at amortised cost – Loans to and receivables from banks	83,608	43,183	83,608	43,183
Financial assets at amortised cost – Loans to and receivables from other customers (Note 11.1.1.1)	29,277,833	31,401,629	29,277,833	31,401,629
Financial assets at amortised cost – Debt and other instruments	2,312,359	2,455,017	2,312,359	2,455,017
Financial assets measured at fair value through other comprehensive income	4,618,083	4,913,867	4,618,083	4,913,867
Total interest income	36,599,000	39,089,986	36,599,512	39,095,445

11.1.1.1 Interest Income from Loans to and receivables from other customers includes modifications made to loans due to moratorium/debt concessionary schemes implemented by the Government/Bank as a measure to support the recovery of businesses/customers affected by COVID-19 pandemic. There is no material modification loss or gain due to modification to the original terms and conditions of the loan during the year ended 31 December 2021.

11.1.2 INTEREST EXPENSES

For the year ended 31 December	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Due to banks	635,452	1,962,008	635,452	1,962,008
Financial liabilities at amortised cost – Due to depositors	17,309,634	20,283,204	17,282,273	20,252,304
Financial liabilities at amortised cost – Due to other borrowers	1,875,774	2,063,873	1,875,774	2,063,873
Debt securities in issue	4,125,396	3,774,074	4,125,396	3,774,074
Total interest expenses	23,946,256	28,083,159	23,918,895	28,052,259

The amounts reported above include interest income and expense, calculated using the effective interest method, that relate to the following financial assets and financial liabilities.

As at 31 December	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Financial assets measured at amortised cost (Note 25)	421,766,258	367,706,038	421,874,714	367,795,534
Financial assets measured at FVOCI (Note 25)	54,329,436	88,718,002	54,333,429	88,718,002
Total	476,095,694	456,424,040	476,208,143	456,513,536
Financial liabilities measured at amortised cost (Note 25)	431,955,007	412,216,558	431,587,552	411,873,170

11.1.3 INTEREST INCOME FROM GOVERNMENT SECURITIES – BANK/GROUP

For the year ended 31 December	2021 LKR '000	2020 LKR '000
Financial assets measured at fair value through profit or loss	294	2,969
Financial assets at amortised cost – Loans to and receivables from banks	–	43,183
Financial assets at amortised cost – Debt and other instruments	2,296,146	2,302,655
Financial assets measured at fair value through other comprehensive income	4,618,083	4,913,867
	6,914,523	7,262,674

12. NET FEE AND COMMISSION INCOME

ACCOUNTING POLICY

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised as the related services are performed. When a loan commitment is not expected to result in the draw down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of SLFRS 9 and partially in the scope of SLFRS 15. If this is the case, then the Group first applies SLFRS 9 to separate and measure the part of the contract that is in the scope of SLFRS 9 and then applies SLFRS 15 to the residual.

Fees for guarantees and trade related commissions are recognised on a straight-line basis over the period of the contract. Other fees and commission expense relate mainly to transaction and service fees, which are expensed, as the services are received.

12.1 COMPOSITION

	BANK		GROUP	
For the year ended 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Fee and commission income (Note 12.1.1)	2,888,346	2,193,474	2,887,711	2,192,557
Fee and commission expenses	(292,468)	(132,157)	(292,468)	(132,157)
Net fee and commission income	2,595,878	2,061,317	2,595,243	2,060,400

12.1.1 DISAGGREGATION OF FEE AND COMMISSION INCOME

In the following table, fee and commission income from contracts with customers in the scope of SLFRS 15 is disaggregated by major type of services.

MAJOR SERVICE LINES

	BANK		GROUP	
For the year ended 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Loans and advances	919,868	887,024	919, 868	887,024
Credit cards	460,772	189,978	460,772	189,978
Trade and remittances	713,443	551,998	713,443	551,998
Customer accounts	286,648	252,742	286,648	252,742
Guarantees	424,178	296,110	424,178	296,110
Others (Management, consulting and other fees)	83,437	15,622	82,802	14,705
Net fee and commission income	2,888,346	2,193,474	2,887,711	2,192,557

12.1.2 PERFORMANCE OBLIGATIONS AND REVENUE RECOGNITION POLICIES

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under SLFRS 15
Retail and corporate banking service	The Group provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees.	Revenue from account service and servicing fees is recognised over time as the services are provided.
	Fees for ongoing account management are charged to the customer's account on a monthly basis. The Group sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
	Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place.	
	Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Group.	

13. NET GAIN FROM TRADING

ACCOUNTING POLICY

Results arising from trading activities include all gains and losses from realised and unrealised fair value changes, related capital gains and losses, dividend income from trading assets and trading liabilities and foreign exchange differences.

	BANK		GROUP	
For the year ended 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Foreign exchange from Banks	644,719	387,113	644,719	387,113
Government Securities				
Net capital (loss)/gain	(703)	8,303	(703)	8,303
Equities				
Net marked to market gain	37,946	11,069	37,946	11,069
Net capital gain	160,561	71,153	160,561	71,153
Dividend income	2,375	1,515	2,375	1,515
	844,898	479,153	844,898	479,153

14. NET LOSS FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

ACCOUNTING POLICY

The Bank has non-trading derivatives held for risk management purposes (e.g., forward foreign exchange purchase or sale contracts) that do not form part of qualifying hedge relationship, that are mandatorily fair valued through profit or loss. In respect of such financial instruments, all realised and unrealised fair value changes and foreign exchange differences are included.

14.1 NET LOSS FROM FINANCIAL INSTRUMENTS MANDATORILY MEASURED AT FVTPL OTHER THAN THOSE INCLUDED IN "NET TRADING INCOME"

	BANK		GROUP	
For the year ended 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Forward exchange fair value changes				
– Contracts with commercial banks and other customers	(217,548)	(543,169)	(217,548)	(543,169)
– Contract with CBSL	(2,332)	–	(2,332)	–
(Loss)/gain on financial assets fair value through profit or loss equity securities	(27,388)	45,238	(27,388)	45,238
	(247,268)	(497,931)	(247,268)	(497,931)

Forward exchange fair value changes on contracts with commercial banks includes the unrealised gain/(loss) on derivatives carried for risk management purposes, after netting off the spot movement arising from the long-term foreign currency liabilities designated as hedge item as per the fair value hedge applied by the Bank (Note 29.2). The Bank has applied the fair value hedge accounting for a part of its foreign currency liabilities using forward contracts.

15. NET GAIN FROM DERECOGNITION OF FINANCIAL ASSETS

ACCOUNTING POLICY

"Net gains from derecognition of financial assets" comprise realised gains less losses related to debt instruments measured at FVOCI and financial assets measured at amortised cost as per SLFRS 9.

	BANK		GROUP	
For the year ended 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Fair value through profit or loss Gain on sale of equity securities	65,260	5,102	65,260	5,102
Fair value through other comprehensive income Gain on sale of Government Securities	1,325,748	505,284	1,325,748	505,284
	1,391,008	510,386	1,391,008	510,386

16. NET OTHER OPERATING INCOME

ACCOUNTING POLICY

Net other operating income includes realised gain or loss on sale of fair value through other comprehensive income securities (e.g., Treasury Bills and Bonds, and dividend income from ordinary shares classified as fair value through other comprehensive income financial assets, dividend income from group entities, rental income, gains on disposal of property, plant and equipment and foreign exchange gains and losses.

RENTAL INCOME

Rental income and expenses are accounted on a straight-line basis over the entire period of the tenancy incorporating predetermined rent escalation during the period of the tenancy.

DIVIDEND INCOME

Dividend income is recognised when the right to receive payment is established. Dividend income are presented in net gain/(loss) from trading and net other operating income, net based on underlying classification of the equity investment. Where the dividend clearly represents a recovery of part of the cost of the investment, it is presented in other comprehensive income. Dividend income from subsidiaries and joint venture is recognised when the Bank's right to receive the dividend is established.

GAINS AND LOSSES ON DISPOSAL OF ASSETS

Net gains and losses of a revenue nature arising from the disposal of property, plant and equipment and other non-current assets including investments in subsidiaries, joint ventures and associates are accounted for, in the statement of profit or loss after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

FOREIGN EXCHANGE GAIN/(LOSS)

Foreign currency positions are revalued at each reporting date. Gains and losses arising from changes in fair value are included in the income statement in the period in which they arise.

	BANK		GROUP	
For the year ended 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Financial assets measured at fair value through other comprehensive income				
Dividend income	951,419	742,511	951,419	742,511
Dividend income from subsidiaries, joint venture and associate	89,277	139,277	–	–
Net gain from repurchase transactions	369,894	549,618	369,894	549,618
Premises rental income	–	–	329,545	293,668
(Loss)/gain on sale of property, plant and equipment	(10,388)	13,708	1,723	23,240
Foreign exchange (loss)/gain	(304,580)	23,292	(303,218)	23,292
Recovery of loans written-off	66,380	42,021	66,380	42,021
Others	10,776	14,305	137,676	150,487
	1,172,778	1,524,732	1,553,419	1,824,837

17. IMPAIRMENT FOR LOANS AND OTHER LOSSES

ACCOUNTING POLICY

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade" other than the investment in government debt instruments. The Group does not apply the low credit risk exemption to any other financial instruments.

INDIVIDUALLY ASSESSED LOANS AND ADVANCES AND AMORTISED COST DEBT INSTRUMENTS

These are exposures, where evidence of impairment exists and those that are individually significant meriting individual assessment for objective evidence of impairment and computation of impairment allowance. The factors considered in determining that the exposures are individually significant include –

- the size of the loan; and
- the number of loans in the portfolio.

For all loans and amortised cost debt instruments that are considered individually significant, Bank assesses on a case by case basis, whether there is any objective evidence of impairment. The criteria used by the Bank to determine that there is such objective evident include –

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Impairment allowance on loans and advances and other financial instruments measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

COLLECTIVE ASSESSMENT

This includes all loans and advances of smaller value where there is no evidence of impairment and those individually assessed for which no evidence of impairment has been specifically identified on an individual basis.

These loans and advances are grouped together as per Basel Guidelines and product level according to their credit risk characteristics for the purpose of calculating an estimated collective impairment.

In making an assessment of whether an investment in debt instrument is credit-impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as "lender of last resort" to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

The Bank manages credit quality using a three stage approach which is in line with SLFRS 9.

12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognised are referred to as "Stage 1 financial instruments". Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognised but that are not credit-impaired are referred to as "Stage 2 financial instruments". Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as "Stage 3 financial instruments".

SIGNIFICANT INCREASE IN CREDIT RISK

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where appropriate for changes in prepayment expectations).

The Bank considers an exposure to have significant increase in credit risk (SICR) when the contractual payment of a customer are more than 30 days past due in accordance with rebuttable presumption in SLFRS 9, or other qualitative indicators reveal that there had been SICR.

COVID-19 INITIATIVES

For facilities subject to the COVID-19 repayment deferral arrangements, an assessment of Significant Increase in Credit Risk (SICR) has been determined based on various measures of the customer's current financial position, future earnings capacity and the sectors in which the customers operate from which the facilities are categorised into risk categories. SICR is then determined based on the resulting risk categorisation. Based on the risk categorisation, facilities have been stress tested and required allowance overlays have been made.

GENERATING THE TERM STRUCTURE OF PD

The Bank collects performance and default information about its credit risk exposures analysed by type of product and borrower.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

DETERMINING WHETHER CREDIT RISK HAS INCREASED SIGNIFICANTLY

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date.

Credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgement and relevant historical experiences.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured at 12-month ECL.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; except for, for which a backstop of 60 days past due is applied.
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

DEFINITION OF DEFAULT

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank.
- the assessment of the external rating agencies indicates a default grading of the borrower; or
- all credit facilities listed in 1.3 of Annex 1 of the Directive No. 04 of 2018 issued by Central Bank of Sri Lanka on adoption of Sri Lanka Accounting Standard SLFRS 9: "Financial Instruments"

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and based on data developed internally and obtained from external sources

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

INCORPORATION OF FORWARD-LOOKING INFORMATION

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL using a variety of external actual and forecasted information.

The Bank formulates a base case view of the future direction of relevant economic variables as well as a representative range (Best Case and Worst Case) of other possible forecast scenarios.

This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by both local and international sources. The base case represents a most-likely outcome. The other scenarios represent more optimistic and more pessimistic outcomes.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables credit risk and credit losses.

The economic variables used by the Bank based on the statistical significance include the followings:

Unemployment rate	Base case scenario along with two other scenarios has been used (Best Case and Worst Case)
Interest rate	
GDP growth rate	
Inflation rate	
Exchange rate	

MODIFIED FINANCIAL ASSETS

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 5.3.4.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as "forbearance activities") to maximise collection opportunities and minimise the risk of default. Loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. The Bank's Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Bank's forbearance activity, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/to have SICR or the PD is considered to have decreased such that it falls within the 12-month PD ranges for the asset to be considered Stage 1.

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

MEASUREMENT OF ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

When discounting future cash flows, the following discount rates are used:

- financial assets other than purchased or originated credit-impaired (POCI) financial assets and lease receivables: the original effective interest rate or an approximation thereof;
- POCI assets: a credit-adjusted effective interest rate;
- lease receivables: the discount rate used in measuring the lease receivable;
- undrawn loan commitments: the effective interest rate, or an approximation thereof, that will be applied to the financial asset resulting from the loan commitment; and
- financial guarantee contracts issued: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

ECL for exposures in Stage 1 are calculated by multiplying the 12-month PD by LGD and EAD.

Lifetime ECL are calculated by multiplying the lifetime PD by LGD and EAD.

The methodology for estimating PDs is discussed above under the heading "Generating the term structure of PD".

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery, costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios and, for lending collateralised by property, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are Grouped on the basis of shared risk characteristics, which may include:

- instrument type;
- credit risk grade;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- client segment.

The Groupings are subject to regular review to ensure that exposures within a particular Group remain appropriately homogeneous.

RESTRUCTURED FINANCIAL ASSETS

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

PURCHASE OF CREDIT-IMPAIRED (POCI) FINANCIAL ASSETS

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition.

Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

WRITE-OFF

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

REVERSALS OF IMPAIRMENT

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written-back by reducing the loan impairment allowance accordingly. The write-back is recognised in the income statement.

RENEGOTIATED LOANS

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as up-to-date loans for measurement purposes once a minimum number of payments required have been received.

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired. The carrying amounts of loans that have been classified as renegotiated retain this classification until it is upgraded.

FINANCIAL GUARANTEE CONTRACTS HELD

The Group assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Group considers when making this assessment

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Group determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Group considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Group determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in "other assets". The Group presents gains or losses on a compensation right in profit or loss in the line item "impairment losses on financial instruments".

Presentation of allowance for ECL in the statement of financial position loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in fair value reserve.

REGULATION ISSUED BY CENTRAL BANK OF SRI LANKA ("CBSL")

During the year the CBSL issued various circulars after the outbreak of COVID-19 relating to moratorium/debt relief/ credit support to customers and industries schemes offered by the Government to support recovery of the economy. These circulars have an impact on Recognition of Interest Income, stage-wise classification of facilities and computation of expected credit loss.

COMPOSITION

	BANK		GROUP	
For the year ended 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Financial assets at amortised cost – Loans to and receivables from other customers	3,846,100	2,940,811	3,846,100	2,940,811
Financial assets at amortised cost – Debt and other instruments	291,959	121,713	291,959	121,713
Financial assets measured at fair value through other comprehensive income	56,673	73,699	56,673	73,699
Loan commitments and financial guarantee contracts	251,362	176,259	251,362	176,259
Other debts	39,194	11,927	39,194	11,927
Reversal of provision made on investment in subsidiaries	–	(30,000)	–	–
Write-offs – loans to and receivables from other customers	–	3,483	–	3,483
	4,485,288	3,297,892	4,485,288	3,327,892

IMPAIRMENT CHARGE TO THE INCOME STATEMENT

For the year ended 31 December 2021	Note	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Financial assets at amortised cost – Loans to and receivables from other customers	32.1.4	896,995	924,214	2,024,891	3,846,100
Financial assets at amortised cost – Debt and other instruments	33.3	291,959	–	–	291,959
Financial assets measured at fair value through other comprehensive income	34.7	56,673	–	–	56,673
Loan commitments and financial guarantee contracts	57.1	232,692	18,670	–	251,362
		1,478,319	942,884	2,024,891	4,446,094
Other debts					39,194
Total impairment charge – Bank/Group					4,485,288

For the year ended 31 December 2020	Note	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Financial assets at amortised cost – Loans to and receivables from other customers	32.1.4	404,581	(494,452)	3,030,682	2,940,811
Financial assets at amortised cost – Debt and other instruments	33.3	121,713	–	–	121,713
Financial assets measured at fair value through other comprehensive income	34.7	73,699	–	–	73,699
Loan commitments and financial guarantee contracts	57.1	179,454	(3,195)	–	176,259
		779,447	(497,647)	3,030,682	3,312,482
Other debts					11,927
Reversal of provision made on investment in subsidiaries	35.1				(30,000)
Write-offs- loans to and receivables from other customers					3,483
Total impairment charge – Bank					3,297,892
Adjustment for investment in subsidiaries					30,000
Total impairment charge – Group					3,327,892

18. PERSONNEL EXPENSES

Accounting policy in Note 48.

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

18.1 COMPOSITION

For the year ended 31 December	Note	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Salaries and other benefits		3,498,482	2,843,658	3,651,774	3,005,722
Contributions to defined benefit plans	18.1.1	22,644	199,187	28,857	205,142
Contributions to defined contribution plans	18.1.2	376,599	356,859	397,881	377,308
		3,897,725	3,399,704	4,078,512	3,588,172

18.1.1 CONTRIBUTIONS TO DEFINED BENEFIT PLANS

For the year ended 31 December	Note	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Funded pension liability					
Current service cost		53,371	53,864	53,371	53,864
Interest on obligation		254,459	259,439	254,459	259,439
Expected return on pension assets		(243,743)	(248,700)	(243,743)	(248,700)
Past service cost	18.1.1.1	(176,254)	–	(176,254)	–
		(112,167)	64,603	(112,167)	64,603
Unfunded pension liability					
Interest on obligation		5,379	5,625	5,379	5,625
		5,379	5,625	5,379	5,625

For the year ended 31 December	Note	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Unfunded end of service gratuity liability					
Current service cost		71,336	78,850	75,280	82,804
Interest on obligation		46,738	50,109	49,007	52,110
Past service cost	18.1.1.1	11,358	–	11,358	–
		129,432	128,959	135,645	134,914
Total contribution to defined benefit plans		22,644	199,187	28,857	205,142

18.1.1.1 PAST SERVICE COST

The Bank reassessed the pension fund liability taking into consideration the retirement age revision under the "Minimum Retirement Age of Workers Act No. 28 of 2021". This reassessment resulted in a net reversal of liability which was immediately reversed to the statement of profit or loss as it is considered as a change to the plan in compliance with the Sri Lanka Accounting Standard "LKAS 19 – Employee Benefits".

18.1.2 CONTRIBUTIONS TO DEFINED CONTRIBUTION PLANS

For the year ended 31 December	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Employer's contribution to Employees' Provident Fund	313,786	297,383	330,907	313,846
Employer's contribution to Employees' Trust Fund	62,813	59,476	66,974	63,462
Total defined contribution plans	376,599	356,859	397,881	377,308

19. DEPRECIATION AND AMORTISATION

Accounting policy in Note 39 and 40.

For the year ended 31 December	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Depreciation				
– Investment property	–	–	23,670	21,057
– Property, plant and equipment	415,353	383,461	435,230	407,669
– Right-of-use assets	287,629	292,457	287,629	292,757
Amortisation				
– Intangible assets	320,869	243,739	327,644	249,475
	1,023,851	919,657	1,074,173	970,958

20. OTHER EXPENSES

ACCOUNTING POLICY

Expenses are recognised in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the income statement.

For the year ended 31 December	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Directors' emoluments	18,135	17,445	19,019	18,001
Auditors' remuneration				
Audit fees and expenses	4,890	4,700	5,748	5,520
Audit related fees and expenses	2,622	2,737	2,849	2,940
Fees for non-audit services	2,457	520	2,457	612
Professional and legal expenses	17,886	21,455	17,886	21,455
Premises, equipment and establishment expenses	1,848,282	1,662,756	1,848,282	1,662,756
Other overhead expenses	1,565,370	1,357,616	1,504,621	1,284,062
	3,459,642	3,067,229	3,400,862	2,995,346

Directors emolument include fees paid to Non-Executive Directors. Remuneration paid to Executive Directors are included under salaries and other benefits in Note 18.1.

21. TAXES ON FINANCIAL SERVICES

ACCOUNTING POLICY

VALUE ADDED TAX ON FINANCIAL SERVICES (VAT)

VAT on financial services is calculated in accordance with Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto.

The value base for computation of VAT is the operating profit before taxes on financial services adjusted for emoluments of employees and depreciation computed as per prescribed rates.

21.1 COMPOSITION

	BANK		GROUP	
For the year ended 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Value Added Tax on Financial Services (Note 21.1.1)	1,217,068	1,015,574	1,217,068	1,015,574
Nation Building Tax on Financial Services (Note 21.1.2)	–	(11,611)	–	(11,611)
Debt Repayment Levy (Note 21.1.3)	–	(2,401)	–	(2,401)
Total	1,217,068	1,001,562	1,217,068	1,001,562

21.1.1 VALUE ADDED TAX ON FINANCIAL SERVICES

	BANK		GROUP	
For the year ended 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Current year	1,218,859	997,315	1,218,859	997,315
Change in estimates related to prior years	(1,791)	18,259	(1,791)	18,259
Total	1,217,068	1,015,574	1,217,068	1,015,574

21.1.2 NATION BUILDING TAX ON FINANCIAL SERVICES

	BANK		GROUP	
For the year ended 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Change in estimates related to prior years	–	(11,611)	–	(11,611)
Total	–	(11,611)	–	(11,611)

21.1.3 DEBT REPAYMENT LEVY

For the year ended 31 December	BANK		GROUP	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Over provision in respect of previous year	–	(2,401)	–	(2,401)
Total	–	(2,401)	–	(2,401)

22. INCOME TAX EXPENSE

ACCOUNTING POLICY

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under LKAS 37 Provisions, Contingent Liabilities and Contingent Assets.

CURRENT TAXATION

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Taxable profit is determined in accordance with the provisions of Inland Revenue Act No. 24 of 2017 and subsequent amendments thereto.

Current tax assets and liabilities are offset only if certain criteria are met.

DEFERRED TAXATION

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Temporary differences in relation to right-of-use asset and lease liability are regarded as a net package (ROA asset) for the purpose of recognising deferred tax.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

22.1 AMOUNT RECOGNISED IN INCOME STATEMENT

	BANK		GROUP	
For the year ended 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Current tax expense				
Current year	1,741,715	1,389,508	1,816,547	1,476,304
Change in estimates related to prior years	(181,283)	(127,252)	(184,967)	(130,612)
	1,560,432	1,262,256	1,631,580	1,345,692
Economic service charge write-off	–	–	52	–
	1,560,432	1,262,256	1,631,632	1,345,692
Deferred tax expense				
Reversal of deferred tax liability (Note 41.1)	(214,723)	(184,386)	(201,649)	(181,029)
Origination of deferred tax asset (Note 41.2)	(241,108)	(67,465)	(236,418)	(67,562)
	(455,831)	(251,851)	(438,067)	(248,591)
Tax expense on continuing operations	1,104,601	1,010,405	1,193,565	1,097,101

The Group has considered the relevant provisions of the Inland Revenue Act No. 24 of 2017 and amendments thereto when computing the current and deferred tax assets/liabilities.

22.1.1 CHANGE OF THE INCOME TAX RATE FROM 28% TO 24%

The Bank and The Group applied the revised income tax rate of 24% in line with the Inland Revenue Amendment Act No. 10 of 2021 to calculate the income tax and deferred tax assets/liabilities as at 31 December 2021. However, the revised rate of 24% was not substantially enacted when finalizing the financial statements for the period ended 31 December 2020 even though the amendments were effective from 1 January 2020. Therefore, both income tax and deferred tax assets/liabilities for the comparative period have been calculated at the rate of 28%.

Accordingly, the income tax charge recognised in the income statement for the year 2020 has been decreased by 181 Mn and the over provision has been recognised to the income statement during the year. Further, net deferred tax liability as at 31 December 2020 has been decreased by LKR 35 Mn resulting a charge to the income statement by 120 Mn and reversal to the other comprehensive income by LKR 155 Mn respectively during the year.

22.2 AMOUNT RECOGNISED IN OCI

	BANK		GROUP	
For the year ended 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Items that are or may be reclassified subsequently to income statement				
Movement in fair value reserve [fair value through other comprehensive income (FVOCI) debt instruments]	1,125,356	(777,396)	1,125,356	(777,396)
Cash flow hedges – Cross currency swap	16,886	(503)	16,886	(503)
	1,142,242	(777,899)	1,142,242	(777,899)
Items that will not be reclassified to income statement				
Gain on remeasurements of defined benefit liability	4,204	(26,297)	4,277	(26,322)
	4,204	(26,297)	4,277	(26,322)
Total deferred tax expense recognised in OCI	1,146,446	(804,196)	1,146,519	(804,221)

22.3 RECONCILIATION OF EFFECTIVE TAX RATE WITH INCOME TAX RATE

	BANK				GROUP			
For the year ended 31 December	2021		2020		2021		2020	
	%	LKR '000	%	LKR '000	%	LKR '000	%	LKR '000
Tax using 24%, 28% tax rate on profit before tax (PBT) (Note 22.1.1)	24.00	1,038,351	28.00	951,563	24.00	1,166,082	28.00	1,104,288
Adjustment in respect of current income tax of prior periods	(4.19)	(181,283)	(3.74)	(127,252)	(3.81)	(184,967)	(3.31)	(130,612)
Non-deductible expenses	45.23	1,956,691	80.72	2,743,375	40.87	1,985,958	69.95	2,758,557
Allowable deductions	(27.16)	(1,175,102)	(69.04)	(2,346,260)	(24.85)	(1,207,496)	(59.75)	(2,356,333)
Dividend income	(5.46)	(236,032)	(7.27)	(247,187)	(4.80)	(236,032)	(6.27)	(247,187)
Tax incentives	(4.27)	(184,591)	(1.84)	(62,465)	(3.75)	(184,591)	(1.58)	(62,465)
Taxable timing difference from capital allowances on assets	4.73	204,713	6.77	229,956	4.16	204,713	5.83	229,956
Tax losses from prior year	–	–	–	–	–	–	(0.08)	(3,064)
Taxed at different rates	3.18	137,685	3.55	120,526	1.81	87,913	1.33	52,552
Current tax expense	36.06	1,560,432	37.15	1,262,256	33.63	1,631,580	34.12	1,345,692

23. EARNINGS PER SHARE

ACCOUNTING POLICY

The Group presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

23.1 BASIC EARNINGS PER SHARE

	BANK		GROUP	
For the year ended 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Profit attributable to equity holders of the Bank (LKR '000)	3,221,863	2,388,035	3,548,938	2,744,961
Weighted average number of ordinary shares	317,816,374	305,130,164	317,816,374	305,130,164
Basic earnings per ordinary share – LKR	10.14	7.83	11.17	9.00

23.2 WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR BASIC EARNINGS PER SHARE

	Outstanding number of shares		Weighted average number of shares	
For the year ended 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Number of shares in issue at beginning	305,997,250	304,188,756	305,130,164	304,188,756
Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2020	14,525,186	1,808,494	12,686,210	941,408
Weighted average number of ordinary shares for basic earnings per ordinary share calculation	320,522,436	305,997,250	317,816,374	305,130,164

23.3 DILUTED EARNINGS PER SHARE

There was no dilution of ordinary shares outstanding. Therefore, diluted earnings per share is the same as basic earnings per share as shown in Note 23.1.

24. DIVIDEND PER SHARE

The Board of Directors of the Bank has recommended the payment of a first and final dividend of LKR 3.00 per share which is to be satisfied in the form of allotment of new ordinary shares for the year ended 31 December 2021. (The Bank approved a final dividend of LKR 3.00 per share for the year ended 31 December 2020 and this was satisfied in the form of allotment of new ordinary shares).

	BANK	
For the year ended 31 December	2021	2020
Dividend per share (LKR)	3.00	3.00

Compliance with Section 56 and 57 of Companies Act No. 7 of 2007

As required by Section 56 of the Companies Act No. 7 of 2007 the Board of Directors of the Company satisfied the solvency test in accordance with Section 57, subject to relevant regulatory adherence, prior to declaring the final dividend. A statement of solvency duly completed and signed by the Directors on 17 February 2022 have been audited by Messrs KPMG.

Dividend declared during the year

	BANK	
For the year ended 31 December	2021 LKR '000	2020 LKR '000
Final scrip dividend declared – LKR 3.00 per share (2019 – LKR 0.50 per share)	917,992	152,094
Final cash dividend declared (2019 – LKR 2.50 per share)	–	760,472
	917,992	912,566

25. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

See accounting policies in Notes 5.3.

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

		BANK				GROUP			
As at 31 December 2021	Note	Fair value through profit or loss – mandatory LKR '000	Fair value through other comprehensive income LKR '000	Amortised cost LKR '000	Total LKR '000	Fair value through profit or loss – mandatory LKR '000	Fair value through other comprehensive income LKR '000	Amortised cost LKR '000	Total LKR '000
Financial Assets									
Cash and cash equivalents	26	–	–	10,688,255	10,688,255	–	–	10,690,873	10,690,873
Balances with Central Bank of Sri Lanka	27	–	–	9,359,241	9,359,241	–	–	9,359,241	9,359,241
Placements with banks	28	–	–	6,288,006	6,288,006	–	–	6,332,533	6,332,533
Derivative financial assets	29	280,235	–	–	280,235	280,235	–	–	280,235
Financial assets measured at fair value through profit or loss	30	218,875	–	–	218,875	218,875	–	–	218,875
Financial assets at amortised cost – Loans to and receivables from other customers	32	–	–	365,900,540	365,900,540	–	–	365,900,540	365,900,540
Financial assets at amortised cost – Debt and other instruments	33	–	–	26,674,962	26,674,962	–	–	26,674,962	26,674,962
Financial assets measured at fair value through other comprehensive income	34	–	54,329,436	–	54,329,436	–	54,333,429	–	54,333,429
Other assets	42	–	–	2,855,254	2,855,254	–	–	2,916,565	2,916,565
Total financial assets		499,110	54,329,436	421,766,258	476,594,804	499,110	54,333,429	421,874,714	476,707,253
Financial Liabilities									
Due to banks	44	–	–	3,349,836	3,349,836	–	–	3,349,836	3,349,836
Derivative financial liabilities	29	814,219	–	–	814,219	814,219	–	–	814,219
Financial liabilities at amortised cost – Due to depositors	45	–	–	319,861,013	319,861,013	–	–	319,362,372	319,362,372
Financial liabilities at amortised cost – Due to other borrowers	46	–	–	69,589,129	69,589,129	–	–	69,589,129	69,589,129
Debt securities in issue	47	–	–	16,297,256	16,297,256	–	–	16,297,256	16,297,256
Other liabilities	50	–	–	4,470,497	4,470,497	–	–	4,601,683	4,601,683
Subordinated term debt	51	–	–	18,387,276	18,387,276	–	–	18,387,276	18,387,276
Total financial liabilities		814,219	–	431,955,007	432,769,226	814,219	–	431,587,552	432,401,771

As at 31 December 2020	Note	BANK Fair value through profit or loss – mandatory LKR '000	BANK Fair value through other comprehensive income LKR '000	BANK Amortised cost LKR '000	BANK Total LKR '000	GROUP Fair value through profit or loss – mandatory LKR '000	GROUP Fair value through other comprehensive income LKR '000	GROUP Amortised cost LKR '000	GROUP Total LKR '000
Financial Assets									
Cash and cash equivalents	26	–	–	7,724,364	7,724,364	–	–	7,728,969	7,728,969
Balances with Central Bank of Sri Lanka	27	–	–	4,901,753	4,901,753	–	–	4,901,753	4,901,753
Placements with banks	28	–	–	15,414,287	15,414,287	–	–	15,431,962	15,431,962
Derivative financial assets	29	835,464	–	–	835,464	835,464	–	–	835,464
Financial assets measured at fair value through profit or loss	30	609,717	–	–	609,717	609,717	–	–	609,717
Financial assets at amortised cost – Loans to and receivables from banks	31	–	–	4,152,717	4,152,717	–	–	4,152,717	4,152,717
Financial assets at amortised cost – Loans to and receivables from other customers	32	–	–	301,909,337	301,909,337	–	–	301,909,337	301,909,337
Financial assets at amortised cost – Debt and other instruments	33	–	–	31,604,175	31,604,175	–	–	31,604,175	31,604,175
Financial assets measured at fair value through other comprehensive income	34	–	88,718,002	–	88,718,002	–	88,718,002	–	88,718,002
Other assets	42	–	–	1,999,405	1,999,405	–	–	2,066,621	2,066,621
Total financial assets		1,445,181	88,718,002	367,706,038	457,869,221	1,445,181	88,718,002	367,795,534	457,958,717
Financial Liabilities									
Due to banks	44	–	–	14,909,937	14,909,937	–	–	14,909,937	14,909,937
Derivative financial liabilities	29	267,883	–	–	267,883	267,883	–	–	267,883
Financial liabilities at amortised cost – Due to depositors	45	–	–	310,026,892	310,026,892	–	–	309,566,423	309,566,423
Financial liabilities at amortised cost – Due to other borrowers	46	–	–	46,847,076	46,847,076	–	–	46,847,076	46,847,076
Debt securities in issue	47	–	–	16,291,279	16,291,279	–	–	16,291,279	16,291,279
Other liabilities	50	–	–	4,783,877	4,783,877	–	–	4,900,958	4,900,958
Subordinated term debt	51	–	–	19,357,497	19,357,497	–	–	19,357,497	19,357,497
Total financial liabilities		267,883	–	412,216,558	412,484,441	267,883	–	411,873,170	412,141,053

26. CASH AND CASH EQUIVALENTS

ACCOUNTING POLICY

Cash and cash equivalents include cash in hand, demand placements with banks and highly liquid financial assets with original maturities within three months or less from the date of acquisition that are subject to an insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments. These items are brought to Financial Statements at face values or the gross values, where appropriate. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows has been prepared by using the "Direct Method" of preparing cash flows in accordance with the Sri Lanka Accounting Standard – LKAS 7 on "Statement of Cash Flows". A reconciliation of the profit for the year to operating cash flows before changes in operating assets and liabilities is also presented for comparability.

	BANK		GROUP	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Cash in hand	6,102,551	4,865,815	6,102,691	4,866,081
Balances with banks	4,585,704	2,858,549	4,588,182	2,862,888
	10,688,255	7,724,364	10,690,873	7,728,969

26.1 ANALYSIS BY CURRENCY

	BANK		GROUP	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Cash in hand	6,102,551	4,865,815	6,102,691	4,866,081
Held in local currency	6,082,002	4,829,247	6,082,142	4,829,513
Held in foreign currency	20,549	36,568	20,549	36,568
Balances with Banks	4,585,704	2,858,549	4,588,182	2,862,888
Local Banks	–	–	2,478	3,138
Foreign Banks	4,585,704	2,858,549	4,585,704	2,859,750
	10,688,255	7,724,364	10,690,873	7,728,969

27. BALANCES WITH CENTRAL BANK OF SRI LANKA

ACCOUNTING POLICY

Balances with Central Banks are carried at amortised cost in the statement of financial position.

	BANK		GROUP	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Statutory balances with Central Bank of Sri Lanka	9,359,241	4,901,753	9,359,241	4,901,753

As required by the provisions of Section 93 of Monetary Law Act, a minimum cash balance is maintained with the Central Bank of Sri Lanka. The minimum cash reserve requirement on rupee deposit liabilities is prescribed as a percentage of rupee deposit liabilities. The percentage is varied from time to time. Applicable minimum ratio was increased to 4% with effect from 1 September 2021. (Minimum rate was 2% with effect from 16 June 2020). There are no reserve requirements for deposit liabilities of the Foreign Currency Banking Unit and foreign currency deposit liabilities in the Domestic Banking Unit.

28. PLACEMENTS WITH BANKS

See accounting policies in Note 5.3.

	BANK		GROUP	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Central Bank of Sri Lanka	787,108	13,226,633	787,108	13,226,633
Bank of Ceylon	4,500,734	2,000,249	4,500,734	2,000,249
Union Bank of Colombo PLC	–	187,405	–	187,405
Pan Asia Bank PLC	1,000,164	–	1,000,164	–
Commercial Bank of Ceylon PLC	–	–	44,527	17,675
Total	6,288,006	15,414,287	6,332,533	15,431,962

29. DERIVATIVE FINANCIAL ASSETS/LIABILITIES

ACCOUNTING POLICY

Derivative assets held-for-risk management purposes include all derivative assets that are not classified as trading assets and are measured at fair value in the Statement of Financial Position.

POLICY APPLICABLE GENERALLY TO HEDGING RELATIONSHIPS

The Group designates certain derivatives held-for-risk management as well as certain non derivative financial instruments as hedging instruments in qualifying hedging relationships.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both on inception of the hedging relationship and on an ongoing basis, of whether the hedging instrument is expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80 – 125%. For a cash flow hedge of a forecast transaction, the Group makes an assessment of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

29.1 CASH FLOW HEDGE

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in the hedging reserve is reclassified from OCI to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the income statement and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a Central Counterparty (CCP) by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated. If the hedged cash flows are no longer expected to occur, then the Group immediately reclassifies the amount in the hedging reserve from OCI to profit or loss. For terminated hedging relationships, if the hedged cash flows are still expected to occur, then the amount accumulated in the hedging reserve is not reclassified until the hedged cash flows affect profit or loss; if the hedged cash flows are expected to affect profit or loss in multiple reporting periods, then the Group reclassifies the amount in the hedging reserve from OCI to profit or loss on a straight line basis.

The Bank uses cross currency swaps (CCS) to hedge the interest rate risk and exchange rate risk arising from a floating rate borrowing denominated in foreign currencies. The hedging relationship is designated as cash flow hedge since the Bank is expecting to hedge the variability arise by the interest rate risk and exchange rate risk, where the USD borrowing can be identified as the hedged item, the CCS can be identified as the hedge instrument and interest rate risk and exchange rate risk can be identified as the hedged risk.

Derivatives are classified as assets, when their fair value is positive or as liabilities, when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset, if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

29.2 FAIR VALUE HEDGE OF FOREIGN EXCHANGE RISK

The Bank hedge the risk of variation in fair value of foreign currency denominated loans using foreign currency forwards from 1 January 2019. The risk management strategy is to use the foreign currency variability (gains/losses) arising because of revaluation of the foreign currency forwards attributable to change in the spot foreign exchange rates to off-set the variability, due to foreign exchange rate movements, in the value of USD denominated loans.

The hedged risk is the USD/LKR foreign exchange risk in the LKR conversion of USD denominated long-term liabilities. USD denominated long-term liabilities are designated as hedge item and forward contract that maturity match with the tenure considered as hedge instrument.

The Group's approach to managing market risk, including foreign exchange risk, is discussed in Note 8.4. The Group's exposure to foreign exchange risk is disclosed in Note 8.4.5.

By using derivative financial instruments to hedge exposures to changes in exchange rates, the Group also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item. The Group minimises counterparty credit risk in derivative instruments by entering into transactions with high-reputed counterparties.

Before fair value hedge accounting is applied by the Group, the Group determines whether an economic relationship between the hedged item and the hedging instrument exists based on an evaluation of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Group considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. The Group evaluates whether the fair value of the hedged item and the hedging instrument respond similarly to similar risks.

Under the Group policy, in order to conclude that a hedging relationship is effective, all the required criteria should be met.

29.3 OTHER NON-TRADING DERIVATIVES

Other non-trading derivatives are recognised on balance sheet at fair value. If a derivative is not held for trading, and is not designated in a qualifying hedging relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at FVTPL.

29.4 DERIVATIVE FINANCIAL ASSETS/LIABILITIES

The following table describes the fair values of derivatives held-for-risk management purposes by type of instrument:

29.4.1 ASSETS

As at 31 December	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Instrument Type				
Interest rate and foreign exchange				
Cross currency swap	73,788	527,877	73,788	527,877
Foreign exchange				
Forward foreign exchange contracts – Currency swaps	206,441	276,665	206,441	276,665
– Other	6	30,922	6	30,922
	280,235	835,464	280,235	835,464

29.4.2 LIABILITIES

As at 31 December	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Instrument type				
Foreign exchange				
Forward foreign exchange contracts – Currency swaps	814,193	239,805	814,193	239,805
– Other	26	28,078	26	28,078
	814,219	267,883	814,219	267,883

29.4.3 ACCOUNTING HEDGE

Hedging instruments **Foreign currency risk**	Line item in the statement of financial position	2021 Asset LKR '000	2021 Amount set off in the income statements LKR '000	2020 Asset	2020 Amount set off in the income statements
Fair value hedge					
Hedge of foreign exchange risk arising from foreign currency denominated long term liabilities using FX forwards.	Derivative assets (liabilities) held-for-risk management purposes	112,412	1,330	527,877	980,827
Cashflow hedge					
Hedge of foreign exchange risk arising from foreign currency denominated long term liabilities using FX forwards.	Derivative assets/(liabilities) held-for-risk management purposes	(357,466)	107,177	(50,169)	15,420

The amount relating to items designated as hedged items were as follow:

Line item in the statement of financial position in which the hedged items are included.	2021 Carrying amount of liability LKR '000	2021 Amount set off in the income statement LKR '000	2020 Carrying amount of liability LKR '000	2020 Amount set off in the income statement LKR '000
Due to other customers	–	–	9,039,056	406,528
Due to other borrowers	30,419,376	108,507	8,700,311	589,719
	30,419,376	108,507	17,739,367	996,246

Following table summarises the impact on the line items in income statement.

Impact on income statements	2021 Balance before the hedging adjustment	2021 Hedging adjustment	2021 Balance after the hedging adjustment	2020 Balance before the hedging adjustment	2020 Hedging adjustment	2020 Balance after the hedging adjustment
Foreign exchange gain/(loss) (Note 16)	(413,087)	108,507	(304,580)	(972,954)	996,246	23,292
Forward exchange fair value changes – Contracts with commercial banks and other customers (Note 14)	(109,041)	(108,507)	(217,548)	453,077	(996,246)	(543,169)
Interest income	42,863,020	(214,258)	42,648,762	43,806,175	(506,375)	43,299,800
Interest expense	36,813,258	(214,258)	36,599,000	39,596,361	506,375	39,089,986

30. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

ACCOUNTING POLICY

See accounting policies in Note 5.3.

Financial assets measured at FVTPL are measured initially at fair value and subsequently recorded in the statement of financial position at fair value. Changes in fair value are recognised in income statement.

As at 31 December	Notes	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Quoted equity securities	30.1	181,425	44,880	181,425	44,880
Quoted units in Unit Trust	30.2	3,740	3,740	3,740	3,740
Unquoted units in Unit Trust	30.3	33,710	561,097	33,710	561,097
		218,875	609,717	218,875	609,717

30.1 QUOTED EQUITY SECURITIES – BANK/GROUP

As at 31 December	31 December 2021 Number of ordinary shares	31 December 2021 Cost LKR '000	31 December 2021 Fair value LKR '000	31 December 2020 Number of ordinary shares	31 December 2020 Cost LKR '000	31 December 2020 Fair value LKR '000
John Keells Holdings PLC	300,000	33,811	45,000	300,000	33,811	44,880
Hayleys PLC	600,000	64,452	78,000	–	–	–
Lanka Tiles PLC	141,793	10,969	15,596	–	–	–
Kelani Cables PLC	87,450	23,179	42,829	–	–	–
		132,411	181,425		33,811	44,880

30.2 QUOTED UNITS IN UNIT TRUST – BANK/GROUP

As at 31 December	2021			2020		
	Number of units	Cost LKR '000	Fair value LKR '000	Number of units	Cost LKR '000	Fair value LKR '000
NAMAL Acuity Value Fund	39,102	1,963	3,740	39,102	1,963	3,740
		1,963	3,740		1,963	3,740

30.3 UNQUOTED UNITS IN UNIT TRUST – BANK/GROUP

	2021			2020		
	Number of units	Cost LKR '000	Fair value LKR '000	Number of units	Cost LKR '000	Fair value LKR '000
NAMAL Growth Fund	155,000	1,539	23,909	2,125,766	251,539	270,292
National Equity Fund	250,000	2,657	9,801	250,000	2,657	7,875
Guardian Acuity Equity Fund	–	–	–	9,052,505	150,000	164,069
JB Vantage Value Equity Fund	–	–	–	5,224,660	100,000	118,861
		4,196	33,710		504,196	561,097

31. FINANCIAL ASSETS AT AMORTISED COST – LOANS TO AND RECEIVABLES FROM BANKS

ACCOUNTING POLICY

See accounting policies in Notes 5.3 and 17.

"Financial assets at amortised cost – Loans and advances to banks" include amounts due from banks.

As per SLFRS 9, Loans and advances to Banks are assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows and the contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding.

After initial measurement, loans and receivables to banks are subsequently measured at gross carrying amount using the EIR, less provision for impairment, except when the Group designates at fair value through profit or loss. EIR is calculated by taking into account any discount or premium on acquisition and fees and costs. The amortisation is included in "Interest Income" while the losses arising from impairment are recognised in "Impairment charges and other losses" in the Income Statement.

	BANK/GROUP	
As at 31 December	2021 LKR '000	2020 LKR '000
Gross loans and receivables	–	4,152,717

31.1 ANALYSIS

31.1.1 BY PRODUCT

	BANK/GROUP	
As at 31 December	2021 LKR '000	2020 LKR '000
Securities purchased under resale agreements	–	4,152,717
Gross loans and receivables	–	4,152,717

31.1.2 BY CURRENCY

	BANK/GROUP	
As at 31 December	2021 LKR '000	2020 LKR '000
Sri Lankan rupee	–	4,152,717
Gross loans and receivables	–	4,152,717

31.1.3 Fair value of securities obtained as collateral amounts to LKR 4.5 bn as at 31 December 2020

32. FINANCIAL ASSETS AT AMORTISED COST – LOANS TO AND RECEIVABLES FROM OTHER CUSTOMERS

ACCOUNTING POLICY

See accounting policies in Notes 5.3 and 17.

Loans to and receivables from other customers include loans and advances and lease receivables of the Group.

Principal amount of loans and advances (for example, over drawn balances in current account) are recognised when cash is advanced to a borrower. They are derecognised when either the borrower repays its obligations, or the loans are written-off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less any reduction for impairment or uncollectibility.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risk and rewards incidental to the ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

Loans and receivables from other customers are normally written off, either partially or in full, when there is no realistic prospect of recovery and all possible steps have been executed in recovering dues. Where loans are secured, this is generally after receipt of any proceeds from the realisation of the security. If the write-off is later recovered, the recovery is credited to "Net other operating income".

As at 31 December	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Gross loans and receivables	384,958,590	317,232,613	384,958,590	317,232,613
Allowance for impairment (Note 32.1.4)	(19,058,050)	(15,323,276)	(19,058,050)	(15,323,276)
Net loans and advances receivables	365,900,540	301,909,337	365,900,540	301,909,337
Gross loans and advances receivables				
Stage 1	309,103,252	250,718,437	309,103,252	250,718,437
Stage 2	45,612,740	42,152,186	45,612,740	42,152,186
Stage 3	30,242,598	24,361,990	30,242,598	24,361,990
	384,958,590	317,232,613	384,958,590	317,232,613

As at 31 December	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Allowance for impairment				
Stage 1	2,202,668	1,305,740	2,202,668	1,305,740
Stage 2	1,989,584	1,065,570	1,989,584	1,065,570
Stage 3	14,865,798	12,951,966	14,865,798	12,951,966
	19,058,050	15,323,276	19,058,050	15,323,276
Net loans and receivables	365,900,540	301,909,337	365,900,540	301,909,337

32.1 ANALYSIS

32.1.1 BY PRODUCT

As at 31 December	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Overdrafts	46,132,702	36,812,262	46,132,702	36,812,262
Trade finance	39,875,578	30,342,162	39,875,578	30,342,162
Lease rentals receivable (Note 32.1.1.1)	23,761,600	25,127,338	23,761,600	25,127,338
Credit cards	3,669,701	2,199,543	3,669,701	2,199,543
Pawning	5,970,069	4,565,645	5,970,069	4,565,645
Staff loans	2,656,268	2,491,323	2,656,268	2,491,323
Term loans	262,211,144	213,617,752	262,211,144	213,617,752
Asset back notes	681,528	2,076,588	681,528	2,076,588
Gross loans and receivables	384,958,590	317,232,613	384,958,590	317,232,613

COVID-19 Repayment deferral packages offered to customers

The Bank has offered various forms of assistance to customers to counteract the impact of COVID-19 on the ability of customers to meet their loan obligations since March 2020, based on the guidelines given by Central Bank of Sri Lanka and Bank's own initiatives. Refer to Key Judgements and Estimates in the Note 32.1.4 for details of the impact of deferrals when determining if there has been a Significant Increase in Credit Risk (SICR).

The Bank offered loan repayment deferral package/moratorium and working capital loan arrangements under concessionary rates as per the circulars issues by Central Bank of Sri Lanka (CBSL).

32.1.1.1 LEASE RENTALS RECEIVABLE

	BANK		GROUP	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Gross investment in leases:				
Lease rentals receivable				
– within one year	12,061,658	12,215,465	12,061,658	12,215,465
– one to five years	16,285,235	18,476,263	16,285,235	18,476,263
	28,346,893	30,691,728	28,346,893	30,691,728
Less: Deposit of rentals	12,442	11,676	12,442	11,676
Unearned income on rentals receivable				
– within one year	2,485,233	2,675,561	2,485,233	2,675,561
– one to five years	2,087,618	2,877,153	2,087,618	2,877,153
	23,761,600	25,127,338	23,761,600	25,127,338

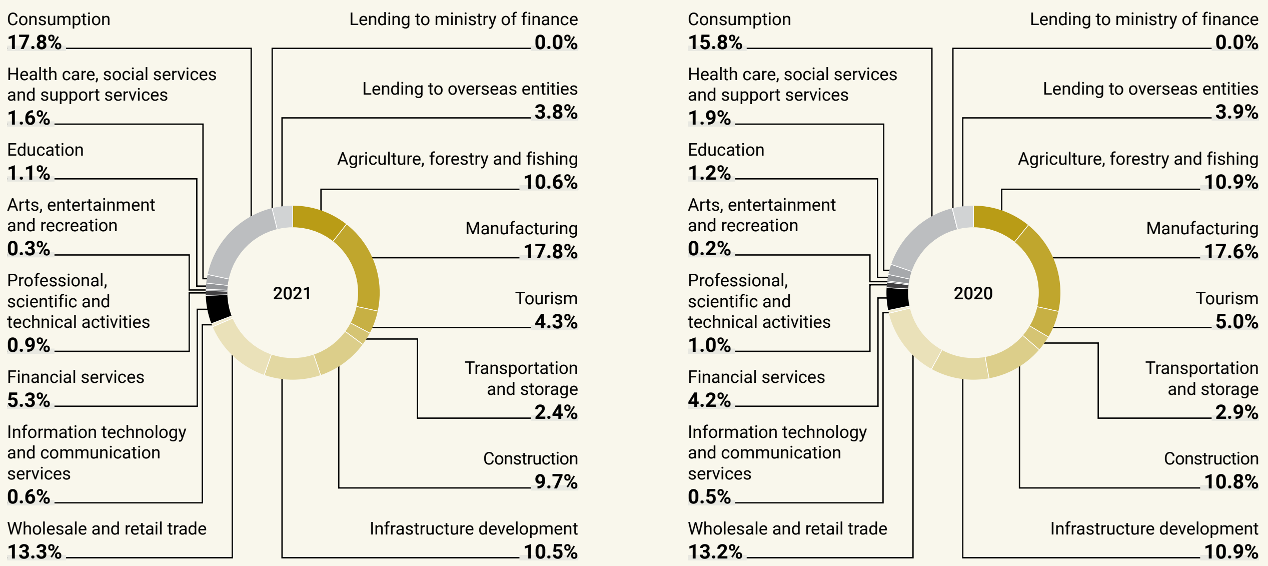
32.1.2 BY CURRENCY

	BANK		GROUP	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Sri Lankan Rupee	337,111,155	278,775,496	337,111,155	278,775,496
United States Dollar	46,979,020	37,443,007	46,979,020	37,443,007
Great Britain Pound	702,306	652,137	702,306	652,137
Australian Dollar	19,307	91,191	19,307	91,191
Euro	146,802	270,782	146,802	270,782
Gross loans and receivables	384,958,590	317,232,613	384,958,590	317,232,613

32.1.3 BY INDUSTRY

As at 31 December	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Agriculture, forestry and fishing	40,827,861	34,483,557	40,827,861	34,483,557
Manufacturing	68,451,049	55,769,741	68,451,049	55,769,741
Tourism	16,537,932	15,990,359	16,537,932	15,990,359
Transportation and storage	9,379,401	9,108,654	9,379,401	9,108,654
Construction	37,306,964	34,175,044	37,306,964	34,175,044
Infrastructure development	40,393,111	34,465,896	40,393,111	34,465,896
Wholesale and retail trade	51,206,160	41,871,504	51,206,160	41,871,504
Information technology and communication services	2,330,228	1,712,933	2,330,228	1,712,933
Financial services	20,393,853	13,286,037	20,393,853	13,286,037
Professional, scientific and technical activities	3,289,367	3,203,777	3,289,367	3,203,777
Arts, entertainment and recreation	1,016,926	756,676	1,016,926	756,676
Education	4,392,320	3,751,677	4,392,320	3,751,677
Health care, social services and support services	6,107,068	6,077,955	6,107,068	6,077,955
Consumption	68,626,259	50,166,516	68,626,259	50,166,516
Lending to Ministry of Finance	–	33,923	–	33,923
Lending to overseas entities	14,700,091	12,378,364	14,700,091	12,378,364
Gross loans and receivables	384,958,590	317,232,613	384,958,590	317,232,613

ANALYSIS BY INDUSTRY



32.1.4 MOVEMENTS IN IMPAIRMENT DURING THE YEAR

Key judgements and estimates

In estimating collectively assessed ECL, the Bank makes judgements and assumptions in relation to:

- the selection of an estimation technique or modelling methodology, noting that the modelling of the Group's ECL estimates are complex; and
- the selection of inputs for those models, and the interdependencies between those inputs.

The following table summarises the key judgements and assumptions used by the Bank in relation to the ECL model inputs, the interdependencies between those inputs, and highlights the significant changes during the current year.

The judgements and associated assumptions have been made within the context of the impact of COVID-19, and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the economy. Accordingly, the Bank's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

	BANK/GROUP	
As at 31 December	2021 LKR '000	2020 LKR '000
Stage 1		
Balance at beginning	1,305,740	901,871
Charge to income statement	896,995	404,581
Write-off during the year	(67)	(712)
Balance as at 31 December	2,202,668	1,305,740
Stage 2		
Balance at beginning	1,065,570	1,563,877
Charge/(write back) to income statement	924,214	(494,452)
Write-off during the year	(200)	(3,855)
Balance as at 31 December	1,989,584	1,065,570
Stage 3		
Balance at beginning	12,951,966	9,940,734
Charge to income statement	2,024,891	3,030,682
Effect of foreign currency movement	102,856	44,441
Write-off during the year	(213,315)	(27,398)
Other movements	(600)	(36,493)
Balance as at 31 December	14,865,798	12,951,966
Total impairment	19,058,050	15,323,276

Judgement/Assumption	Description	Considerations for the year ended 31 December 2021/20
Determining when a significant Increase in Credit Risk (SICR) has occurred	In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from "Stage 1" to "Stage 2". This is a key area of judgement since transition from Stage 1 to Stage 2 increases the ECL from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses.	In response to the impacts of COVID-19, various moratorium/ debt concessionary schemes have been offered to eligible customers. The Bank does not consider that when a customer is first provided assistance it automatically results in a Significant Increase in Credit Risk (SICR) and a consequent impact on ECL when assessing provisions. Subsequent to take-up, assessments have been carried out based on the discussions with the customers on the future business cashflows, financial position, the sectors in which the businesses operate, and ability to recommence loan repayments at the end of the moratorium/debt concessionary period to conclude whether there is a SICR.
Measuring both 12-month and lifetime credit losses	The probability of default (PD), loss given default (LGD) and exposure at default (EAD) credit risk parameters used in determining ECL are point-intime measures reflecting the relevant forward looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio's point-in-time sensitivity.	The PD, EAD and LGD models are subject to the Bank's policy on impairment model that stipulates periodic model monitoring, periodic revalidation and the approval procedures and authorities according to model materiality. There were no material changes to the policies during the year ended 31 December 2021. Due to the implications of moratorium/ debt concessionary schemes on PDs and LDGs (due to limited movements to Stage 2 & 3), adjustments have been made as overlays based on stress testing and historic patters to better reflect the adequacy of ECL.
	In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL.	There were no material changes to behavioural lifetime estimates during the year ended 31 December 2021/2020.
Base case economic forecast	The Bank derives a forward-looking "base case" economic scenario which reflects the Bank's view of the most likely future macro-economic conditions.	There have been no changes to the types of forward-looking variables (key economic drivers) used as model inputs in the current year. As at 31 December 2021, the base case assumptions have been updated to reflect the rapidly evolving situation with respect to COVID-19 by using the economic forecast.
Probability weighting of each economic scenario (base case, best and worst scenarios)	Probability weighting of each economic scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario at each measurement date.	The key consideration for probability weightings in the current period is the continuing impact of COVID-19. In addition to the base case forecast which reflects the negative economic consequences of COVID-19, greater weighting has been applied to the worst scenario given the Bank's assessment of downside risks. The assigned probability weightings are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

Judgement/Assumption	Description	Considerations for the year ended 31 December 2021/20
Management temporary adjustments	Management temporary adjustments to the ECL allowance are used in circumstances where it is judged that the existing inputs, assumptions and model techniques do not capture all the risk factors relevant to Group's lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into the current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management temporary adjustments may impact the amount of ECL recognised.	Management have applied a number of adjustments to the modelled ECL primarily due to the uncertainty associated with COVID-19.
	The uncertainty associated with the COVID-19 pandemic, and the extent to which the actions of governments, businesses and consumers mitigate against potentially adverse credit outcomes are not fully incorporated into existing ECL models. Accordingly, management overlays have been applied to ensure credit provisions are appropriate.	Management overlays (including COVID-19 overlays) which add to the modelled ECL provision have been made for risks particular for risk elevated sectors identified by the Bank.

33. FINANCIAL ASSETS AT AMORTISED COST – DEBT AND OTHER INSTRUMENTS

ACCOUNTING POLICY

See accounting policies in Notes 5.3 and 17.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

	BANK/GROUP	
As at 31 December	2021 LKR '000	2020 LKR '000
Sri Lanka Government Securities		
Treasury Bills – unencumbered	10,703,280	–
Treasury Bonds – unencumbered	6,100,721	17,505,660
Sri Lanka developments bonds – unencumbered	4,902,802	7,596,484
Sri Lanka sovereign bonds – unencumbered	4,652,352	6,111,605
Other Investments		
Quoted debentures (Note 33.1)	879,281	661,941
Accumulated impairment under Stage 1 (Note 33.3)	(563,474)	(271,515)
Total	26,674,962	31,604,175

33.1 QUOTED DEBENTURES BANK/GROUP

As at 31 December	2021		2020	
	Number of Debentures	Cost of investment LKR '000	Number of Debentures	Cost of investment LKR '000
LB Finance PLC	1,155,200	116,344	1,155,200	116,344
People's Leasing and Finance PLC	2,500,000	272,217	2,500,000	272,217
Singer (Sri Lanka) PLC	2,500,000	273,380	2,500,000	273,380
Lanka Orix Leasing Company PLC	2,000,000	217,340	–	–
Total investments in quoted debentures – Bank/Group		879,281		661,941

33.2 QUOTED DEBENTURES – BY COLLATERALISATION

	BANK/GROUP	
As at 31 December	2021 LKR '000	2020 LKR '000
Pledged as collateral	865,200	308,951
Unencumbered	14,081	352,990
	879,281	661,941

33.3 MOVEMENT IN IMPAIRMENT DURING THE YEAR

	BANK/GROUP	
As at 31 December	2021 LKR '000	2020 LKR '000
Stage 1		
Balance at beginning	271,515	82,571
Transferred from FVOCI during the year*	–	67,231
Charge to income statement	291,959	121,713
Balance as at 31 December	563,474	271,515

* As per the Guidance Notes on Accounting Consideration of the COVID-19 Outbreak issued by The Institute of Chartered Accountants of Sri Lanka on 11 May 2020, the Bank has reclassified the investment made in Sovereign Bond and Sri Lanka Development Bond from fair value through other comprehensive income to amortized cost with effect from 1 April 2020.

34. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

ACCOUNTING POLICY

See accounting policies in Notes 5.3 and 17.

A financial asset is measured at fair value through other comprehensive income (FVOCI) only if it meets both of the following conditions and is not designated as FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- On initial recognition of an equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment – by investment basis.

As at 31 December	BANK		GROUP	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Equity securities				
Quoted (Note 34.1)	12,337,187	12,299,552	12,337,187	12,299,552
Unquoted (Note 34.2)	216,602	213,810	220,595	213,810
Preference shares (Note 34.3)	–	500	–	500
	12,553,789	12,513,862	12,557,782	12,513,862
Government securities*				
Government of Sri Lanka Treasury bills (Note 34.5)	19,516,720	13,169,467	19,516,720	13,169,467
Government of Sri Lanka Treasury bonds (Note 34.6)	21,263,943	62,102,967	21,263,943	62,102,967
Sri Lanka sovereign bonds - unencumbered	994,984	931,706	994,984	931,706
	41,775,647	76,204,140	41,775,647	76,204,140
Total	54,329,436	88,718,002	54,333,429	88,718,002

* Government securities include impairment allowance of LKR 77.5 Mn as at 31 December 2021 (LKR 20.85 Mn as at 31 December 2020) Movement in impairment during the year is given in Note 34.7.

34.1 QUOTED ORDINARY SHARES

As at 31 December	2021			2020		
	Number of ordinary shares	Cost* LKR '000	Fair value LKR '000	Number of ordinary shares	Cost* LKR '000	Fair value LKR '000
Banks, Finance and Insurance						
Commercial Bank of Ceylon PLC – voting	136,272,121	8,400,125	10,806,379	133,233,726	8,133,658	10,778,608
Commercial Bank of Ceylon PLC – non-voting	281,246	22,787	20,250	274,108	22,239	19,215
National Development Bank PLC	3,168,904	480,711	218,337	3,168,904	480,711	247,491
		8,903,623	11,044,966		8,636,608	11,045,314

As at 31 December	2021			2020		
	Number of ordinary shares	Cost* LKR '000	Fair value LKR '000	Number of ordinary shares	Cost* LKR '000	Fair value LKR '000
Chemicals and Pharmaceuticals						
Chemical Industries (Colombo) PLC – voting	991,600	14,131	64,454	247,900	14,131	45,192
Chemical Industries (Colombo) PLC – non-voting	1,557,600	15,577	76,478	389,400	15,577	59,033
		29,708	140,932		29,708	104,225
Construction and Engineering						
Access Engineering PLC	2,143,499	52,953	68,378	1,500,000	37,616	36,900
Colombo Dockyard PLC	–	–	–	160,000	12,160	13,648
		52,953	68,378		49,776	50,548
Diversified Holdings						
Hayleys PLC	273,330	17,988	35,533	7,333	2,225	3,040
Hemas Holdings PLC	1,392,933	100,977	93,187	1,427,599	99,383	142,617
John Keells Holdings PLC	1,601,482	235,877	240,222	601,482	77,245	89,982
Melstacorp Ltd	2,069,940	90,053	116,124	2,069,940	90,053	107,637
		444,895	485,066		268,906	343,276
Hotels and Travels						
Dolphin Hotels PLC	–	–	–	93,900	906	2,479
John Keells hotels PLC	2,395,322	26,406	35,211	–	–	–
		26,406	35,211		906	2,479
Investment Trusts						
Ceylon Guardian Investment Trust PLC	76,799	2,984	7,987	152,308	5,918	19,389
Ceylon Investment PLC	180,011	5,910	9,649	293,783	9,645	21,828
		8,894	17,636		15,563	41,217
Telecommunications						
Dialog Axiata PLC	–	–	–	4,000,000	37,482	49,600

As at 31 December	2021			2020		
	Number of ordinary shares	Cost* LKR '000	Fair value LKR '000	Number of ordinary shares	Cost* LKR '000	Fair value LKR '000
Manufacturing						
ACL Cables PLC	1,000,000	42,721	100,250	790,000	45,270	60,514
Ceylon Grain Elevators PLC	148,997	9,197	18,140	148,997	9,197	16,539
Chevron Lubricants Lanka PLC	–	–	–	411,628	20,505	44,456
Kelani Tyres PLC	–	–	–	25,000	1,513	2,163
Royal Ceramics Lanka PLC	–	–	–	20,000	1,915	3,542
Teejay Lanka PLC	1,075,000	43,941	47,730	1,075,000	43,941	40,850
Tokyo Cement Company (Lanka) PLC – voting	1,570,000	97,985	93,886	1,570,000	97,985	119,634
Tokyo Cement Company (Lanka) PLC – non-voting	1,695,025	69,335	84,243	2,522,515	88,906	172,035
Aitken Spence PLC	–	–	–	500,000	23,250	28,900
Hayleys Fabric PLC	2,000,000	79,828	82,400	3,500,000	66,404	97,300
Expolanka Holdings PLC	–	–	–	2,000,000	53,523	58,000
Swisstek Ceylon PLC	494,196	15,144	22,733	–	–	–
Haycarb PLC	500,000	50,919	38,400	–	–	–
JAT Holdings PLC	101,200	2,732	2,176	–	–	–
		411,802	489,958		452,409	643,933
Power and Energy						
Vallibel Power Erathna PLC	6,400,000	39,783	55,040	2,400,000	6,400	18,960
Total Quoted Ordinary Shares – Bank		9,918,064	12,337,187		9,497,758	12,299,552
Commercial Bank of Ceylon PLC – Equity Adjustment**	–	1,454,863	–		1,454,863	–
Total Quoted Ordinary Shares – Group		11,372,927	12,337,187		10,952,621	12,299,552

Transfer of gain or (losses) on disposal/write -off of equity investments at fair value through other comprehensive income to retained earning for the year ended 31 December 2021 is LKR 344 Mn.

Sector classification and fair value per share are based on the list published by Colombo Stock Exchange, as at the reporting date.

* Cost is reduced by write-off of diminution in value other than temporary in respect of Investments.

** During the year 2010, the status of the investment in equity capital of Commercial Bank of Ceylon PLC changed from an associate to investment security. At the time of change, carrying value of the Group including cumulative post acquisition reserves was considered as the cost of the investment.

34.2 UNQUOTED ORDINARY SHARES

As at 31 December	2021			2020		
	Number of ordinary shares	Cost* LKR '000	Fair value LKR '000	Number of ordinary shares	Cost* LKR '000	Fair value LKR '000
Credit Information Bureau of Sri Lanka	9,184	918	192,940	9,184	918	192,708
Lanka Clear (Private) Limited	100,000	1,000	20,277	100,000	1,000	17,717
Lanka Financial Services Bureau Limited	200,000	2,000	–	200,000	2,000	–
Samson Reclaim Rubber Limited	116,700	–	–	116,700	–	–
Society for Worldwide Interbank Financial Telecommunication	6	3,385	3,385	6	3,385	3,385
Sun Tan Beach Resorts Limited	9,059,013	–	–	9,059,013	–	–
The Video Team (Private) Limited	30,000	–	–	30,000	–	–
Total unquoted ordinary shares – Bank		7,303	216,602		7,303	213,810
Agrithmics (Private) Limited	380,240	4,000	3,993	–	–	–
Total unquoted ordinary shares – Group		11,303	220,595		7,303	213,810

* Cost is reduced by write off of diminution in value other than temporary in respect of investments .

34.3 UNQUOTED IRREDEEMABLE PREFERENCE SHARES BANK/GROUP

As at 31 December	2021			2020		
	Number of ordinary shares	Cost LKR '000	Fair value LKR '000	Number of ordinary shares	Cost LKR '000	Fair value LKR '000
Arpico Finance Company PLC	–	–	–	50,000	500	500
Total investments in unquoted irredeemable preference shares – Bank/Group		–	–		500	500

34.4 EQUITY SECURITIES

34.4.1 COMPOSITION*

34.4.1.1 BANK

As at 31 December	Ordinary Shares Quoted LKR '000	Ordinary Shares Unquoted LKR '000	Total 2021 LKR '000	Total 2020 LKR '000
Performing investments	12,337,187	213,217	12,550,404	12,509,977
Non-performing investments	–	3,385	3,385	3,885
	12,337,187	216,602	12,553,789	12,513,862

34.4.1.2 GROUP

As at 31 December	Ordinary Shares Quoted LKR '000	Ordinary Shares Unquoted LKR '000	Total 2021 LKR '000	Total 2020 LKR '000
Performing investments	12,337,187	217,210	12,554,397	12,509,977
Non-performing investments	–	3,385	3,385	3,885
	12,337,187	220,595	12,557,782	12,513,862

* Disclosure as per the Direction on the prudential norms for classification, valuation and operation of the Bank's investment portfolio.

34.5 GOVERNMENT OF SRI LANKA TREASURY BILLS – BY COLLATERALISATION

	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Pledged as collateral	394,940	134,235	394,940	134,235
Unencumbered	19,121,780	13,035,232	19,121,780	13,035,232
	19,516,720	13,169,467	19,516,720	13,169,467

34.6 GOVERNMENT OF SRI LANKA TREASURY BONDS – BY COLLATERALISATION

	BANK		GROUP	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Pledged as collateral	4,029,494	8,540,121	4,029,494	8,540,121
Unencumbered	17,234,449	53,562,846	17,234,449	53,562,846
	21,263,943	62,102,967	21,263,943	62,102,967

34.7 MOVEMENT IN IMPAIRMENT DURING THE YEAR

	BANK/GROUP	
As at 31 December	2021 LKR '000	2020 LKR '000
Balance at beginning	20,852	14,384
Charge to income statement	56,673	73,699
Transferred to financial assets at amortised cost (Note 33.3)	–	(67,231)
Balance as at 31 December	77,525	20,852

35. INVESTMENTS IN SUBSIDIARIES

ACCOUNTING POLICY

"Subsidiaries" are entities controlled by the Group. The Group "controls" an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Bank's investments in subsidiaries are stated at cost less impairment losses. Reversals of impairment losses are recognised in the income statement, if there has been a change in the estimates used to determine the recoverable amount of the investment.

As at 31 December	Holdings	Number of shares	2021 Cost LKR '000	2021 Market value*/ Directors' valuation LKR '000	2020 Cost LKR '000	2020 Market value*/ Directors' valuation LKR '000
Unquoted						
DFCC Consulting (Pvt) Limited	100%	500,000	5,000	62,830	5,000	61,255
Lanka Industrial Estates Limited	51.16%	8,169,205	97,036	332,167	97,036	295,962
Synapsys Limited	100%	31,216,649	135,000	126,127	135,000	121,866
			237,036	521,124	237,036	479,083
Less: Allowance for impairment (Note 35.1)**			19,600	19,600	19,600	19,600
			217,436	501,524	217,436	459,483

35.1 MOVEMENTS IN IMPAIRMENT ALLOWANCE

As at 31 December	2021 LKR '000	2020 LKR '000
Balance at beginning	19,600	49,600
Reversal to income statement	–	(30,000)
Balance as at 31 December	19,600	19,600

*Market value is arrived by using the audited/reviewed financial statements as at the reporting date.

**Allowance for impairment represent that made for Synapsys Limited. Based on the internal assessment carried out, the Board was of the view that the impairment as at 31 December 2021 is adequate.

36. INVESTMENTS IN ASSOCIATE

ACCOUNTING POLICY

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interest in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs and attributable goodwill. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence ceases.

As at 31 December	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
National Asset Management Limited (Ownership 30%)				
Balance at beginning	35,270	35,270	31,699	31,293
Share of profit after tax	–	–	3,826	571
Share of other comprehensive income/(expenses)	–	–	83	(165)
Balance as at 31 December	35,270	35,270	35,608	31,699

36.1 SUMMARISED FINANCIAL INFORMATION OF ASSOCIATES

As at 31 December	2021 LKR '000	2020 LKR '000
Percentage ownership interest (%)	30	30
Non-current assets	94,057	49,504
Current assets	37,847	81,345
Non-current liabilities	(4,135)	(4,319)
Current liabilities	(9,125)	(20,917)
Net assets (100%)	118,644	105,613
Group's share of net assets (30%)	35,593	31,684
Goodwill on acquisition	15	15
Adjusted Group's share of net assets (30%)	35,608	31,699

For the year ended 31 December	2021 LKR '000	2020 LKR '000
Revenue	81,346	67,440
Profit after tax (100%)	12,752	1,902
Other comprehensive income/(expenses) (100%)	278	(548)
Total comprehensive income (100%)	13,030	1,354
Group's share in profit	3,826	571
Group's share in other comprehensive income	83	(165)
Group's share in total comprehensive income	3,909	406
Contingent liabilities of equity accounted investee	–	–
Capital and other commitments of equity accounted investee	–	–

There are no restrictions on the ability of the associate to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances.

The Company has neither contingent liabilities nor capital and other commitments towards its associate company.

37. INVESTMENTS IN JOINT VENTURE

ACCOUNTING POLICY

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interest in the joint venture is accounted for using the equity method. They are initially recognised at cost, which includes transaction costs and attributable goodwill. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which joint control ceases.

37.1 INVESTMENTS IN JOINT VENTURE-BANK

As at 31 December	2021 Cost of Investment LKR '000	2020 Cost of Investment LKR '000
Acuity Partners (Pvt) Limited (ownership 50%)	755,000	755,000
	755,000	755,000

37. 2 INVESTMENT IN JOINT VENTURE-GROUP

As at 31 December	2021 LKR '000	2020 LKR '000
Share of identifiable asset and liabilities of joint venture as at the beginning of the year	2,633,950	2,249,804
Share of unrealised profit on disposal of investments*	(184,688)	(184,688)
Balance at beginning	2,449,262	2,065,116
Share of profit net of tax	292,836	407,214
Share of other comprehensive income	62,773	26,932
Dividend received during the year	–	(50,000)
Group's share of net assets – 50%	2,804,871	2,449,262

The following table summarises the financial information of Acuity Partners (Pvt) Ltd. as included in its own financial statements, adjusted for fair value adjustments at acquisition and differences in accounting policies. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in Acuity Partners (Pvt) Ltd.

For the year ended 31 December	2021 LKR '000	2020 LKR '000
Percentage ownership interest (%)	50	50
Revenue	1,362,055	1,091,335
Expenses	(810,903)	(775,257)
Share of profit of equity accounted investees	662,654	794,186
Income tax reversal/(expense)	(269,192)	91,969
Profit after tax (100%)	944,614	1,202,233
Other comprehensive income (100%)	270,437	107,548
Total comprehensive income (100%)	1,215,051	1,309,781

For the year ended 31 December	2021 LKR '000	2020 LKR '000
Profit attributable to equity holders	585,672	814,428
Other comprehensive income attributable to equity holders	125,546	53,862
Total comprehensive income attributable to equity holders	711,218	868,290
Group's share in profit (50%)	292,836	407,214
Group's share in other comprehensive income (50%)	62,773	26,931
Group's share in total comprehensive income (50%)	355,609	434,145
Current assets	8,643,153	7,671,324
Non-current assets	13,770,952	19,132,447
Current liabilities	(10,174,719)	(15,881,343)
Non-current liabilities	(3,100,309)	(2,854,630)
Net assets attributable to equity holders	5,979,118	5,267,899

As at 31 December	2021 LKR '000	2020 LKR '000
Group's share of net assets (50%) – before consolidation adjustment	2,989,559	2,633,950
Share of unrealised profit on disposal investment*	(184,688)	(184,688)
Group's share of net assets 50%	2,804,871	2,449,262
Contingent liabilities of equity accounted investee	–	–
Capital and other commitments of equity accounted investee	–	–

There are no restrictions on the ability of the associate to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances.

The Bank has neither contingent liabilities nor capital and other commitments towards its joint venture company.

*This is the elimination of 50% of the profits on disposal of subsidiary to joint venture Company during the year 2010.

38. INVESTMENT PROPERTY

ACCOUNTING POLICY

Investment property of the Bank/Group is held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business. The Bank/Group has chosen the cost model instead of fair value model and therefore investment property is measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the Income Statement.

Depreciation is provided on a straight line basis over the estimated life of the class of asset from the date of purchase up to the date of disposal. The useful life for the current and comparative periods of significant items of investment property are as follow:

Building – 20-40 years

Land are not depreciated.

Rental income from investment property is recognised as other revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

	BANK		GROUP	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Cost				
Balance at beginning	9,879	9,879	555,230	664,773
Acquisition	–	–	147,654	–
Transferred to property, plant and equipment	–	–	–	(109,543)
Cost as at 31 December	9,879	9,879	702,884	555,230
Less: Accumulated Depreciation				
Balance at beginning	–	–	209,373	197,796
Charge for the year	–	–	23,670	21,057
Transferred to property, plant and equipment	–	–	–	(9,480)
Accumulated depreciation as at 31 December	–	–	233,043	209,373
Carrying amount as at 31 December	9,879	9,879	469,841	345,857

38.1 DETAILS OF INVESTMENT PROPERTIES

As at 31 December 2021	Buildings sq. ft.	Extent of Land Perches*	Number of Building	Cost LKR '000	Accumulated depreciation/ impairment LKR '000	Net Book value LKR '000	Fair value LKR '000	Date of Valuation
4 A, 4th Cross Lane, Borupana, Ratmalana	–	20.0	–	2,600	–	2,600	25,000	31.12.2020
259/30, Kandy Road, Bambarakelle, Nuwara-Eliya	–	93.5	–	7,279	–	7,279	93,500	19.09.2021
Bank				9,879	–	9,879	118,500	
Pattiwila Road, Sapugaskanda, Makola	482,150	21,920	18	693,005	233,042	459,962	5,413,750	31.03.2019
Group				702,883	233,042	469,841	5,532,250	

* 1 perch - 25.2929 m2 ; 1 Sq. ft. = 0.0929 m2

The fair value of investment property as at 31 December 2021 situated at Pattiwela Road, Sapugaskanda, Makola was based on market valuations carried out on 31 March 2019 by Mr Koralege Dayananda Tissera, Chartered Valuation Surveyor (UK) a professional valuer.

The fair value of investment properties situated at Borupana, Ratmalana and Bambarakelle, Nuwara-Eliya valued by Mr A A M Fathihu – Former Government Chief Valuer and Mr J S M I B Karunatilaka. Associate Member of the Institute of Valuers of Sri Lanka.

38.2 AMOUNTS RECOGNISED IN PROFIT OR LOSS

Rental income from investment property of Group for 2021, LKR 329 Mn (2020 – LKR 293 Mn)

Operating expenses on investment property of Group for 2021 – LKR 57 Mn (2020 – LKR 52 Mn)

39. PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICY

RECOGNITION AND MEASUREMENT

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the income statement.

SUBSEQUENT COSTS

Subsequent expenditure is capitalised only when its probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance costs are expensed as incurred.

CAPITAL WORK-IN-PROGRESS

There are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost. Capital work-in-progress would be transferred to the relevant asset when it is available for use i.e. When it is in the location and condition necessary for it to be capable of operating in the manner intended by the Management. Capital work-in-progress is stated at cost less any accumulated impairment losses.

DEPRECIATION

Items of property, plant and equipment are depreciated from the month they are available-for-use up to the month of disposal. Depreciation is calculated to write-off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods of significant items of property, plant and equipment are as follows:

	Years
Buildings	20-40
Office equipment and motor vehicles	3-5
Fixtures and fittings	10

DERECOGNITION

The carrying amount of property and equipment is de-recognised on disposal or when non future economic benefits are expected from its use of the gain or loss arising from the de-recognition (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the income statement.

RECLASSIFICATION TO INVESTMENT PROPERTY

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified accordingly. Any gain arising on this remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in OCI and presented in the revaluation reserve. Any loss is recognised in profit or loss.

39.1 RECONCILIATION OF CARRYING AMOUNT – BANK

	Land and building LKR '000	Improvements to Leasehold Lands LKR '000	Right of use asset LKR '000	Office equipment LKR '000	Furniture and fittings LKR '000	Motor vehicles LKR '000	Work in progress LKR '000	Total 31 December 2021 LKR '000	Total 31 December 2020 LKR '000
Cost at beginning	1,052,801	–	1,864,256	2,638,767	1,323,230	302,393	15,562	7,197,009	6,422,025
Acquisitions	35,955	12,008	208,766	153,077	139,064	–	–	548,870	888,907
Transfer from work-in-progress	15,562	–	–	–	–	–	(15,562)	–	–
Less: Disposals	–	–	52,141	290	5,233	36,563	–	94,227	113,924
Cost as at 31 December	1,104,318	12,008	2,020,881	2,791,554	1,457,061	265,830	–	7,651,652	7,197,008
Accumulated depreciation at beginning	264,464	–	491,992	1,993,237	800,958	239,756	–	3,790,407	3,191,182
Depreciation for the year	22,743	1,594	287,629	274,159	91,772	25,085	–	702,982	675,918
Less: Accumulated depreciation on disposals	–		43,228	10	1,953	33,670	–	78,861	76,692
Accumulated depreciation as at 31 December	287,207	1,594	736,393	2,267,386	890,777	231,171	–	4,414,528	3,790,408
Carrying value as at 31 December	817,111	10,414	1,284,488	524,168	566,284	34,659	–	3,237,124	3,406,600

39.1.1 LIST OF FREEHOLD LAND AND BUILDING

	Number of buildings in land holdings	Building sq. ft.	Extent of land Perches*	Cost LKR '000	Accumulated depreciation LKR '000	Carrying value LKR '000
73/5, Galle Road, Colombo 3	1	57,190	106.61	85,518	80,219	5,299
5, Deva Veediya, Kandy	1	4,600	12.54	16,195	8,108	8,087
73, W A D Ramanayake Mawatha, Colombo 2	1	37,538	45.00	197,268	141,086	56,182
No:454, Main Street, Negombo	1	19,087	29.00	170,325	39,558	130,767
No 77, Colombo Road, Kurunegala	1	31,459	31.00	635,012	18,236	616,776
Bank				1,104,318	287,207	817,111
Pattiwila Road, Sapugaskanda, Makola	1	27,824	102.20	362,107	215,878	146,229
Group				1,466,425	503,085	963,340

* 1 perch = 25.2929m2; 1 sq. ft. = 0.0929m2

39.1.2 MARKET VALUE OF PROPERTIES

	LKR Mn	Date of valuation
73/5, Galle Road, Colombo 3	1905	31.12.2020
5, Deva Veediya, Kandy	140	31.12.2020
73, W A D Ramanayake Mawatha, Colombo 2	878	31.12.2020
No. 454, Main Street, Negombo	275	18.05.2019
No. 77, Colombo Road, Kurunegala	600	31.12.2020

Valued by Mr A A M Fathihu – Former Government Chief Valuer and Mr R W M S B Rajapakse. Fellow Member of the Institute of Valuers of Sri Lanka.

39.1.3 FULLY DEPRECIATED PROPERTY PLANT AND EQUIPMENT – BANK

The initial cost of fully depreciated property, plant and equipment, which are still in use as at the reporting date is as follows.

As at 31 December	2021 LKR '000	2020 LKR '000
Land and buildings	210,679	206,835
Office equipment	1,505,311	1,326,555
Furniture and fittings	528,209	462,616
Motor vehicles	166,337	156,447
	2,410,536	2,152,453

39.2 RECONCILIATION OF CARRYING AMOUNT – GROUP

	Land and building LKR '000	Improvements to Leasehold Lands LKR '000	Right of use asset LKR '000	Office equipment LKR '000	Furniture and fittings LKR '000	Motor vehicles LKR '000	Work in progress LKR '000	Total 31 December 2021 LKR '000	Total 31 December 2020 LKR '000
Cost at beginning	1,413,528	–	1,866,356	2,688,182	1,337,808	341,273	34,922	7,682,069	6,790,923
Acquisitions	18,375	12,008	208,766	161,625	140,213	–	–	540,987	913,050
Transfer from work-in-progress	34,522	–	–	–	–	–	(34,522)	–	–
Transfer from Investment property	–		–	–	–	–	–	–	109,543
Less: Disposals	–	–	52,141	290	8,998	53,927	–	115,356	131,447
Cost as at 31 December	1,466,425	12,008	2,022,981	2,849,517	1,469,023	287,346	400	8,107,700	7,682,069
Accumulated depreciation at beginning	464,341	–	494,092	2,036,888	820,525	279,204	–	4,095,050	3,478,282
Depreciation for the year	38,744	1,594	287,629	277,725	92,082	25,085	–	722,859	700,426
Less: Accumulated depreciation on disposals	–	–	43,228	10	5,038	51,035	–	99,311	93,138
Transfer from Investment property								–	9,480
Accumulated depreciation as at 31 December	503,085	1,594	738,493	2,314,603	907,569	253,254	–	4,718,598	4,095,050
Carrying amount as at 31 December	963,340	10,414	1,284,488	534,914	561,454	34,092	400	3,389,102	3,587,019

39.3 TITLE RESTRICTION ON PROPERTY, PLANT AND EQUIPMENT

There are no restrictions that existed on the title of property, plant and equipment of the Bank/Group as at the reporting date.

39.4 ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT DURING THE YEAR

During the financial year, the Bank and the Group acquired property, plant and equipment to the aggregate value of LKR 340 Mn and LKR 332 Mn respectively (2020 – LKR 889 Mn and LKR 913 Mn respectively). Cash payments amounting to LKR 549 Mn and LKR 541 Mn respectively (2020 – LKR 843 Mn and LKR 867 Mn respectively) were made during the year for purchase of property plant and equipment by the Bank and the Group.

39.5 DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT DURING THE YEAR

During the financial year, the Bank and the Group disposed of property, plant and equipment to the aggregate value of LKR 42 Mn and LKR 63 Mn respectively (2020 – LKR 113 Mn and LKR 131 Mn respectively). Gain/(loss) on disposal of Property, Plant and Equipment is disclosed in Note 16 to the Financial Statements.

39.6 CAPITALISATION OF BORROWING COSTS

There were no capitalised borrowing costs relating to the acquisition of property, plant and equipment during the year (2020 – Nil).

39.7 AMOUNT OF CONTRACTUAL COMMITMENTS FOR THE ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The contractual commitments for the acquisition of property, plant and equipment as at the reporting date is LKR 159 Mn.

39.8 IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use (VIU). The fair value less costs to sell calculation is based on available data from an active market, in an arm's length transaction, of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash-generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

The Management has assessed the potential impairment loss of property, plant and equipment as at 31 December 2021. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date in respect of property, plant and equipment.

39.9 PROPERTY, PLANT AND EQUIPMENT PLEDGED AS SECURITY

None of the property, plant or equipment have been pledged as security as at the reporting date.

39.10 PERMANENT FALL IN VALUE OF PROPERTY, PLANT AND EQUIPMENT

There has been no permanent fall in value of PPE which require an impairment provision in the Financial Statements.

39.11 TEMPORARILY IDLE PROPERTY, PLANT AND EQUIPMENT

There are no temporarily idle property, plant or equipment as at the reporting date.

39.12 COMPENSATION FROM THIRD PARTIES FOR ITEMS OF PROPERTY, PLANT AND EQUIPMENT

There were no compensation received/receivable from third parties for items of property, plant or equipment that were impaired, lost or given up.

40. INTANGIBLE ASSETS AND GOODWILL

ACCOUNTING POLICY

RECOGNITION AND MEASUREMENT

GOODWILL

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

OTHER INTANGIBLE ASSETS

Other intangible assets, including customer relationships, patents and trademarks, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

SUBSEQUENT EXPENDITURE

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

AMORTISATION

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill is not amortised.

The estimated useful lives for current and comparative periods are as follows:

Computer software	3-15 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

DERECOGNITION

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use and subsequent disposal.

As at 31 December		BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Computer Software	40.1	2,184,327	809,947	2,209,340	825,475
Software under development	40.2	43,250	903,105	43,250	903,105
Goodwill on consolidation	40.3	–	–	156,226	156,226
Total		2,227,577	1,713,052	2,408,816	1,884,806

40.1 COMPUTER SOFTWARE

As at 31 December	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Cost at beginning	2,340,025	2,137,421	2,371,335	2,168,731
Acquisitions	1,728,191	315,082	1,744,451	315,082
Disposals	(243)	(112,478)	(243)	(112,478)
Written off during the year	(152,247)	–	(152,247)	–
Cost as at 31 December	3,915,726	2,340,025	3,963,296	2,371,335
Accumulated amortisation at beginning	1,530,078	1,298,949	1,545,860	1,308,995
Amortisation for the year	320,869	243,739	327,644	249,475
Write-off	(119,548)	–	(119,548)	–
Accumulated depreciation on disposal	–	(12,610)	–	(12,610)
Accumulated amortisation as at 31 December	1,731,399	1,530,078	1,753,956	1,545,860
Carrying amount as at 31 December	2,184,327	809,947	2,209,340	825,475

With the objective of becoming one of Sri Lanka's most customer centric digitally enabled banks by 2025 and in line with the Bank's corporate strategy, the T24 Temenos new Core Banking System was implemented on 21 October 2021 along with a functionally rich online banking platform. The transition to the new core banking system will offer customers a digitally enabled best in class banking service that is flexible and agile.

The total project cost including software licenses, hardware and other directly related attributable costs of preparing the system for its intended use have been capitalised under the intangible asset of the bank amounting to LKR 1,409 Mn as at December 2021.

40.2 SOFTWARE UNDER DEVELOPMENT

	BANK		GROUP	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Cost at beginning	903,105	346,187	903,105	346,187
Addition to work-in-progress	332,845	556,918	332,845	556,918
Transfers/adjustments	(1,192,700)	–	(1,192,700)	–
Cost as at 31 December	43,250	903,105	43,250	903,105

40.3 GOODWILL ON CONSOLIDATION

	GROUP	
As at 31 December	2021 LKR '000	2020 LKR '000
DFCC Vardhana Bank PLC	146,603	146,603
Lanka Industrial Estates Limited	9,623	9,623
	156,226	156,226

In accordance with the provisions of part VIII of the Companies Act, DFCC Vardhana Bank PLC (DVB) has been amalgamated with DFCC Bank PLC with effect from 1 October 2015. The amalgamation between two entities is considered as a common control transaction, as DFCC Bank continues to control the operations of DVB after amalgamation. Thus the results of amalgamation of two entities are economically the same before and after the amalgamation as the entity will have identical net assets. Therefore DFCC will continue to record carrying values including the remaining goodwill that resulted from the original acquisition of DVB in the consolidated financial status.

There were no impairment losses recognised in goodwill as at 31 December 2021.

40.4 ASSESSMENT OF IMPAIRMENT OF INTANGIBLE ASSETS

The Board of Directors has assessed the potential impairment loss of intangible assets as at 31 December 2020. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date.

40.5 TITLE RESTRICTION ON INTANGIBLE ASSETS

There are no restrictions that existed on the title of the intangible assets of the Group as at the reporting date.

40.6 INTANGIBLE ASSETS PLEDGED AS SECURITY

None of the Intangible assets have been pledged as security as at the reporting date.

40.7 ACQUISITION OF INTANGIBLE ASSETS DURING THE YEAR

During the financial year, the Bank and the Group acquired intangible assets to the aggregate value of LKR 1.7 Bn and LKR 1.7 Bn respectively (2020 – LKR 315 Mn and LKR 315 Mn respectively). Cash payments amounting to LKR 868 Mn and LKR 880 Mn respectively (2020 – LKR 839 Mn and LKR 839 Mn) were made to purchase intangible assets by the Bank and the Group respectively, during the year.

40.8 AMOUNT OF CONTRACTUAL COMMITMENTS FOR THE ACQUISITION OF INTANGIBLE ASSETS

The contractual commitment for the acquisition of intangible assets as at the reporting date is LKR 428 Mn.

41. DEFERRED TAXATION

See accounting policy in Note 22.

As at 31 December	Note	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Deferred Tax Asset/Liability					
Deferred tax liability	41.1	–	243,949	112,514	341,691
Deferred tax asset	41.2	1,358,895	–	1,358,895	2,919
Net Deferred Tax Liability/Asset		1,358,895	243,949	1,246,381	338,772

41.1 DEFERRED TAX LIABILITY

As at 31 December	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Balance at beginning	1,776,350	1,183,340	1,878,492	1,282,125
Recognised in income statement	(214,723)	(184,386)	(201,649)	(181,029)
Recognised in other comprehensive income	(1,125,356)	777,396	(1,125,356)	777,396
	436,271	1,776,350	551,487	1,878,492
Transferred from deferred tax asset	(436,271)	(1,532,401)	(438,973)	(1,536,801)
	–	243,949	112,514	341,691

41.2 DEFERRED TAX ASSET

As at 31 December	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Balance at beginning	1,532,401	1,492,193	1,539,720	1,499,440
Effect of foreign currency movement	567	(457)	567	(457)
Recognised in income statement	241,108	67,465	236,418	67,562
Recognised in other comprehensive income	21,090	(26,800)	21,163	(26,825)
	1,795,166	1,532,401	1,797,868	1,539,720
Offset against deferred tax liability	(436,271)	(1,532,401)	(438,973)	(1,536,801)
	1,358,895	–	1,358,895	2,919

41.3 RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

	Bank				Group			
	2021		2020		2021		2020	
As at 31 December	Temporary difference LKR '000	Tax effect LKR '000	Temporary difference LKR '000	Tax effect LKR '000	Temporary difference LKR '000	Tax effect LKR '000	Temporary difference LKR '000	Tax effect LKR '000
Assets								
Gratuity liability and actuarial losses on defined benefit plans	625,673	150,162	519,314	145,408	632,557	151,814	536,437	150,202
Right-of-use asset	81,743	19,618		–	81,744	19,618	–	–
Unutilised tax losses	–	–	–	–	–	–	262	73
Performance bonus	–	–	–	–	2,200	528	–	–
Cross currency swap	433,475	104,034	311,242	87,148	433,475	104,034	311,242	87,148
Expected credit loss – loans to and receivable from banks and other customers	6,338,966	1,521,352	4,642,304	1,299,845	6,341,142	1,521,874	4,651,060	1,302,297
	7,479,857	1,795,166	5,472,860	1,532,401	7,491,118	1,797,868	5,499,001	1,539,720
Liabilities								
Property, equipment and software	746,335	179,120	777,494	217,698	1,024,807	245,954	1,000,884	280,247
Finance leases	863,847	207,323	1,331,982	372,955	863,848	207,323	1,331,982	372,955
Fair value through other comprehensive income financial assets	207,616	49,828	4,197,085	1,175,184	207,616	49,828	4,197,085	1,175,184
Right-of-use asset	–	–	37,547	10,513	–	–	37,547	10,513
Undistributed profits of the Group	–	–	–	–	201,592	48,382	141,404	39,593
	1,817,798	436,271	6,344,108	1,776,350	2,297,863	551,487	6,708,902	1,878,492

Refer Note 22.1.1 for the impact to deferred tax assets/liabilities during the year due to change in income tax rate.

42. OTHER ASSETS

See accounting policy in Note 5.3.

As at 31 December	Note	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Financial assets					
Refundable deposits		16,104	16,104	21,273	22,384
Clearing account balances		1,240,735	1,165,085	1,240,735	1,165,085
Other receivables	42.1	1,598,089	818,087	1,654,557	879,152
Due from subsidiaries	42.2	326	129	–	–
		2,855,254	1,999,405	2,916,565	2,066,621
Non financial assets					
Advances and prepayments	42.3	953,128	1,070,829	966,299	1,086,656
Defined benefit asset	48.1.2	116,123	–	116,123	–
		1,069,251	1,070,829	1,082,422	1,086,656
		3,924,505	3,070,234	3,998,987	3,153,277

42.1 Includes receivable form Government of Sri Lanka in respect of reimbursement of additional interest paid on Special Deposit Accounts (SDA), interest differential on Special Senior Citizen fixed deposit and interest subsidy on credit lines amounting to LKR 1,208 Mn as at 31 December 2021. (LKR 686 Mn as at 31 December 2020).

42.2 DUE FROM SUBSIDIARIES

As at 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000
DFCC Consulting (Pvt) Limited	326	129
Synapsys Limited	–	–
	326	129

42.3 Advances and prepayments includes LKR 49 Mn incurred by the Bank to acquire computer software, and LKR 3.9 Mn related to Synapsys Limited.

The maturity analysis of other assets is given in Note 8.3.3 on pages 197 to 200.

43. ASSETS HELD FOR SALE

ACCOUNTING POLICY

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

As at 31 December	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Balance at beginning	19,600	40,000
Proceeds from disposal	(19,600)	(20,400)
Balance as at 31 December	–	19,600

The Company transferred the Company's internally developed intangible asset named, "Tea Integrated Payment System (TIPS)" to Company's Subsidiary "Agrithmics (Pvt) Ltd. on 18 December 2019 for LKR 40 Mn.

Synapsys incorporated "Agrithmics Private Limited" a fully owned subsidiary on 8 February 2018 with the expectation of transferring companies' Agribusiness section (TIPS) to this subsidiary. On 18 December 2019, Company has transferred Companies internally developed intangible asset "(TIPS)" to Agrithmics (Pvt) Ltd for fair value of LKR 40,000,000/- and in return Agrithmics (Pvt) Ltd has issued four million equity shares for total consideration of LKR 40,000,000/- to the Company, granting it control of Agrithmics (Pvt) Ltd.

Further, the Company entered into an agreement to transfer up to 90% of the equity interest of Algorithmics (Pvt) Ltd. to Dialog Axiata Digital Innovation Fund (Pvt) Ltd. ("DIF") on 31 December 2019. Accordingly, as the first phase, 51% equity interest was transferred and the transaction has been completed on 26 March 2020 and as per the second phase of the agreement, 39% also transferred during the year 2021. Remaining investment in Agrithmics (Pvt) Ltd classified as investment in fair value through OCI.

43.1 IMPAIRMENT LOSSES RELATING TO DISPOSAL GROUP

There was no impairment losses to be recognised in the financial statements for the year ended 31 December 2020, in respect of the asset held for sale as its carrying value was based on the third party offer made for the software.

43.2 CUMULATIVE INCOME OR EXPENSES INCLUDED IN OCI

There are no cumulative income or expenses included in OCI relating to the asset held for sale.

44. DUE TO BANKS

See accounting policy in Note 5.3.

These represent call money borrowings, credit balances in nostro accounts and borrowings from banks. Subsequent to initial recognition, these are measured at amortised cost using the EIR method. Interest paid/payable on these borrowings are recognised in income statement.

	BANK		GROUP	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Borrowing – Foreign banks	3,349,812	7,725,972	3,349,812	7,725,972
– Local banks	24	7,183,965	24	7,183,965
	3,349,836	14,909,937	3,349,836	14,909,937

The maturity analysis of due to banks is given in Note 8.3.3 on pages 197 to 200.

45. FINANCIAL LIABILITIES AT AMORTISED COST – DUE TO DEPOSITORS

See accounting policy in Note 5.3.2.2.1.

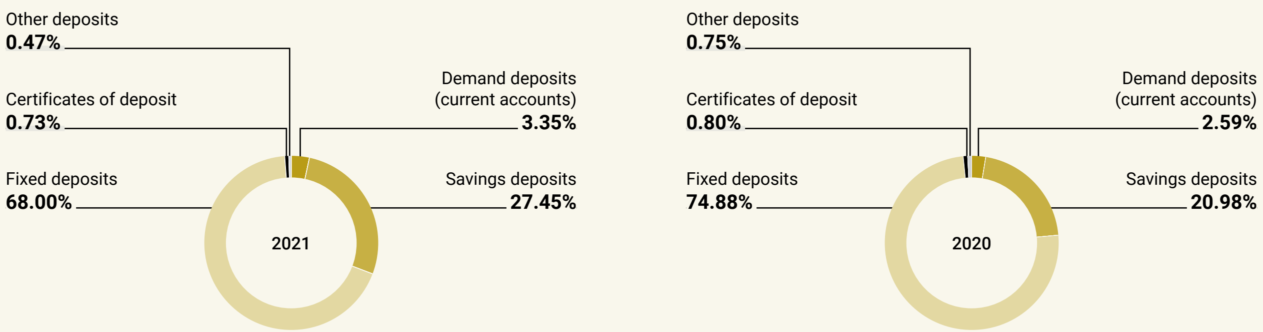
	BANK		GROUP	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Total amount due to depositors	319,861,013	310,026,892	319,362,372	309,566,423

45.1 ANALYSIS

45.1.1 BY PRODUCT

	BANK		GROUP	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Demand deposits (current accounts)	10,711,384	8,016,789	10,711,319	8,016,724
Savings deposits	87,793,979	65,048,922	87,738,119	65,004,141
Fixed deposits	217,532,081	232,153,438	217,089,365	231,737,815
Certificate of deposits	2,328,082	2,473,374	2,328,082	2,473,374
Other deposits	1,495,487	2,334,369	1,495,487	2,334,369
	319,861,013	310,026,892	319,362,372	309,566,423

DEPOSIT MIX – BANK



45.1.2 BY CURRENCY

As at 31 December	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Sri Lankan Rupee	276,343,061	266,794,993	275,882,547	266,352,671
United States Dollar (USD)	36,305,548	36,948,552	36,267,421	36,930,405
Great Britain Pound (GBP)	2,991,998	2,989,372	2,991,998	2,989,372
Others	4,220,406	3,293,975	4,220,406	3,293,975
	319,861,013	310,026,892	319,362,372	309,566,423

45.1.3 BY INSTITUTION/CUSTOMERS

As at 31 December	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Deposits from banks	312,334	1,959,565	312,334	1,959,565
Deposits from finance companies	855,667	2,383,009	855,667	2,383,009
Deposits from other customers	318,693,012	305,684,318	318,194,371	305,223,849
	319,861,013	310,026,892	319,362,372	309,566,423

The maturity analysis of deposits from customers is given in Note 8.3.3 on pages 197 to 200.

46. FINANCIAL LIABILITIES AT AMORTISED COST – DUE TO OTHER BORROWERS

See accounting policy in Note 5.3.2.2.1.

	BANK		GROUP	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Repayable in foreign currency				
Borrowing sourced from				
Multilateral Institutions	1,368,442	1,764,889	1,368,442	1,764,889
Bilateral Institutions	38,257,804	11,200,561	38,257,804	11,200,561
	39,626,246	12,965,450	39,626,246	12,965,450
Repayable in Rupees				
Borrowing sourced from				
Multilateral Institutions	16,477,722	16,977,899	16,477,722	16,977,899
Bilateral Institutions	797,559	1,144,446	797,559	1,144,446
Central Bank of Sri Lanka - refinance loans (secured)	7,969,426	8,601,350	7,969,426	8,601,350
Securities sold under repurchase (Repo) agreements	4,718,176	7,157,931	4,718,176	7,157,931
	29,962,883	33,881,626	29,962,883	33,881,626
	69,589,129	46,847,076	69,589,129	46,847,076

46.1 ASSETS PLEDGED AS SECURITY

As at 31 December	2021 LKR '000	2020 LKR '000
Assignment in terms of Section 88 A of the Monetary Law of Loans refinanced by Central Bank	7,969,456	8,601,350

47. DEBT SECURITIES IN ISSUE

See accounting policy in Note 5.3.2.2.1.

47.1 DEBT SECURITIES AT AMORTISED COST ISSUED BY BANK

		Face value LKR '000	Interest rate %	Repayment terms	Issue date	Maturity date	BANK/GROUP 31 December 2021 LKR '000	BANK/GROUP 31 December 2020 LKR '000
Debenture issue	– Listed							
(LKR)		3,804,760	13.50	5 Years	28 March 19	28 March 24	4,184,948	4,182,678
		1,784,070	13.75	7 Years	28 March 19	28 March 26	1,964,604	1,963,980
		4,411,170	13.90	10 Years	28 March 19	28 March 29	4,860,180	4,859,525
	– Unlisted	5,000,000	11.00	5 years	12 June 20	12 June 25	5,287,524	5,285,096
		15,000,000					16,297,256	16,291,279
Due after one year							16,297,256	16,291,279
							16,297,256	16,291,279

47.2 Carrying values are the discounted amounts of principal and interest.

47.3 There were no debt securities in issue designated as at FVTPL.

47.4 The Bank/Group did not have any defaults of principal or interest or other breaches with respect to its debt securities during the year ended 31 December 2021.

47.5 DEBT SECURITIES IN ISSUE – LISTED DEBENTURES

Debenture category	Interest payable frequency	Applicable interest rate %	Interest rate of comparative government securities (Gross) p.a. %	Balance as at 31 December 2021 LKR '000	Market price Highest	Market price Lowest	Market price Lowest	Yield last traded %
Fixed rate								
2019/2024	Annually	13.50	9.13	1,184,948	N/T	N/T	N/T	N/A
2019/2026	Annually	13.75	10.66	1,964,604	N/T	N/T	N/T	N/A
2019/2029	Annually	13.90	11.44	4,860,180	N/T	N/T	N/T	N/A
Unlisted								
2020/2025	Annually	11.00	10.05	5,287,524	N/T	N/T	N/T	N/A
				16,297,256				

N/T – Not traded
N/A – Not applicable

As at 31 December	2021 LKR '000	2020 LKR '000
Other ratios		
Debt to equity ratio (times)	1.85	2.06
Interest cover (times)	2.26	1.52
Liquid asset ratio (%)	21.12	34.99

48. EMPLOYEE RETIREMENT BENEFITS

ACCOUNTING POLICY

A. DEFINED CONTRIBUTION PLANS

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expenses in profit or loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

This provides for a lump sum payment on termination of employment by resignation, retirement at the age of 57-60 years or death while in service. Lump sum payment is by an outside agency to which contributions are made.

All employees of the Bank are members of the Mercantile Service Provident Society and the Employees' Trust Fund Board to which the Bank contributes 15% and 3% respectively of such employee's consolidated salary.

Other subsidiary companies of the Group contribute to the Employees' Provident Fund and Employees' Trust Fund in the range of 12% – 15% and 3% respectively.

Contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

B. DEFINED BENEFIT PLANS (DBPS)

A defined benefit plan is a post-employment benefit plan other than a Defined Contribution Plan as defined in the Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

PENSION LIABILITY ARISING FROM DEFINED BENEFIT OBLIGATIONS

DESCRIPTION OF THE PLAN AND EMPLOYEE GROUPS COVERED

The Bank established a trust fund in May 1989, for payment of pension which operates the pension scheme approved by the Commissioner General of Inland Revenue. The fund of the scheme is managed by trustees appointed by the Bank and is separate from the Bank. The scheme provides for payment of pension to retirees, spouse and minor children of deceased retirees based on pre-retirement salary. All members of the permanent staff who joined prior to 1 May 2004 are covered by this funded pension scheme subject to fulfilment of eligibility conditions prescribed by the Bank.

The scheme was amended on 31 August 1998 and the amended plan will apply to all members of the permanent staff who joined the Bank on or after this date and prior to 1 May 2004. The amendment reduced the scope of the benefit in the interest of long-term sustainability of the pension plan as advised by the independent actuary. The defined benefit pension plan does not permit any post-retirement increases in pension nor any other benefit (e.g., medical expenses reimbursement).

FUNDING ARRANGEMENT

The Bank's contributions to the Trust Fund are made annually based on the recommendation of an independent actuary. The employees make no contributions to qualify for the basic pension, which is therefore a non-contributory benefit to the employees.

Eligible employees who desire to provide for the payment of pension to spouse and minor children, who survive them are however, required to contribute monthly, an amount based on a percentage of gross emoluments, excluding bonus, if they joined the Bank on or after 31 August 1998 and prior to 1 May 2004.

RECOGNITION OF ACTUARIAL GAINS AND LOSSES

The net actuarial gains or losses arising in a financial year is due to increases or decreases in either the present value of the promised pension benefit obligation or the fair value of pension assets.

The causes for such gains or losses include changes in the discount rate, differences between the actual return, and the expected return on pension assets and changes in the estimates of actual employee turnover, mortality rates, and increases in salary.

The Group recognises the total actuarial gains and losses that arise in calculating the Group's obligation in respect of the plan in other comprehensive income and the expense under personnel expenses in the income statement during the period in which it occurs.

RECOGNITION OF PAST SERVICE COST

Past service cost arises when a defined benefit plan is introduced for the first time or subsequent changes are made to the benefits payable under an existing defined benefit plan. Group will recognise past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent the benefits are already vested following the introduction of or changes to a defined benefit plan, the Group will recognise past service cost immediately.

PROVISION FOR END OF SERVICE GRATUITY LIABILITY UNDER A DEFINED BENEFIT PLAN

DESCRIPTION OF THE PLAN AND EMPLOYEE GROUPS COVERED

The Group provides for the gratuity payable under the Payment of Gratuity Act No. 12 of 1983 as amended for all employees who do not qualify under the pension scheme. Therefore, this applies to employees recruited to the permanent cadre on or after 1 May 2004 on tenured or fixed term contract employment in the Bank. The subsidiary companies, which do not have a non-contributory pension scheme provide for the gratuity payable under the Payment of Gratuity Act No. 12 of 1983 for all employees. The promised benefit is half a month pre-termination salary for each completed year of service, provided a minimum qualifying period of five years is served prior to termination of employment.

The Group however, recognises the liability by way of a provision for all employees in tenured employment from the date they joined the permanent cadre, while fixed term employees liability is recognised only if the fixed term contract of service provides for unbroken service of five years or more either singly or together with consecutive contracts.

FUNDING ARRANGEMENT

The Bank and the subsidiaries adopt a pay-as-you-go method whereby the employer makes a lump-sum payment only on termination of employment by resignation, retirement at the age of 57-60 years or death while in service.

RECOGNITION OF ACTUARIAL GAINS AND LOSSES

The Group recognises the total actuarial gains and losses in the other comprehensive income during the period in which it occurs.

RECOGNITION OF PAST SERVICE COST

Since end of service gratuity defined benefit is a statutory benefit, the recognition of past service cost will arise only if the Payment of Gratuity Act No. 12 of 1983 is amended in future to increase the promised benefit on termination of employment. In such event, the Bank will adopt the accounting policy currently used for defined benefit pension plan.

When the benefit of a plan change or plan curtailed the resulting change in benefit that relate to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Bank recognises gain or loss on the settlement of a defined plan when settlement occurs.

48.1 COMPOSITION

		BANK		GROUP	
As at 31 December	Note	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Unfunded defined benefit plans	48.1.1	688,598	582,869	716,477	610,792
Funded defined benefit plans	48.1.2	–	60,249	–	60,249
		688,598	643,118	716,477	671,041

48.1.1 UNFUNDED DEFINED BENEFIT PLANS

		BANK		GROUP	
As at 31 December	Note	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Defined benefit – unfunded pension	48.1.1.1	62,923	63,556	62,923	63,556
– unfunded end of service gratuity	48.1.1.2	625,675	519,313	653,554	547,236
		688,598	582,869	716,477	610,792

48.1.1.1 UNFUNDED PENSION LIABILITY

As at 31 December	BANK/GROUP 2021 LKR '000	2020 LKR '000
Balance at beginning	63,556	60,013
Interest on obligation	5,379	5,625
Benefits paid	(6,995)	(6,935)
Actuarial experience loss	983	771
Loss due to changes in assumptions	–	4,082
Present value of defined benefit pension obligations	62,923	63,556

This relates to pension liability of an ex-employee, not funded through the DFCC Bank PLC Pension Fund. The liability covers the pension benefit to retiree and survivor.

48.1.1.2 UNFUNDED END OF SERVICE GRATUITY

As at 31 December	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Balance at beginning	519,313	501,091	547,236	526,338
Current service cost	71,336	78,850	75,280	82,804
Interest on obligation	46,738	50,109	49,007	52,110
Benefits paid	(40,588)	(16,819)	(43,780)	(19,070)
Actuarial experience loss/(gain)	17,518	(47,834)	14,453	(48,862)
Gain due to changes in assumptions	–	(46,084)	–	(46,084)
Past service cost	11,358	–	11,358	–
Present value of defined benefit pension obligations	625,675	519,313	653,554	547,236

48.1.2 FUNDED PENSION (ASSET)/LIABILITY

As at 31 December	Note	BANK/GROUP 2021 LKR '000	2020 LKR '000
Present value of defined benefit pension obligations	48.1.2.1	2,692,271	2,827,321
Fair value of pension assets	48.1.2.2	(2,808,394)	(2,767,072)
Defined benefit (asset)/liability		(116,123)	60,249

As per LKAS 19 – "Employee Benefits" if a plan is in surplus, then the amount recognised as an asset in the Statement of Financial Position is limited to the "asset ceiling". The asset ceiling is the present value of any economic benefits available to the entity in the form of a refund or a reduction in future contributions. By analysing all the future economic benefits available to the DFCC Pension Fund, the independent actuary Mr Piyal S Goonetilleke of Priyal S Goonetilleke & Associates, has estimated the asset ceiling as at 31 December 2021 to be LKR 178.25 Mn in his report dated 5 February 2022.

48.1.2.1 MOVEMENT IN DEFINED PENSION OBLIGATION

As at 31 December	BANK/GROUP 2021 LKR '000	2020 LKR '000
Present value of defined benefit pension obligations at the beginning	2,827,321	2,594,387
Current service cost	53,371	53,864
Interest on obligation	254,459	259,439
Benefits paid	(219,780)	(198,251)
Actuarial experience gain	(46,846)	(62,533)
Loss due to changes in assumptions	–	180,415
Past service cost	(176,254)	–
Present value of defined benefit pension obligations	2,692,271	2,827,321

48.1.2.2 MOVEMENT IN PENSION ASSETS

As at 31 December	BANK/GROUP 2021 LKR '000	2020 LKR '000
Pension assets at the beginning	2,767,072	2,725,572
Expected return on pension assets	243,743	248,700
Employer's contribution	105,092	–
Benefits paid	(219,780)	(198,251)
Actuarial experience gain	(87,733)	(8,949)
Pension assets	2,808,394	2,767,072

48.1.2.3 PLAN ASSETS CONSIST OF THE FOLLOWING

	BANK/GROUP	
As at 31 December	2021 LKR '000	2020 LKR '000
Debentures	195,563	195,563
Fixed deposits	2,630,703	2,594,632
Others	(17,872)	(23,123)
	2,808,394	2,767,072

48.1.2.4 THE EXPECTED BENEFIT PAY OUT IN THE FUTURE YEARS TO THE DEFINED BENEFIT OBLIGATION – BANK

As at 31 December	Unfunded pension liability* 31 December 2021 LKR '000	Unfunded end of service gratuity* 31 December 2021 LKR '000	Funded pension liability* 31 December 2021 LKR '000
Within next 12 months	6,995	37,280	206,257
Between 2 and 5 years	27,980	183,398	1,096,972
Beyond 5 years	34,975	467,471	1,556,962

* Based on expected benefits pay-out in next 10 years

48.2 ACTUARIAL VALUATION

Actuarial valuation was carried out by Mr Piyal S Goonetilleke, Fellow of the Society of Actuaries USA of Piyal S Goonetilleke & Associates, on 31 December 2021.

48.2.1 ACTUARIAL VALUATION METHOD

Projected unit credit method was used to allocate the actuarial present value of the projected benefits earned by employees to date of valuation.

48.2.2 PRINCIPAL ACTUARIAL ASSUMPTIONS

	31 December 2021		31 December 2020	
As at	Pension benefit (%)	End of service gratuity (%)	Pension benefit (%)	End of service gratuity (%)
Discount rate per annum				
Pre-retirement	9	9	9	9
Post-retirement	9	Not applicable	9	Not applicable
Future salary increases per annum	8.5	8.5	8.5	8.5
Expected rate of return on pension assets	9	–	9	–
Actual rate of return on pension assets	5.6	–	9.2	–
Mortality	UP 1984 mortality table	RP-2000 mortality table	UP 1984 mortality table	RP-2000 mortality table
Retirement age	57 – 60 years	57 – 60 years	55 years	55 years
Normal form of payment:	lump sum commuted pension payment followed by reduced pension for 10 years (25% reduction) (for new entrants recovery period is 15 years)	lump sum	lump sum commuted pension payment followed by reduced pension for 10 years (25% reduction) (for new entrants recovery period is 15 years)	lump sum
Turnover rate –				
Age				
20	10.0	10.0	10.0	10.0
25	10.0	10.0	10.0	10.0
30	10.0	10.0	10.0	10.0
35	7.5	7.5	7.5	7.5
40	5.0	5.0	5.0	5.0
45	2.5	2.5	2.5	2.5
50/55	1.0	1.0	1.0	1.0

The principal actuarial assumptions in the current year have changed from previous year as presented in the Note 48.2.2. The discount rate is the yield rate on 31 December 2021 with a term equalling the estimated period for which all benefit payments will continue. This period is approximately 19.14 years for pension and 12.5 years for end of service gratuity. The differences in the discount rates for pension and end of service gratuity reflect the differences in the estimated period for benefit payments will continue.

During 2021, the pension arrangements for a number of employees were adjusted to reflect new legal requirements in that country regarding the retirement age. As a result of the plan amendment, the Bank/Group defined benefit obligation decreased by 176 Mn. A corresponding past service credit was recognised in profit or loss during 2021.

Principal Actuarial Assumptions-Group

The subsidiaries have used discount rates of 9% – 11% and the salary increment rate ranging 3% – 8.5%.

The differences in the rate of future annual salary increases reflect the remaining working life of participants for each plan.

48.2.3 SENSITIVITY OF ASSUMPTIONS USED IN THE ACTUARIAL VALUATION

The Following table demonstrates the sensitivity to a reasonably possible change in the key assumptions used with all other variables held constant in the employment benefit liability measurement. The effect in the income statement and the statement of financial position with the assumed changes in the discount rates and salary increment rate is given below:

	Effect on other comprehensive income increase/(decrease) LKR '000	Effect on defined benefit obligation increase/(decrease) LKR '000
Funded pension liability		
Discount rate		
1%	225,799	(225,799)
-1%	(263,922)	263,922
Salary increment rate		
1%	(40,288)	40,288
-1%	51,185	(51,185)
Unfunded pension liability*		
Discount Rate		
1%	3,959	(3,959)
-1%	(4,461)	4,461
Unfunded end of service gratuity		
Discount Rate		
1%	63,306	(63,306)
-1%	(75,489)	75,489
Salary increment rate		
1%	(75,113)	75,113
-1%	64,115	(64,115)

* Salary increment not applicable for ex-employee

48.3 HISTORICAL INFORMATION

As at	31 December 2021 LKR '000	31 December 2020 LKR '000	31 December 2019 LKR '000	31 December 2018 LKR '000	31 December 2017 LKR '000
Present value of the defined benefit obligation	2,692,271	2,827,321	2,594,387	2,503,310	2,372,248
Fair value of plan assets	(2,808,394)	(2,767,072)	(2,725,572)	(2,646,527)	(2,554,068)
(Surplus)/deficit in the plan	(116,123)	60,249	(131,185)	(143,217)	(181,820)

49. CURRENT TAX LIABILITIES

Accounting policy in Note 22.

		BANK		GROUP	
As at 31 December	Note	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Balance at beginning		1,012,645	581,269	1,081,864	648,178
Provision for the year	22.1	1,741,715	1,389,508	1,816,547	1,476,304
Reversal of over provision	22.1	(181,283)	(127,252)	(184,967)	(130,612)
Self-assessment payments		(1,621,286)	(765,851)	(1,681,790)	(826,899)
Other credits		(146)	(65,029)	(97)	(85,107)
Balance as at 31 December		951,645	1,012,645	1,031,557	1,081,864

50. OTHER LIABILITIES

Provisions are recognised when it is probable that an outflow of economic benefit will be required to settle a current legal or constructive obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation.

		BANK		GROUP	
As at 31 December	Note	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Financial liabilities					
Prior year's dividends		34,371	44,409	34,371	44,409
Security deposit for leases		–	–	137,218	108,598
Lease liabilities	59.2	1,366,231	1,333,069	1,366,231	1,333,069
Account payables		3,052,020	3,394,350	3,063,863	3,414,882
Due to Subsidiaries	50.2	17,875	12,049	–	–
		4,470,497	4,783,877	4,601,683	4,900,958
Non-financial liabilities					
Accruals		898,549	614,474	936,105	654,549
Prepaid loan and lease rentals		35,868	23,963	118,107	70,047
Provision for loan commitments and financial guarantee contracts	57.1	608,252	356,890	608,252	356,890
Other provisions	50.1	567,000	340,650	567,000	340,650
		2,109,669	1,335,977	2,229,464	1,422,136
		6,580,166	6,119,854	6,831,147	6,323,094

50.1 OTHER PROVISIONS

Other provisions includes benefit payable to employees.

As at 31 December	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Balance at beginning	340,650	494,939	340,650	494,939
Provisions for the financial year	567,000	340,650	567,000	340,650
Provisions used during the year	(302,671)	(214,690)	(302,671)	(214,690)
Provisions reversed during the year	(37,979)	(280,249)	(37,979)	(280,249)
Balance as at 31 December	567,000	340,650	567,000	340,650

50.2 DUE TO SUBSIDIARIES

As at 31 December	BANK 2021 LKR '000	BANK 2020 LKR '000
Synapsys Limited	17,875	12,049
	17,875	12,049

51. SUBORDINATED TERM DEBT

Accounting policy in Note 5.3.

These represent the funds borrowed by the Bank/Group for long-term funding requirements. Subsequent to initial recognition these are measured at their amortised cost using the EIR method, except where the Bank/Group designates them at fair value through profit or loss. Interest paid/payable is recognised in Income Statement.

	Face value LKR '000	Interest rate %	Repayment terms	Issued date	Maturity date	BANK/GROUP 31 December 2021 LKR '000	31 December 2020 LKR '000
Listed debentures							
Issued by Bank	6,043,140	12.75	7 Years	9 November 2016	9 November 2023	6,141,043	6,138,994
	956,860	12.15	5 Years	9 November 2016	9 November 2021	–	976,423
	4,086,530	13.00	7 Years	29 March 2018	29 March 2025	4,476,516	4,474,581
	2,913,470	12.60	5 Years	29 March 2018	29 March 2023	3,185,665	3,183,389
	4,318,000	9.00	5 Years	23 October 2020	23 October 2025	4,376,240	4,376,259
	205,000	9.25	7 Years	23 October 2020	25 October 2027	207,812	207,851
	18,523,000					18,387,276	19,357,497

51.1 SUBORDINATED TERM DEBT – LISTED DEBENTURES

Debenture category	Interest rate frequency	Applicable interest rate %	Interest rate of comparative government securities (Gross) p.a. %	Balance as at 31 December 2021 LKR '000	Market price Highest	Lowest	Last traded
Fixed rate							
2016-2023	Annually	12.75	8.75	6,141,043	N/T	N/T	N/T
2018-2025	Annually	13.00	10.18	4,476,516	N/T	N/T	N/T
2018-2023	Annually	12.60	8.36	3,185,665	N/T	N/T	N/T
2020-2025	Annually	9.00	8.99	4,376,240	N/T	N/T	N/T
2020-2027	Annually	9.25	11.03	207,812	N/T	N/T	N/T
				18,387,276			

N/T – Not traded.

Debt equity ratio, interest cover and liquid asset ratio is given in Note 47.5.

51.2 SUBORDINATED LIABILITIES BY MATURITY

	BANK/GROUP	
As at 31 December	2021 LKR '000	2020 LKR '000
Payable within one year	–	976,423
Payable after one year	18,387,276	18,381,074
Total	18,387,276	19,357,497

In the event of the winding-up of the issuer, the above liabilities would be subordinated to the claims of depositors and all other creditors of the issuer. The Bank has not had any defaults of principal, interest or other breaches with respect to its subordinated liabilities during the year ended 31 December 2021.

The maturity analysis of subordinated liabilities is given in Note 8.3.3 on pages 197 to 200.

52. STATED CAPITAL

ACCOUNTING POLICY

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets.

	Number of ordinary voting shares		BANK/GROUP	
As at 31 December	2021	2020	2021 LKR '000	2020 LKR '000
Balance at beginning	305,997,250	304,188,756	7,682,465	7,530,371
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment new shares	14,525,186	1,808,494	917,992	152,094
Balance as at 31 December	320,522,436	305,997,250	8,600,457	7,682,465

Ordinary shares in the Bank are recognised at the amount paid per ordinary share. The shares of the Bank quoted on the Colombo Stock Exchange.

The holders of ordinary shares are entitled to receive dividends declared from time to time and are entitled to one vote per share at General Meetings of the Bank.

53. STATUTORY RESERVES

RESERVE FUND

As at 31 December	BANK/GROUP 2021 LKR '000	BANK/GROUP 2020 LKR '000
Balance at beginning	2,583,968	2,461,968
Transfers	163,000	122,000
Balance as at 31 December	2,746,968	2,583,968

Five percent of profit after tax is transferred to the reserve fund as per Direction issued by Central Bank of Sri Lanka under Section 76 (j) (1) of the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 33 of 1995.

54. RETAINED EARNINGS

	BANK		GROUP	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Balance at Beginning	19,652,169	18,228,086	23,061,084	21,278,288
Profit for the year	3,221,863	2,388,035	3,548,938	2,744,961
Other comprehensive expense, net of tax	(55,184)	(64,063)	(51,234)	(62,276)
Transfers to statutory reserves	(163,000)	(122,000)	(163,000)	(122,000)
Dividends	(917,992)	(912,566)	(917,992)	(912,566)
Forfeiture of unclaimed dividends	9,533	6,664	9,533	6,664
Disposal of equity investments	344,260	128,013	344,260	128,013
Balance as at 31 December	22,091,649	19,652,169	25,831,589	23,061,084

This represents cumulative net earnings, inclusive of final dividend approved amounting to LKR 962 Mn.

The balance is retained and reinvested in the business of the Bank.

55. OTHER RESERVES

As at 31 December 2021	BANK			
	Fair value reserve LKR '000	Hedging reserve LKR '000	General reserve LKR '000	Total LKR '000
Balances at beginning	5,882,811	(224,095)	13,779,839	19,438,555
Movements/transfers	(3,786,184)	(105,347)	–	(3,891,531)
Balances at the end of the year	2,096,627	(329,442)	13,779,839	15,547,024

As at 31 December 2020	BANK			
	Fair value reserve LKR '000	Hedging reserve LKR '000	General reserve LKR '000	Total LKR '000
Balances at the beginning of the year	5,704,644	(225,389)	13,779,839	19,259,094
Movements/transfers	178,167	1,294	–	179,461
Balances at the end of the year	5,882,811	(224,095)	13,779,839	19,438,555

As at 31 December 2021	GROUP				
	Fair value reserve LKR '000	Exchange equalisation reserve LKR '000	Hedging reserve LKR '000	General reserve LKR '000	Total LKR '000
Balances at the beginning of the year	4,439,846	103,054	(224,095)	13,779,839	18,098,644
Movements/transfers	(3,784,591)	60,147	(105,347)	–	(3,829,791)
Balances at the end of the year	655,255	163,201	(329,442)	13,779,839	14,268,853

As at 31 December 2020	GROUP				
	Fair value reserve LKR '000	Exchange equalisation reserve LKR '000	Hedging reserve LKR '000	General reserve LKR '000	Total LKR '000
Balances at the beginning of the year	4,260,073	78,377	(225,389)	13,779,839	17,892,900
Movements/transfers	179,773	24,677	1,294	–	205,744
Balances at the end of the year	4,439,846	103,054	(224,095)	13,779,839	18,098,644

55.1 FAIR VALUE RESERVE

The fair value reserve comprises the cumulative net change in fair value of financial assets measured at fair value through other comprehensive income until such investments are derecognised or impaired.

55.2 HEDGING RESERVE

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in Income Statement as the hedge cash flows affect profit or loss.

55.3 GENERAL RESERVE

The Bank transfers the surplus retained earnings to the general reserve time to time. The purpose of setting up the General Reserve is to meet potential future unknown liabilities.

56. NON-CONTROLLING INTERESTS

ACCOUNTING POLICY

Non-controlling interests (NCI) are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

The following table summarises the information relating to each of the Group's subsidiaries that has material NCI, before any intra-group eliminations:

	Lanka Industrial Estates Limited	
As at 31 December	2021 LKR '000	2020 LKR '000
Non-current assets	603,302	509,148
Current assets	448,489	397,075
Non-current liabilities	(132,590)	(98,956)
Current liabilities	(269,873)	(228,712)
Net assets*	649,328	578,555
Net assets attributable to NCI – 48.84%	317,158	282,589
Revenue	417,170	350,788
Profit	237,844	208,467
Other comprehensive Income/(expense)	606	(615)
Total comprehensive income	238,450	207,852
Profit allocated to NCI – 48.84%	116,173	101,824
Other comprehensive expense allocated to NCI – 48.84%	296	(300)
Cash flows from operating activities	278,058	185,848
Cash flows from investment activities	(79,856)	36,096
Cash flows from financing activities	(167,677)	(167,677)
Net increase in cash and cash equivalents	30,525	54,267

* See Note 35

57. CONTINGENT LIABILITIES AND COMMITMENTS

ACCOUNTING POLICY

COMMITMENTS AND CONTINGENCIES

Contingent liabilities, which include guarantees are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Even though these obligations may not be recognised on the Statement of Financial Position they do contain credit risk and are therefore part of the overall risk of the Bank as disclosed in Note 57.1 below:

FINANCIAL GUARANTEES

Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee received or receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

As at 31 December	BANK 2021 LKR '000	BANK 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Guarantees issued to –				
Banks in respect of indebtedness of customers of the Bank	610,343	492,690	610,343	492,690
Companies in respect of indebtedness of customers of the Bank	16,294,669	8,344,637	16,294,669	8,344,637
Principal collector of customs (duty guarantees)	847,262	217,620	847,262	217,620
Shipping guarantees	2,652,244	2,409,711	2,652,244	2,409,711
Documentary credit	21,246,261	21,340,301	21,246,261	21,340,301
Bills for collection	3,853,903	3,922,026	3,853,903	3,922,026
Performance bonds	7,888,729	4,487,667	7,888,729	4,487,667
Forward exchange contracts	25,881,741	1,187,241	25,881,741	1,187,241
Commitments in ordinary course of business – Commitments for unutilised credit facilities	68,069,669	87,320,270	68,069,669	87,320,270
Capital expenditure approved by the Board of Directors				
Contracted	426,512	613,548	426,512	613,548
Not contracted	360,358	428,436	360,358	428,436
	148,131,691	130,764,147	148,131,691	130,764,147

57.1 MOVEMENT IN IMPAIRMENT DURING THE YEAR

As at 31 December	BANK/GROUP 2021 LKR '000	BANK/GROUP 2020 LKR '000
Stage 1		
Balance at beginning	343,598	164,144
Charge to income statement	232,692	179,454
Balance as at 31 December	576,290	343,598
Stage 2		
Balance at beginning	13,292	16,487
Charge to income statement	18,670	(3,195)
Balance as at 31 December	31,962	13,292
Total	608,252	356,890

Classified under other liabilities in Note 50 on page 293.

57.2 LITIGATION AGAINST THE BANK

57.2.1 A client has instituted an action against five defendants including DFCC Bank PLC (Bank) in the District Court of Kurunegala, claiming that a property mortgaged by him to the Bank had been unlawfully transferred to a third party under the parate process, and also claiming LKR Six million as damages from the Bank. The Bank is defending the actions before the District Court

57.2.2 There are three actions instituted in the District Court of Kandy and one action instituted in District Court of Negambo and another action in District Court of Moratuwa, where third parties are claiming ownership of properties acquired by the Bank under recovery action. The Bank is defending the actions before the respective District Courts.

57.2.3 There is one action instituted in the District Court of Bandarawela, where a third party is claiming ownership of a property mortgaged to the Bank. The Bank is defending the action before the District Court.

57.2.4 There is one action instituted in the District court of Teldeniya, where a third party is claiming ownership of a property mortgaged to the Bank. The bank is defending the actions before the District Court of Teldeniya.

57.2.5 A client instituted an action in the District court of Matara claiming damages from the Bank claiming that as the loan was not disbursed in a lump sum but in installments based on the client's progress as such his business went into decline and he suffered losses. The bank is defending the action before the District Court of Matara.

57.2.6 An action is instituted in the Labour Tribunal by one ex-employee of the Bank, claiming compensation from the Bank. The action has been laid by the President of the Labour Tribunal since the trial under an action instituted by the Bank against the employee has commenced.

57.2.7 An appeal filed in the Supreme Court by one of the ex-employees of the Bank against the order of the High Court received in favour of the Bank. The Bank is defending the action.

57.2.8 An action has been instituted in Galle High Court (Appeal case against the order received in favour of the Bank through the Labour Tribunal Galle) against the Bank by an ex employee. The Bank is defending the action.

57.2.9 One of the Directors of a company against which there are several legal actions instituted by the Bank are pending, has instituted an action in the District Court of Colombo where the said Director is claiming damages from the Bank. The Bank is defending the action before the District Court.

57.2.10 There an action instituted in the District Court of Galle where a customer is claiming damages against the Bank. The Bank is defending the action before the District Court.

There are no material litigations that are pending against the Group.

57.3 TAX ASSESSMENTS AGAINST THE BANK/GROUP

There are no assessments against the Bank/Group on substantive matters by the Department of Inland Revenue which requires disclosures in the financial statements. The Bank/Group is of the view that, tax assessments against the Bank/Group will not have any significant impact on the financial statements.

58. RELATED PARTIES

The Group's related parties include associate, subsidiaries, trust established by the Bank for post-employment retirement plan, joint venture, entities which are controlled, or jointly controlled by Key Management Personal or their close family members.

The Bank carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as related parties as per the Sri Lanka Accounting Standard – LKAS 24 – "Related Party Disclosures", other than, transactions that the Key Management Personnel (KMP) have availed under schemes uniformly applicable to all staff at concessionary rates.

58.1 PARENT AND ULTIMATE CONTROLLING PARTY

The Bank does not have an identifiable parent of its own.

58.2 TRANSACTION WITH KEY MANAGEMENT PERSONNEL

58.2.1 KEY MANAGEMENT PERSONNEL

Key Management Personnel are the Board of Directors of the Bank including Chief Executive, Deputy Chief Executive, Vice President – Strategic Planning and Subsidiaries, Chief Risk Officer, Chief Financial Officer, Chief Operating Officer, and Senior Vice President– Treasury and Resource Mobilisation and capital market for the purpose of Sri Lanka Accounting Standard – LKAS 24 on "Related Party Disclosures".

58.2.2 COMPENSATION OF DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

		BANK		GROUP	
For the year ended 31 December		2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Number of persons		16	15	18	17
Short-term employment benefits		167,926	122,884	188,214	142,081
Post-employment benefits	– Pension*	(4,935)	2,208	(4,935)	2,208
	– Others	20,467	19,413	20,957	19,930
		183,458	144,505	204,236	164,219

* The Bank reassessed the pension fund liability taking into consideration the retirement age revision under the "Minimum Retirement age of workers Act No. 28 of 2021". This reassessment resulted in net reversal of liability which was immediately reversed to the statement of profit or loss as it is considered as a change to the plan in compliance with the Sri Lanka Accounting Standard "LKAS 19 – Employee Benefits".

58.2.3 OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL AND THEIR CLOSE FAMILY MEMBERS

58.2.3.1 STATEMENT OF FINANCIAL POSITION – BANK

As at 31 December	2021 Number of KMPs	2021 LKR '000	2020 Number of KMPs	2020 LKR '000
Assets				
Financial assets at amortised cost – Loans to and receivables from other customers	15	24,280	14	27,939
Liabilities				
Financial liabilities at amortised cost – Due to depositors	30	522,858	27	511,854
Financial liabilities at amortised cost – Due to other borrowers	1	8,151		–
Debt Securities in issue	1	7,292	1	7,293
		538,301		519,147
Contingent liabilities and commitments		19,087		18,915

58.2.3.2 INCOME STATEMENT – BANK

For the year ended 31 December	2021 LKR '000	2020 LKR '000
Interest Income	1,374	2,236
Interest Expense	29,418	36,534
Fee and commission income	8	12

58.3 TRANSACTION WITH ENTITIES IN WHICH DIRECTORS OF THE BANK HAVE SIGNIFICANT INFLUENCE

58.3.1 STATEMENT OF FINANCIAL POSITION – BANK

As at 31 December	2021 LKR '000	2020 LKR '000
Assets		
Financial assets at amortised cost – Loans to and receivables from other customers	1,708,164	–
	1,708,164	–
Liabilities		
Financial liabilities at amortised cost – Due to depositors	289,185	486,247
	289,185	486,247
Contingent liabilities and commitments	–	1,429

58.3.2 INCOME STATEMENT – BANK

For the year ended 31 December	2021 LKR '000	2020 LKR '000
Interest income	147,842	6,554
Interest expenses	31,295	35,708
Fee and commission income	4,157	66
Other operating expenses	–	454

58.4 TRANSACTION WITH GROUP ENTITIES

The Group entities include the subsidiaries, associate and joint venture of the Bank.

58.4.1 TRANSACTIONS WITH SUBSIDIARIES

STATEMENT OF FINANCIAL POSITION – BANK

As at 31 December	2021 LKR '000	2020 LKR '000
Assets		
Other assets	34,145	33,968
	34,145	33,968
Liabilities		
Financial liabilities at amortised cost – Due to depositors	530,534	461,855
Other liabilities	17,875	12,049
	548,409	473,904
Contingent liabilities and commitments	12,442	650

INCOME STATEMENT – BANK

For the year ended 31 December	2021 LKR '000	2020 LKR '000
Interest expense	30,182	34,112
Fee and commission income	495	213
Net other operating income	89,503	89,566
Other operating expenses net of reimbursements	145,339	160,891

OTHER TRANSACTIONS – BANK

For Year ended 31 December	2021 LKR '000	2020 LKR '000
Payments made for purchase of computer software	33,460	23,436

58.4.2 TRANSACTIONS WITH JOINT VENTURE

STATEMENT OF FINANCIAL POSITION – BANK

As at 31 December	2021 LKR '000	2020 LKR '000
Assets		
Financial assets at amortised cost – Loans to and receivables from other customers	769,978	32,962
	769,978	32,962
Liabilities		
Financial liabilities at amortised cost – Due to depositors	526	493
	526	493

INCOME STATEMENT – BANK

For the year ended 31 December	2021 LKR '000	2020 LKR '000
Interest income	34,240	3,793
Fee and commission income	336	2
Net other operating income	–	50,000
Other operating expenses	–	7,065

58.4.3 TRANSACTIONS WITH ASSOCIATE

STATEMENT OF FINANCIAL POSITION – BANK

As at 31 December	2021 LKR '000	2020 LKR '000
Liabilities		
Financial liabilities at amortised cost – Due to depositors	28	27
	28	27

INCOME STATEMENT – BANK

For the year ended 31 December	2021 LKR '000	2020 LKR '000
Fee and commission income	1	2

58.5 TRANSACTIONS WITH DFCC BANK PENSION FUND – TRUST

DFCC Bank Pension Fund constituted as a Trust was established by the DFCC Bank to discharge defined benefit pension liability of eligible employees of the Bank.

As at 31 December	2021 LKR '000	2020 LKR '000
Contribution (payable)/prepaid as at beginning	(60,249)	131,185
Contribution due for the financial year recognised as expense in income statement	(64,088)	(64,603)
Recognition of actuarial gain/(loss) in the other comprehensive income	135,368	(126,831)
Contribution paid by the Bank	105,092	–
Contribution prepaid/(payable) (Note 48.1.2)	116,123	(60,249)

58.6 TRANSACTIONS WITH GOVERNMENT OF SRI LANKA (GOSL) AND ITS RELATED ENTITIES

Entities related to the Government of Sri Lanka (GOSL) by virtue of their aggregate shareholdings has the power to participate in the financial and operating policy decision of the Bank and by extension to participate in the financial and operating policy decisions of the Bank. However, in fact this power was not exercised.

Paragraph 25 of Sri Lanka Accounting Standard Related Party Disclosure – LKAS 24 has exempted DFCC Bank from the normally applicable disclosure requirements on transactions with GOSL – related entities. In making use of this exemption the Board has determined that the limited disclosure required under paragraph 26 of LKAS 24 is only required to be made for transaction that are individually significant because of their size although these transactions were undertaken on normal market terms in the ordinary course of business and there was no requirement to disclose the transactions to regulatory or supervisory authorities or require shareholder approval.

Individually significant transactions included in the statement of financial position – Bank

As at 31 December	2021 LKR '000	2020 LKR '000
Statement of Financial Position-Bank		
Assets		
Balances with Central Bank of Sri Lanka	9,359,241	4,901,753
Placements with banks	5,287,842	15,226,885
Financial assets at amortised cost – Loans to and receivables from banks	–	1,000,125
Financial assets at amortised cost – Loans to and receivables from other customers	14,187,006	15,666,984
Financial assets at amortised cost – Debt and other instruments	26,071,232	31,096,296
Financial assets measured at fair value through other comprehensive income	41,775,647	76,204,140
	96,680,968	144,096,183
Liabilities		
Due to Banks	–	5,189,468
Financial liabilities at amortised cost – Due to depositors	2,625,289	999,248
Financial liabilities at amortised cost – Due to other borrowers	26,651,792	31,795,422
Debt securities in issue	7,258,964	7,326,159
Subordinated term debt	6,640,301	6,834,973
	43,176,346	52,145,270
Commitments		
Undrawn credit facilities	3,739	624,435

For the year ended 31 December	2021 LKR '000	2020 LKR '000
Income Statement – Bank		
Interest income	10,713,278	9,267,703
Interest expense	3,711,162	4,069,080
Fee and commission income	10,140	511
Net gain from trading	58,890	162
Net gains from derecognition of financial assets	(728)	14,176

There are no other transactions that are collectively significant with Government related entities.

58.7 DISCLOSURE REQUIREMENT UNDER SECTION 9.3.2 (A) AND 9.3.2 (B) OF THE CSE LISTING RULES

As per Rule No. 9.3.2 (a) the Bank does not have any non-recurrent related party transactions carried out during the financial year under review with value exceeding 10% of the equity or 5% of the total assets whichever is lower, as per the audited financial statements of the Bank.

As per Rule No. 9.3.2 (b) the Bank does not have any recurrent related party transactions carried out during the financial year under review with value exceeding 10% of the gross revenue/income as per the latest audited financial statements of the bank.

58.8 PRICING POLICY AND TERMS FOR TRANSACTIONS WITH RELATED PARTIES

Bank enters into transactions with related parties in the ordinary course of business on terms similar to comparable transactions with an unrelated comparable counterparty with the exception of accommodation granted to Key Management Personnel under approved schemes uniformly applicable to all or specific categories of employees. The terms include pricing for loans, deposits, and services, collateral obtained for loans where appropriate.

59. LEASES

ACCOUNTING POLICY

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in SLFRS 16.

AS A LESSEE

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made or payable at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from the Bank's internal records (weighted average cost of funds) to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments:
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

SHORT-TERM LEASES AND LEASES OF LOW-VALUE ASSETS

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

AS A LESSOR

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies SLFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in SLFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

59.1 LEASES AS LESSEE (SLFRS 16)

The Bank leases a number of branch and office premises. The leases typically run for a period of 5-12 years, with an option to renew the lease after that date. For some leases, payments are renegotiated to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

There were no identifiable assets that were sub-let by the Bank to its subsidiary during the year.

Information about leases for which the Bank is a lessee is presented below.

59.2 RIGHT-OF-USE ASSETS

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment (see Note 39).

	Branch and office premises	
Bank/Group	2021 LKR '000	2020 LKR '000
Balance at 1 January	1,372,264	1,386,267
Depreciation charge for the year	(287,629)	(292,457)
Additions to right-of-use assets	208,766	315,128
Derecognition of right-of-use assets	(8,913)	(36,674)
Balance at 31 December	1,284,488	1,372,264

See Note 8.3.3 for maturity analysis of lease liabilities as at 31 December 2021.

59.3 LEASE LIABILITY

	2021	
	Bank LKR '000	Group LKR '000
Balance at the beginning	1,333,069	1,333,069
Interest charged during the year	137,425	137,425
Payment	(273,136)	(273,136)
Disposals	(41,072)	(41,072)
Lease additions	208,766	208,766
Balance as at 31 December	1,365,052	1,365,052

The future minimum lease payments under non-cancellable operating leases were payable as follows:

Bank/Group	2021 LKR '000	2020 LKR '000
Maturity analysis – Contractual undiscounted cash flows		
Less than one year	308,913	274,550
Between one and five years	1,066,105	1,049,125
More than five years	449,765	560,720
Total undiscounted lease liabilities at 31 December	1,824,783	1,884,395
Total discounted lease liabilities at 31 December	1,366,231	1,333,069

Refer Note 50.

59.4 AMOUNTS RECOGNISED IN INCOME STATEMENT

Bank/Group	2021 LKR '000	2020 LKR '000
Leases under SLFRS 16		
Interest on lease liabilities	137,380	140,657
Expenses relating to short-term leases	635	1,500
Depreciation charge for the year	287,629	292,457
	425,644	434,614

59.5 AMOUNTS RECOGNISED IN STATEMENT OF CASH FLOWS

Bank/Group	2021 LKR '000	2020 LKR '000
Total cash outflow for leases	273,136	303,627

59.6 EXTENSION OPTIONS

Some property leases contain extension options exercisable by the Bank. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Bank has estimated that the potential future lease payments, should it exercise the extension option, would result in no material increase in lease liability.

60. OPERATING SEGMENTS

ACCOUNTING POLICY

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with any of the Group's other components, whose operating results are regularly reviewed by the Group's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group's CEO (being the CODM) include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Bank's headquarters), expenses, tax assets and liabilities.

60.1 BASIS FOR SEGMENTATION

The Group has the following five strategic divisions, which are reportable segments. These divisions offer different products and services, and are managed separately based on the Group's management and internal reporting structure.

Corporate Banking	Loans, deposits and other transactions and balances with corporate customers
Retail Banking	Loans, deposits and other transactions and balances with retail customers
Treasury	Funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short term placements and corporate and government debt securities
Other	Revenue and expenses attributable to the incorporated business segments of industrial estate management, unit trust management, stock brokering and consultancy services are included in the column for others.

Segment performance is evaluated based on operating profits or losses which are measured differently from operating profits or losses in the consolidated financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

The Group's Management Committee reviews internal management reports from each division at least monthly.

60.2 INFORMATION ABOUT REPORTABLE SEGMENTS

Information related to each reportable segment is set out below. Segment profit before tax, as included in internal management reports reviewed by the Group's Management Committee, is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate within the same industries. Inter-segment pricing is determined on an arm's length basis. Eliminations are the consolidation adjustments for inter company transactions, dividend and dividend payable attributable to minority shareholders.

	31 December 2021					31 December 2020				
	Corporate Banking LKR '000	Retail Banking LKR '000	Treasury LKR '000	Other LKR '000	Total LKR '000	Corporate Banking LKR '000	Retail Banking LKR '000	Treasury LKR '000	Other LKR '000	Total LKR '000
External revenue										
Interest income	10,763,221	18,019,188	7,326,793	27,874	36,137,076	11,869,993	19,112,730	7,689,521	40,790	38,713,034
Net fees and commission income	699,542	1,521,866	277,544	–	2,498,952	519,265	1,272,730	269,321	–	2,061,316
Net gain from trading			844,898		844,898	–	–	479,152	–	479,152
Net loss from financial instruments at fair value through profit or loss			(247,268)		(247,268)	–	–	(497,931)	–	(497,931)
Net gain from derecognition of financial assets			1,391,008		1,391,008	–	–	510,386	–	510,386
Net other operating income	(7,864)	11,187	1,179,734	692,814	1,875,871	16,532	39,907	1,454,682	652,979	2,164,100
Income from external customers	11,454,899	19,552,241	10,772,709	720,688	42,500,537	12,405,790	20,425,367	9,905,131	693,769	43,430,057
Inter segment revenue	–	–	–	(340,170)	(340,170)	–	–	–	(389,122)	(389,122)
Total segment revenue	11,454,899	19,552,241	10,772,709	380,518	42,160,367	12,405,790	20,425,367	9,905,131	304,647	43,040,935
Interest expense	(4,950,856)	(13,081,820)	(5,913,580)	–	(23,946,256)	(5,872,480)	(14,469,483)	(7,741,196)	(4,430)	(28,087,589)
Impairment for loans and other losses	(1,952,671)	(2,183,984)	(348,633)	–	(4,485,288)	(1,702,162)	(1,400,318)	(195,412)	(30,000)	(3,327,892)
Net Operating Income	4,551,372	4,286,436	4,510,496	380,518	13,728,822	4,831,148	4,555,566	1,968,523	270,217	11,625,454
Profit from operations	–	–	–	–	4,562,014	–	–	–	–	3,536,101
Share of profits of associate and joint venture	–	–	–	–	296,662	–	–	–	–	407,785
Income tax expense	–	–	–	–	1,193,565	–	–	–	–	1,097,101
Non-controlling interests	–	–	–	–	116,173	–	–	–	–	101,824
Equity holders of the Bank	–	–	–	–	3,548,938	–	–	–	–	2,744,961
Segment assets	151,763,379	206,758,053	107,370,344	918,772	466,810,548	126,752,290	170,095,200	153,778,921	815,960	451,442,371
Segment liabilities	80,363,703	238,542,183	109,392,843	471,289	428,770,018	83,083,022	214,097,277	110,059,796	398,124	407,638,219
Information on cash flows										
Cash flows from operating activities	–	–	–	–	(58,260,801)	–	–	–	–	31,937,036
Cash flows from investing activities	–	–	–	–	41,712,085	–	–	–	–	(7,426,353)
Cash flows from financing activities	–	–	–	–	10,411,191	–	–	–	–	(7,009,552)
Net cash flows generated during the year	–	–	–	–	(6,137,525)	–	–	–	–	17,501,131
Capital expenditure:	–	–	–	–						
Property, plant and equipment	147	339,118	839	10,433	350,537	–	763,977	133	–	764,110
Intangible assets	–	868,337	–	145,037	1,013,374	–	315,082	–	–	315,082

60.3 Reconciliations of information on reportable segments to the amounts reported in the financial statements

	2021 LKR '000	2020 LKR '000
Revenue		
Total revenue for reportable segments	42,500,537	43,430,057
Unallocated amounts	868,913	563,512
Elimination of inter-segment revenue	(340,170)	(389,122)
Consolidated revenue	43,029,280	43,604,447
Net Operating Income		
Total net operating income for reportable segments	13,728,822	11,625,454
Unallocated amounts	576,446	431,354
Elimination of inter-segment adjustments	27,361	35,331
Consolidated net operating income	14,332,629	12,092,139

	2021 LKR '000	2020 LKR '000
Assets		
Total assets for reportable segments	466,810,548	451,442,371
Other unallocated amounts	21,446,260	15,924,164
Consolidated total assets	488,256,808	467,366,535
Liabilities		
Total liabilities for reportable segments	428,770,018	407,638,219
Other unallocated amounts	7,721,765	8,019,566
Consolidated total liabilities	436,491,783	415,657,785

61. EVENTS AFTER THE REPORTING PERIOD

ACCOUNTING POLICY

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

All material events after the reporting date have been considered and where appropriate, adjustments or disclosures have been made in the respective Notes to the financial statements.

There have been no events subsequent to the reporting date, which would have any material effect on the Company, other than the following;

61.1 IMPOSITION OF SURCHARGE TAX

The Bill governing the imposition and administration of the Surcharge Tax was published in the Gazette on 7 February 2022. The Surcharge Tax was proposed in the Budget 2022, as a one-time tax. Surcharge Tax is payable by any individual, partnership, company or each company of a group of companies (holding and subsidiaries) subject to the taxable income threshold as specified in the Bill. There shall be levied a Surcharge Tax any individual, partnership or company, whose taxable income calculated in accordance with the provisions of the Inland Revenue Act No. 24 of 2017, exceeds rupees two thousand million, for the year of assessment commenced on 1 April 2020, at the rate of 25% on the taxable income of such individual, partnership or company, for such year of assessment. The proposed surcharge tax has not been accounted for in these financial statements of the Company and the Group as at 31 December 2021 as the said Bill is not considered to be substantially enacted as per LKAS – 12 as at the Reporting date.

61.2 FIRST AND FINAL DIVIDEND

The Directors have approved the payment of a first and final dividend of LKR 3.00 per share in the form of a scrip dividend, for the financial year ended 31 December 2021. The Board of Directors confirm that the Bank has satisfied the solvency test in accordance with Section 57 of the Companies Act No. 07 of 2007 and has obtained the certificate from the Auditor.

61.3 PROPOSED RIGHT ISSUE

The Bank will issue 109,247,953 shares (12 shares for every 37 shares held) each at LKR 55/- per share to raise LKR 6 Billion to increase the Tier 1 capital of the Bank. The rights issue is subject to the Colombo Stock Exchange approving in principle the issue and listing of shares and obtaining shareholders' approval at an Extraordinary General Meeting on a date to be advised in due course.

62. COMPARATIVE FIGURES

The information has been reclassified with the current year's classification in order to provide a better presentation.

63. DIRECTORS' RESPONSIBILITY

The Board of Directors of the Bank is responsible for the preparation and presentation of these financial statements. Please refer page 163 for the Statement of Directors' Responsibility.

OTHER DISCLOSURE REQUIREMENTS UNDER THE PRESCRIBED FORMAT ISSUED BY THE CENTRAL BANK OF SRI LANKA FOR PREPARATION OF ANNUAL FINANCIAL STATEMENTS OF LICENSED COMMERCIAL BANKS

Disclosure Requirements		Description	Page No.
1.	Information about the Significance of Financial Instruments for Financial Position and Performance		
1.1	Statement of Financial Position		
1.1.1	Disclosures on categories of financial assets and financial liabilities.	Notes to the financial statements: Note 25 – Analysis of financial instruments by measurement basis	244-245
1.1.2	Other Disclosures		
	i. Special disclosures about financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.	Not designated Principal accounting policies: Note 5.3.9 – Designation at fair value through profit or loss Notes to the financial statements: Note 08 – Financial risk review	187 188-211
	ii. Reclassifications of financial instruments from one category to another.	Principal accounting policies: Note 5.3.3 – Reclassification of financial assets	185
	iii. Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Notes to the financial statements: Note 46.1 – Assets pledged as security	286
	iv. Reconciliation of the allowance account for credit losses by class of financial assets.	Note the financial statements: Note 32.1.4 – Movement in impairment during the year	258
	v. Information about compound financial instruments with multiple embedded derivatives.	The Bank does not have compound financial instruments with multiple embedded derivatives	
	vi. Breaches of terms of loan agreements.	None	
1.2	Statement of Comprehensive Income		
1.2.1	Disclosures on items of income, expense, gains and losses.	Notes to the financial statements: Notes 10 to 23	222-242
1.2.2	Other Disclosures		
	i. Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit and loss.	Notes to the financial statements: Note 11 – Net interest income	222-224
	ii. Fee income and expense.	Notes to the financial statements: Note 12 – Net fee and commission income	225-226
	iii. Amount of impairment losses by class of financial assets.	Notes to the financial statements: Note 17 – Impairment for loans and other losses	229-234
	iv. Interest income on impaired financial assets.	The Bank has discontinued the recognition of interest income on impaired financial assets as given in Note 11 – Net interest income	222-224

Disclosure Requirements		Description	Page No.
1.3	Other Disclosures	Principal accounting policies:	
1.3.1	Accounting policies for financial instruments.	Note 5.3 – Financial assets and Financial liabilities	184-187
1.3.2	Information on hedge accounting.	Notes to the financial statements: Note 29 – Derivate financial assets/liabilities	247-250
1.3.3	Information about the fair values of each class of financial asset and financial liability, along with:		
	i. Comparable carrying amounts.	Notes the financial statements: Notes 9.1 to 9.4.8 – Fair value of financial instruments	212-221
	ii. Description of how fair value was determined.	Notes to the financial statements: Note 9 – Fair value of financial instruments	212-221
	iii. The level of inputs used in determining fair value.	Notes to the financial statements: Notes 9 – Valuation models	212
	iv. a. Reconciliations of movements between levels of fair value measurement hierarchy. b. Additional disclosures for financial instruments that fair value is determined using level 3 inputs.	There were no movements between level s of fair value hierarchy during the year under review	
	v. Information if fair value cannot be reliably measured.	Notes to the financial statements: Notes 9.4.1 to 9.4.8	221
2.	Information about the Nature and Extent of Risks Arising from Financial Instruments		
2.1	Qualitative Disclosures		
2.1.1	Risk exposures for each type of financial instrument.	Notes to the financial statements: Note 8 – Financial risk review	188-211
2.1.2	Management's objectives, policies, and processes for managing those risks.	Notes to the financial statements: Note 8 – Financial risk review	188-211
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2.2.1	Summary of quantitative data about exposure to each risk at the reporting date.	Notes to the financial statements: Note 8 – Financial risk review	188-211

Disclosure Requirements	Description	Page No.
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b. For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset.	Notes to the financial statements: Note 8.2.3 – Credit quality analysis Note 8.2.4 – Collateral held and other credit enhancement Note 8.2.5 – Amounts arising from ECL	 190-191 192-193 193-194
c. Information about collateral or other credit enhancements obtained or called.	Notes to the financial statements: Note 8.2.4 – Collateral held and other credit enhancement	 192-193
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ii. Liquidity Risk		
a. A maturity analysis of financial liabilities.	Notes to the financial statements: Notes 8.3.3 – Maturity analysis of financial liabilities and financial assets	 197-200
b. Description of approach to risk management.	Notes to the financial statements: Note 8.3 – Financial risk review	 196-202
c. For other disclosures, please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Notes to the financial statements: Note 8.3 – Liquidity risk (Financial risk review)	 196-202
iii. Market Risk		
a. A sensitivity analysis of each type of market risk to which the entity is exposed.	Notes to the financial statement: Note 8.4 – Market risk (Financial risk review)	 203-208
b. Additional information, if the sensitivity analysis is not representative of the entity's risk exposure.	None	
c. For other disclosures, please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Notes to the financial statement: Note 8.4 – Market risk (Financial risk review)	 203-208
iv. Operational Risk Please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Notes to the financial statements: Note 8.5 – Operational risk (Financial risk review)	 208-211

Disclosure Requirements	Description	Page No.
v. Equity Risk in the Banking Book		
a. Qualitative Disclosures		
• Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.	Notes to the financial statements: Note 8.4.2.1 – Equity price risk	205
• Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.	Note 5.1.1 to 5.1.7 – Basis of consolidation Note 35 – Investments in subsidiaries Note 36 – Investments in associates Note 37 – Investments in joint venture	183 267-268 268-270 270-272
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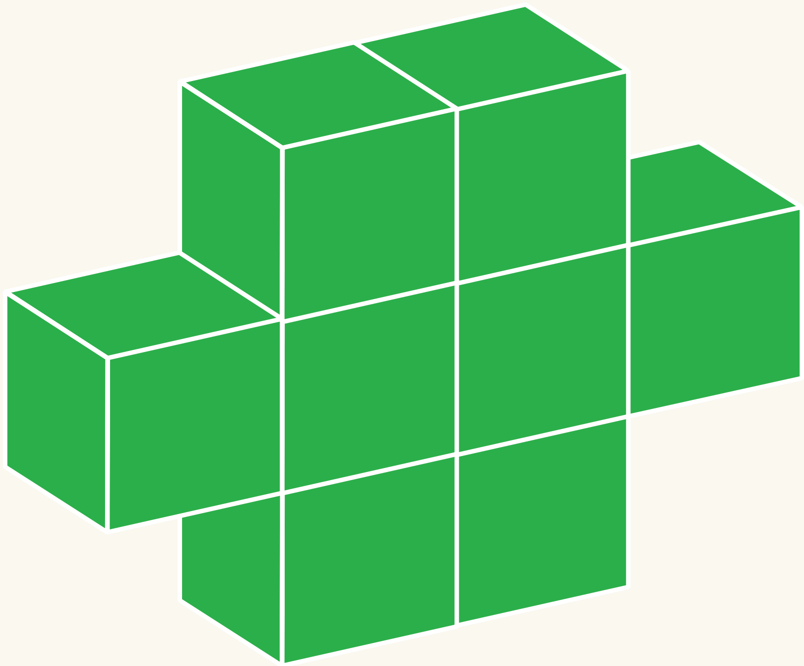
• Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.	Notes to the financial statements: Note 30 – Financial assets measured at fair value through profit or loss Note 34 – Financial assets measured at fair value through other comprehensive income	251-252 261-267
• The types and nature of investments. The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period.	Notes to the financial statements: Note 13 – Net (loss)/gain from trading Note 15 – Net gains from derecognition of financial assets Note 16 – Net other operating income	226 227 228
vi. Interest Rate Risk in the Banking Book		
a. Qualitative Disclosures	Notes to the financial statements: Note 8 – Financial risk review	188-211
• Nature of interest rate risk in the banking book (IRRBB) and key assumptions.		
b. Quantitative Disclosures	Notes to the financial statements: Note 8 – Financial risk review Note 8.4.4.1 – Potential impact on NII due to change in market interest rates	188-211 206-207
• The increase/(decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).		
2.2.3 Information on concentrations of risk.	Notes to the financial statements: Note 8 – Financial risk review	188-211

Disclosure Requirements	Description	Page No.
3. Other Disclosures		
3.1 Capital		
3.1.1 Capital Structure		
i. Qualitative Disclosures.	Notes to the financial statements: Note 8.5.1.1 – Key regulatory ratios – capital adequacy	209-211
Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.		
ii. Quantitative Disclosure	Notes to the financial statements: Note 8.5.1.1 – Key regulatory ratios – capital adequacy	209-211
a. The amount of Tier 1 capital, with separate disclosure of: • Paid-up share capital/common stock • Reserves • Non-controlling interests in the equity of subsidiaries • Innovative instruments • Other capital instruments • Deductions from Tier 1 capital b. The total amount of Tier 2 and Tier 3 capital c. Other deductions from capital d. Total eligible capital		
3.1.2 Capital adequacy		
i. Qualitative Disclosures	Notes to the financial statements: Note 8.5.1 – Qualitative disclosures (capital management)	209-211
A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.		
ii. Quantitative Disclosures		
a. Capital requirements for credit risk, market risk and operational risk	Notes to the financial statements: Note 8.5.1 – Capital management	209-211
b. Total and Tier 1 capital ratio	Notes to the financial statements: Note 8.5.1.1 – Key regulatory ratios – capital adequacy	209

SUPPLEMENTARY INFORMATION



QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

BASEL III COMPUTATION OF LIQUIDITY COVERAGE RATIO – ALL CURRENCIES

	Amount (LKR '000)			
	31 December 2021		31 December 2020	
Item	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High-Quality Liquid Assets (HQLA)	70,028,983	69,396,761	97,633,888	97,078,314
Total Adjusted Level 1A Assets	68,764,540	68,764,540	96,522,740	96,522,740
Level 1 Assets	68,764,540	68,764,540	96,522,740	96,522,740
Total Adjusted Level 2A Assets	–	–	–	–
Level 2A Assets	–	–	–	–
Total Adjusted Level 2B Assets	1,264,443	632,221	1,111,148	555,574
Level 2B Assets	1,264,443	632,221	1,111,148	555,574
Total cash outflows	489,106,855	82,706,774	444,130,094	85,180,176
Deposits	216,527,162	19,537,298	193,543,598	17,022,136
Unsecured Wholesale Funding	101,848,746	44,806,790	117,377,619	59,918,367
Secured Funding Transactions	2,386,304	–	4,208,587	–
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	161,230,438	11,248,480	125,612,895	4,852,278
Additional Requirements	7,114,205	7,114,205	3,387,395	3,387,395
Total cash inflows	45,460,680	31,747,827	56,689,326	37,695,671
Maturing secured lending transactions backed by collateral	18,586,621	17,283,217	14,053,020	9,656,405
Committed facilities	–	–	1,000,000	–
Other inflows by counterparty which are maturing within 30 Days	19,302,269	12,796,237	37,772,765	26,597,052
Operational deposits	4,613,190	–	1,679,982	–
Other cash inflows	2,958,599	1,668,373	2,183,559	1,442,214
Liquidity coverage ratio (%) (Stock of high quality liquid assets/total net cash outflows over the next 30 calendar days) *100		136.18		204.44

BASEL III COMPUTATION OF LIQUIDITY COVERAGE RATIO – LKR ONLY

Amount (LKR '000)

Item	31 December 2021		31 December 2020	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High-Quality Liquid Assets (HQLA)	63,872,699	63,211,781	90,105,873	89,550,299
Total Adjusted Level 1A Assets	62,550,864	62,550,864	88,994,725	88,994,725
Level 1 Assets	62,550,864	62,550,864	88,994,725	88,994,725
Total Adjusted Level 2A Assets	–	–	–	–
Level 2A Assets	–	–	–	–
Total Adjusted Level 2B Assets	1,321,835	660,918	1,111,148	555,574
Level 2B Assets	1,321,835	660,918	1,111,148	555,574
Total cash outflows	423,205,152	68,030,524	363,621,075	65,101,383
Deposits	198,578,248	17,742,407	180,352,595	15,742,884
Unsecured wholesale funding	74,994,769	33,888,212	85,507,685	44,501,115
Secured funding transactions	2,386,304	–	4,208,587	–
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	141,111,240	10,265,313	90,298,101	1,603,277
Additional requirements	6,134,592	6,134,592	3,254,107	3,254,107
Total cash inflows	34,756,791	26,797,017	48,982,281	34,036,829
Maturing secured lending transactions backed by collateral	15,156,024	13,852,619	13,657,504	9,260,888
Committed facilities	–	–	1,000,000	–
Other inflows by counterparty which are maturing within 30 Days	17,020,316	11,654,172	32,842,087	24,034,596
Operational deposits	–	–	–	–
Other cash inflows	2,580,452	1,290,226	1,482,690	741,345
Liquidity coverage Ratio (%) (Stock of high quality liquid assets/total net cash outflows over the next 30 calendar days) *100		152.86		288.27

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

MATURITY OF ASSETS AND LIABILITIES

As at 31 December 2021	Up to 1 Months LKR '000	1-3 Months LKR '000	3-6 Months LKR '000	6-12 Months LKR '000	1-3 Years LKR '000	3-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Financial assets								
Cash and cash equivalents	10,688,255	–	–	–	–	–	–	10,688,255
Balances with Central Bank of Sri Lanka	9,359,241	–	–	–	–	–	–	9,359,241
Placement with banks	6,288,006	–	–	–	–	–	–	6,288,006
Derivative financial assets	280,235	–	–	–	–	–	–	280,235
Financial assets measured at fair value through profit or loss	–	218,875	–	–	–	–	–	218,875
Financial assets at amortised cost – Loans to and receivables from banks	–	–	–	–	–	–	–	–
Financial assets at amortised cost – Loans to and receivables from other customers	19,762,579	40,601,431	20,955,765	44,920,936	90,002,792	56,926,693	92,730,344	365,900,540
Financial assets at amortised cost – Debt and other instruments	21,840	2,297,571	13,032,325	2,323,072	6,334,236	2,665,918	–	26,674,962
Financial assets measured at fair value through other comprehensive income	4,162,207	12,116,150	5,478,870	4,536,581	7,286,765	4,520,387	16,228,476	54,329,436
Other assets	1,276,976	1,295,646	2,199	93,330	45,210	85,755	56,138	2,855,254
Total financial assets	51,839,339	56,529,673	39,469,159	51,873,919	103,669,003	64,198,753	109,014,958	476,594,804
Financial liabilities								
Due to banks	651,098	1,344,705	–	1,354,033	–	–	–	3,349,836
Derivative financial liabilities	814,219	–	–	–	–	–	–	814,219
Financial liabilities at amortised cost – Due to depositors	19,848,588	60,836,584	67,139,390	58,139,727	24,144,409	22,426,559	67,325,756	319,861,013
Financial liabilities at amortised cost – Due to other borrowers	5,256,334	6,702,141	5,158,220	3,604,713	16,211,212	14,959,466	17,697,043	69,589,129
Debt securities in issue	462,419	–	696,868	160,197	3,789,061	6,777,540	4,411,171	16,297,256
Other liabilities	2,290,428	313,056	69,543	110,640	466,470	392,836	827,524	4,470,497
Subordinated term debt	–	–	446,151	–	9,334,999	8,401,222	204,904	18,387,276
Total financial liabilities	29,323,086	69,196,486	73,510,172	63,369,310	53,946,151	52,957,623	90,466,398	432,769,226
Total net financial assets/(liabilities)	22,516,253	(12,666,813)	(34,041,013)	(11,495,391)	49,722,852	11,241,130	18,548,560	43,825,578

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

As at 31 December 2021	Up to 1 Months LKR '000	1-3 Months LKR '000	3-6 Months LKR '000	6-12 Months LKR '000	1-3 Years LKR '000	3-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Contingencies								
Guarantees	20,401,153	–	–	–	–	–	–	20,401,153
Acceptance	–	5,783,312	4,804,345	544,644	38,326	–	–	11,170,627
Performance bonds	7,888,729	–	–	–	–	–	–	7,888,729
Forward contracts	(3,753,104)	1,421,553	(3,100,086)	–	6,758,895	12,229,512	12,324,971	25,881,741
Documentary credit	4,876,000	3,894,000	1,175,000	134,000	–	–	–	10,079,000
Bills for collection	3,853,903	–	–	–	–	–	–	3,853,903
Total contingencies	33,266,681	11,098,865	2,879,259	678,644	6,797,221	12,229,512	12,324,971	79,275,153
Commitments								
Commitments for unutilised credit facilities	68,069,669	–	–	–	–	–	–	68,069,669
Capital commitments	627,175	8,868	118,891	31,935	–	–	–	786,869
Total Commitments	68,696,844	8,868	118,891	31,935	–	–	–	68,856,538
Total commitments and contingencies	101,963,525	11,107,733	2,998,150	710,579	6,797,221	12,229,512	12,324,971	148,131,691

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

As at 31 December 2020	Up to 1 Months LKR '000	1-3 Months LKR '000	3-6 Months LKR '000	6-12 Months LKR '000	1-3 Years LKR '000	3-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Financial assets								
Cash and cash equivalents	7,724,364	–	–	–	–	–	–	7,724,364
Balances with Central Bank of Sri Lanka	4,901,753	–	–	–	–	–	–	4,901,753
Placement with banks	15,414,287	–	–	–	–	–	–	15,414,287
Derivative financial assets	835,464	–	–	–	–	–	–	835,464
Financial assets measured at fair value through profit or loss	564,837	–	–	–	–	–	44,880	609,717
Financial assets at amortised cost – Loans to and receivables from banks	4,099,700	34,092	18,925	–	–	–	–	4,152,717
Financial assets at amortised cost – Loans to and receivables from other customers	24,618,107	28,884,720	15,260,639	19,887,798	58,850,180	57,608,042	96,799,851	301,909,337
Financial assets at amortised cost – Debt and other instruments	1,088,642	4,901,488	244,559	13,114,452	10,314,056	1,940,978	–	31,604,175
Financial assets measured at fair value through other comprehensive income	3,493,167	12,312,501	4,849,806	21,022,827	17,342,423	7,691,826	22,005,452	88,718,002
Other assets	1,920,666	383	843	12,707	11,747	31,747	21,312	1,999,405
Total financial assets	64,660,987	46,133,184	20,374,772	54,037,784	86,518,406	67,272,593	118,871,495	457,869,221
Financial liabilities								
Due to banks	2,090,584	1,540,503	1,255,012	2,510,680	7,513,158	–	–	14,909,937
Derivative financial liabilities	267,883	–	–	–	–	–	–	267,883
Financial liabilities at amortised cost – Due to depositors	37,003,073	61,849,504	70,816,977	34,289,767	28,970,585	16,457,256	60,639,730	310,026,892
Financial liabilities at amortised cost – Due to other borrowers	5,127,704	7,514,200	6,466,310	3,657,978	12,393,268	3,553,834	8,133,782	46,847,076
Debt securities in issue	–	1,025,771	305,890	–	–	8,764,378	6,195,240	16,291,279
Other liabilities	1,805,293	493,565	340,002	384,697	383,163	421,465	955,692	4,783,877
Subordinated term debt	–	617,850	–	1,173,507	8,956,610	8,404,530	205,000	19,357,497
Total financial liabilities	46,294,537	73,041,393	79,184,191	42,016,629	58,216,784	37,601,463	76,129,444	412,484,441
Total net financial assets/(Liabilities)	18,366,450	(26,908,209)	(58,809,419)	12,021,155	28,301,622	29,671,130	42,742,051	45,384,780

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

As at 31 December 2020	Up to 1 Months LKR '000	1-3 Months LKR '000	3-6 Months LKR '000	6-12 Months LKR '000	1-3 Years LKR '000	3-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Contingencies								
Guarantees	15,952,324	–	–	–	–	–	–	15,952,324
Acceptance	–	5,783,242	756,207	4,869	4,906,411	–	–	11,450,729
Forward contracts	(3,471,492)	(825,822)	672,032	932,930	3,015,758	–	–	323,406
Cross CCY SWAP	–	586,913	4,692	262,847	9,384	–	–	863,836
Documentary credit	–	8,096,276	671,414	381,827	740,055	–	–	9,889,572
Bills for collection	3,922,026	–	–	–	–	–	–	3,922,026
Total contingencies	16,402,858	13,640,609	2,104,345	1,582,473	8,671,608	–	–	42,401,893
Commitments								
Undrawn overdrafts	22,087,069	–	–	–	–	–	–	22,087,069
Undrawn loans	29,603,852	–	–	–	–	–	–	29,603,852
Undrawn credit card limits	3,679,317	–	–	–	–	–	–	3,679,317
Undrawn indirect credit facilities	31,243,712	–	–	–	–	–	–	31,243,712
Capital commitments	–	142,386	613,549	286,051	–	–	–	1,041,986
Undrawn leases	706,318	–	–	–	–	–	–	706,318
Total commitments	87,320,268	142,386	613,549	286,051	–	–	–	88,362,254
Total commitments and contingencies	103,723,126	13,782,995	2,717,894	1,868,524	8,671,608	–	–	130,764,147

MATURITY GAP ANALYSIS OF FOREIGN CURRENCY DENAOMINATED FINANCIAL ASSETS AND FINANCIAL LIABILITIES – USD

As at 31 December 2021	Up to 1 Months USD '000	1-3 Months USD '000	3-6 Months USD '000	6-12 Months USD '000	1-3 Years USD '000	3-5 Years USD '000	Over 5 Years USD '000	Total USD '000
Total assets	35,472	36,214	28,742	52,844	38,269	59,706	53,548	304,795
Total liabilities	45,665	30,808	35,744	50,561	89,108	88,319	67,018	407,223
Total net financial assets/(liabilities)	(10,193)	5,406	(7,002)	2,283	(50,839)	(28,613)	(13,470)	(102,428)

As at 31 December 2020	Up to 1 Months USD '000	1-3 Months USD '000	3-6 Months USD '000	6-12 Months USD '000	1-3 Years USD '000	3-5 Years USD '000	Over 5 Years USD '000	Total USD '000
Total assets	100,754	24,435	8,868	31,926	47,159	36,630	90,170	339,942
Total liabilities	73,022	27,858	43,022	59,953	81,443	38,345	43,201	366,844
Total net financial assets/(liabilities)	27,732	(3,423)	(34,154)	(28,027)	(34,284)	(1,715)	46,969	(26,902)

SENSITIVITY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Bank As at 31 December 2021	Up to 1 Months LKR '000	1-3 Months LKR '000	3-6 Months LKR '000	6-12 Months LKR '000	1-3 Years LKR '000	3-5 Years LKR '000	Over 5 Years LKR '000	Non-interest Bearing LKR '000	Total LKR '000
Financial assets									
Cash and cash equivalents	844,731	–	–	–	–	–	–	9,843,524	10,688,255
Balances with Central Bank of Sri Lanka	–	–	–	–	–	–	–	9,359,241	9,359,241
Placements with banks	6,288,006	–	–	–	–	–	–		6,288,006
Derivative financial assets	–	–	–	–	–	–	–	280,235	280,235
Financial assets measured at fair value through profit or loss	–	–	–	–	–	–	–	218,875	218,875
Financial assets at amortised cost – Loans to and receivables from banks	–	–	–	–	–	–	–	–	–
Financial assets at amortised cost – Loans to and receivables from other customers	246,322,818	18,918,758	23,714,679	14,306,803	22,814,215	20,240,169	11,272,135	8,310,963	365,900,540
Financial assets at amortised cost – Debt and other Instruments	265,131	2,605,943	13,018,250	2,345,808	6,854,024	1,585,806	–	–	26,674,962
Financial assets measured at fair value through other comprehensive income	4,411,761	12,358,532	5,798,879	4,572,520	7,370,764	4,244,869	3,018,322	12,553,789	54,329,436
Other assets	–	–	–	–	–	–	–	2,855,254	2,855,254
Total financial assets	258,132,447	33,883,233	42,531,808	21,225,131	37,039,003	26,070,844	14,290,457	43,421,881	476,594,804
Financial liabilities									
Due to banks	–	1,105,860	–	1,105,860	–	–	–	1,138,116	3,349,836
Derivative financial liabilities	–	–	–	–	–	–	–	814,219	814,219
Financial liabilities at amortised cost – due to depositors	111,704,790	51,549,556	57,791,338	74,085,686	10,929,857	1,586,363	40,503	12,172,920	319,861,013
Financial liabilities at amortised cost – due to other borrowers	5,117,887	6,606,257	5,116,823	3,621,298	18,045,813	16,614,127	14,466,924	–	69,589,129
Debt Securities in issue	–	–	–	–	–	11,886,086	4,411,170	–	16,297,256
Other liabilities	–	–	–	–	–	–	–	4,470,497	4,470,497
Subordinated term debt	–	–	–	–	9,777,746	8,609,530	–	–	18,387,276
Total financial liabilities	116,822,677	59,261,673	62,908,161	78,812,844	38,753,416	38,696,106	18,918,597	18,595,752	432,769,226
Interest rate sensitivity gap	141,309,770	(25,378,440)	(20,376,353)	(57,587,713)	(1,714,413)	(12,625,262)	(4,628,140)	24,826,129	

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

Bank As at 31 December 2020	Up to 1 Months LKR '000	1-3 Months LKR '000	3-6 Months LKR '000	6-12 Months LKR '000	1-3 Years LKR '000	3-5 Years LKR '000	Over 5 Years LKR '000	Non-interest Bearing LKR '000	Total LKR '000
Financial assets									
Cash and cash equivalents	317,034	–	–	–	–	–	–	7,407,330	7,724,364
Balances with Central Bank of Sri Lanka	–	–	–	–	–	–	–	4,901,753	4,901,753
Placements with banks	15,414,287	–	–	–	–	–	–	–	15,414,287
Derivative financial assets	–	–	–	–	–	–	–	835,464	835,464
Financial assets measured at fair value through profit or loss	–	–	–	–	–	–	–	609,717	609,717
Financial assets at amortised cost – Loans to and receivables from banks	4,152,717	–	–	–	–	–	–	–	4,152,717
Financial assets at amortised cost – Loans to and receivables from other customers	151,094,075	24,374,012	12,864,586	16,170,593	44,565,904	23,242,601	21,834,937	7,762,629	301,909,337
Financial assets at amortised cost – Debt and other Instruments	1,305,463	4,323,283	263,484	12,984,162	10,786,805	1,940,978	–	–	31,604,175
Financial assets measured at fair value through other comprehensive income	3,555,765	12,312,501	4,849,806	21,167,642	17,197,609	7,691,826	9,428,991	12,513,862	88,718,002
Other assets								1,999,405	1,999,405
Total financial assets	175,839,341	41,009,796	17,977,876	50,322,397	72,550,318	32,875,405	31,263,928	36,030,160	457,869,221
Financial liabilities									
Due to banks	1,792,092	7,927,554	–	–	5,000,000	–	–	190,291	14,909,937
Derivative financial liabilities	–	–	–	–	–	–	–	267,883	267,883
Financial liabilities at amortised cost – due to depositors	89,795,761	58,804,855	68,468,382	53,354,008	29,458,362	1,421,012	83,265	8,641,247	310,026,892
Financial liabilities at amortised cost – due to other borrowers	7,492,850	12,453,461	10,591,793	1,239,278	4,739,431	2,189,723	8,140,540	–	46,847,076
Debt Securities in issue	–	–	–	–	–	10,096,039	6,195,240	–	16,291,279
Other liabilities	–	–	–	–	–	–	–	4,783,877	4,783,877
Subordinated term debt	–	–	–	1,791,357	8,956,610	8,404,530	205,000	–	19,357,497
Total financial liabilities	99,080,703	79,185,870	79,060,175	56,384,643	48,154,403	22,111,304	14,624,045	13,883,298	412,484,441
Interest rate sensitivity gap	76,758,638	(38,176,074)	(61,082,299)	(6,062,246)	24,395,915	10,764,101	16,639,883	22,146,862	

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

KEY REGULATORY RATIOS

Item	31 December 2021		31 December 2020	
	Bank	Group	Bank	Group
Regulatory capital (LKR '000)				
Common Equity Tier 1	34,259,288	34,265,838	35,041,771	35,113,117
Tier 1 capital	34,259,288	34,265,838	35,041,771	35,113,117
Total capital	47,968,017	47,974,567	51,055,165	51,126,511
Regulatory capital ratios (%)				
Common equity Tier 1 capital ratio [Minimum requirement – 6.50%	9.31%	9.28%	10.82%	10.82%
Tier 1 capital ratio [Minimum requirement – 8.00%	9.31%	9.28%	10.82%	10.82%
Total capital ratio [Minimum requirement – 12.00%	13.03%	13.00%	15.76%	15.75%
Computation of leverage ratio				
Tier 1 capital	34,259,288	34,265,838	35,041,771	35,113,117
Total exposures	518,666,776	517,675,471	515,899,771	514,844,311
On-Balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	469,824,183	468,832,878	452,474,474	451,419,014
Derivative exposures	17,703,013	17,703,013	35,494,568	35,494,568
Securities financing transaction exposures	2,972,983	2,972,983	1,385,974	1,385,974
Other off-balance sheet exposures	28,166,597	28,166,597	26,544,755	26,544,755
Basel III leverage ratio (%) (Tier 1/Total exposure)	6.61%	6.62%	6.79%	6.82%
Computation of net stable funding ratio				
Total available stable funding	377,765,097	N/A	339,622,389	N/A
Required stable funding – On balance sheet assets	301,861,759	N/A	273,846,147	N/A
Required stable funding – Off balance sheet items	6,692,019	N/A	2,266,209	N/A
Total required stable funding	308,553,778	N/A	276,112,356	N/A
Net stable funding ratio (%)	122.43%	N/A	123.00%	N/A

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

BASEL III COMPUTATION OF CAPITAL RATIOS

Item	31 December 2021		31 December 2020	
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
Common equity Tier 1 (CET1) capital after adjustments	34,259,288	34,265,838	35,041,771	35,113,117
Common equity Tier 1 (CET1) capital	46,687,119	50,436,550	45,423,144	48,839,196
Equity capital (stated capital)/assigned capital	8,600,457	8,600,457	7,682,465	7,682,465
Reserve fund	2,746,968	2,746,968	2,583,968	2,583,968
Published retained earnings/(accumulated retained losses)	22,091,649	25,831,589	19,652,168	23,061,080
Published accumulated Other Comprehensive Income (OCI)	(531,794)	(522,303)	1,724,704	1,731,844
General and other disclosed reserves	13,779,839	13,779,839	13,779,839	13,779,839
Unpublished current year's profit/loss and gains reflected in OCI	–	–	–	–
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–	–	–
Total adjustments to CET1 capital	12,427,831	16,170,712	10,381,373	13,726,079
Goodwill (net)	–	156,226	–	156,226
Intangible assets (net)	2,227,577	2,252,589	1,713,052	1,728,580
Investment in capital of banks and financial institutions	8,841,360	12,403,003	8,571,286	11,838,354
Others	1,358,894	1,358,894	97,035	2,919
Additional Tier 1 (AT1) capital after adjustments				
Additional Tier 1 (AT1) capital	–	–	–	–
Qualifying additional Tier 1 capital instruments	–	–	–	–
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–	–	–

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

Item	31 December 2021		31 December 2020	
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
Total Adjustments to AT1 capital				
Investment in own shares	–	–	–	–
Others (specify)	–	–	–	–
Tier 2 capital after adjustments	13,708,729	13,708,729	16,013,394	16,013,394
Tier 2 capital	13,708,729	13,708,729	16,013,394	16,013,394
Qualifying Tier 2 capital instruments	10,511,268	10,511,268	14,174,868	14,174,868
Revaluation gains	–	–	–	–
Loan loss provisions	3,197,461	3,197,461	1,838,526	1,838,526
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–	–	–
Total adjustments to Tier 2				
Investment in own shares	–	–	–	–
Others (specify)	–	–	–	–
CET1 capital	34,259,288	34,265,838	35,041,771	35,113,117
Total Tier 1 capital	34,259,288	34,265,838	35,041,771	35,113,117
Total capital	47,968,017	47,974,567	51,055,165	51,126,511

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

Item	31 December 2021		31 December 2020	
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
Total risk weighted assets (RWA) (LKR '000)				
RWAs for credit risk	339,260,886	339,722,423	293,505,729	293,920,302
RWAs for market risk	10,005,925	10,005,925	12,956,450	12,956,450
RWAs for operational risk	18,909,993	19,380,488	17,400,093	17,751,642
CET1 capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on d-sibs) (%)	9.31%	9.28%	10.82%	10.82%
of which: capital conservation buffer (%)	1.20%	1.20%	1.20%	1.20%
of which: countercyclical buffer (%)	N/A	N/A	N/A	N/A
of which: capital surcharge on d-sibs (%)	N/A	N/A	N/A	N/A
Total Tier 1 capital ratio (%)	9.31%	9.28%	10.82%	10.82%
Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on d-sibs) (%)	13.03%	13.00%	15.76%	15.75%
of which: capital conservation buffer (%)	1.20%	1.20%	1.20%	1.20%
of which: countercyclical buffer (%)	N/A	N/A	N/A	N/A
of which: capital surcharge on d-sibs (%)	N/A	N/A	N/A	N/A

CREDIT RISK UNDER STANDARDISED APPROACH – CREDIT RISK EXPOSURES AND CREDIT RISK MITIGATION (CRM) EFFECTS

Asset Class	As at 31 December 2021 – Bank					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density (%)	
	On-balance sheet amount LKR '000	Off-balance sheet amount LKR '000	On-balance sheet amount LKR '000	Off-balance sheet amount LKR '000	RWA LKR '000	RWA density(ii) %
Claims on Central Government and CBSL	80,314,386	31,313,379	80,314,386	2,505,070	1,036,236	1
Claims on foreign sovereigns and their Central Banks	–	–	–	–	–	–
Claims on public sector entities	12,306,605	3,739	–	1,870	1,870	100
Claims on official entities and multilateral development banks	–	–	–	–	–	–
Claims on banks exposures	10,818,109	20,549,930	10,818,109	622,458	4,184,956	37
Claims on financial institutions	12,651,385	2,150	12,651,385	1,075	8,431,765	67
Claims on corporates	168,749,508	43,554,669	145,149,643	18,701,508	159,697,725	97
Retail claims	127,444,120	–	127,444,120	–	104,052,644	82
Claims secured by residential property	14,904,979	–	14,904,979	–	9,092,670	61
Claims secured by commercial real estate	21,212,417	5,654,780	21,212,417	5,654,780	26,867,197	100
Non-performing assets (NPAs) (i)	10,148,067	–	10,148,067	–	11,732,630	116
Higher-risk categories	430,420	–	430,420	–	1,076,051	250
Cash items and other assets	15,277,519	114,848,957	15,277,519	3,916,699	13,087,142	68
Total	474,257,515	215,927,604	438,351,045	31,403,460	339,260,886	

Note:

(i) NPAs – As per Banking Act Directions on Classification of loans and advances, income recognition and provisioning

(ii) RWA density – Total RWA/exposures post CCF and CRM.

CREDIT RISK UNDER STANDARDISED APPROACH – CREDIT RISK EXPOSURES AND CREDIT RISK MITIGATION (CRM) EFFECTS

Asset Class	As at 31 December 2021 – GROUP					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density (%)	
	On-balance sheet amount LKR '000	Off-balance sheet amount LKR '000	On-balance sheet amount LKR '000	Off-balance sheet amount LKR '000	RWA LKR '000	RWA density(ii) %
Claims on Central Government and CBSL	80,314,386	31,313,379	80,314,386	2,505,070	1,036,236	1
Claims on foreign sovereigns and their Central Banks	–	–	–	–	–	–
Claims on public sector entities	12,306,605	3,739	–	1,870	1,870	100
Claims on official entities and multilateral development banks	–	–	–	–	–	–
Claims on banks exposures	10,898,318	20,549,930	10,898,318	622,458	4,211,702	37
Claims on financial institutions	12,651,385	2,150	12,651,385	1,075	8,431,765	67
Claims on corporates	168,536,066	43,554,669	144,936,201	18,701,508	159,484,283	97
Retail claims	127,444,120	–	127,444,120	–	104,052,644	82
Claims secured by residential property	14,904,979	–	14,904,979	–	9,092,670	61
Claims secured by commercial real estate	21,212,417	5,654,780	21,212,417	5,654,780	26,867,197	100
Non-performing assets (NPAs) (i)	10,148,067	–	10,148,067	–	11,732,630	116
Higher-risk categories	466,459	–	466,459	–	1,116,148	250
Cash items and other assets	15,838,272	114,848,957	15,838,272	3,916,699	13,645,278	69
Total	474,721,074	215,927,604	438,814,604	31,403,460	339,722,423	

Note:

(i) NPAs – As per Banking Act Directions on Classification of loans and advances, income recognition and provisioning

(ii) RWA Density – Total RWA/Exposures post CCF and CRM.

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

CREDIT RISK UNDER STANDARDISED APPROACH: EXPOSURES BY ASSET CLASSES AND RISK WEIGHTS

Description	Amount (LKR '000) as at 31 December 2021 (Post CCF and CRM) Bank level								
Risk weight asset classes	0%	20%	35%	50%	75%	100%	150%	>150%	Total credit exposures amount
Claims on Central Government and CBSL	72,457,094	10,362,362	–	–	–	–	–	–	82,819,456
Claims on foreign sovereigns and their Central Banks	–	–	–	–	–	–	–	–	–
Claims on public sector entities	–	–	–	–	–	1,870	–	–	1,870
Claims on official entities and multilateral development banks	–	–	–	–	–	–	–	–	–
Claims on banks exposures	–	6,257,152	–	4,499,780	–	683,635		–	11,440,567
Claims on financial institutions	–	–	–	8,441,391	–	4,211,069	–	–	12,652,460
Claims on corporates	–	2,412,449	–	4,446,933	–	156,991,769		–	163,851,151
Retail claims	5,192,376	771,596	–	–	70,327,291	51,152,857	–	–	127,444,120
Claims secured by residential property	–	–	8,942,014	–	–	5,962,965	–	–	14,904,979
Claims secured by commercial real estate	–	–	–	–	–	26,867,197	–	–	26,867,197
Non-performing assets (NPAs)	–	–	–	130,892	–	6,717,158	3,300,017	–	10,148,067
Higher-risk categories	–	–	–	–	–	–	–	430,420	430,420
Cash items and other assets	6,102,019	6,320	–	–	–	13,085,879	–	–	19,194,218
Total	83,751,489	19,809,879	8,942,014	17,518,996	70,327,291	265,674,399	3,300,017	430,420	469,754,505

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

Description	Amount (LKR '000) as at 31 December 2021 (Post CCF and CRM) Group								
Risk weight asset classes	0%	20%	35%	50%	75%	100%	150%	>150%	Total credit exposures amount
Claims on central Government and CBSL	72,457,094	10,362,362	–	–	–	–	–	–	82,819,456
Claims on foreign sovereigns and their Central Banks	–	–	–	–	–	–	–	–	–
Claims on public sector entities	–	–	–	–	–	1,870	–	–	1,870
Claims on official entities and multilateral development banks	–	–	–	–	–	–	–	–	–
Claims on banks exposures	–	6,301,679	–	4,535,462	–	683,635		–	11,520,776
Claims on financial institutions	–	–	–	8,441,391	–	4,211,069	–	–	12,652,460
Claims on corporates	–	2,412,449	–	4,446,933	–	156,778,327		–	163,637,709
Retail claims	5,192,376	771,596	–	–	70,327,291	51,152,857	–	–	127,444,120
Claims secured by residential property	–	–	8,942,014	–	–	5,962,965	–	–	14,904,979
Claims secured by commercial real estate	–	–	–	–	–	26,867,197	–	–	26,867,197
Non-performing assets (NPAs)	–	–	–	130,892	–	6,717,158	3,300,017	–	10,148,067
Higher-risk categories	–	–	–	–	–	–	–	466,459	466,459
Cash items and other assets	6,104,637	6,320	–	–	–	13,644,014	–	–	19,754,971
Total	83,754,107	19,854,406	8,942,014	17,554,678	70,327,291	266,019,092	3,300,017	466,459	470,218,064

MARKET RISK UNDER STANDARDISED MEASUREMENT METHOD

Item	31 December 2021 RWA amount	
	Bank LKR '000	Group LKR '000
(a) RWA for interest rate risk	1,200,711	1,200,711
General interest rate risk	628,215	628,215
(i) Net long or short position	628,215	628,215
(ii) Horizontal disallowance	–	–
(iii) Vertical disallowance	–	–
(iv) Options	–	–
Specific interest rate risk		
(b) RWA for equity	9,803	9,803
(i) General equity risk	5,882	5,882
(ii) Specific equity risk	3,921	3,921
(c) RWA for Foreign exchange and gold	562,693	562,693
Capital charge for market risk [(a) + (b) + (c)] * CAR	10,005,925	10,005,925

OPERATIONAL RISK UNDER BASIC INDICATOR APPROACH/THE STANDARDISED APPROACH/ THE ALTERNATIVE STANDARDISED APPROACH (BANK)

Business lines	Capital charge factor	Fixed factor	Gross income (LKR '000) as at 31 December		
			1st Year LKR '000	2nd Year LKR '000	3rd Year LKR '000
The basic indicator approach	15%		17,311,682	14,533,979	13,738,321
The standardised approach					
Corporate finance	18%		–	–	–
Trading and sales	18%		–	–	–
Payment and settlement	18%		–	–	–
Agency services	15%		–	–	–
Asset management	12%		–	–	–
Retail brokerage	12%		–	–	–
Retail banking	12%		–	–	–
Commercial banking	15%		–	–	–
The alternative standardised approach					
Corporate finance	18%		–	–	–
Trading and sales	18%		–	–	–
Payment and settlement	18%		–	–	–
Agency services	15%		–	–	–
Asset management	12%		–	–	–
Retail brokerage	12%		–	–	–
Retail banking	12%	0.035	–	–	–
Commercial banking	15%	0.035	–	–	–

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

Business lines	Capital charge factor	Fixed factor	Gross income (LKR '000) as at 31 December		
			1st Year LKR '000	2nd Year LKR '000	3rd Year LKR '000
Capital charges for operational risk (LKR '000)					
The basic indicator approach	2,269,199				
The standardised approach					
The alternative standardised approach					
Risk weighted amount for operational risk (LKR '000)					
The basic indicator approach	18,909,993				
The standardised approach					
The alternative standardised approach					

OPERATIONAL RISK UNDER BASIC INDICATOR APPROACH/THE STANDARDISED APPROACH/ THE ALTERNATIVE STANDARDISED APPROACH (GROUP)

Business lines	Capital charge factor	Fixed factor	Gross income (LKR '000) as at 31 December		
			1st Year LKR '000	2nd Year LKR '000	3rd Year LKR '000
The basic indicator approach	15%		17,519,559	14,869,527	14,124,084
The standardised approach					
Corporate finance	18%		–	–	–
Trading and sales	18%		–	–	–
Payment and settlement	18%		–	–	–
Agency services	15%		–	–	–
Asset management	12%		–	–	–
Retail brokerage	12%		–	–	–
Retail banking	12%		–	–	–
Commercial banking	15%		–	–	–

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

Business lines	Capital charge factor	Fixed factor	Gross income (LKR '000) as at 31 December		
			1st Year LKR '000	2nd Year LKR '000	3rd Year LKR '000
The alternative standardised approach					
Corporate finance	18%		–	–	–
Trading and sales	18%		–	–	–
Payment and settlement	18%		–	–	–
Agency services	15%		–	–	–
Asset management	12%		–	–	–
Retail brokerage	12%		–	–	–
Retail banking	12%	0.035	–	–	–
Commercial banking	15%	0.035	–	–	–
Capital charges for operational risk (LKR '000)					
The basic indicator approach	2,325,659				
The standardised approach					
The alternative standardised approach					
Risk weighted amount for operational risk (LKR '000)					
The basic indicator approach	19,380,488				
The standardised approach					
The alternative standardised approach					

MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

Description of the Capital Instrument (Bank Only)	Stated Capital	Subordinated Term-debt (2016 – Type B)	Subordinated Term-debt (2018 – Type A)	Subordinated Term-debt (2018 – Type B)	Subordinated Term-debt (2020 – Type A)	Subordinated Term-debt (2020 – Type B)
Issuer	DFCC Bank PLC	DFCC Bank PLC	DFCC Bank PLC	DFCC Bank PLC	DFCC Bank PLC	DFCC Bank PLC
Unique Identifier (e.g., ISIN or Bloomberg Identifier for Private Placement)	LK0055N00000	C-2367	C-2393	C-2394	C-2458	C-2457
Governing Law(s) of the Instrument	Companies Act No. 07 of 2007, Colombo Stock Exchange Regulations	Securities and Exchange Commission Act No. 36 of 1987 (as amended), Colombo Stock Exchange Regulations				
Original Date of Issuance	May 1956 to May 2019	9 November 2016	26 March 2018	26 March 2018	23 October 2020	23 October 2020
Par Value of Instrument (LKR)	10	100	100	100	100	100
Perpetual or Dated	Perpetual	Dated	Dated	Dated	Dated	Dated
Original Maturity Date, if Applicable	N/A	9 November 2023	29 March 2023	29 March 2025	23 October 2025	23 October 2027
Amount Recognised in Regulatory Capital (in LKR '000 as at the Reporting Date)	8,600,457	2,417,256	1,165,388	3,269,224	3,454,400	205,000
Accounting Classification (Equity/Liability)	Equity	Liability	Liability	Liability	Liability	Liability
Issuer Call subject to Prior Supervisory Approval						
Optional Call Date, Contingent Call Dates and Redemption Amount (LKR '000)	N/A	N/A	N/A	N/A	N/A	N/A
Subsequent Call Dates, if Applicable	N/A	N/A	N/A	N/A	N/A	N/A

MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

Description of the Capital Instrument (Bank Only)	Stated Capital	Subordinated Term-debt (2016 – Type B)	Subordinated Term-debt (2018 – Type A)	Subordinated Term-debt (2018 – Type B)	Subordinated Term-debt (2020 – Type A)	Subordinated Term-debt (2020 – Type B)
Coupons/Dividends						
Fixed or Floating Dividend/Coupon	Floating dividend	Fixed coupon	Fixed coupon	Fixed coupon	Fixed coupon	Fixed coupon
Coupon Rate and any Related Index (%)	N/A	12.75	12.6	13	9	9.25
Non-Cumulative or Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative
Convertible or Non-Convertible	Non-convertible	Non-convertible	Convertible	Convertible	Convertible	Convertible
If Convertible, Conversion Trigger (s)	N/A	N/A	Determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka, and is defined in the Banking Act Direction No. 1 of 2016	Determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka, and is defined in the Banking Act Direction No. 1 of 2016	Determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka, and is defined in the Banking Act Direction No. 1 of 2016	Determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka, and is defined in the Banking Act Direction No. 1 of 2016
If Convertible, Fully or Partially	N/A	N/A	Fully	Fully	Fully	Fully
If Convertible, Mandatory or Optional	N/A	N/A	Mandatory	Mandatory	Mandatory	Mandatory
If Convertible, Conversion Rate	N/A	N/A	Based on the simple average of the daily Volume Weighted Average Price (VWAP) of an ordinary voting shares	Based on the simple average of the daily Volume Weighted Average Price (VWAP) of an ordinary voting shares	Based on the simple average of the daily Volume Weighted Average Price (VWAP) of an ordinary voting shares	Based on the simple average of the daily Volume Weighted Average Price (VWAP) of an ordinary voting shares

DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES AND MAPPING OF FINANCIAL STATEMENT CATEGORIES WITH REGULATORY RISK CATEGORIES – BANK ONLY

Item	Amount (LKR '000) as at 31st December 2021					
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital	Explanation for Differences Between Accounting and Regulatory Reporting
Assets						
Cash and cash equivalents	10,688,255	10,688,255	10,688,255	–	–	
Balances with Central Bank of Sri Lanka	9,359,241	9,359,241	9,359,241	–	–	
Placements with Banks	6,288,006	6,288,006	6,288,006	–	–	
Derivative financial assets	280,235	–	–	–	–	Included under other asset in regulatory reporting
Financial Assets measured at fair value through profit or loss	218,875	41,401,723	41,401,723	49,014	–	Classified into Held to Maturity and Held for Trading in the Regulatory reporting based on the purpose and the intent of the investments. Accrued interest is classified under other assets.
Financial assets at amortised cost – Loans to and receivable from banks	–	–	–	–	–	
Financial assets at amortised cost – Loans to and receivables from other customers	365,900,540	370,186,182	335,814,251	–	–	As per the Banking Act Direction No.03 of 2008 Classification of Loans and Advances, Income Recognition and Provisioning. The CBSL time based provisions were netted off in arriving loans and advances to customers in the regulatory reporting while in the published financial impairment allowance based on expected credit loss was netted off.
Financial assets at amortised cost – Debt and other instruments	26,674,962	36,803,368	27,962,008	–	–	Classified into Held to Maturity and Held for Trading in the Regulatory reporting based on the purpose and the intent of the investments. Accrued interest is classified under other assets.
Financial assets measured at fair value through other comprehensive income	54,329,436	–	–	–	–	Classified into Held to Maturity and Held for Trading in the Regulatory reporting based on the purpose and the intent of the investments. Accrued interest is classified under other assets.
Investments in subsidiaries	217,436	1,007,705	1,007,705	–	–	Investments in associates and joint ventures are included in regulatory reporting in addition to those in subsidiaries
Investments in associates	35,270	–	–	–	–	Included in Investments in Subsidiaries

MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

Item	Amount (LKR '000) as at 31st December 2021					
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital	Explanation for Differences Between Accounting and Regulatory Reporting
Investments in joint ventures	755,000	–	–	–	–	Included in Investments in Subsidiaries
Investment property	9,879	9,879	9,879	–	–	
Property, plant and equipment	3,237,124	3,258,390	3,258,390	–	–	
Intangible assets and goodwill	2,227,577	2,227,577	–	–	2,227,577	
Deferred tax assets	1,358,895	–	–	–	–	
Other assets	3,924,505	3,415,085	2,561,588	–	853,497	
Total assets	485,505,236	484,645,411	438,351,046	49,014	3,081,074	
Liabilities						
Due to Banks	3,349,836	–	–	–	–	Included under Other Borrowings in regulatory reporting
Derivative financial liabilities	814,219	–	–	–	–	Included under Other Liabilities in regulatory reporting
Financial liabilities at amortised cost – Due to depositors	319,861,013	312,914,566	–	–	312,914,566	Due to depositors are at Effective Interest Rate (EIR) method in published financial statements and interest payable on deposits are classified under other liabilities in the regulatory reporting.
Due to other borrowers	69,589,129	88,110,189	–	–	88,110,189	Due to banks and Debt Securities Issued are included under other borrowing in regulatory reporting.
Debt securities in Issue	16,297,256	–	–	–	–	Included under Other Borrowings in regulatory reporting
Employee benefits	688,598	–	–	–	–	Included under Other Liabilities in regulatory reporting
Current tax liabilities	951,645	1,687,687	–	–	1,687,687	Taxes are computed based on accounting profits derived from each reporting method.
Deferred tax liability	–	115,523	–	–	115,523	
Other liabilities	6,580,166	15,515,605	–	–	15,515,605	Interest payable on Borrowing and deposits added to the Other Liabilities in regulatory reporting
Subordinated term debt	18,387,276	17,566,140	–	–	7,054,872	Regulatory reporting reports only the principal amount and accrued interest is classified under other liabilities.
Total liabilities	436,519,138	435,909,710	–	–	425,398,442	

MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

Item	Amount (LKR '000) as at 31st December 2021					
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital	Explanation for Differences Between Accounting and Regulatory Reporting
Off-balance sheet liabilities						
Guarantees	20,404,518	17,196,181	16,972,122	–	224,059	
Performance bonds	7,888,729	6,848,137	6,833,678	–	14,459	
Letters of credit and acceptances	21,246,261	21,117,664	19,945,322	–	1,172,342	
Other contingent items (Bills on collection and capital expenditure approved by the Board	4,640,773	4,640,773	–	–	4,640,773	
Undrawn loan commitments	68,069,669	68,069,669	68,069,669	–		
Other commitments (FX commitments)	25,881,741	25,881,741	53,234,606	–		
Total Off-Balance Sheet Liabilities	148,131,691	143,754,165	165,055,397	–	6,051,633	
Shareholders' equity						
Equity capital (Stated Capital/Assigned Capital)	8,600,457	8,600,457	–	–	–	
of which amount eligible for CET1	–	–	–	–	–	
of which amount eligible for AT1	–	–	–	–	–	
Retained earnings	22,091,649	23,884,922	–	–	–	Due to differences which arise in regulatory reporting and SLFRS accounting standards.
Accumulated other comprehensive income	1,767,185	–	–	–	1,564,833	Accumulated other comprehensive income is only applicable in Published Financial Statements
Other reserves	16,526,807	16,250,322	–	–	–	Due to differences which arise in regulatory reporting and SLFRS accounting standards.
Total Shareholders' Equity	48,986,098	48,735,701	–	–	1,564,833	

Notes:

Where a single item attracts capital charges according to more than one risk category, it should be reported in all columns that it attracts a capital charge. As a consequence, the sum of amounts in columns (c) to (e) may be greater than the amount in column (b). An explanation note must be provided for such reporting for reconciliation purpose.

TEN YEAR SUMMARY

LKR Mn	Based on LKAS 39				Based on SLFRS 09					
	For the year ended 31 March			For the 9 months ended 31 December	For the year ended 31 December					
	2013	2014	2015	2015	2016	2017	2018	2019	2020	2021
Bank										
Operating Results										
Total income	10,433	10,481	10,394	10,036	26,754	35,942	39,154	43,297	43,300	42,649
Profit before income tax	3,492	3,211	3,771	1,589	4,414	5,792	4,233	2,989	3,398	4,326
Income tax expense	570	623	531	521	1,125	1,377	1,464	915	1,010	1,105
Profit after tax	2,921	2,587	3,240	1,068	3,289	4,415	2,768	2,074	2,388	3,222
Statement of Financial Position										
Assets										
Cash and short-term funds	7,103	4,245	2,296	9,859	13,745	21,355	17,307	14,282	28,040	26,336
Loans to and receivables from banks and other customers	60,665	62,575	73,933	160,548	185,872	213,704	249,691	272,818	306,062	365,901
Financial investments	19,298	25,609	29,909	71,233	84,675	91,330	97,165	108,170	120,932	81,223
Investment in associate, joint venture and subsidiary companies	4,446	6,659	6,648	823	902	957	957	978	1,008	1,008
Other assets	1,645	1,853	1,826	3,688	4,919	5,761	9,788	8,649	9,035	11,038
Total assets	93,160	100,941	114,612	246,151	290,112	333,107	374,908	404,897	465,077	485,505
Liabilities										
Due to depositors	15,548	16,630	22,485	110,891	140,514	193,308	242,238	247,787	310,027	319,861
Due to other borrowers	41,605	45,262	46,346	87,379	97,291	84,607	82,614	102,910	97,406	107,623
Other liabilities	1,223	1,639	1,686	5,062	6,457	7,316	6,210	6,720	8,287	9,035
Equity	34,784	37,410	44,095	42,819	45,850	47,877	43,846	47,480	49,357	48,986
Total equity and liabilities	93,160	100,941	114,612	246,151	290,112	333,107	374,908	404,897	465,077	485,505

TEN YEAR SUMMARY

LKR Mn	Based on LKAS 39				Based on SLFRS 09					
	For the year ended 31 March			For the 9 months ended 31 December	For the year ended 31 December					
	2013	2014	2015	2015	2016	2017	2018	2019	2020	2021
Return on equity (%)*	12.9	10.6	12.8	5.0	10.99	13.4	7.6	7.6	5.6	7.1
Return on total assets (%)*	3.8	3.0	3.5	1.0	1.30	1.48	0.80	0.78	0.79	0.92
Earnings per share (LKR)	11.02	9.76	12.22	4.03	12.41	16.65	10.44	7.14	7.83	10.14
Market value per share(LKR)	131.1	143.9	202.8	168.1	122.50	124.00	93.00	91.90	65.30	60.00
Price earnings ratio(times)	11.9	14.7	16.6	41.7	9.87	7.45	8.91	12.87	8.34	5.92
Earnings yield (%)	8.4	6.8	6.0	2.4	10.13	13.43	11.23	7.77	11.99	16.90
Dividend per share (LKR)	5.00	5.50	6.00	2.5	4.5	5.0	3.5	3.0	3.0	3.0
Dividend cover (times)	2.8	2.0	2.2	0.7	4.96	3.70	2.09	2.04	2.62	3.51
Gross dividend (LKR Mn)	1,060	1,325	1,458	1,591	663	1,193	1,325	928	913	918
Liquid assets to liabilities (as specified In the Banking Act No. 30 of 1998), (%)	53	77	48	22	27	27	24	27	35	32
Number of employees	461	477	495	1445	1,642	1,770	1,860	2,076	2,072	2,191

* After eliminating fair value reserve

CORPORATE INFORMATION

NAME OF COMPANY
DFCC Bank PLC

LEGAL FORM
A quoted public company with limited liability incorporated by DFCC Bank Act No. 35 of 1955 and with the enactment of the DFCC Bank (Repeal and Consequential Provisions) Act No. 39 of 2014, incorporated under the Companies Act No. 07 of 2007 with the name "DFCC Bank PLC" with effect from 6 January 2015. A licensed commercial bank under the Banking Act No. 30 of 1988.

COMPANY REGISTRATION NUMBER
PQ 233

CREDIT RATING
(SL) AA- credit rating from ICRA Lanka Limited.
A+ (lka) credit rating from Fitch Ratings Lanka Limited.

ANNUAL GENERAL MEETING (AGM)
The AGM will be held as a Virtual meeting assembled at the "Auditorium" of the Bank, No. 73/5, Galle Road, Colombo 3, on 30 March 2022 at 10.00 am.

FOR ANY CLARIFICATION ON THIS REPORT PLEASE WRITE TO:
The Company Secretary
DFCC Bank PLC
No. 73/5, Galle Road,
Colombo 3, Sri Lanka or
E-mail to: info@dfccbank.com

COMPANY SECRETARY
Ms A Withana

AUDITORS
KPMG
Chartered Accountants

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