Annual Report

2019

DFCC BANK
Keep Growing

Connected

Life is a journey that can be challenging unless you have the right connections. At DFCC we understand this all too well.

To us, every relationship is meaningful and we strive to strengthen and add value with each new connection. Our unique proposition contributes towards robust links with everyone across all platforms.

DFCC BANK
Keep Growing

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Contents

About this Report

This Integrated Annual Report serves as a disclosure of our strategy, governance, performance, and prospects and how they help to create sustainable value within our operating environment with the focus to be "Connected".

Comprehensive and yet concise

We have adopted an approach to reporting that balances the need to communicate effectively through concise, relevant information (to a large and diverse stakeholder group), while at the same time providing comprehensive compliance-related disclosures.

A comprehensive report in online HTML format
(for a universal audience)
[http://dfcc2019.annualreports.lk]

A Concise Integrated Annual Report in print, PDF, and CD formats (meets compliance requirements).

"Perennial Compendium" (tracks activities throughout the year).

A condensed "annual snapshot" in all three languages in print and PDF formats (communicates across a broad spectrum of current and potential stakeholders).

Reporting period and boundary

DFCC Bank Annual Report for 2019 covers the 12-month period from 1 January 2019 to 31 December 2019. 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

As declared on page 14, the Board of Directors of DFCC Bank, in the spirit of good governance, accepts responsibility for the entirety of this Annual Report 2019. The information contained herein, as in the past, is in compliance with all applicable laws, regulations, and standards.

In addition, we have drawn on concepts, principles, and guidance from the GRI Standards, the International Integrated Reporting Framework, and the Smart Integrated Reporting Methodology™ in producing this Report.

As provided in the paragraphs 2.10 and 2.17 – 2.19 of the International <IR> Framework, organisations preparing an integrated report are not required to adopt the <IR> Framework categorisation of capitals. Accordingly, we have categorised the capitals differently to best describe our value creation process.

Precautionary principle

We take due cognisance of the social and environmental consequences of our actions, both direct and indirect. The latter are more significant and they arise from our lending operations, which are addressed through credit policies, post disbursement supervision, and risk management processes.

About DFCC Bank

Established as a fully-fledged commercial bank at present, DFCC Bank was Sri Lanka's pioneer development bank, incorporated in 1955 under an Act of Parliament, and was one of the first development banks to be instituted in Asia.

In 1956, DFCC Bank became the first bank to be listed on the Colombo Brokers' Association, the precursor to the Colombo Stock Exchange, and has been a listed company ever since.

As the first development bank in the Nation, DFCC Bank has been the financier behind trailblasing Sri Lankan entrepreneurs, particularly during their early stages. The Bank continues to be the preferred lender of choice for "Green" development projects including waste-to-energy, hydro, wind, and solar energy projects, in addition to other large start-up projects.

Honed over the course of six decades, the expertise of the Bank's project lending teams is unmatched in the industry. Today, DFCC Bank is at the forefront of pioneering digitally-enabled products and services, offering customers unmatched values and benefits.

Through subsidiaries; DFCC Consulting, Lanka Industrial Estates, Synapsys, and joint venture Acuity Partners, the DFCC Group offers a host of financial solutions that include investment banking, wealth management, information technology, industrial park management, and consultancy.

DFCC Bank is rated AA-(lka) by Fitch Ratings Lanka Limited.

Reach

DFCC Bank delivers its services through 139 branches island-wide. Customers have access to over 4,500 ATMs across the country via the LankaPay ATM network and through DFCC MySpace, the self-banking solution and digital service delivery space. Through the adoption of the latest technology, the Bank also offers a range of alternate delivery channels, and continues to expand its branch network.

Refer page 56 for more details on the branch network.

Portfolio

DFCC Bank's primary lines of business include Consumer Banking, Corporate Banking, Treasury and Resource Mobilisation, Branch Banking, International Banking, Card Operations, and Bancassurance.

Refer page 38 for details on Business lines and refer page 55 for details on the product portfolio.

Vision, Mission and Values

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

Innovative
Customer centric
Professional
Ethical
Accountable
Team oriented
Socially responsible

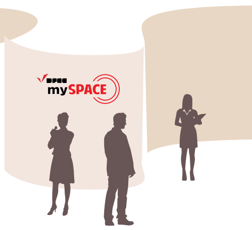
Highlights

Group LKR Mn	Based on SLFRS 9 **Year ended 31 December 2019**	Based on LKAS 39 Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Operating Results					
Total income	**43,648**	39,448	35,987	26,980	17,503
Profit before tax	**3,308**	4,676	5,891	4,674	2,553
Tax expense	**1,008**	1,606	1,458	1,205	912
Profit attributable to equity holders of the Bank	**2,214**	3,011	4,362	3,415	1,592
Statement of Financial Position					
Assets					
Cash and short-term funds	**14,326**	17,331	21,390	13,824	9,870
Loans to and receivables from banks and other customers	**281,221**	262,589	224,660	198,085	164,945
Other financial assets	**99,768**	87,681	80,751	72,584	67,060
Investments in associate and joint venture	**2,096**	1,989	1,684	1,443	1,248
Other assets	**9,500**	7,172	5,983	5,278	3,986
Total assets	**406,911**	376,762	334,468	291,214	247,109
Liabilities					
Due to depositors	**247,458**	241,915	192,920	140,220	110,551
Due to other borrowers	**102,910**	82,589	84,578	97,276	87,381
Other liabilities	**7,117**	6,602	7,568	6,660	5,208
Total liabilities	**357,485**	331,106	285,066	244,156	203,140
Equity					
Total equity attributable to equity holders of the Bank	**49,163**	45,398	49,125	46,850	43,716
Non-controlling interests	**263**	258	277	260	253
Total equity and liabilities	**406,911**	376,762	334,468	291,266	247,109
Return on equity, %*	**5.32**	7.70	12.08	10.3	5.6
Return on total assets, %*	**0.59**	0.88	1.47	1.4	0.8
Earnings per share, LKR	**7.62**	11.36	16.45	12.88	6.01
Net asset value per share, LKR	**184.45**	171.25	185.31	176.73	164.90
Capital adequacy					
Core capital ratio	**–**	–	–	14.60	15.39
Total capital ratio	**–**	–	–	17.47	15.32
Common equity Tier I Capital ratio, % (Basel III)	**11.33**	10.89	13.09	–	–
Tier I capital ratio, % (Basel III)	**11.33**	10.89	13.09	–	–
Total capital ratio, % (Basel III)	**15.78**	16.17	16.53	–	–

** After eliminating fair value reserve.*

Extended reach

Launch of DFCC MySpace, a bespoke, digital space for self-banking



20 branches opened islandwide within 30 days, a milestone in the Bank's history

Reinvigorated offering

Launch of DFCC Winner savings account

Revamping of DFCC Virtual Wallet and Corporate Website

Launch of DFCC Personal Loan Delivery

Expanded learning culture

LKR 34.6 Mn invested in training and development

421 in house training programmes

Over 103,000 hours of training

18% growth in usage of the e-learning platform

Post-training assessments conducted for over 80% of programmes

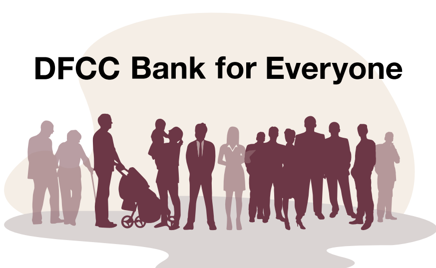
Intrinsically connected with sustainability

Samata English expanded its reach and carried out programmes in Jaffna, Polonnaruwa, Ampara, and Ratnapura

Sahaya Hamuwa: 18 workshops were conducted during 2019 with a participation of 3,000 entrepreneurs

7,000 trees were planted under the annual tree planting campaign in different locations in Sri Lanka

A recognised brand



- Launch of the "Bank for Everyone" corporate campaign enhanced awareness that DFCC Bank is a full-service commercial bank catering to varied market segments
- Placed 25th in Brand Finance Top 100 Most Valuable Brands, 2019
- Ranked 18th amongst Business Today's Top 30 businesses in Sri Lanka
- Ranked 30 in LMD's Top 100 (2018/19) by LMD Magazine in 2019
- The title sponsor for DFCC Bank Cup 2019: New Zealand Cricket Tour of Sri Lanka, for the first time in DFCC Bank's history

DFCC Group Structure

	Subsidiary company		Subsidiary company	
Name	DFCC Consulting (Pvt) Limited		Synapsys Limited	
Address	73/5 Galle Road, Colombo 3		540, Nawala Road, Rajagiriya	
Phone	+94 11 244 2318 +94 11 244 2442		+ 94 11 288 0702	
Email	info@dfccbank.com		contactus@synapsys.sg	
Incorporated	9 September 2004		11 October 2006	
DFCC Bank's interest (%)	100		100	
Principal activity	Consultancy		Information technology services and IT enabled services	
Directors	L H A L Silva – Chairman R A Dasanayake T W de Silva		L H A L Silva – Chairman D J P Fernandopulle – CEO G S Dewaraja T W de Silva P M B Fernando A Hewanayake N H T I Perera	
Financial year-end	31 December	31 December	31 December	31 December
Financial year	2019	2018	2019	2018
Profit/(Loss) after tax (LKR Mn) audited	11.60	24.80	35.70	9.50
Dividend per share (LKR)	7.00	3.50	NIL	NIL
ROE (%)	23.88	74.80	37.46	13.04

Subsidiary company		Joint venture		Associate company		
Lanka Industrial Estates Limited		Acuity Partners (Pvt) Limited		National Asset Management Limited		**Name**
LINDEL Industrial Estate, Pattiwila Road, Sapugaskanda, Makola		53, Dharmapala Mawatha, Colombo 3		7, Glen Aber Place, Colombo 3		**Address**
+94 11 240 0318 +94 11 240 0319 +94 11 240 0320 +94 11 240 0532		+94 11 220 6206		+94 11 244 5911 +94 11523 4666		**Phone**
lindel@itmin.net		info@acuity.lk		info@namal.lk		**Email**
12 March 1992		7 February 2008		28 September 1990		**Incorporated**
51.15		50		30		**DFCC Bank's interest (%)**
Operating an industrial estate		Investment banking and related activities such as corporate finance, debt structuring and IPOs		Licensed unit trust and investment management		**Principal activity**
L H A L Silva – Chairman Dr A Saarrankan R A Dassanayake T W de Silva Dr R M K Ratnayake A D Tudawe		A J Alles – Chairman M R Abeywardena – MD R Dissanayake D Pallewatte N H T I Perera L H A L Silva		A Lovell – Chairman R T Abeyasinghe – CEO/Director Ms K S Bee W Dambawinne S Madanayake K Nanayakkara I Wickramasinghe		**Directors**
31 March	31 March	31 December	31 December	31 December	31 December	**Financial year-end**
2019/20	2018/19	2019	2018	2019	2018	**Financial year**
177.60	121.20	380	610	4.20	8.10	**Profit/(Loss) after tax (LKR Mn) audited**
10.50	10.0	1.00	0.44	NIL	10.00	**Dividend per share (LKR)**
33.00	22.13	8.65	15.47	4.02	4.94	**ROE (%)**

Message from the Chairman

Our primary focus in 2019 was to streamline our internal systems and processes to gear ourselves to capitalise from the growth envisaged in 2020 and beyond. Further, we introduced Vision 2025, a new business plan which charts our course for the coming years.

Dear Shareholders,

It has been a significant year for the Bank, in terms of executing the strategy to become the most customer-centric, digitally-enabled bank in Sri Lanka. Staying true to our motto “Keep Growing” and our drive to become the “Bank for Everyone”, we took tangible steps to enhance our offering, reach, and internal processes, leading to augmented customer experience as a fully-fledged commercial bank.

Given the not so conducive operating environment, the entire banking industry experienced a sharp deterioration in asset quality. Nevertheless, we still maintain an NPL ratio that is below the industry average. During the year, Fitch Ratings re-affirmed the Bank’s rating as AA-(lka) and our Capital Ratios are still well above regulatory requirements.

As a testament to our continued growth within the financial sector of the country, we were ranked 18th amongst Business Today’s Top 30 businesses in Sri Lanka, the 30th position amongst the LMD Top 100, and was placed in the 25th position in Brand Finance Top 100 Most Valuable Brands, 2019.

The challenges arising from the socio-political and economic context were testing on the sector as well as Sri Lanka’s economy. The economy experienced a placid growth momentum in the first quarter of 2019 following the political uncertainty experienced in the final quarter of 2018. Meanwhile, persistent fiscal deficits, a large debt stock, and rising interest servicing cost eroded policy buffers and reduced fiscal capacity to support a slowing economy. Further, the banking sector was affected by heavy regulation and changing tax policies, leading to a modest growth.

Despite these setbacks, the Bank experienced a growth in business volumes with increases in loans and receivables and the deposit base reflecting the robustness of DFCC Bank’s financial intermediation. However, Profit Before Tax (PBT) and Profit After Tax (PAT) do not reflect the growth in business volumes due to the fair value loss recorded on the equity trading portfolio. Consequently, DFCC Bank recorded a PAT of LKR 2.1 Bn in 2019 compared to LKR 2.8 Bn in 2018.

Furthermore, the Bank managed to grow its Current Accounts and Savings Accounts (CASA) deposits over the 2018 levels. The Bank reinforced its efforts to improve its CASA base further in 2019. Reflecting the stability, the Bank maintained the Common Equity Tier (CET) I Capital Ratio well above the minimum requirement of 8.5% as at 31 December 2019.

In 2019, we introduced a strategic framework under the title Vision 2025. This new strategy clearly outlines the short to medium term and long term objectives of the Bank. It aims to realise our long-term goals by 2025: to be among the top five LCBs in Sri Lanka; to grow the customer base to two million; and to become the most customer-centric, digitally-enabled bank in Sri Lanka. Further, in the short to medium term, we are guided by three strategic objectives: enhancing customer centricity; becoming a top-of-mind retail bank; and optimising key customer-facing operations. Even at this nascent stage, we were able to reap rewards from our strategy in 2019, such as improvements in the retail segment, increased presence in the commercial banking space, expansion of the digital portfolio, as well as enhanced digital capabilities such as the introduction of a new core banking system. Equipped with a sound business plan which charts our course for the coming years, we are geared to face the future.

Focusing on our short-term strategic objective of enhancing customer-centricity and improving our brand visibility, we expanded physical and digital interactions with our customers. It resulted in improvements in existing connections as well as the establishment of new connections across different target customer segments. In December 2019, we opened 20 new branches in 30 days in key locations islandwide, a milestone in the Bank’s history. This exponential increase of physical touchpoints further facilitates wider access to our customers who come from all segments of Sri Lankan society. This creates an abundance of opportunities for local communities living in and around these areas to partner with DFCC Bank to fulfill their financial needs. Additionally, it increases our brand visibility which will help to achieve our long-term objective of reaching two million customers.

At present we are a fully-operational commercial bank, yet we have still retained our development banking flavour and continue to work towards all aspects of sustainable development. The values of sustainability have been ingrained seamlessly in our systems, products, and our ethos. While we continue to provide loan products aimed at development and play a key role in providing assistance to the SME segments, we continued our CSR initiatives this year to give back to the community and help preserve the environment. We have set up a Sustainability Unit to manage and govern the sustainability initiatives conducted by DFCC.

At DFCC Bank, we adhere to the highest standards of corporate governance. The Board has adopted global best practices in corporate governance, risk management, and compliance, which are integrated in the processes of the Bank. The Bank's principal strategy is geared towards generating sustainable returns for our shareholders. Our highly skilled, experienced management team is committed to good governance that delivers sustainable returns.

Prudent growth in business volumes, disciplined approach to managing of capital, and judiciously maintaining funding and liquidity have enabled us to continue sustainable value creation. This has enabled us to maintain capital, funding, and liquidity at optimum levels. As a result, consistent with previous years, the Board has recommended a first and final dividend of LKR 3.00 per share, which is a payout of 46% of distributable profits totalling LKR 913 Mn.

I am grateful to shareholders who subscribed to the Rights Issue. The Bank was able to raise LKR 2.8 Bn by way of the Rights Issue. It was encouraging to observe that a majority of the shareholders viewed the Rights Issue as an ideal opportunity to increase their holding in DFCC Bank at a cost below its intrinsic value. Understandably, the depressed equity market and other considerations may have had a bearing on the investment decisions of some shareholders.

Given the lacklustre economic conditions, we concentrated on setting the foundation for the coming years. We are optimistic that the economy of Sri Lanka will stabilise and look forward to creating and sharing value with all our key stakeholder groups. Vision 2025 and its objectives will serve as a guide to improve and reorient all our operations. We will continue to be the "Bank for Everyone" to serve diverse customer segments. We will also exploit to our advantage the synergies across our Group to stay competitive in a highly saturated financial market. We will further strengthen our resolve to be a strong and financially sustainable Bank that puts the customer at the heart of everything we do.

I would like to thank and recognise the service rendered to DFCC Bank by our outgoing Chairman Mr C R Jansz. Along with the Board, he was the guiding hand of the Bank for many years. I would like to wish him all the best for his future endeavours.

My gratitude is also extended to the esteemed colleagues in the Director Board for their guidance and our CEO Mr Lakshman Silva for steering the Bank through trying times in 2019. My appreciation is also extended to the management team as well as our dedicated team of employees at all levels.

I am also grateful for the support of the officials of the Central Bank of Sri Lanka and the Ministry of Finance.

I must also thank our loyal customers for the trust they have placed on DFCC and wish to assure our commitment to provide them with exceptional service. We also look forward to the continued support of our shareholders and all other stakeholders in making 2020 a prosperous year for all.

J Durairatnam
Chairman

18 February 2020

Scan to view the Message from the Chairman
http://dfcc2019.annualreports.lk/cm.html

Chief Executive's Review

The Bank's renewed drive towards digitalisation of operations, delivery channels, and products and services in 2019, resulted in delivering better outcomes and enhancing customer experience.

Staying connected to our core ethos and making connections were vital for the success we have enjoyed in the past 65 years. With our legacy as the pioneer development bank in the country and our transition to a fully-fledged, dynamic commercial bank, we possess a unique proposition unmatched by other banks in the sector. DFCC Bank has evolved with time to meet the changing needs of its customers and has leveraged the latest technology in the industry to enhance its offering, to be better connected, and to serve all stakeholders.

During the year, we made significant strides in improving the internal processes and the value proposition guided by our far-sighted business plan. Substantial steps were taken towards digitalisation of operations, products and services, and delivery channels. During the year, we were able to reap the rewards of these initiatives. Another primary focus in 2019 was strengthening the DFCC brand through a number of initiatives and campaigns carried out throughout the year.

Financial performance

Each year, we strive to be better connected with our shareholders and work towards fulfilling their requirements to preserve the value of their investment. Operating in a challenging socio-economic context, the Bank recorded a total income of LKR 43.3 Bn, a growth of 10.5% in 2019 underpinned by a growth in interest income. Proportionate to the growth in loans and advances, the Bank's net interest income grew by 10.2%. However, interest expenses grew at a faster rate of 14.2%. Consequently, net interest income only grew marginally by 2% during the year.

Due to socio-political factors and a challenging business environment, an industry-wide trend of asset quality deterioration was observed. While the Bank experienced a 58% increase in impairment provisions for the year, our NPL ratios continued to remain lower than the industry averages.

Creating better connections with stakeholders

By identifying, monitoring, and addressing stakeholder needs, we strive to be better connected with them. The new strategy in place along with our corporate governance practices facilitates maintaining long-standing relationships and creating sustainable value for all our stakeholders.

Customer-centricity

Vision 2025 outlines enhancing customer-centricity as a top priority in order to achieve our long-term goal of reaching two million customers. Through multiple approaches such as innovative products, widened footprint, and internal improvements, we significantly enhanced customer experience. Improvements were made to our card operations where innovative, technically-advanced cards were introduced to customers. Further, our Retail Banking underwent a restructuring process during the year. Consequently, sales teams were divided according to client segments and region, allowing them to provide personalised, superior customer service. Customer Service Week was celebrated in October with a range of activities organised for customers to inspire, appreciate, and further reinforce our commitment towards them. Further, the Contact Centre adopted several measures to improve its operations with the assistance of the Customer Experience Unit and the Lean Management Unit. Moreover, we enhanced our product portfolio with virtual products, card propositions, and loan products. We also reduced the turnaround time in leasing and loans processing contributing to overall customer convenience and satisfaction.

Employee engagement

Our employees are our greatest asset and we prioritise building a skilled and motivated talent pool focused on driving the strategies of the Bank. A training needs analysis is carried out every year to identify gaps in knowledge and to better align our training programmes to overall strategic goals. We invested LKR 34.6 Mn in training and development with over 103,000 training hours, a significant increase of 41% from 2018. Besides, we increased the financial benefits in 2019 to incentivise our employees further to achieve our collective goals. For the first time in the history of the Bank, a series of "Townhall" meetings were held with employees to increase interaction. This enabled our employees to present their ideas to the top management and a task committee was appointed to address the ideas and process improvements presented at these meetings.

#TogetherWeGrow (#TWG)

This initiative was launched in 2019 with the intention of building a more cohesive, team-oriented work environment and to motivate employees. During the year, a number of programmes were launched under #TWG including a sporting event with three other industry giants, "Bee Awards" a monthly staff recognition programme, and a closed facebook group dedicated for employees to post team events, birthday celebrations, branch events etc. We hope to continue this initiative in the coming years.

A significant brand

We have completed our transition from a development bank into a fully-fledged commercial bank and have set a long-term strategic objective of being among the top five LCBs in the country by 2025. Thus, one of the primary focus areas of 2019 was to improve brand visibility. A number of initiatives together with a fully-integrated corporate brand campaign "Bank for Everyone" was launched during the year to strengthen and position DFCC Bank as a leading retail bank in the market.

Connected to the digital space

In this fast changing financial landscape digitalisation and new technologies are adopted to enhance customer experience. Our strategy was formulated to proactively identify and address the needs of the modern customer. Our digital product offering was further improved during the year with the introduction of interactive e-statements and upgrades to our Virtual Wallet and iConnect solutions. Moreover, we procured a new, state-of-the-art Core Banking system to handle all our operations and to increase internal efficiencies. The preliminary steps have been taken to adopt the system which will come into full effect in 2020. Equipped with the latest technologies and a varied digital product offering, we are geared to face the digitalised future and to be on par with industry leaders.

Outlook

Operating in a turbulent socio-economic setting in 2019, our focus was directed at our internal operations. Taking into account our employee feedback and in consultation with the Board, corporate management, and industry experts, a new strategy was formulated that charts our course for the future. In 2019, we strengthened all our core business lines, introduced improvements to our systems and processes, enlarged our digital offering, and leveraged the latest technology. In 2020, we will build on these foundations to work towards achieving our short to medium term objectives as well as our long-term objectives.

Acknowledgements

Firstly, I would like to thank the outgoing Chairman Mr C R Jansz for his untiring efforts and drive during his tenure to make DFCC Bank a leading corporate entity in Sri Lanka. While welcoming the new Chairman of DFCC, Mr J Durairatnam to the helm, I would also like to extend my appreciation to the Board of Directors for their guidance and counsel.

Furthermore, I would like to thank the Governor and the staff of the Central Bank of Sri Lanka, the Treasury and its officials, and officials in other government institutions for facilitating our needs and for their continuous support. I extend my thanks to our shareholders, business partners, our affiliated international financial institutions, and other bodies for the trust placed in DFCC Bank and for maintaining mutually-beneficial relationships.

In conclusion, I would like to thank our customers for their loyalty and our employees and their families for the sacrifices made and exceptional services rendered.

L H A L Silva
Chief Executive Officer

18 February 2020

Scan to view the Chief Executive's Review
http://dfcc2019.annualreports.lk/cer.html

Board of Directors

J Durairatnam

Chairman

Appointed to the Board of DFCC Bank PLC in August 2018 and appointed Chairman in July 2019.

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 16 July 2014 and as the Managing Director/CEO from 17 July 2014 until his retirement on 26 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. His experience covers all aspects of international trade, offshore banking, credit and operations.

Presently, he is also a Director of Asian Hotels and Properties PLC, Ceylinco Life Insurance Limited, and Assetline Leasing Co Limited. 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.

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

L H A L Silva

Chief Executive Officer

Appointed to the Board of DFCC Bank PLC in October 2015 and appointed as the Chief Executive Officer in August 2017.

Mr Silva held the position of Deputy Chief Executive Officer since October 2015. He was the Chief Executive Officer and Executive Director of DFCC Vardhana Bank PLC from January 2010 to September 2015. Mr Silva started his professional career with the Department of Inland Revenue of Sri Lanka and joined the DFCC Banking Group in 1987. He was seconded to the service of DFCC Vardhana Bank in 2003 and functioned as the Chief Operating Officer of DFCC Vardhana Bank until his appointment as the Chief Executive Officer in January 2010. Mr Silva is the Chairman of DFCC Consulting (Pvt) Limited, Lanka Industrial Estates Limited and Synapsys Limited, subsidiary companies of DFCC Bank PLC, and the Chairman of Lanka Ventures Limited, LVL Energy Fund PLC, as well as Lanka Financial Services Bureau Limited. He is a Director of Acuity Partners (Pvt) Limited, the joint venture company of DFCC Bank PLC. Furthermore, he is a member of the Board of Directors of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP).

Mr Silva holds a BCom (Sp.) from the University of Kelaniya and an MBA from the Postgraduate Institute of Management of the University of Sri Jayewardenepura.

P M B Fernando

Senior Director

Appointed to the Board of DFCC Bank PLC in July 2013.

A former Partner of KPMG Ford, Rhodes, Thornton & Company, Mr Fernando 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.

Presently, he is a Director of Synapsys Limited and in few companies within the Laugfs Group.

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

T Dharmarajah

Director

Appointed to the Board of DFCC Bank PLC in July 2014.

Mr Dharmarajah is the Senior Partner (Audit & Assurance) of Messrs Amarasekera & Company and serves as a Director of LOLC Development Finance PLC, Management Applications (Pvt) Limited, DHS Medical Group (Pvt) Limited, and Central Engineering Consultancy Bureau.

He is a Member of the Council of University of the Visual and Performing Arts and a member of the Standing Committee on Management Studies of the University Grants Commission. He was a Director of DFCC Vardhana Bank PLC and a Member of the Board of Management of the Postgraduate Institute of Management and Curriculum Development Committee of the National Institute of Education. He was also a Member of the Council of The Institute of Chartered Accountants of Sri Lanka and University of Sri Jayewardenepura, and a former President of the Association of Accounting Technicians of Sri Lanka.

Mr Dharmarajah holds a BSc in Management (Sp.) from the University of Sri Jayewardenepura, and is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka, Association of Accounting Technicians of Sri Lanka, and Institute of Public Finance and Development Accountancy.

Ms S R Thambiayah

Director

Appointed to the Board of DFCC Bank PLC in March 2015.

Ms Thambiayah is the Executive Chairperson of Renuka Hotels PLC, and the Joint Managing Director of Renuka City Hotels PLC, of which she was the General Manager from 2001 to 2010, prior to assuming the current position with the Company. She is also a Director of Cargo Boat Development Co. PLC, Crescent Launderers & Dry Cleaners (Pvt) Limited, Renuka Consultants & Services Limited, Renuka Properties Limited, Lancaster Holdings Limited, and Portfolio Management Services (Pvt) Limited.

She was a Director of DFCC Vardhana Bank PLC from September 2012 to February 2015.

Ms Thambiayah holds a BA (Hons.) in Economics from the University of Nottingham, UK, and a MMH from Cornell University's School of Hotel Administration, USA.

K P Cooray

Director

Appointed to the Board of DFCC Bank PLC in March 2015.

Mr Cooray has served as the Chairman of Hotel Developers Lanka PLC, and Associated Newspapers of Ceylon Limited. He has also held executive positions in several companies including Ceylinco Group, Richard Pieris Group, and the Maharaja Organisation.

He was instrumental in setting up Rivira Media Corporation (Pvt) Limited under the Richard Pieris Group and served there as founder Director and Chief Executive Officer. The two flagship newspapers launched under his direction, "Rivira" and "The Nation", continue to be widely read newspapers in Sri Lanka. During his tenure at Maharaja Group, he worked as a consultant, supervising, streamlining, and ensuring executive coordination of news broadcasts by the television and radio stations belonging to the Company.

Mr Cooray holds a BA (Hons.) in Political Science, and Law from the University of Middlesex.

Ms V J Senaratne

Director

Appointed to the Board of DFCC Bank PLC in July 2015.

Ms Senaratne presently holds the position of Chief Legal Officer and Company Secretary of Distilleries Company of Sri Lanka PLC, and Company Secretary of Periceyl (Pvt) Limited. She is a Director of Paradise Resort Pasikudah (Pvt) Limited, and Amethyst Leisure Limited, and an Alternate Director of Melstacorp PLC and Distilleries Company of Sri Lanka PLC.

She 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 served as a Legal Officer at the Central Bank of Sri Lanka.

Ms Senaratne is an Attorney-at-Law and Notary Public, Commissioner of Oaths, having being admitted to the Bar on 25 August 1977, and is also a Solicitor of England and Wales.

Ms L K A H Fernando

Director

Appointed to the Board of DFCC Bank PLC in November 2017.

Ms Fernando presently serves as the Chief Executive Officer/Executive Director of R I L Property PLC, and a Director of Foodbuzz (Pvt) Limited, United Motors Lanka PLC, Unimo Enterprises Limited, Orient Motor Company Limited, and UML Heavy Equipment Limited.

She 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.

Ms Fernando 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.

N K G K Nemmawatta

Director

Appointed to the Board of DFCC Bank PLC in December 2018.

Mr Nemmawatta has held several executive positions in the public sector. He has served as the 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.

Mr Nemmawatta holds a BCom (Sp.) from the University of Colombo. He also holds 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.

N H T I Perera

Director

Appointed to the Board of DFCC Bank PLC in July 2019.

Mr Perera is the Deputy Chief Executive Officer of DFCC Bank PLC. 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 is a Director of Synapsys Limited, Acuity Partners Limited, and Acuity Stock Brokers (Pvt) Limited and also functions as Chairman of the Audit Committee of the Acuity Group. He has also served as a Board member of HNB Assurance PLC, HNB General Insurance Limited, and HNB Finance Limited.

Mr Perera is a member of the Institute of Chartered Accountants of Sri Lanka and a finalist of the Chartered Institute of Management Accountants (CIMA) – UK.

Ms A Withana

Secretary to the Board

Appointed as Secretary to the Board in May 2011.

Ms Withana is also the Company Secretary of DFCC Bank PLC and was a Director of Synapsys Limited until December 2019. She 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.

Ms Withana was a Director of DFCC Vardhana Bank PLC from August 2003 to July 2012.

She is a former partner of a firm of Chartered Accountants and counts over 30 years of professional experience in the field of auditing, finance, and management.

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

Corporate Management

Lakshman Silva
Chief Executive Officer

Thimal Perera
Deputy Chief Executive Officer

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

Achintha Hewanayake
Senior Vice President
Chief Operating Officer

Ashok Goonesekere
Senior Vice President
Chief Risk Officer

Gillian Edwards
Senior Vice President
Consumer Banking

Kapila Nanayakkara
Senior Vice President
Treasury and Resource Mobilisation

Shamindra Marcelline
Senior Vice President
Corporate Banking

Aasiri Iddamalgoda
Senior Vice President
Branch Banking & SME

Chinthika Amarasekara
Senior Vice President
Chief Financial Officer

Sonali Jayasinghe
Senior Vice President
Human Resources

Management Team

Anton Arumugam
Vice President
Liabilities and Trade
Business Development

Charitha Jayawickrama
Vice President
Internal Audit

Hemanatha Samaranayaka
Vice President
Business Development

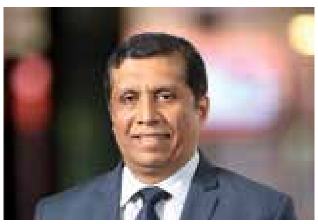
Jayangani Perera
Vice President
Corporate Banking II

Kapila Subasinghe
Vice President
Specialised Project Lending/
Head of Consulting

Nishan Weerasooriya
Vice President/
Head of Information
Technology

Pradeepa De Alwis
Vice President/
Regional Manager

Prasanna Premaratne
Vice President
Trade Services and
International Remittances



Priyadarsana Sooriya Bandara
Vice President
Branch Credit Management

Wajira Punchihewa
Vice President/
Regional Manager

Amanthi Balasooriya Dahanayake
Vice President
Credit Risk Management

Candiah Jegarajah
Vice President/
Regional Manager

Chaminda Gunawardana
Vice President/
Regional Manager

Chandana Garusinghe
Vice President/
Branch Manager

Chandrin Wimaladharma
Vice President
Rehabilitation and Recoveries

Chaya Gunarathne
Vice President/
Compliance Officer

Denver Lewis

Vice President/
Head of Card Centre

Dinesh Jebamani

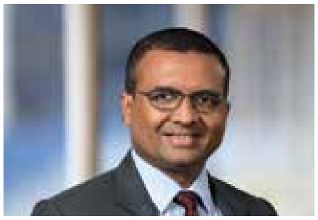
Vice President
Digital Strategy

Duminda Silva

Vice President
Retail Asset and Liability Sales

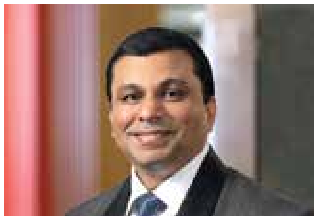
Dushan Weerakoon

Vice President
PFS Central Processing



Gaminda Fernando

Vice President
Services and Procurement



Jayan Fernando

Vice President
Branch and Operations Audit

Kelum Perera

Vice President/
Acting Regional Manager

Lakmal Rajasekara

Vice President/
Branch Manager

Mangala Senaratna

Vice President
Corporate Banking

Nalin Karunatileka

Vice President
Project Management and BCP

Navindra Rajapakshe

Vice President
Business Systems

Nilmini Gunaratne

Vice President
Marketing and Sustainability

Nimali Ranaraja

Vice President
Corporate Banking II

Palanadesan Rajanathan

Vice President
Corporate Banking

Pavithra Dias

Vice President
Branch Operations

Pradeep Ariyaratne

Vice President
Restructuring and Close Monitoring

Priyadarshi Attanayake

Vice President
Branch Banking Monitoring and Controls

Ranjith Dissanayake

Vice President/
Branch Manager

Ravi Dassanayake

Vice President
Strategic Planning and Subsidiaries

Sajith Silva

Vice President
Bancassurance

Samathri Kariyawasam

Vice President
General Legal

Sharmila Nugawela

Vice President
Legal Business Operations

Subhashi Cooray

Vice President
Core Banking Project

Terrence Etugala

Vice President/
Branch Manager

Thejaka Perera

Vice President
Litigation and Legal Recoveries

Our Value Creation Model

The Bank's value creation process is a system for transforming inputs through business activities into outputs, outcomes, and impact that aims to fulfil the Bank's vision, mission, and values (page 03).

The inputs are both on-balance sheet and off-balance sheet forms of capital (page 33) that are continually transformed by the Bank's activities (Management Discussion and Analysis, page 33).

The results arising from our activities lead to outputs (products and services), outcomes (value created by the Bank for itself and for its stakeholders as a consequence of the outputs), and impact. They form a cascade across a short, medium, and long term respectively and provide feedback to grow the Bank's stock of capitals.

Underpinning this flow of capitals are, the trends in the operating environment (page 24), sound governance (page 100) and risk management (page 76) practices, stakeholder engagement and expectations (page 28), materiality (page 32), strategic objectives (page 26), and the ongoing monitoring and evaluation of performance across the Bank.

Vision, mission and values

Operating environment

Stakeholders and materiality

Strategy

Inputs

Financial capital
Strong book value of the Bank reflecting profitability and asset quality

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

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

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

Business partner capital
Strong relationships with multilateral and bilateral institutions, correspondent banks and suppliers, nurtured over the years

Employee capital
A multidisciplinary team of professionals with a passion to serve

Social and environmental capital
Positive contribution towards the community and environmental Inputs

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 customer through digitalisation of systems and processes, delivery and communication channels, and product offering

Improving customer centricity
Through training and development of staff, improve the level of customer service and provide customised service for different customer segments

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

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

Stewardship

Monitoring and evaluation

Outputs

Increased sale of assets and liabilities

360^{0} Management of customers via dedicated CRM

Reduction of unnecessary cost

Improved brand recognition (employee and employer)

Enhanced profitability at customer level

Acquisition and retention of premier customers

Sales-driven culture

Improved risk rating via early warning systems

Dedicated SME customer management

Branch rationalisation and digitisation

Voice of customer platforms

Building a socially responsible brand

Faster processes

Reduce manual and iterative work

Better work environment

Outcomes

Value derived by the Bank

Sustainable growth in the financial position

Cost savings

Strong brand value

Customer patronage

A loyal and satisfied team

Value delivered to Stakeholders

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

Financed projects adhering to stipulated environmental standards

Impact

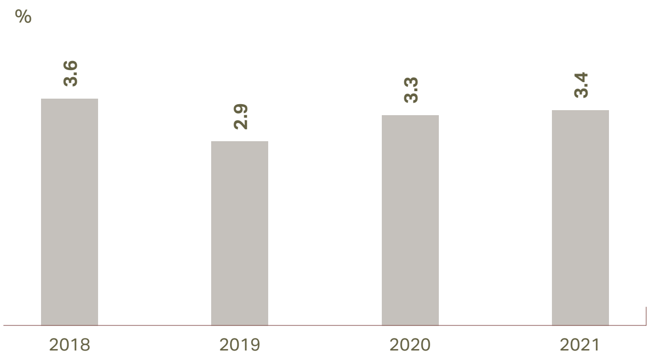
Steer the Bank towards becoming the leading financial solutions provider sustainably developing individuals and businesses

Operating Environment

Global economy

After a low pace of growth in 2018, the weakest since 2009, the global economy is set for a marginal recovery in 2020, especially driven by emerging markets. According to the World Economic Outlook update complied by the International Monetary Fund (IMF), global growth is expected to reach an estimated 2.9% in 2019. Subdued growth is expected for advanced economies, while emerging markets and developing economies should register growth acceleration.

Global economic growth



Source: International Monetary Fund's World Economic Outlook (January 2020)

2019 figure is an estimate by the International Monetary Fund, while 2020 and 2021 numbers are IMF projections.

The year was marked with trade policy uncertainty, geopolitical tensions, and idiosyncratic stress in key emerging market economies affecting global economic output, especially in the manufacturing and trade sectors. Weather-related disasters also weighed heavily in global growth like hurricanes in the Caribbean to drought and bushfires in Australia, floods in eastern Africa, and drought in southern Africa.

US-China trade war and Brexit fears took centre stage in 2019, they will continue to impact 2020 growth as well. However, there are signs of stabilisation with recovery in manufacturing and global trade with US-China trade negotiations and diminished fears of no-deal Brexit. The United Kingdom will leave the EU on 31 January 2020, after which a transition period will set in.

The IMF revised down the October forecasts on 2020 growth to 3.3%. The downward revision was mostly due to lower growth in India. For 2021, the Fund has forecast a growth rate of 3.4%.

However, further trade tensions between the US and Europe or the return of the US-China trade war could affect the stabilising economic conditions. The IMF emphasises on stronger multilateral cooperation and national-level policies to support a sustained recovery that will benefit the global economy.

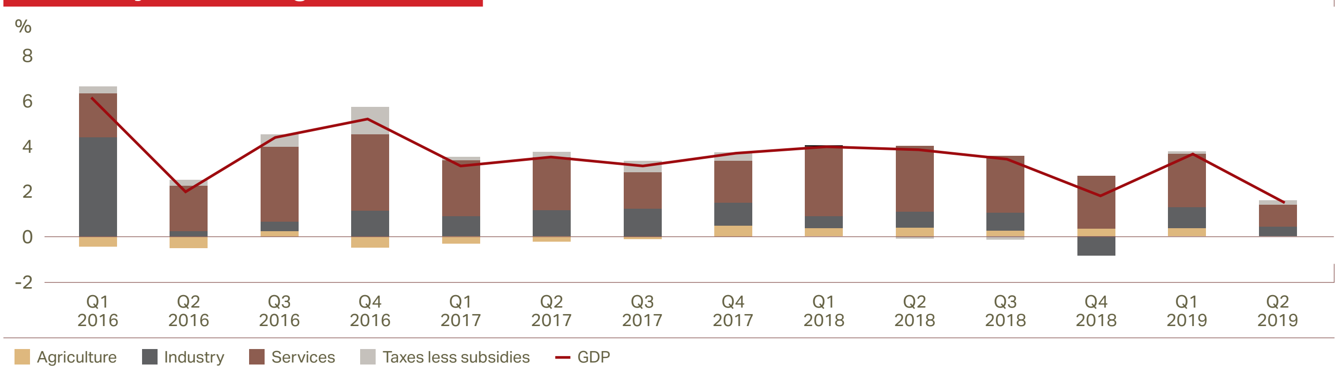
The spread of COVID-19 virus has had an adverse effect on trade and tourism in Asia. Consequently the epidemic may impact supply chains in the region.

Sri Lanka's economy

In the recent past, the Sri Lankan economy grew below potential due to a number of exogenous shocks and intractable political difficulties. The country experienced a brisk growth within the first quarter of 2019, yet the Easter Sunday Attacks severely impacted the economy as a whole. Meanwhile, persistent fiscal deficits, a large debt stock, and rising interest servicing cost eroded policy buffers and reduced fiscal capacity to support a slowing economy.

For the 3rd quarter of 2019, the economy recorded a growth of 2.7% and the rate of growth for 2019 is estimated at 2.8%. The agriculture and fisheries industry experienced growth in 2019. Services was mainly driven by the expansion in financial services, wholesale and retail trade activities, and other personal services. Expansion in industry activities was primarily supported by the recovery in construction and mining and quarrying activities. The Easter Sunday attacks substantially affected accommodation, food and beverage service activities, and transportation services.

Quarterly real GDP growth (YoY)



Source: Department of Census and Statistics

The banking sector

The banking sector experienced a modest growth in 2019. Amidst challenging domestic and global conditions, the sector was able to maintain capital and liquidity levels well above the regulatory requirements.

CBSL maintained an accommodative monetary policy stance in view of subdued economic growth, muted inflationary pressures and rapidly decelerating private sector credit amidst high nominal and real market interest rates. The Statutory Reserve Ratio (SRR) applicable to all Rupee deposit liabilities of commercial banks were reduced by a total of 2.50 percentage points in November 2018 and in April 2019. The objective was to provide adequate levels of liquidity to the domestic money market. Policy interest rates were also reduced by a total of 100 basis points in two steps, first in May and then in August 2019.

Asset quality of the sector deteriorated in 2019 due to the challenging operating conditions. The Non-Performing Loans (NPLs) continued to rise, growing by 44% up to October 2019. The gross NPL ratio for the sector continued to rise. In addition, the stock of rescheduled loans has also been growing, indicating that asset quality could continue to remain weak.

Consistent with the past decade, Sri Lanka once again experienced single digit levels of inflation. Sri Lanka successfully issued International Sovereign Bonds (ISBs) amounting to US Dollars 4.4 billion during 2019. The Rupee has shown greater stability in foreign exchange markets after its significant depreciation in 2018.

Banking sector – selected indicators

Item	End Aug. 2017	End Aug. 2018	End Dec. 2018	End Aug. 2019 (a)	YoY Change (%)	
					Aug. 2018	Aug. 2019 (a)
Total Assets (LKR Bn)	9,901.5	11,039.9	11,794.0	12,071.8	11.5	9.3
Loans and Advances (LKR Bn)	6,140.2	7,104.4	7,693.4	7,796.0	15.7	9.7
Investments (LKR Bn)	2,588.4	2,608.1	2,697.4	2,951.7	0.8	13.2
Deposits (LKR Bn)	7,063.5	8,088.6	8,492.4	8,836.3	14.5	9.2
Borrowings (LKR Bn)	1,604.2	1,548.2	1,763.4	1,621.4	-3.5	4.7
Capital Funds (LKR Bn)	823.2	958.9	1,030.4	1,095.7	16.5	14.3
Tier 1 Capital Adequacy Ratio (%) (b)	12.3	12.8	13.1	13.3		
Total Capital Adequacy Ratio (%) (b)	15.1	16.0	16.2	16.5		
Gross Non-performing Loans Ratio (%)	2.8	3.6	3.4	4.9		
Net Non-performing Loans Ratio (%)	0.9	1.7	1.5	2.6		
Return on Assets (Before Tax) (%)	2.0	1.9	1.8	1.5		
Return on Equity (After Tax) (%)	17.6	14.6	13.2	10.8		
Statutory Liquid Assets Ratio (DBU) (%)	31.2	30.0	27.6	31.2		
Liquid Assets to Total Assets (%)	29.0	27.4	25.7	29.3		

Source: Central Bank of Sri Lanka

(a) Provisional

(b) As at end June

Outlook

Economic growth is estimated to improve from its current cyclical weak patch to reach an estimated 4% in 2020, driven by recovering tourist arrivals as well as stronger consumption and investment spending. The fiscal stimulus implemented by the interim Cabinet, including steep cuts to the Value Added Tax (VAT) rate and the elimination of several tax items is expected to boost private consumption and investment activity.

Strategic Direction and Outlook

DFCC's strategy is formulated to determine the direction and scope of the Bank over the short, medium, and the long term. Operating within a changing environment, we recognise the necessity of strong business planning and analysis to build a sustainable bank. Our strategy is formulated by analysing our business model, the market environment, our stakeholder relationships, and issues that are material to us. It also reflects our values and mission and contributes to improving risk management and corporate governance.

This year, we introduced a new strategic framework under the title Vision 2025. This new strategy clearly outlines our short to medium-term and long-term objectives of the Bank. The ambitious plan aims to realise the following long-term goals by 2025: to be among the top five LCBs in Sri Lanka; to achieve LKR 1 Tn asset base; to grow our customer base to two million; and to become the most customer-centric bank in Sri Lanka. With a view to realising vision 2025, the Bank will look to build three Strategic Pillars: Enhancing customer centricity; Becoming a top-of-mind retail bank; and Optimising key customer-facing operations.

Vision 2025

Long-term strategic objectives

Among the top five LCBs in Sri Lanka	One trillion asset base	Two million customer base	Most customer-centric Bank in Sri Lanka

Strategic pillars

Enhancing customer centricity	Becoming a top-of-mind retail bank	Optimising key customer-facing operations
Placing the customer at the center of the Bank's operations	Expand brand reach and acquiring mind share	Raising the efficacy, speed, and convenience of processes to give the customer the best experience

The Bank has invested in people, processes, and tools to facilitate, implement, and monitor these plans and ensure envisioned outcomes. The new core banking system to be launched in 2020 will complement these initiatives and augment the Bank's operational, digital, and data-related capabilities.

Enhancing customer centricity

Segmenting SME/Retail customers to identify different value propositions and designing targeted marketing campaigns, designing bundled products, initiatives for SME, and establishing a BI Unit are some of the focal areas of action with a view to enhancing customer centricity.

Becoming a top-of-mind retail bank

In order to become a top-of-mind retail bank, DFCC plans to take many steps including identifying appropriate digital and non-digital mechanisms to build top-of-mind impressions, developing a pool of highly skilled financial advisers/relationship managers for the high-value segment, as well as formulating a structured and strategic CSR plan to integrate social, environmental, ethical, human rights, and consumer needs into business operations.

Optimising key customer-facing operations

In terms of optimising key customer-facing operations, we intend to review the credit disbursement process to improve agility while maintaining quality standards, launch a contact centre to handle inbound and outbound operations (sales, service, and collections), assess and implement a CRM system among other plans to achieve this objective.

Strategic outlook

DFCC intends to expand its service offering on multiple fronts to establish new customer relationships, capture market share, and raise operational standards.

In the retail banking space, planned product initiatives and campaigns will commence in 2020 to serve customer segments such as young professionals, the affluent middle class, and the established high-income segment. Long-term relationships with these target segments will lead to mutually-beneficial banking outcomes. In the quest to achieve low-cost deposit mobilisation, these planned retail campaigns will be the stepping stones.

The Bank will continue to build its SME and MSME clientele by identifying worthy customers in growth sectors, cultivate relationships, and spread insight through seminars and workshops. The Bank is also upgrading its premier offering with a brand and propositional upgrade to be unveiled next year. DFCC will endeavour to improve its standing in the affluent space in the near term and beyond.

In order to achieve the goals outlined in Vision 2025, the Bank will invest in a dedicated BI Unit, scheduled to start next year. The preliminary work of resource allocation and deliberation on the formation of the Unit are being done. Once operational, the Bank will look to fully capture and act on the rich business, customer, and transactional data that can be capitalised on to drive product development, sales growth, and relationship management.

Corporate Banking will expand its offering by entering overseas markets, focusing more on export opportunities and driving sales of a variety of asset and liability products to appropriate customer segments. The Bank will adopt a focused approach to client relationships by streamlining relationship management with clients involved in multiple businesses.

There will be continued emphasis on promoting sales of varied product offerings to clients like cards, bancassurance, remittances, and trade financing to complement the sales of loans and deposits. The Bank intends to further strengthen its engagement with stakeholders both internal and external. Managing people and processes is important to DFCC's internal stakeholder management. There will be continued investments in employees to cultivate a culture of personal development. Building efficient end-to-end processes across the front, middle, and back office departments will be a management imperative. As external engagement stands, elevating standards of customer service and reliably fulfilling customer needs through technology is an area of importance. As a regulated Bank, we will continue to be responsible stewards of our balance sheet, thereby contributing to the health of the country's financial system.

Our goal is to be the data-driven and digitally-enabled Banker of choice known for our customer centric model of providing solutions.

Stakeholders

DFCC is part of a socio-economic ecosystem and we recognise that we are dependent on robust relationships with our stakeholders in all our operations. We proactively identify their needs and expectations to find out how best we could integrate their concerns into our decision-making process. In keeping with our focus to be "Connected", the first step of stakeholder engagement is to identify stakeholders and the issues that are material to them. The following outlines the stakeholder groups of DFCC:

Shareholders and investors

Our investors ensure continued growth through the provision of equity and debt capital. In this interdependent relationship, it is our responsibility to provide optimal and sustainable returns to their investments.

Our Corporate Communications Policy and Investor forums help our investors to understand our future strategies and sustainable development goals to make informed decisions about investments in the Bank. Information about financial performance and progress is made public through the Colombo Stock Exchange (CSE) and is also communicated through the Annual Report, media releases, and the website. We make every effort to convey context and insight on the Bank's value creation process.

Customers

Customers form the heart of our business and customer-focus provides the basis to achieve a profitable and sustainable business. By understanding their current and emerging needs and requirements, we provide them with a portfolio of financial products and services. We are committed to deliver great client experiences with simpler, convenient and efficient service, innovative products, and competitively priced products through our customer-centric strategy.

Employees

Our employees form the backbone of the Bank embodying our core values to achieve our strategic objectives. We empower our people with continuous training, fostering innovation and creativity within the workplace to spur collaboration that cuts across traditional boundaries. DFCC Bank's Internal Code of Conduct is accessible to its employees via the internal web portal. The Code of Conduct expresses our business ethics in relation to avoidance of conflicts of interest, insider dealings, unfair business practices, and the confidentiality of sensitive information. Our 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

Our business partners include institutions providing lines of credit as well as vendors providing goods and services. We maintain strong relationships with our business partners to secure the timely acquisition of goods and services to support our operations. They are an important constituent of the Bank's value chain, and with their support and participation, we create sustainable value. For the Bank's suppliers, a Procurement Policy has been established. Communication with suppliers primarily revolve around quality, reliability, and pricing, while building mutually-rewarding, long-term relationships.

Regulators

Regulators protect and enhance the country's financial system through the implementation of rules and regulations. DFCC has embraced sustainable banking practices and regulatory compliance that enable a safe and stable banking system. Regulators enable the right business environment to enhance customer confidence and mitigate reputation risks. The Bank abides by these rules and regulations by complying with all applicable legal and regulatory requirements and conducting 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 through the timely submission of prescribed reports and returns, participation in meetings, forums, task forces, and conferences, as well as media releases and the corporate website.

Society and environment

Society and environment are the source of our workforce and all stakeholders and it is a key component of our social license to operate. Accordingly, we mold our sustainable operations and initiatives to embrace our communities we operate in and work with them to enhance their wellbeing to foster mutually-beneficial partnerships.

We support the local community through volunteer efforts and CSR activities that cover financial inclusion, entrepreneurial development, education, environment conservation, emergency relief, and sponsor-deserving causes. We also make substantial efforts to minimise our environmental impact and are committed to the continual development of our environmental platform.

Stakeholder engagement

Being a responsible corporate entity, DFCC Bank considers engagement with our varied groups of stakeholders is key for creating a sustainable business. We always seek to understand our stakeholder expectations and use the feedback obtained to continuously improve our operations by maintaining an open dialogue with our stakeholders at all times. The methodology used in stakeholder engagement, along with the frequency and key topics raised is shown below:

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	Periodically	
	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	
Customers	Corporate website	Continuous	• Products, services, Corporate news • How to improve service standards • Customer relationship management • Corporate activity • Awareness of products, services and promotions • Customer service • Topics to enhance business output • Initiatives towards digitisation
	Facebook	Continuous	
	Customer satisfaction surveys	Periodically	
	Branches	Continuous	
	Relationship Managers	Continuous	
	Media releases	As and when required	
	Advertising and promotional campaigns	As and when required	
	New product launches	As and when required	
	Contact Centre	Continuous	
	Customer training workshops	Periodically	
Employees	Employee surveys	Periodically	• Employee feedback • Information on products, services, polices, and guidelines • Feedback, new ideas, suggestions • Progress on scorecard • Progress and updates on action • Training and development • Events, news, updates • Employee fellowship
	Human resources intranet portal	Continuous	
	Employee suggestion box	Continuous	
	Performance review systems	Bi-annually	
	Staff meetings	Continuous	
	Employee training workshops and seminars	Continuous	
	Email bulletins	Continuous	
	Special employee events	Periodically	
	Employee newsletter	Weekly	

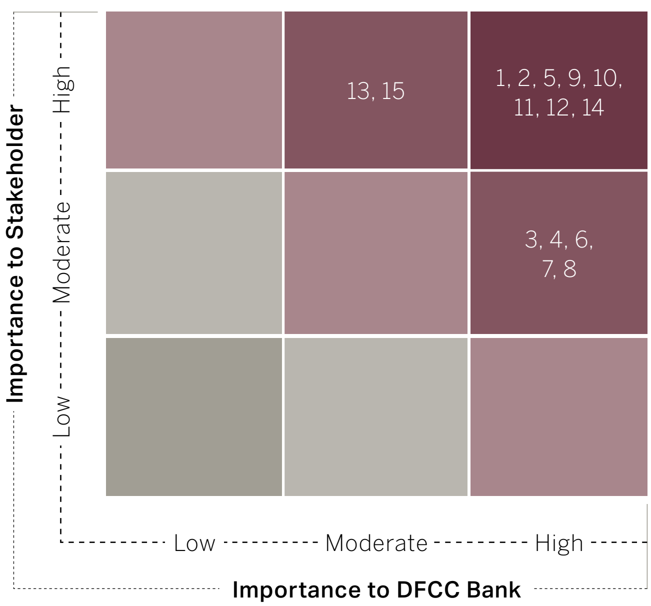
Type of stakeholder	Mode of engagement	Frequency	Key topics discussed
Business partners	Meetings	As and when required	• Health of the Bank and developments • Engagement activities with suppliers • Responsible procurement
	Corporate website	Continuous	
	Teleconferences	As and when required	
	Annual reports	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	
Society and environment	CSR initiatives	Continuous	• Corporate Social Responsibility initiatives • Investing in the community through sponsorships • Responsible lending • CSR project awareness • Media briefings • CSR initiatives • Communication to general public • Entrepreneur and SME development • Fellowship with media
	Corporate website	Continuous	
	Sponsorships	Continuous	
	Branch network	Continuous	
	Public events	Periodically	
	Contact Centre	Continuous	
	Media releases	As and when required	
	Discussions with editors and journalists	As and when required	
	Annual media get-together	Annually	
	Press conferences	As and when required	

Materiality

Material issues represent the issues that have the most impact on our ability to create value in the short, medium, and long term. Our material issues are determined through an analysis of the changes in the macro environment. These aspects are deemed material if they are both relevant and significant to our stakeholders and to the Bank.

Materiality matrix

In our materiality analysis, we determine aspects that are of importance to our stakeholders and to the Bank with respect to our economic, social, and environmental agenda for sustainable value creation. These have been mapped on the GRI Standards two-dimensional matrix.



No.	Category/Topic
1.	Economic performance
2.	Market presence
3.	Indirect economic impacts
4.	Procurement practices
5.	Anti-corruption
6.	Energy
7.	Emissions
8.	Environmental compliance
9.	Employment
10.	Training and education
11.	Non-discrimination
12.	Local communities
13.	Marketing and labelling
14.	Customer privacy
15.	Socio-economic compliance

Management approach

By engaging effectively with stakeholders, we can map a portfolio of strategies. The careful execution of these strategies 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 certifying the sustainability of the operations of the Bank. It also helps 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 that follows discusses the initiatives the Bank has undertaken during the period under review in further detail.

Scan to view the GRI Content Index
http://dfcc2019.annualreports.lk/grii.html

Financial Capital

Financial performance

Overview

DFCC Bank continues with growth strategy despite the turbulent environment. The total asset base of the Bank grew by 8% year-on-year to LKR 404,897 Mn with loans and receivables of LKR 272,818 Mn as at the year end. The deposit base experienced a growth of 2% recording an increase of LKR 5,549 Mn to end the year at LKR 247,787 Mn, while the CASA (Current Accounts and Savings Accounts) ratio slightly improved to 22.7% compared to last year.

Reflecting the challenging business environment that prevailed during the year, DFCC Bank's NPL ratio moved up to 4.85% as at 31 December 2019 from 3.28% in December 2018. The Banking industry NPL also recorded an increasing trend from 3.4% in 2018 to 4.7% as at 31 December 2019.

Profitability

DFCC Bank PLC, the largest entity within the Group, reported a profit before tax (PBT) of LKR 2,989 Mn and a profit after tax (PAT) of LKR 2,074 Mn for the year ended 31 December 2019. This compares with a PBT of LKR 4,233 Mn and a PAT of LKR 2,768 Mn in the previous year. PAT of the Bank excluding the fair value loss on Commercial Bank of Ceylon PLC (CBC) for the year ended 31 December 2019 was LKR 2,828 Mn in comparison to PAT of LKR 3,646 Mn recorded in the comparative year (as detailed in table 1). The decline in profit after tax is mainly due to the increase in impairment and taxes on financial services. Taxes on financial services increased to LKR 1,548 Mn due to debt repayment levy introduced on 1 October 2018.

The Group recorded a PBT of LKR 3,308 Mn and PAT of LKR 2,300 Mn for the year ended 31 December 2019 as compared to LKR 4,676 Mn and LKR 3,070 Mn respectively in 2018. All members of the DFCC Group made positive contributions to this performance.

Net interest income

The Bank's total income for the year 2019 was LKR 43,297 Mn recording an increase of 11%. The interest income consists of 97% of the total income of the Bank. Following a continues growth strategy despite the turbulence in the macro environment, DFCC Bank recorded a year-on-year growth of 9% in its net portfolio which when coupled with prudent management of asset and liability pricing, enabled the Bank to achieve this growth.

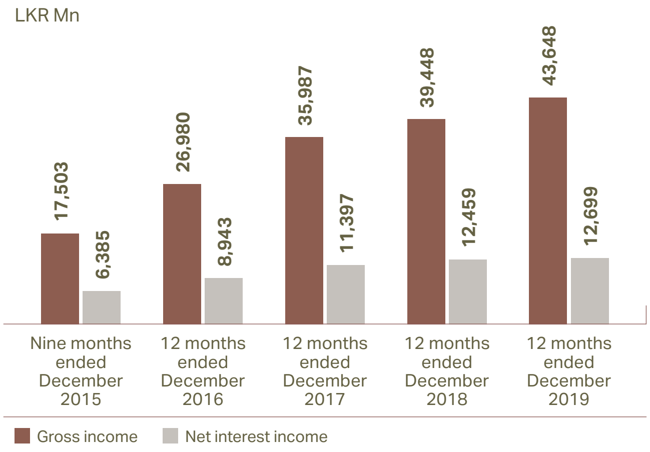
The Bank's net interest income recorded a growth of 2% to LKR 12,662 Mn from LKR 12,415 Mn in 2019 in spite of adopting a policy of non-recognition of income on credit impaired loans. The interest income grew by 10% to LKR 42,060 Mn while the total interest expenses increased by 14% to LKR 29,398 Mn due to the growth of LKR 5,549 Mn in deposits during the year. As a result, the interest margin decreased marginally to 3.2% from 3.5% in 2019.

Fee and commission income

The Bank recorded a 5% growth in net fee and commission income as a result of the concentrated effort to increase non-funded business. Fees generated from loans and advances, and from trade and remittances accounted for the majority of the increase. Further, fees collected from credit cards and bancassurance services grew during the year.

The Bank's credit card income recorded a commendable growth. DFCC Bank created history by becoming the first bank in Sri Lanka to be certified for Visa's QR Payment Solution. This move would add more value to the customer convenience and will open up considerable growth in earnings from this important business line.

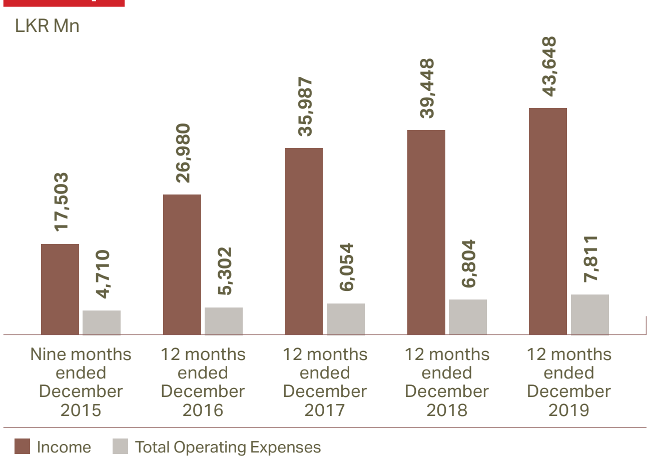
Income (Group)



Impairment charge on loans and other losses

The overall impairment charge including other impairment losses for the year was LKR 1,669 Mn compared to LKR 1,056 Mn in 2018 due to adverse business environment faced by most industries. Recovery processes are being rigorously pursued to minimise any actual losses that may arise from the specific exposures.

Total income to operating expenses (Group)

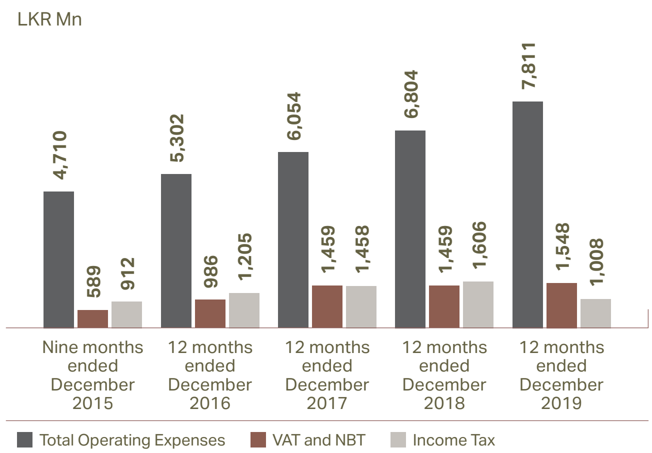


Operating expenses

As part of its growth strategy, DFCC Bank continuously invests in its infrastructure. During the year, the Bank increased its branch network, expanded its product base and created multiple channels for service delivery, which contributed towards an increase in revenue streams, deposits and the Bank's customer base.

The incremental cost that was incurred as a result of this growth in business contributed to a 15% increase in operating expenses. However, careful monitoring and effective cost control measures adopted during the year helped to maintain the increase at a moderate level and resulted in a cost to income ratio of 54.96% for 2019.

Expenses (Group)



Profit After Tax (PAT)

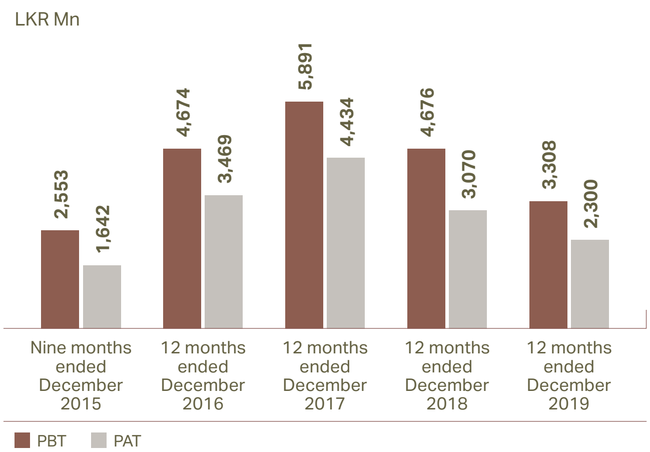
The Bank recorded a Profit After Tax (PAT) of LKR 2,828 Mn for the year ended 31 December 2019 excluding the fair value loss on Commercial Bank of Ceylon PLC (CBC) in comparison to PAT of LKR 3,646 Mn recorded in the comparative year. The Bank's PAT with the fair value loss on CBC shares amounted to LKR 2,074 Mn for the current year against LKR 2,768 Mn in the comparative year.

Table 1

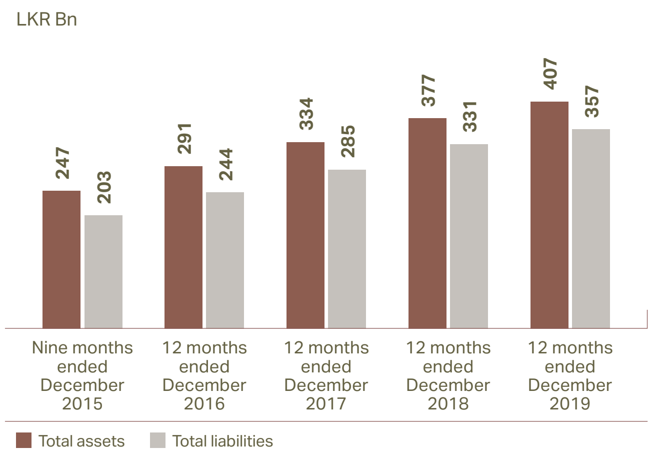
For the year ended 31 December	2019 LKR 000	2018 LKR 000	Change %
Profit for the year – reported	**2,073,868**	2,768,179	(25)
Marked to market loss on CBC shares, net of taxes (Note a)	**753,931**	877,699	–
Adjusted profit for the year	**2,827,799**	3,645,878	(22)
(a) Marked-to-market loss on CBC shares, net of taxes			
Net marked-to-market loss on equities (Note 13)	**939,191**	1,018,554	
Less: VAT, NBT and DRL on financial services	**185,260**	140,855	
	753,931	877,699	

CBC – Commercial Bank of Ceylon PLC

Group profit before and after tax



Assets and liabilities



Financial position analysis

Assets

The Bank's total asset base as at 31 December 2019 grew by 8% to LKR 404,897 Mn from LKR 374,907 Mn as at 31 December 2018. This constitutes a loan portfolio growth of LKR 23,085 Mn to LKR 272,818 Mn compared to LKR 249,734 Mn as at 31 December 2018 recording an increase of 9%.

The term loans recorded the highest growth of LKR 21,139 Mn out of the total growth in loans to and receivables from other customers, followed by lease receivable with a growth of LKR 3,861 Mn.

DFCC Bank was the major contributor to the asset base and the Group's total asset base increase was the same as that of the Bank.

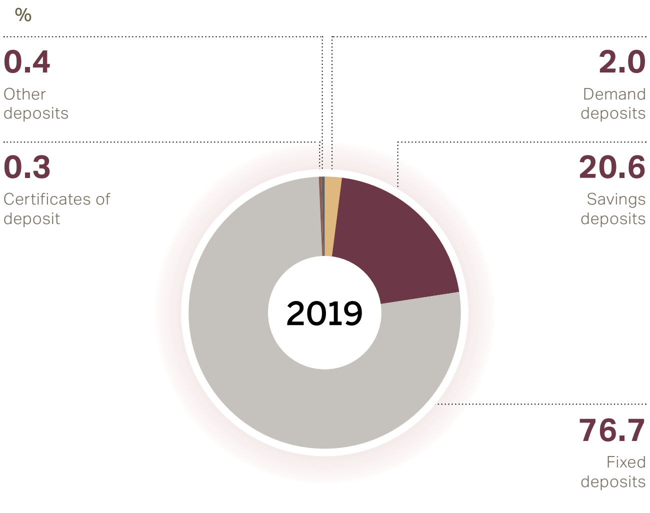
Liabilities

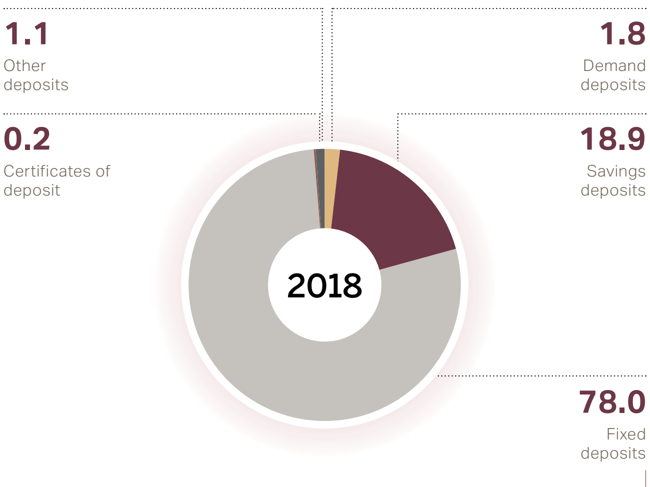
The liabilities increased by 8% over the previous year to LKR 357,418 Mn as at the year end. The main increase was due to the substantial growth in amount due to banks of LKR 15,148 Mn and LKR 5,549 Mn in customer deposits.

With the 2% increase in deposits, DFCC Bank was able to report loan to deposit ratio of 110%. The Bank's CASA ratio, which represents the proportion of low cost deposits in the total deposits of the Bank, was 22.7% as at 31 December 2019. Funding costs for DFCC Bank were also contained due to access to medium to long-term concessionary credit lines. When these concessionary term borrowings are considered, the ratio improved to 28.96% as at 31 December 2019.

DFCC Bank continued its approach to tap local and foreign currency related, long to medium-term borrowing opportunities. This has led to an increase of amounts due to banks by LKR 15,148 Mn and amount due to debt securities in issue by LKR 5,250 Mn during the year under review.

Deposits mix (Group)





Equity and compliance with capital requirements

DFCC Bank's total equity increased to LKR 47,480 Mn as at 31 December 2019 from LKR 43,846 in December 2018. The main contributor to the increase was the shareholders' participation to right issue materialised in May 2019.

The basic earnings per ordinary share of the Bank decreased to LKR 7.14 in 2019 from LKR 10.44 in 2018. The Bank's return on equity (ROE) reduced to 4.5% in 2019 from 6% in 2018. The Bank's return on assets (ROA) before tax was 0.8% compared to 1.2% in the previous year. Furthermore, the Bank's net asset value per share was down by 6% to LKR 156.09 from LKR 165.40 in 2018.

DFCC Bank has consistently maintained a capital ratio above the Basel III minimum capital requirements. As at 31 December 2019, the Group's Tier 1 capital adequacy ratio stood at 11.33% while the total capital adequacy ratio was 15.78%. On a solo basis, as at 31 December 2019, DFCC Bank recorded Tier 1 and total capital adequacy ratios of 11.34% and 15.81% respectively. These ratios are well above the minimum regulatory requirements of 8.5% and 12.5% effective in January 2020.

Return on Assets (Group)

Return on Equity (Group)

Credit quality

During the year, DFCC Bank had a moderate growth in its loan book covering corporate, retail, and small and medium-term business segments. The expansion into new geographical areas and new customer segments increased the challenge to maintain a sustainable risk profile. 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.

Dividend policy

The Banking industry faced many challenges during the year; both from business and regulatory fronts. The adverse weather conditions and political upheaval that prevailed during the year became constraints for the growth of returns on equity. The minimum capital requirements became more stringent with the adoption of BASEL III. Other factors which affected were impact on the adoption of the new accounting standards and the introduction of the new tax laws. Based on the medium term projected growth plan, the Bank has projected an asset base of over LKR 500 Bn and above to be achieved by year 2021, with the intention of becoming a systematically important domestic Bank. This will result in the need to maintain an increased Tier 1 ratio of 10% by 2021. The Board of Directors after considering all of the above has approved a dividend of LKR 3.00 per share for the year ended 31 December 2019.

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 2019 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 2,300 Mn during the year ended 31 December 2019. This is compared to LKR 3,070 Mn made in the year 2018. DFCC Bank accounted for majority of the Group profit with profit after tax of LKR 2,074 Mn while LINDEL (LKR 177.6 Mn), Acuity (LKR 190 Mn), Synapsys (LKR 35.7Mn) and DFCC Consulting (LKR 11.6 Mn) contributed positively by way of profit after tax to the Group. In the previous year, Acuity, DFCC Consulting and LINDEL reported profit after tax of LKR 304.7 Mn, LKR 24.8 Mn and LKR 121.2 Mn respectively. Synapsys reported a profit of LKR 9.5 Mn. The associate company, NAMAL contributed LKR 1.3 Mn to the Group down from LKR 2.4 Mn in the year 2018. An Inter-company dividend of LKR 152.4 Mn was paid to DFCC Bank by LINDEL (LKR 73.9 Mn), DFCC Consulting (LKR 3 Mn) and Acuity (LKR 75.5 Mn) during the year.

DFCC Business Units in 2019

Consumer Banking
In keeping with the Bank's strategy of being the most customer-centric and digitally-enabled bank in the country, DFCC Bank is geared to serve customers islandwide providing the best financial solutions.

Bancassurance
Bancassurance offers an extensive portfolio of insurance and assurance products to customers.

Corporate Banking
The Corporate Banking Unit offers comprehensive banking and financing solutions to commercial and corporate customers in Sri Lanka.

Card Operations
DFCC Bank offers its customers a range of secure, personalised card options. The Bank leverages the latest technology in its card operations to ensure customer convenience.

Treasury and Resource Mobilisation
Operating in a highly competitive environment, the Treasury plays a pivotal role in maintaining financial security.

Branch Banking
The branch network functions as a key outlet for the Bank's customers maintaining human interactions for financial advice and transactional banking.

International Banking
DFCC International Banking Unit possesses an extensive network of international banking relationships catering to the needs of offshore as well as onshore clients and financial institutions.

Consumer Banking

Retail banking

DFCC Bank is Sri Lanka's retail financial supermarket and offers a comprehensive range of financial solutions to its retail customers specially designed to meet individual requirements. These flexible financial solutions include personal loans, overdrafts, housing loans, vehicle loans, leasing, pensioner's loans, and education loans. A host of attractive deposit products are also available catering to individuals across target segments. Within the corporate structure, retail banking is divided into two separate units for assets and liabilities.

Assets

Housing

Housing loans form an integral part of DFCC's retail lending portfolio and consumer banking offering. They are offered to executives, professionals, private and public sector employees, and entrepreneurs who look for financing for their new home. The unique selling proposition of DFCC's housing loans is its attractive interest rates and superior service.

Performance in 2019

The housing loans portfolio witnessed a growth of 47% in 2019. The Bank carried out marketing campaigns and effected partnerships with leading property developers and institutions to reach a wide audience. The housing loan processes were streamlined to ensure quick turnaround times to provide an unmatchable service to customers.

The Bank capitalised on the increasing demand for condominium apartments to achieve desired growth targets. Customers were educated on the benefits offered by the Bank through forums organised in collaboration with property developers. Special housing loan packages with grace periods, flexible payment terms and benefits on early settlements, etc. were introduced to customers when purchasing condominium units.

The Bank also organised inter-branch competitions to boost the morale of staff to encourage them to enlist housing loan clients to DFCC.

Outlook

In keeping with the bank-wide strategy of being the most customer-centric and digitally enabled bank in the country, DFCC Bank is geared to serve customers island-wide, providing the best financial solutions when purchasing their homes. With digitisation in the fore-front, the Bank looks forward to developing many innovative home loan offerings to assist customers with varied needs.

Customers will also be provided service at their door-step with strict service level agreements with other internal departments providing seamless and a stress-free service to the customers.

Leasing

DFCC Bank continues to provide leasing solutions for both SMEs and individuals. Leasing is the strong hand of consumer assets at DFCC Bank and amounts to the largest portfolio among the consumer asset products.

Performance in 2019

Despite the challenging economic conditions, 2019 was an exceptional year for leasing where the bank successfully grew the leasing portfolio by 117%.

The Bank also entered into strategic partnerships with leading brands throughout the year with a focus on the category of commercial vehicles.

The leasing segment also focused on the fixed income and professional market segments with special offerings in terms of interest rates, extended tenures, as well as structured repayment plans. The inter-branch competition held during the second half of the year to boost the leasing portfolio was a major success, contributing largely to the growth of the portfolio.

Outlook

In 2019, the Bank used a two-pronged strategy to market the leasing product. The first being the extended branch network and the "fleet-on-street". The branch employees and the sales team are geared to provide a superior service to customers which will strengthen the leasing portfolio in 2020.

Personal loans

Performance in 2019

In 2019, the personal loans portfolio witnessed a growth of 83% in comparison to 37% in 2018. The unit successfully optimised market segmentation and employed a strategy of identifying and providing true value to respective segments with tailor-made and flexible solutions. The solutions were structured to cater to the lower-middle income, middle income, and higher income brackets of employees in the Government and private sectors as well as self-employed professionals.

The vehicle loan for permit holders, the education loan, and the pensioner's loan were launched in 2019. These introductions resulted in expanding the Bank's market presence. The DFCC personal loan and the Speed loan were revamped to improve the overall process.

Partnerships with professional associations and reputed corporates during the year have ensured that the Bank explore new markets effectively. Spot promotions were conducted at strategic locations including major hospitals to take Bank's services directly to the customers.

The digitised work-flow implementation was carried out in 2019 which led to the improvement of customer experience and service delivery.

Outlook

DFCC Bank looks forward to expand the Bank's personal loan offering to match the varied needs and wants of our clientele. Multiple value additions will be done to the Personal Loan preposition including benefits on the DFCC Credit Cards, Service at the customers' door step and many more. Measures are being implemented to provide an improved digital experience through web-based applications in the personal loans segment in 2020.

Gold-pledged lending

Performance in 2019

Pawning business recorded a remarkable growth of 43% in 2019. This commendable achievement was a result of extensive promotional campaigns with attractive rewards for customers pawning with DFCC. One such successful campaign was conducted in the Northern Region which was well-received by the target segments.

Outlook

DFCC Ranwarama is now a leading competitor in the pawning industry of the country and the Bank has a clear strategy to further develop the product in 2020.

Liabilities and Trade Business

The Liabilities and Trade Business Development Unit is responsible for driving the growth of deposits and trade business across the Bank. The Unit develops and implements strategies and key initiatives to achieve set goals by closely working with the branch network and the sales team. The Unit also managed to engage all staff of the Bank including back office and department staff for deposit mobilisation activities which produced very positive results.

Liabilities

Performance in 2019

Key business initiatives were planned and implemented throughout the year to increase deposit mobilisation. Many campaigns were carried out with the inputs and engagement of all relevant stakeholders to promote DFCC Bank as a preferred bank for deposits. Special activities were carried out to coincide with World Children's Day, World Elders Day and National Pensioners Day where the DFCC Junior Savings Account and *Garusaru* Senior Citizens Account were successfully promoted.

Growth of over 17% was achieved in overall branch banking liabilities as at 31 December 2019 when compared to 31 December 2018. Overall branch banking liabilities grew to LKR 126,876.5 Mn as at 31 December 2019 from LKR 108,315.3 Mn as at 31 December 2018. Special focus was given to CASA mobilisation. Further, in 2019, there was a significant growth in DFCC Junior accounts and the DFCC Winner account was also launched.

Outlook

Existing product propositions will be revamped to be in line with changing customer needs and new product propositions will be rolled out targeting untapped customer segments. Products will be bundled and offered to customers catering to multiple requirements.

Trade business

Performance in 2019

A growth of over 19% was achieved in branch banking import limits during the year, while export limits recorded a negative growth of 5% in 2019 due to scaling down of limits by a few export clients. Utilisation remained at high levels due to close follow-up and monitoring. Trade facilities are structured by understanding customer needs and relationships of newly onboarded trade clients are managed carefully by branches and head office. Certain sectors were identified and high focus business initiatives were implemented after carrying out detailed analysis.

A drop was experienced in Branch Banking trade income compared to 2018 mainly due to unfavourable macroeconomic conditions. A special proposition was developed and rolled out targeting vehicle permit-holders. As a result, a number of permit LC's were opened with DFCC Bank. Moreover, partnerships with leading vehicle importers were effected during the year.

Outlook

It is planned to engage key trade client segments by offering customised propositions to suit their business models and requirements. Partnerships will be formed with various trade forums to extend innovative financial solutions and superior service to their members.

Corporate banking

The Corporate Banking Unit offers comprehensive banking and financing solutions to commercial and corporate customers in Sri Lanka. The Unit operates under a two-tiered platform in which our dedicated team of relationship managers focus on large corporates as well as offer business banking propositions to medium-sized corporate clients. The Corporate Banking proposition includes financing business assets, multipurpose loans for mergers, acquisitions, cross border financing arrangements and transaction services across multiple sectors. The offshore lending portfolio continued to improve in the Maldives and East Africa in 2019.

Performance 2019

In 2019, the Corporate Banking Unit, along with other business lines of DFCC, was affected by challenges arising from the operating environment. The constitutional crisis in October 2018 and the Easter Sunday terror attack in Sri Lanka which had wider socio-political implications had profound effects across the economy. Further, external shocks from the US-China trade wars, continuing turmoil in the Middle East, depressed markets across Europe, and Russia weighed in heavily on Sri Lankan exporters.

Despite these challenges, Corporate Banking remained resilient and performed commendably. During first half of the year, decline in the asset book due to the settlement of a large offshore loan and the slowdown in demand for loans and advances were offset by a strong performance in the second half of 2019. Business managed to record a YoY asset growth of 6% for 2019.

Through the proactive management of distress loans, early restructuring, close monitoring, and implementation of a robust repayment framework, Non-Performing Advances (NPA) ratio recorded at 2.46% for the combined unit which was in 2018 recorded separately for Corporate Banking and Business Banking.

Non-Funded Income (NFI) recorded an increase of 16% from the previous year and remains a key focus area in line with overall business growth strategy of the Bank.

Strategic decisions were made to re-calibrate the deposit portfolio and reduce the concentration risk with focus on building a diverse and better balanced portfolio. The Corporate Banking overall deposit recorded a growth of 14% in 2019. The business unit continued to make noteworthy contributions to the Bank's CASA base with the acquisition of several high volume CASA clients during 2019. Corporate banking CASA recorded a growth of 5% in 2019.

DFCC entered into a key transaction during the second half of the year with one of the oldest and most-established corporate entities in the Maldives through a Dual Tranche Bi-lateral Facility. This landmark transaction was the single largest bi-lateral deal arranged by DFCC. The new term loan was structured by DFCC to refinance the existing term borrowings and meet key capital investments. The Bank approved a further credit line for a new 353 key hotel project in Maldives, which is expected to be disbursed in 2020.

DFCC Bank's state-of-the-art payment and cash management system, DFCC iConnect, recorded a growth in digital client base by threefold 289% in 2019. During the past year, DFCC iConnect has evolved into an important strategic tool for DFCC Bank to increase wallet share in the corporate sector and to achieve the Bank's medium-term goal of becoming the best customer-centric and digitally-enabled financial service provider in the country.

Outlook

The business will continue to leverage on the strong balance sheet and commercial banking portfolio built over the years. The growth strategy will focus on business, risk, and people. Focus will be on net interest margins despite intense competition, increase the Net Fee Income, maintain low NPA, and maximise Return On Assets.

Potential growth areas include refinancing, recurring capital expenditure, and multipurpose loans. The business will target to deepen existing relationships and increase wallet share and seek reciprocity to become an important task on all mandates, especially with key State-Owned Enterprises (SOEs) given increased opportunities in Government of Sri Lanka-led infrastructure projects with the re-establishment of a strong pipeline following the political instability since October 2018. The business will aggressively pursue the international corridor connectivity to win more event-driven business in terms of capital raising and acquisition opportunities. The China-led BRI proposition, the South Asia and South East Asia corridors will remain a key focus areas for the business.

With an experienced team of dedicated relationship managers, DFCC Corporate Banking remains geared to provide tailored financial solutions to meet the needs of its local and global clients. With the DFCC iConnect platform and a host of other technology driven solutions, DFCC Corporate Banking is now well positioned to cater to the emerging demand for technology driven financial solutions with emphasis on customer-centricity and world-class service.

Treasury

The Treasury functions of the Bank are assigned to three independent departments namely Treasury Front Office (TFO), Treasury Middle Office (TMO), and Treasury Back Office (TBO). The TFO is the business unit which interfaces with customers. The department generates income through investment and trading in Fixed Income Securities, Foreign Exchange and Money Markets, as well as exchange and interest income from customer-related transactions. The TFO reports directly to the Head of Treasury (HoT). The TMO is engaged in risk monitoring and reporting of TFO activities based on Board-approved limits, controls and regulatory guidelines. The TMO independently reports to the Chief Risk Officer (CRO). The TBO prepares, verifies, authorises and settles all transactions executed by the TFO. The TBO independently reports to the Head of Finance/Chief Financial Officer (CFO).

Performance in 2019

The challenges the country witnessed in 2018 continued to have an impact in 2019. The action taken by the regulator at the latter part of 2018 included measures to curtail imports of motor vehicles and non-essential consumer goods as well as increasing the margin requirements for imports done on Documents against Acceptance (DA) terms.

In this backdrop, the market witnessed liquidity levels at extreme negative territory with a record low of LKR 139,000 Mn in mid-January 2019. This triggered further corrective measures by the Central Bank of Sri Lanka (CBSL) in March 2019. This included reducing of the statutory reserve requirement (SRR) of licensed commercial banks from 6% to 5%. This 1% reduction resulted in a release of approximately LKR 50,000 Mn to LKR 60,000 Mn of liquidity to the market.

The above measures eventually improved the liquidity and inflation outlook. However due to lackluster private sector credit growth of 11.30% YoY in the first quarter of 2019, the CBSL revoked the import restrictions imposed in late 2018.

Easter Sunday terror attacks had a profound impact on the economy, primarily affecting the tourism sector. This also led to the out-flight of funds from both Equity and Government Securities markets. Long-term investments by the private sector were put on hold and private sector credit growth dipped below the level seen in 2018.

In this backdrop, the CBSL took immediate steps to stimulate the economy by imposing deposit caps on licensed commercial banks to promote lower lending rates and granting a moratorium to individuals and entities engaged in tourism and related industries. Further the CBSL reduced the key policy rates in May and August 2019 by 0.5% each to lower interest rates and encourage private sector borrowing. These measures resulted in the general lending rates in the market reducing, however as the transmission was taking longer than expected, in September 2019 the CBSL rescinded the deposit caps imposed and implemented lending rate guidelines to reduce interest rates within a specific time period.

The yields on Government Securities reacted during the year to the CBSL measures to stimulate the economy. The one year Treasury Bill rate reduced approximately 2.75% from year beginning level of 11.20% to end the year at 8.45%.

Compared to the significant rupee depreciation against the US Dollar witnessed in 2018, the rupee was relatively stable in 2019 on the back of lower demand for dollars as a result of the economic conditions mentioned above. The rupee strengthened to a high of 173.90 against the US dollar in April and gradually depreciated to the year ending level of 181.30 which is a year on year appreciation of 0.7%. Worker remittances, a successful issuance of an international sovereign bond and the IMF extended fund facility played a key role in the appreciation of the Rupee during the year.

During this challenging year DFCC Treasury managed to contribute significantly to the Bank's bottom line through active trading in foreign exchange and fixed income securities. Although foreign exchange related transactions suffered a considerable drop in volumes compared to the previous year due to the challenges described above, DFCC Treasury was still able to make a positive contribution to the bottom line compared to the previous year.

Outlook

The Treasury Unit looks forward to more conducive market conditions that will help generate more opportunities through trading and investments in the year 2020.

Resource Mobilisation Unit

The Resource Mobilisation Unit falls under the direct purview of the Head of Treasury. Managing of all term funding of the Bank, *inter alia*, credit lines, syndicated loans and local and international debt issuances are done by Resource Mobilisation Unit. The Unit coordinates with Rating Agencies in their reviews of the Bank's National and International Rating and works to secure ratings for debt issuances. The Unit also manages the Bank's equity portfolios related to strategic and non-strategic investments, Unit Trust and underwriting activities.

Building upon the relationships the Bank has established over time, the Resource Mobilisation Unit actively engages with partner institutions to secure potential funding lines to support the Bank's budgeted growth.

During the year under review, the Unit raised over LKR 22,000 Mn in medium to long term funds. These included local and external bi-lateral loans as well as listed senior debt. The Unit continues to engage with local and multinational partners to support the Bank's balance sheet objectives.

Outlook

The Resource Mobilisation Unit believes that the recent country outlook revision (stable to negative) by rating agencies would not affect the external funding pipeline of the Bank.

DFCC Bank's equity investment portfolio

As per the IFRS 9 guidelines, the equity portfolio is broadly divided into two categories. They are, investments measured at fair value through profit and loss (FVTPL) and fair value through other comprehensive income (FVOCI)

As at 31 December 2019, the combined cost of investments in DFCC Bank's holdings of quoted shares [excluding the investment in the voting shares of Commercial Bank of Ceylon (CBC) PLC], unquoted shares and unit holdings amounted to LKR 1,744.23 Mn and corresponding fair value of the same portfolio stood at LKR 1,952.21 Mn.

Equity portfolio as at 31 December 2019

	Cost* LKR Mn	Fair value LKR Mn
Quoted share portfolio – FVTOCI (excluding CBC)	**987.55**	**969.46**
Quoted share portfolio – FVTPL**	**233.18**	**252.76**
Unit Trust portfolio**	**516.20**	**529.64**
Unquoted share portfolio	**7.30**	**200.35**
Total	**1,744,23**	**1,952.21**

** Net of provision*
*** Cost reflects the original investment cost*

The part of quoted share portfolio and unquoted share portfolio mentioned in the above table is carried at fair value through Other Comprehensive Income on the Statement of Financial Position while Unit Trust portfolio and part of the quoted portfolio have been categorised under fair value through Profit and Loss.

During the period under review, the Bank divested a part of its mature stocks in quoted shares, and Unit Trust investments, thus realising a capital gain of LKR 111.60 Mn. Further, the bank recorded unrealised capital gains of LKR 19.58 Mn to the profit and loss statement through the portfolio categorised under FVTPL. Bank also made new investments in quoted shares to the value of LKR 318.74 Mn and LKR 1Mn in mandatory unquoted investment.

At the end of the financial year, corresponding fair value of the investment in CBC categorised under fair value through profit and loss (FVTPL) was LKR 4,524.66 Mn, while the investments categorised under fair value through OCI stood at LKR 7,843.23 Mn, against cost of LKR 3,348.62 Mn.

Further, the bank divested part of CBC shares of trading (FVTPL) category and realised LKR 5.57 Mn. Due to market value deterioration, net unrealised loss of LKR 939.19 Mn was charged to profit and loss account of the Bank.

Outlook

With the external factors expected to improve, equity market performance would support additional income generation through trading activities.

Branch banking

The branch network functions as a key outlet for the Bank's customers as it plays a vital role in maintaining human interactions for financial advice and transactional banking. DFCC's physical presence continues to expand with an island-wide reach while the Bank grows its different customer segments which include the retail, SME, and MSME categories.

Performance in 2019

Branch Banking recorded a growth of 11% in loans and advances while consumer segment recorded 24% during 2019. Deposits grew by 17% in 2019 with a CASA ratio of 22% in the same period. The branch network was able to control credit quality and maintain a durable credit portfolio due to active monitoring and recoveries amidst challenging economic conditions of 2019. The Bank continued to grow its physical footprint, adding a super-grade branch at Colombo Fort and converting 27 postal units into branches in 2019.

Outlook

Branch Banking will renew its focus to cater to and capture customer segments of young professionals, the affluent middle class, and high-income earners in 2020 through new products, value-added services, and campaigns.

Customer preference and needs will be prioritised with new deployments of My Space areas, cash recycle machines, ticketing systems, and potential locations for branches, and other physical infrastructure. The Bank will also invest in digital infrastructure to transform customer service propositions.

Premier banking

The DFCC Premier Banking Unit was established in 2012 which provides an exclusive service offering to affluent customers maintaining deposits of over LKR 10 Mn. The dedicated team of professionals at the Unit provides a seamless, personalised banking experience to the Premier customers.

Performance in 2019

In 2019, the Unit recorded an increase of 17% of the client base and a growth of 19% of deposits and 52% of advances. To enable our clients to experience Premier Banking at their convenience, 12 new relationship officers were recruited within the year and deployed to key locations within the country.

DFCC Premier Banking Unit continued to provide their clients with delightful opportunities to witness acclaimed signature events. In 2019, DFCC Premier Clients were hosted at notable events such as the Galle Literary Festival, DFCC Bank Cup for 2019 New Zealand – Tour of Sri Lanka, Indonesian ENAK dinner at Flow at Hilton Colombo Residencies, and breakfast meetings and evening cocktails with property developers to enable our clients who wish to acquire property for investment or residential purposes.

Outlook

An exciting year awaits for DFCC Premier Banking with the relaunching of its value proposition with added features, benefits, and privileges, and relocating the DFCC Premier Centre, thereby enabling customers to carry out, build, and enhance their financial portfolios at ease experiencing an unparalleled service.

SME's and MSME's

With DFCC Bank's roots as a specialised development bank, being a growth partner in catalysing outcomes for businesses of all sizes is a natural aspect among the Bank's focus areas. The Bank recognises that today's SME could be the big business of tomorrow and plays the part of financier and growth partner to help support their sustenance and expansion.

In line with the Bank's strategy to foster financial inclusion, the MSME Division was established in 2016. Through this arm, the Bank supports small entrepreneurs and self-employed citizens to operate and grow their businesses from ground up.

Performance in 2019

In 2019, LKR 3,694 Mn of concessionary loans were extended under SMELoC, *Saubhagya*, *Jaya Isuru*, and *Ran Aswenna*, Rooftop Solar Power Generation Line of Credit (RSPGLOC) schemes.

"*Vyapara Sahaya*", a series seminar for entrepreneurs was launched in October, 2019. The first seminar was conducted by a renowned business consultant addressing nearly 60 entrepreneurs from Colombo suburbs.

While serving the MSME segment DFCC Bank utilises production chains in farming, dairy, fruits, and vegetables as well as in estate crops like tea to connect with small-holders and micro-scale farmers. 2,100 new customers were served by the MSME Unit in 2019.

During the year, the MSME Unit organised 18 *Sahaya Hamuwa* programmes conducted by senior personnel from the Central Bank of Sri Lanka throughout the island. This programme helps many stakeholders in the economy as it intends to raise literacy and capacity levels among MSME's in financial awareness and financial management.

Outlook

DFCC will continue to build its SME and MSME clientele by identifying potential customers in growth sectors, cultivate relationships, and spread insight through seminars and workshops. DFCC Bank has developed new MSME loan schemes to tap into budding entrepreneurs who are skilled and have expertise in their respective fields.

The Bank will take a streamlined approach to serving and nurturing SME and MSME clients by facilitating outreach into our service regions by leveraging our island-wide branch network and dedicated teams.

International banking

Performance in 2019

In 2019, the business volumes handled by the Unit consists of Letters of Credit (LC), import bills (DA/DP) amounted to LKR 73.4 Bn recording moderate growth of 47% compared to 2018. However, export bills volume handled during the year increased to LKR 7.9 Bn an increase of 31.6% compared to year 2018.

In 2019, remittances volume continued to grow recording a total turnover of LKR 226 Bn for the year 2019, an increase of 10% compared to 2018. This volume increase has contributed towards the growth of fee and commission income related to remittances during the year; compared to 2018.

The Trade Services and Remittance Unit was relocated to the newly refurbished Lake House Building in the heart of Colombo. The new location's close vicinity to Colombo Fort and Sri Lanka Customs has made collection of documents from the bank much more convenient thus making consignment clearance process faster. Further, spacious, state-of-the-art premises ensures that all the divisions of the Unit operate in a coherent and organised environment leading to improved efficiency.

During the year, measures were taken to conduct training programmes to branch staff with a view of improving their knowledge on this specialised field. The employees of the Unit also participated in various forums organised for trade customers.

During the year, DFCC Bank Trade and Remittance Department won "USD Straight through Processing Excellence Award 2018" from HSBC USA. This was in recognition of handling USD payments via HSBC New York enabling HSBC to process payments straight through.

Outlook

Continued improvements to its internal processes and digitisation initiatives have led to greater heights in customer service. The team of dedicated professionals at the Unit continues to exceed customer expectations in this competitive environment.

Card operations

DFCC Bank continued to invest in the card business with the introduction of the chip-enabled debit cards with pay wave technology and consolidated the number of products to two, namely Classic and a new Platinum card for the affluent base.

The Bank was first in the market to be certified for Visa Quick Response (QR) and developed a common Mobile app called "DFCC Pay" to support the processing of QR payments. Subsequently, the Bank received certification for Just Pay and Lanka QR to support the national digital transaction initiative. The Bank enabled JCB card ATM acquiring during the latter part of the year again to support the national digital transaction initiative.

Another first from DFCC Bank was the introduction of the interactive credit card e-statement which provides the customer in depth insight into spending patterns whilst also enabling the cardholders to convert transactions into flexi-plans and look up promotions at the click of a button.

Further, credit cards were enabled with the facility of transacting on the internet securely through a verification of the transaction via a onetime password thereby offering more security and convenience to cardholder's online shopping experience.

DFCC Bank cardholders were able to enjoy some of the highest discount offers throughout the year at popular merchant locations ranging from supermarkets, clothing outlets, restaurants, electronics and household items, e-commerce sites, and hotels. A special campaign was launched in the month of April, "10 Times Cash-Back rewards" for credit cardholders.

During December season, DFCC Credit and Debit Card offers were promoted under theme "Load all your gifts on your DFCC Card this season" and up to 50% discounts were given at partner merchant outlets.

The cards business grew at a rapid pace during the year. There were 18,230 new credit cards issued compared to the 7,515 total cards in force at the end of year 2018. The cardholders spending bypassed LKR 3 Bn for the year which confirms that the DFCC credit card is resonating in the customers' minds. This resulted in the cards portfolio balance growing from LKR 495 Mn in year 2018 year end to LKR 1.5 Bn by 2019 year end which is also a significant indicator of the cardholder stickiness towards the DFCC credit card brand.

The Bank issued 40,978 new debit cards during the year and initiated a project to convert all mag stripe debit cards to CHIP enabled cards by the year end.

Outlook

The Bank will continue to focus on the card business both from an issuing and acquiring point of view and will use and introduce different modes to process card transactions. In addition, the Bank will actively support the Government lead national payment plans and be a contributor towards the Central Bank driven digital road map initiatives.

Bancassurance

The Bancassurance business was established in 2014 with an extensive portfolio of insurance and assurance products to customers. The unit was instituted under the drive to diversify DFCC's operations to generate the other income segment while safeguarding bank's mortgage assets, customer wealth, and their well-being. Within the past five years, the Unit has grown exponentially to contribute a bigger dividend to the Bank.

The product portfolio includes long term solutions like life insurance, pension plans, higher education plans, protection covers, and wealth management solutions. The short-term products include asset cover products such as motor insurance, fire insurance, marine covers, machinery covers, and hospitalisation covers etc. DFCC Bancassurance ensures hassle-free claim settlements, bespoke insurance packages, and free consultations to its customer base as well as product customisation to match specific needs and requirements of customers.

The Bancassurance team creates awareness on personal well-being, wealth planing, wealth management, mitigating risks associated with business – life and healthy living to its customers. Life insurance is provided in partnership with AIA Insurance Lanka Ltd, DFCC Bank's long-term life insurance partner. General insurance solutions are sourced through all reputed insurers in Sri Lanka.

The Unit organised events and programmes throughout the year on matters such as health, wealth management, higher education planning, and parenting. Wealth management forums were organised for identified DFCC customers from regional branches. The AIA "Vitality" programme, a health boot camp was conducted on premises of selected DFCC corporate clients for the benefit of the employees.

Presentations were organised on Non-Communicable Diseases (NCD) to DFCC customers, which were conducted by expert medical professionals on the subject.

Performance in 2019

In 2019, the Bancassurance team facilitated 14,978 non-life policies and was involved in successfully negotiating claims amounting to LKR 126 Mn for both life and non-life policies. The number of life covers initiated through this unit amounts to 2,196 policies.

Outlook

The main focus in 2020 will be to promote health and protection based long-term covers with an objective of ensuring long-term well-being and security of our customers. The Unit will introduce new products to suit many different protection and health needs of our customers at a very affordable price and higher protection limits.

Institutional Capital

Institutional capital comprises a broad spectrum of largely intangible, non-financial components when managed systematically create value and enhance performance. It can include accumulated organisational knowledge, systems and processes, corporate culture and values, brand, business ethics and integrity, and other such elements.

Organisational knowledge

We utilise the knowledge pool that has been accumulated since the inception of our Organisation to achieve our strategic objectives. We consistently look at ways to maximise potential, increase efficiency of the staff to run the business on par with our tag line: "Keep growing", and ensure we obtain feedback from employees through multiple mechanisms to improve the *status quo*.

Additionally, we have appointed in-house industry experts to educate our employees on loan appraisals and other such technical areas. There is also a strong sense of collective learning within DFCC, in which our senior employees are encouraged to mentor and pass down their knowledge to the next generation of officers. The new #TogetherWeGrow team formed this year also ensures that daily information is shared with staff on a variety of aspects. These aspects include Bank statistics of where we currently stand vis a vis our annual targets, sharing brief bulletins in relation to regulatory requirements, information on market developments, and new innovations in the market and in industries, etc.

Corporate culture and values

The culture at DFCC that has developed over the years is founded on the core values of being ethical, customer centric, innovative, professional, accountable, team orientated, and socially responsible. The training unit regularly conducts programmes to reinforce awareness of corporate values and behavioural expectations. Induction programmes too give emphasis to these aspects. In addition, the rewards and recognition mechanisms are designed to further emphasise and drive Bank values.

During the Annual Awards Night the new #TogetherWeGrow concept was launched emphasising the importance of collective professional development. Over the years, emphasis has been placed on ensuring an inclusive, open, and supportive work culture. Diversity of opinion is actively encouraged while access to senior management is freely available through the open-door policy adopted across the Bank. Bottom up communication is encouraged through varied mechanisms such as open days, Townhall meetings, the grievance committee, listening wall, etc.

The Bank's values such as Customer Centricity and CSR received special focus this year with a separate Customer Experience Unit being set up and a Cross Functional Management Committee set up and chaired by the CEO to oversee the sustainability initiatives of the Bank. The Customer Experience Unit has introduced several initiatives to improve the professionalism and effectiveness of the services we offer.

The Sustainability Committee organised its initiatives at national, community, and organisational levels. At present, several initiatives are launched within the Bank with a monthly Dress-down Friday, No Single Use Friday, Clean-up-your-desk Friday, etc. Additionally, bulletins on minimising plastic usage and other sustainability-related information are regularly shared with the staff. Moreover, community development projects were also carried out by volunteers within the Bank during the year.

Business ethics and integrity

Ethical banking and integrity are part of our culture and ethos. We adhere to the highest levels of ethics and integrity in all our business dealings. In a business setting, being ethical means applying the principles of honesty and fairness to relationships across the Bank, whether it is with colleagues or customers. Thus, we promote the values of honesty, integrity, accountability, trust, loyalty, fairness, and respect for others as core requirements within the Bank's operations.

In the event of a transgression of ethical behaviour, we have a Whistle-blowing Policy which outlines how employees can be reported to the HRD or the Audit Department. There are also several cross functional committees such as the Grievance Committee, Reachout Committee, and other systemic mechanisms to address such issues.

Digital infrastructure

Information technology remains crucial to the Bank's ambition of becoming a leading digitally-enabled bank in the country within the next five years. We have made several strategic investments to improve on our digital capabilities and to fast forward our digital journey.

Core banking

In 2019, we invested in a new core banking system with a digital platform to replace the existing system to facilitate the digital-adoption process and to create a more agile platform to respond faster to the changing business environment.

Customer experience

The Bank launched the new website dfcc.lk with a mobile-first focus. The Bank also added CRM (Cash Recycle Machines) to its existing ATM network to provide its customers with a 24-hour cash deposit facility.

e-statements

Committing to sustainability, DFCC Bank launched an interactive credit card e-statement. This statement offers category-wise tracking of spending through graphical illustrations and allows cardholders the option to submit requests to convert transactions into flexi plans and offers a tab to dispute transactions with just a click on the statement itself.

DFCC "Virtual Wallet" app

"Virtual Wallet", the flagship wallet application was upgraded with a sleek new design, utility bill payment option, and self-onboarding through debit cards in addition to a major security enhancement.

Card operations and remittances

DFCC-owned "Lanka Money Transfer" platform was connected to the LankaPay CEFT payment system providing our overseas customers the ability to transfer money to any Bank in realtime. The Bank also expanded services of the Payment and Cash Management System by integrating to CEFT which enabled corporate customers to transfer money online through the LankaPay CEFT switch.

DFCC Pay

Bank also launched its very own POS network with VISA and also launched the QR based mVISA mobile app "DFCC Pay" to make cashless, cardless payments.

Other initiatives

A new system was implemented to connect with LankaPay Online Payment Platform (LPOPP) this year that allows customers to make online payments to Sri Lanka Customs conveniently and securely through the Bank.

Further, ETF and EPF Departments were linked online which enables the Bank's corporate customers to make ETF and EPF payments online.

Business processes and operational efficiencies

Streamlining and automating business processes to enhance operational efficiencies was one of the key focus areas of the Information Technology department. We completed our first Robotic Process Automation (RPA) process this year. We intend to introduce more RPA automations to address internal process bottlenecks in the years to come.

In addition, we introduced a number of automated workflows including the approval process for Personal Financial Services to enhance the service levels as well as reducing paper usage.

We introduced a debt recovery system to efficiently manage the debt recovery process as well as support customers with debt payment reminders. This system consolidates recoveries of all products on a single platform extending to legal action process.

We also implemented a system to automate calculation of incentive payments to the sales force to minimise human mistakes and to streamline the process. The IT department also launched a custom-built fixed asset tracking system to manage the total life cycle of fixed assets from procurement across the Bank.

Security, compliance, and infrastructure

We launched the VISA 3D secure platform (verified by VISA) which provides an additional security layer for online transactions by customers. Every online VISA credit card transaction is confirmed by the customer using a onetime password sent over the mobile network.

To enhance the overall security posture of the Bank, we implemented a File Integrity Monitoring (FIM) solution on its critical server infrastructure and a micro segmentation solution on the virtual server segments. An additional layer of security was implemented for privileged users by implementing a Privileged Access Management (PAM) during the year. A new Desktop Patch Management (DPM) solution was implemented to replace existing systems to effectively manage security patches which are now frequently being issued by various software vendors.

To manage and centralise promotional SMS being sent by various departments, we tied up with a leading Telco to provide a single platform to manage SMS with necessary controls.

Brand equity

The "Bank for Everyone" brand campaign which heightened the awareness levels across multiple segments helped DFCC Bank make a statement in the market to establish its positioning as a full-service commercial bank. The launch of numerous marketing campaigns on products and services were also carried out to reiterate this positioning.

The Bank took a bold step in associating with the much talked about New Zealand Cricket Tour of Sri Lanka for the DFCC Bank Cup. This partnership helped the brand to engage and relate to the cricket passionate populace creating high levels of brand recall for DFCC Bank through the immense mileage received as a result of the onsite and offsite media exposure.

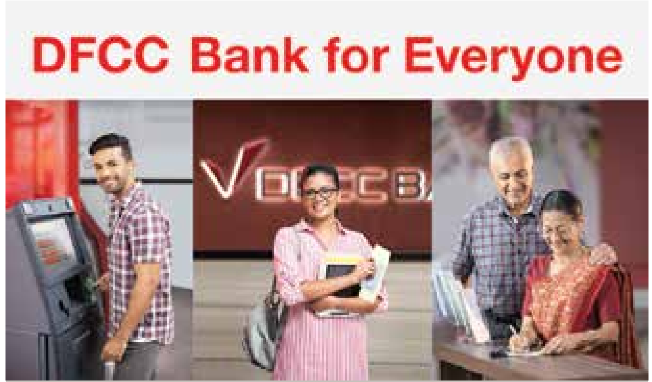
The brand was supported by many above and below the line initiatives to drive products and their numerous propositions. Public Relations in the form of articles and interviews helped keep the brand top of mind.

The Bank also sought to increase its engagement on digital channels through continuous social media and online marketing initiatives. Notably, the first ever marketing campaign exclusively on digital channels was conducted for DFCC Personal Loan delivery. A range of digital marketing campaigns were carried out throughout the year to drive the assets and liabilities portfolio and credit cards acquisition and spending.

Top of mind recall for the brand was also aided by significant product launches witnessed during the year, further strengthening the bank's positioning as a full-service commercial bank. There was a favorable impact towards the brand due to the positive word-of-mouth created by varied stakeholder groups.

DFCC Bank continued its engagement with the community by supporting numerous activities such as the *Avurudu* Festival in Nikaweratiya, *Mihinthala Aloka Pooja* and Jaffna Nallur Festival. Key partnerships with entities such as PIMA, Sri Lanka Army, CIMA, SLIM, CNCI and The Management Club were effected during the year.

With the aim of increasing brand visibility across the branch footprint, an innovative outdoor pylon signage was introduced to enhance top-of-mind recall for DFCC Bank. "DFCC MySpace" the self service banking concept was introduced at selected branches. A notable achievement in 2019 was the opening of 20 branches islandwide within 30 days, a milestone in the Bank's history.



In 2019, the Bank increased customer engagement via digital channels through social media and online marketing initiatives.

A number of qualitative and quantitative research studies were carried out during the year to gauge the awareness of the brand, customer segments, and the digital behaviour and trends of consumers.

The corporate website was revamped to enhance a fast click through, and the DFCC Virtual Wallet was relaunched to provide a user friendly experience. EMV chip-enabled DFCC Debit Cards were relaunched with Visa payWave contactless technology that allowed customers to experience the convenience of tap and pay and to perform secure online transactions.

Customer engagement programmes continued during the year to enhance customer interaction with selected customer groups such as the "*SahayaHamuwa*" and "*Vyaparika Hamuwa*" forums for Micro, Small and Medium Enterprises, and author forum during the 2019 Galle Literary Festival exclusively for premier clients.

Notable recognition and awards

	DFCC Bank's Brand Rating		
	Position	Rating	Value (Mn)
2019	25	A+	6,334
2018	27	A+	4,706
2017	39	A	1,660
2016	38	A-	1,684

Source – Brand Finance, The annual report on Sri Lanka's most valuable and strongest brands, published in May, 2019

DFCC Bank received recognition from the following bodies in 2019:

- Placed 25th in Brand Finance Top 100 Most Valuable Brands, 2019.
- Ranked 18th amongst Business Today's Top 30 businesses in Sri Lanka
- Ranked 30th in LMD's Top 100 (2018/19) by LMD Magazine in 2019

Anti bribery and corruption

The Bank follows a zero-tolerance approach to bribery and corruption. An Anti Bribery and Corruption Policy (ABC Policy) is in place which is monitored by the Fraud Risk Management Committee (FRMC). The FRMC regularly reviews the policy content to ensure comprehensiveness and relevance, and carefully scrutinises operations. This policy compels all staff members to follow and abide by all relevant laws and regulations connected with bribery and corruption and further prohibits them from transacting with individuals who are vulnerable or known for bribery and corruption.

The Employee Handbook explicitly prohibits political affiliations, contributions, and promotions whilst having a regulation on receiving or offering gifts with an exact threshold for receiving gifts. Further, the ABC policy prohibits facilitation payments of any sort by DFCC employees in getting work done.

The Bank has specific training programmes to educate its employees on the need to prevent bribery and corruption. Further, the Bank has a whistle-blowing platform for employees to report any wrongdoing confidentially.

The Board sets an example from the top under the FRMC policy that contributes to prudent and transparent corporate governance.

Compliance

DFCC Bank conforms to all relevant environmental and other statutory laws and regulations. There were no incidents of non-compliance with regards to the Bank's operations, marketing, labelling, loss of customer data, and other processes recorded within the year. Further, no fines were imposed or paid for non-compliance with regulations concerning the Bank's products and services during the year.

Investor Capital

Investors are a key stakeholder in our value creation process and one of our primary objectives is to maximise our investor wealth by providing sustainable, long-term returns. We regularly engage with our investors through various means and they play an active role in shaping our corporate behaviour.

We have gained the trust of our investors by maintaining sustainable growth over the past years.

Shareholder profile

The Bank had 9,011 shareholders on 31 December 2019 (corresponding to a figure of 8,880 as at 31 December 2018), with the total number of shares in issue increasing during the year to 304,188,756 ordinary shares. Institutions account for approximately 85% of the Bank's share capital. 72% of the Bank's share capital is held by local shareholders, both institutional and individual.

Share information

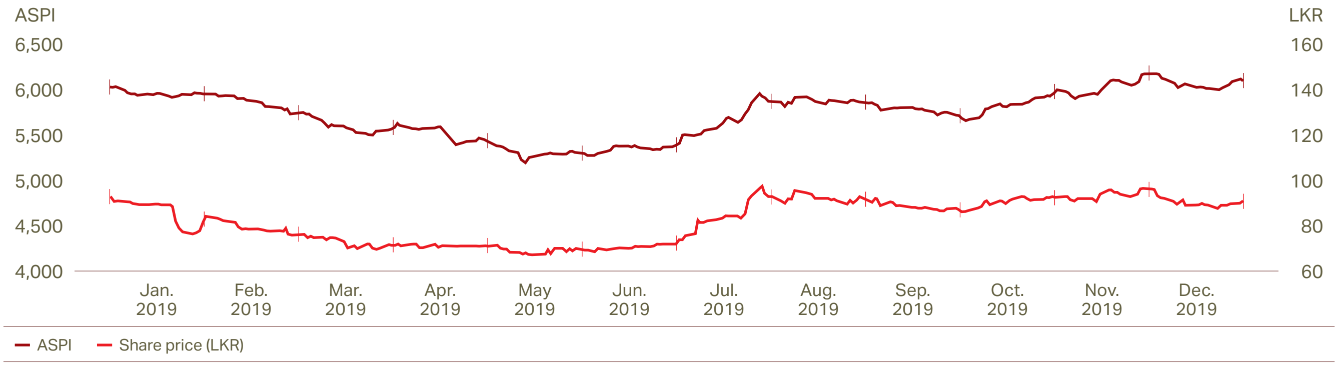
DFCC Bank share price information for the period 1 January 2019 – 31 December 2019.

	1 January to 31 December 2019	1 January to 31 December 2018
Price Indices		
ASPI	**6,129.21**	6,052.37
S&P SL20	**2,936.96**	3,135.18
Share Price		
Lowest Price (LKR)	**67.00**	87.00
Highest Price (LKR)	**99.30**	124.70
Closing Price (LKR)	**91.90**	93.00
Market Capitalisation		
Value (LKR Mn)	**27,955**	24,654
Percentage of total market cap	**0.98**	0.87
Rank	**22**	24

	1 January to 31 December 2019	1 January to 31 December 2018
Value of Shares Traded		
Value (LKR Mn)	**429**	365
Percentage of total market turnover	**0.25**	0.18
Rank	**61**	59
Days Traded		
Number of days traded	**240**	239
Total number of market days	**241**	240
Percentage of market days traded	**99.58**	99.58
Frequency of Shares Traded		
Number of transactions	**7,675**	5,191
Percentage of total frequency	**0.64**	0.59
Rank	**41**	46

Bank's share price (closing)

Share price movement of DFCC Bank from January 2019 – December 2019



Distribution of shareholding

Categories of shareholders

As at	31 December 2019			31 December 2018		
Shareholding, %	**Foreign**	**Local**	**Total**	Foreign	Local	Total
Individual	**7.67**	**6.85**	**14.52**	8.09	7.79	15.88
Institutional	**20.42**	**65.06**	**85.48**	15.82	68.30	84.12
	28.09	**71.91**	**100.00**	23.91	76.09	100.00

Distribution of shareholding by size

Share range	31 December 2019			31 December 2018		
	Number of Shareholders	**Total holding**	**%**	Number of Shareholders	Total holding	%
1 – 1,000	**5,892**	**1,789,102**	**0.59**	5,812	1,802,814	0.68
1,001 – 5,000	**2,363**	**4,906,129**	**1.62**	2,352	4,902,295	1.84
5,001 – 10,000	**321**	**2,308,487**	**0.76**	308	2,221,277	0.88
10,001 – 50,000	**322**	**7,012,828**	**2.30**	294	6,427,117	2.43
50,001 – 100,000	**45**	**3,324,099**	**1.09**	46	3,243,705	1.12
100,001 – 500,000	**40**	**7,316,408**	**2.41**	43	8,845,370	3.45
500,001 – 1,000,000	**4**	**2,605,646**	**0.85**	3	1,987,718	0.75
1,000,000 and above	**24**	**274,926,057**	**90.38**	22	235,667,392	88.85
	9,011	**304,188,756**	**100.00**	8,880	265,097,688	100.00

Public holding as at 31 December 2019

	31 December 2019	31 December 2018
Public holding percentage (%)	**62.6**	63.4
Number of public shareholders	**8,996**	8,867
Float adjusted market capitalisation (LKR Mn)	**17,488**	15,631
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 2019

Name of shareholder/company	31 December 2019		31 December 2018*	
	No. of shares	%	No. of shares	%
Hatton National Bank PLC A/c No. 1	**45,354,596**	**14.91**	32,396,140	12.22
Bank of Ceylon No. 2 A/C	**38,039,994**	**12.51**	38,039,994	14.35
M A Yaseen	**30,418,875**	**10.00**	26,506,750	10.00
Sri Lanka Insurance Corporation Ltd – Life Fund	**26,509,832**	**8.71**	26,509,832	10.00
Employees Provident Fund	**24,368,995**	**8.01**	24,368,995	9.19
Melstacorp PLC	**22,383,614**	**7.36**	22,175,280	8.36
Seafeld International Limited	**17,716,794**	**5.82**	15,286,794	5.77
BPSS Lux-Aberdeen Standard SICAV I – Asia Pacific Equity Fund	**13,018,323**	**4.28**	9,842,898	3.71
Citi Bank New York S/A Norges Bank Account 2	**9,049,301**	**2.97**	–	–
CB London S/A Aberdeen Asia Pacific Equity Fund	**7,356,792**	**2.42**	5,438,669	2.05
Renuka City Hotels PLC	**6,926,870**	**2.28**	6,926,870	2.61
BP2S London-Edinburgh Dragon Trust PLC	**6,339,659**	**2.08**	4,528,328	1.71
BP2S London-Aberdeen Standard Asia Focus PLC	**5,214,933**	**1.71**	3,866,936	1.46
Renuka Hotels PLC	**4,073,360**	**1.34**	4,073,360	1.54
Employees Trust Fund Board	**3,987,952**	**1.31**	3,987,952	1.50
Akbar Brothers (Pvt) Ltd A/c No. 1	**2,578,688**	**0.85**	2,578,688	0.97
Cargo Boat Development Company PLC	**2,498,200**	**0.82**	2,498,200	0.94
BP2S London-Aberdeen New Dawn Investment Trust XCC6	**1,898,290**	**0.62**	1,450,311	0.55
Stassen Exports (Pvt) Limited	**1,896,791**	**0.62**	362,788	0.14
Anverally International (Pvt) Ltd.	**1,682,148**	**0.55**	1,579,345	0.60
Total of the 20 major shareholders	**271,314,007**	**89.17**		
Other shareholders	**32,874,749**	**10.83**		
Total	**304,188,756**	**100.00**		

** Shareholding as at 31 December 2018 of the twenty largest shareholders as at 31 December 2019.*

We have gained the trust of our investors by maintaining sustainable growth over the past years.

Return to shareholders – Bank

Description	2019	2018
Profit for the year (LKR Mn)	**2,074**	2,768
Return on total assets (%)*	**0.78**	0.80
Net assets per share (LKR)	**156.09**	165.40
Earnings per share (LKR)	**7.14**	10.44
Dividend per share (LKR)	**3.00**	3.50

** After eliminating fair value reserve*

Financial return

The Bank aims to regularly provide high shareholder returns through profitable and sustainable performance. The Directors recommended a first and final dividend of LKR 3.00 per share for the year ended 31 December 2019. Dividends are based on growth in profits, while taking into account future cash requirements and the maintenance of prudent ratios.

Bank's dividend per share

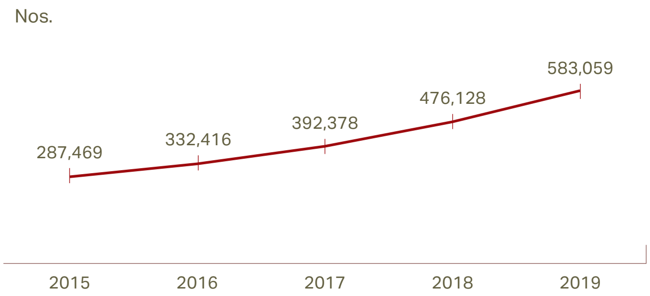
Customer Capital

Since our inception, we have established meaningful relationships with our customers which is the secret of our success. With almost half a million accounts, our customers come from all segments of Sri Lankan society and we hope to inspire them to reach their goals by providing them with the necessary tools for financial management.

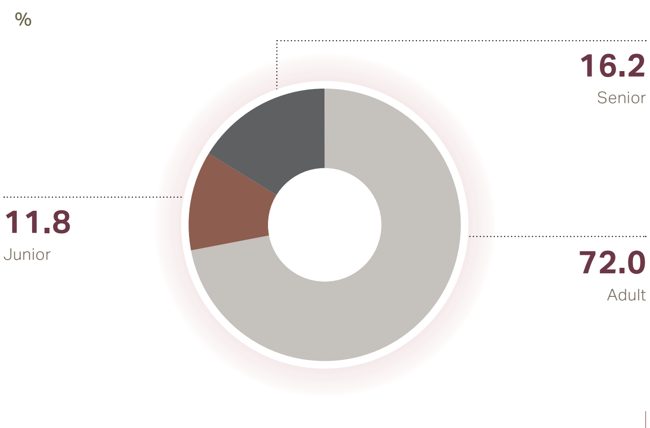
We have outlined customer centricity in Vision 2025 as one of our strategic pillars in the journey to reach two million customers. Through multiple approaches, innovative products, and internal improvements in 2019, we enhanced customer experience. We work closely with our customers and constantly develop their offering through innovation to increase their satisfaction and experience.

Customer profile

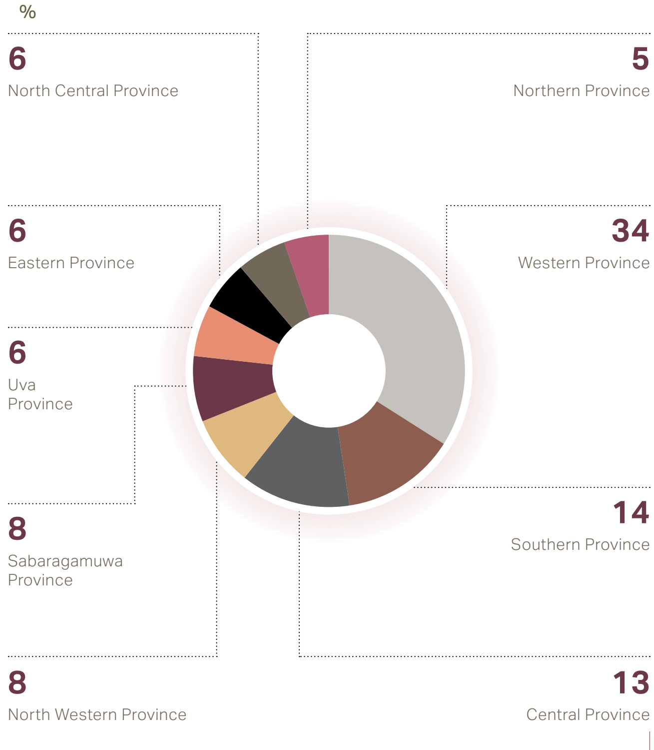
Customer base



Customers according to segment



Customers according to province



Our product portfolio

Credit line/Subsidy scheme supported project loans

Prosperity Loan Scheme ("*Saubhagya*")
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

Micro and Small Enterprises Development Loan Scheme (*"Swashakthi"*)
for Micro and Small Enterprises

Loan Scheme for Resumption of Economic Activities affected by Disasters (READ) (*"Athwela"*)
for small-scale businesses affected by a disaster

Environmentally Friendly Solutions Fund II – Revolving Fund ("E-friends 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

DFCC credit card

The only Credit Card that offers 1% Cashback on every swipe
for corporates, self-employed individuals, professionals and salaried 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

Leasing facilities

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

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

Time deposits

A wide range of tailor-made time deposit products at competitive interest rates
for corporates, SMEs 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

Savings accounts

Supreme *Vaasi* – Offers a superior rate of interest
for businesses and individuals aged 18 years and above

Mega Bonus – Interest rates grow in tandem with the savings deposits
for businesses and individuals aged 18 years and above

Xtreme Saver – Offers the highest interest rate for Rupee and Dollar denominated savings based on the account balance
for businesses and individuals aged 18 years and above

DFCC Winner – Offers the best interest rate for accounts with a minimum balance of LKR 2,500.00 and above
for individuals aged 18 years and above

DFCC Junior – Children's savings account offering a range of gifts and support for higher education
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 *Garusaru* – Offers an attractive interest rate with a range of other benefits
for senior citizens above 60 years of age

Personal loans

Loans that help meet personal financing requirements
for salaried employees, professionals, and salaried individuals

Pawning services

***Ranwarama* Pawning – Gold-pledged advances**
for the mass market/ individuals

Housing loans

DFCC Home Loans – Flexible and convenient housing loans at affordable rates
for self-employed individuals, professionals, and salaried individuals

Education loans

DFCC Education Loans – Flexible and convenient loan facilities for higher education
for individuals pursuing higher studies

***Garusaru* Personal Loans – Special personal loan scheme**
for government pensioners

Digital products and services

DFCC Virtual Wallet
DFCC iConnect
Mteller
Premier Go
eStatements
SMS alerts
Internet banking
DFCC MySpace
for corporates, SMEs, entrepreneurs, professionals, and individuals

Bancassurance

for corporates, SMEs, entrepreneurs, professionals, and individuals

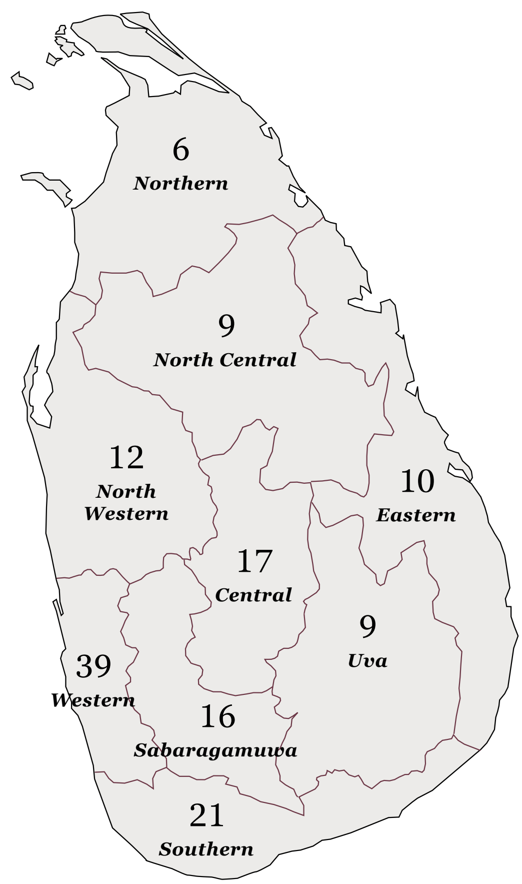
Other services

Includes current accounts, overdraft facilities, foreign currency accounts, international trade services, off-shore banking, international payments, foreign money transfer via Western Union/Lanka Money Transfer and local payments.
for the business community, entrepreneurs, professionals and individuals

Branch network and service delivery

We expanded our reach in 2019 by establishing the Fort Super Grade branch. 27 post office customer service units were converted to fully-fledged branches. (Kuruvita, Kekirawa, Minuwangoda, Agalawatta, Athurugiriya, Beliatta, Rambukkana, Dickwella, Karandeniya, Mahaoya, Uhana, Aluthgama, Baduraliya, Bibila, Hakmana, Haputale, Homagama, Kottegoda, Naula, Puttalam, Ratnapura, Rattota, Uragasmanhandiya, Veyangoda, Warakapola, Wathugedara, Welikanda).

Customers also have access to the Bank's services through over 4,500 ATMs across the island. The Bank embraces technology in expanding its reach to customers outside of the traditional brick and mortar via Internet and mobile banking services. Customers also have access to the Bank through its 24/7 Contact Centre and the website. The website was also revamped during the year. Customers from all corners of the island can now access the website in English, Sinhala, and Tamil.



Scan to view the details of the Branch Network
http://dfcc2019.annualreports.lk/bn.html

New products and services in 2019

DFCC Winner savings account

DFCC Winner savings account offers Sri Lanka's best interest rate for savings for individuals over 18 years. This product was launched in 2019 to encourage individuals, especially youth, to foster a culture of savings at an early stage in life.

MySpace digital banking services

In our commitment to provide a frictionless banking experience employing the latest technological advancement of the sector, we introduced, DFCC MySpace a bespoke space for banking services in 2019. The self banking solution is the consolidated digitalised service delivery space where our customers could experience those digital platforms 365 days 24×7.

The screens of these machines have been standardised creating an omni-channel experience and will facilitate an array of new innovative lifestyle based services. This initiative will enhance convenience and customer satisfaction.

DFCC Bank Virtual Wallet and website revamped

To increase accessibility to our customers who come from all segments of society and geographical locations in Sri Lanka, we revamped the Virtual Wallet and our website. Customers can now access these service in all three national languages.

We reach our customers through Internet and mobile-centric digital touchpoints. In 2019, we revamped the Virtual Wallet and our Corporate Website to facilitate an enhanced customer experience.

Customer centricity

Under our ambitious Vision 2025, enhancing customer centricity is one of the three strategic pillars. It is intrinsically linked to our four long-term objectives of reaching two million customers and to become the most customer-centric bank in Sri Lanka (page 26). Segmenting SME/Retail customers to identify different value propositions and designing targeted marketing campaigns, designing bundled products and initiatives for SME, and establishing a BI Unit are some of the focus areas of action with a view to enhancing customer centricity. We also aim to win customers with quality, cost, and innovation.

The following initiatives were implemented during the year to enhance customer centricity:

- Establishing the Customer Experience Unit for the Bank
- Commencing a Mystery Call programme across the entire branch network
- Introducing a Customer Centricity session in the orientation programme for new recruits
- Branch visits for observation of service standards
- Branch trainings when service gaps are identified
- Mystery shopper programme across the entire branch network
- Identifying required process improvements
- Centralisation of complaint and inquiry handling
- Customer centricity and customer service refresher trainings to front office and back office staff
- Expansion of the Bank Contact Centre

Our employees are critical to the realisation of our objectives. Consequently, the HR Department along with the Customer Experience Unit has designed bespoke training programmes to inculcate the necessary values related to customer service, business etiquette, and customer centricity to our employees.

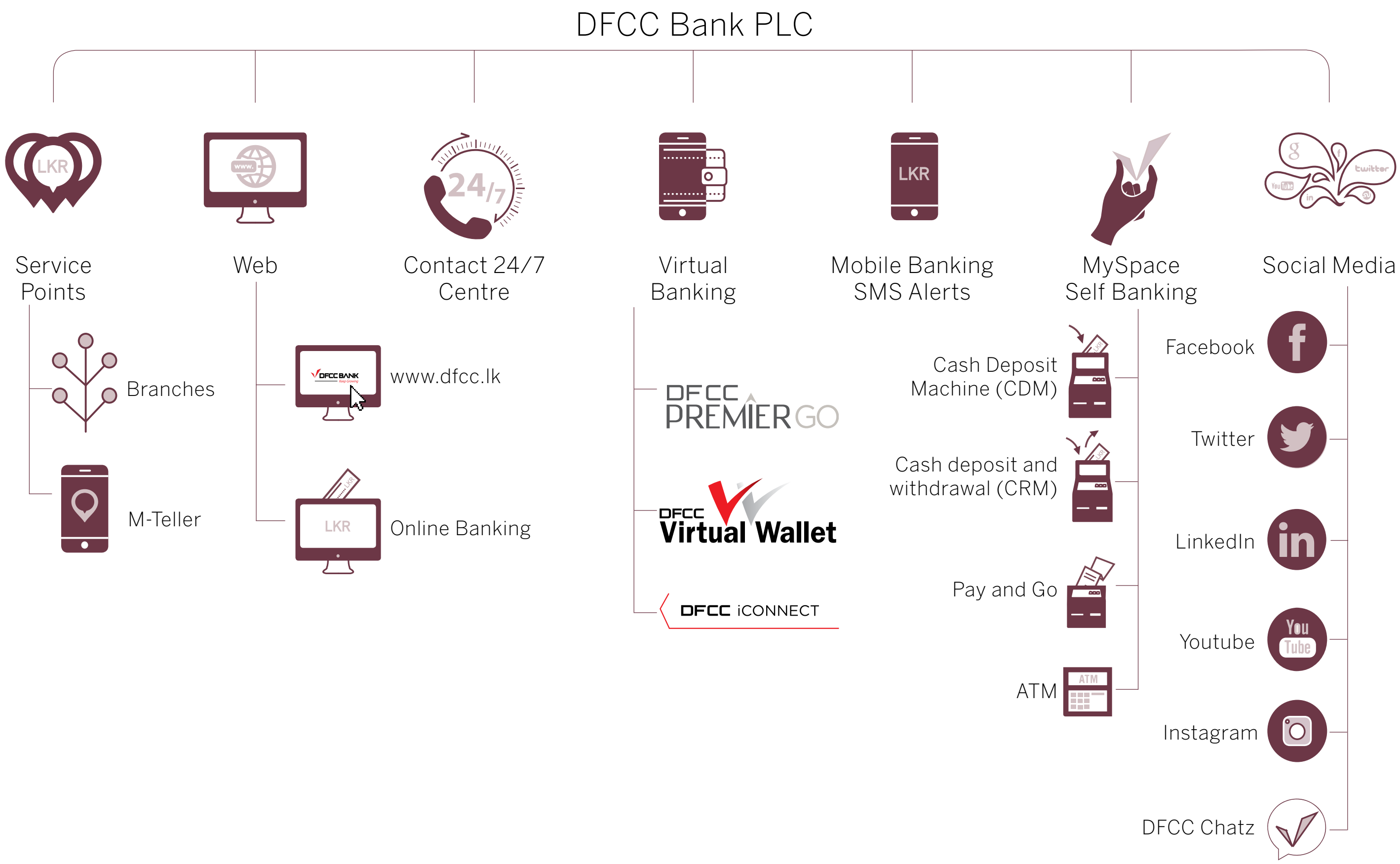
Category	Participant count	Percentage
Customer service	453	22.1
Business etiquette	439	21.4
Customer centricity and customer service	1,159	56.5
Total Staff	2,051	100

Customer privacy

We consider the privacy of our customers to be of utmost importance and make every effort to protect it. We utilise the latest digital infrastructure to secure our systems and processes and banking transactions. Customer privacy is an integral part of the Employee Code of Conduct, ensuring that employees understand the importance of protecting the privacy of their customers and play their part in upholding the secure systems and procedures of the Bank.

Multi-channel customer touchpoints

We reach our customers through an extensive network of touchpoints ranging from conventional branch network to Internet and mobile-centric digital banking solutions that include DFCC MySpace, DFCC Virtual Wallet, Premier Go, and DFCC iConnect. While many customers prefer to bank via conventional means for the human touch, upcoming generations of customers demand a virtual banking experience.



Product responsibility

Our approach towards product responsibility starts at the initial stages of designing new products. We strive to be ethical adhering to all necessary compliance requirements before introducing a new product to our customers. We understand that the modern customer is not only concerned with quality and service. Customers wish to be well-informed before making a purchase or starting a business relationship with a corporate entity.

DFCC Bank takes this responsibility seriously by providing transparent and relevant information to its customers. Information about products and services are available in all three languages and employees are available to provide more information where necessary. The Bank also conducts events across the country to educate current and potential customers about its products and services.

Marketing communications

We engage with customers and potential customers over multiple channels in English, Sinhala, and Tamil. A Board-approved Corporate Communications Policy and Social Media Policy defines how the Bank engages with customers and we work to ensure that information is accurate and complies with those policies, the Central Bank of Sri Lanka and the Bank's Customer Charter.

We carried out various brand-building initiatives during 2019 such as marketing and seasonal campaigns, event sponsorships, and customer engagement activities.

Customer satisfaction and complaint handling

As the first contact point for customers who call the Bank, the Contact Centre provides an important service at the Bank and operates under the Customer Experience Unit Department. The Contact Centre conducts inbound and outbound functions 24 hours, seven days a week to ensure the smooth functioning of the Bank's operations.

412,819	42,746	633
Total number of inbound calls	Total number of outbound calls	Non-voice requests*

Chat service was implemented in September 2019

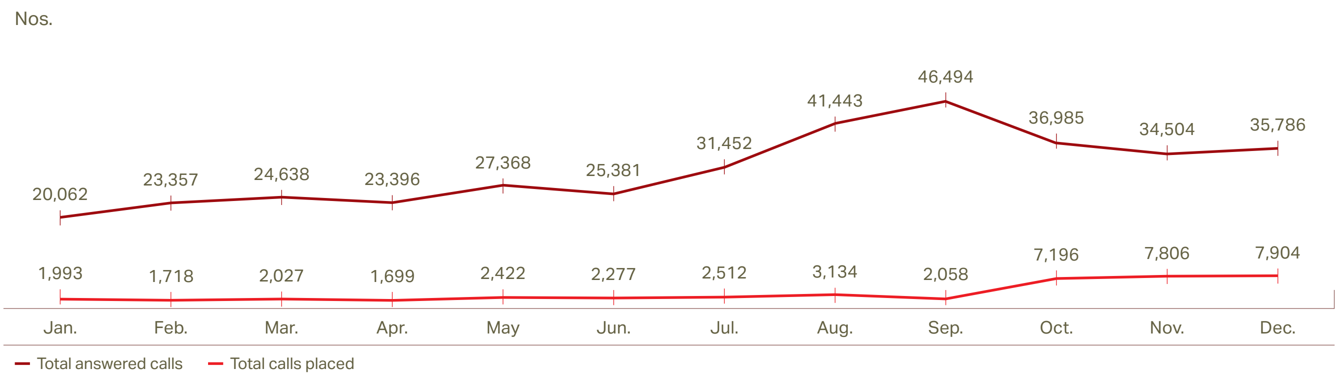
Inbound

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Total queued calls	24,438	28,361	28,030	25,181	31,620	30,909	34,446	45,486	51,188	38,711	37,290	37,159
Total answered calls	20,062	23,357	24,638	23,396	27,368	25,381	31,452	41,443	46,494	36,985	34,504	35,786
Average answered calls per day	647	834	819	744	892	876	1,003	1,371	1,558	1,180	1,121	1,147
Average talk time (MM.SS)	1.52	1.36	1.35	1.38	1.54	2.24	2.32	2.31	2.36	2.37	2.43	2.36
Average ACW time (MM.SS)	10.17	11.46	12.06	11.02	10.09	10.55	12.39	13	12.16	11.17	10.18	10.25
Average answer time (MM.SS)	0.35	0.40	0.39	0.38	0.38	0.32	0.33	0.39	0.37	0.30	0.28	0.29

Outbound

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Total calls placed	1,993	1,718	2,027	1,699	2,422	2,277	2,512	3,134	2,058	7,196	7,806	7,904
Average calls placed per day (Weekdays)	101	86	101	85	121	114	126	157	103	360	390	395
Average talk time (MM.SS)	1.01	1.04	1.01	1.01	1.03	1.05	1.05	1.06	1.01	1.03	1.04	1.03

Trend of calls – 2019

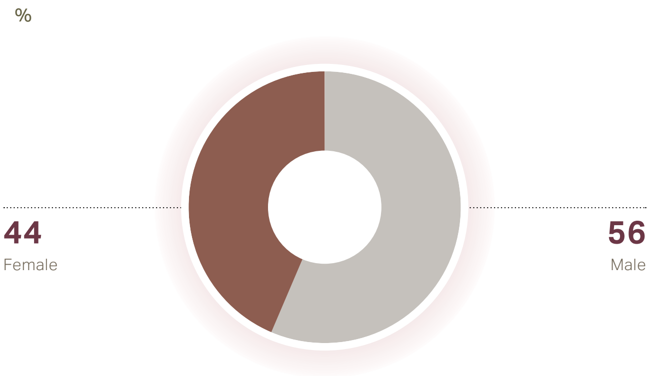


Employee Capital

In the Bank's transformational journey, with customer centricity at its core, the availability of an engaged, empowered, and agile workforce is a prerequisite. In this context, during 2019 the Bank continued to prioritise on building a skilled and engaged talent pool focused on driving the business and strategic imperatives of the Bank. As a responsible employer, we also ensure the continual professional growth and well-being of our talent pool through various benefits and training and development opportunities. Moreover, we adhere to the highest ethical practices and human rights in dealing with our team by providing a diverse, safe, healthy and equal opportunity working environment.

In 2019, the total staff strength was recorded at 2,076 with 82% being in permanent cadre positions. The gender distribution of the workforce remained unchanged at 56:44 (male to female). Over 60% of employees are based within our branch network with island-wide representation. The following offer a detailed statistical representation of our workforce in 2019:

Workforce by gender



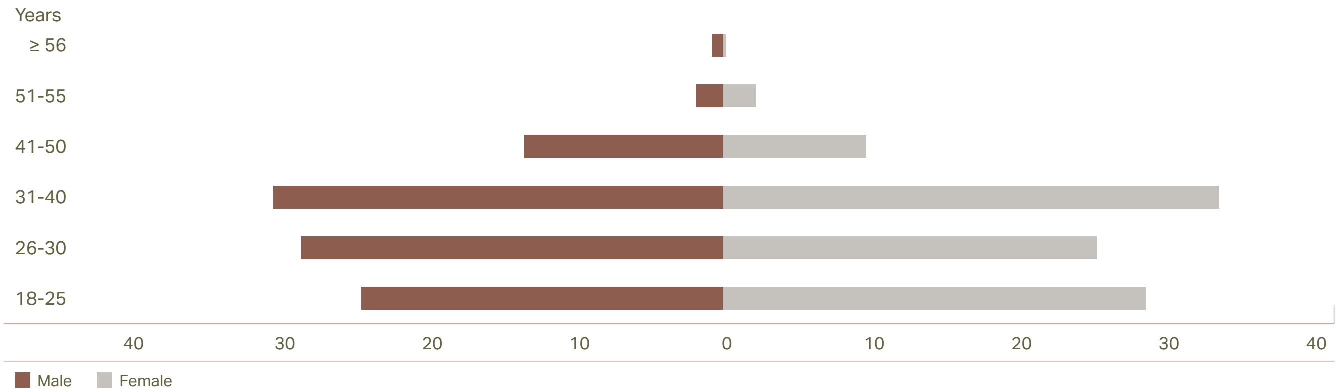
Workforce by grade and gender

Workforce by province and gender

Province	Number of branches	Male	Female	Total
Central	16	97	59	156
Eastern	10	52	19	71
Northern	6	33	24	57
North-Central	9	59	25	84
North-Western	11	60	45	105
Sabaragamuwa	15	67	37	104
Southern	24	105	75	180
Uva	9	53	22	75
Western	41	234	209	443
Total	141	760	515	1,275

	Number of units	Male	Female	Total
Departments and other business units	88	411	390	801

Age pyramid



Resourcing

During the year a number of initiatives were undertaken with the objective of enhancing the Bank's positioning as an employer of choice. The Bank participated in several career fairs and provided career guidance at schools, universities, and educational institutes. Staff incentivised referral schemes were also initiated to encourage staff to actively source applicants to our talent pool. The resourcing process continued to prioritise on ensuring the selection of candidates with a good fit to our culture and work ethos.

Recruitments

In 2019, the Bank recruited 460 new employees of which 47% were for new positions. Recruitments were primarily focused on strengthening the branch network and sales while new business ventures and strategic initiatives also warranted enhanced resources. Out of the recruitments, 65.7% were at junior staff levels and 80% of recruitments were below the age category of 30 years.

In line with our social development priorities, the Bank continued to provide training opportunities for undergraduates and school leavers through multiple internship programmes.

Recruitments by age group and gender

	Age group				Gender		
	Less than 30 years	Between 30-50 years	Above 50 years	Total	Male	Female	Total
Management	0	3	0	3	3	0	3
Executive	51	43	0	94	73	21	94
Supervisory staff	37	25	1	63	53	10	63
Junior staff	284	16	0	300	162	138	300
Total	372	87	1	460	291	169	460

Recruitments by Province

Province	Total
Central	24
East	12
Northern	7
North-Central	11
North-Western	17
Sabaragamuwa	20
Southern	26
Uva	20
Western	323
Total	460

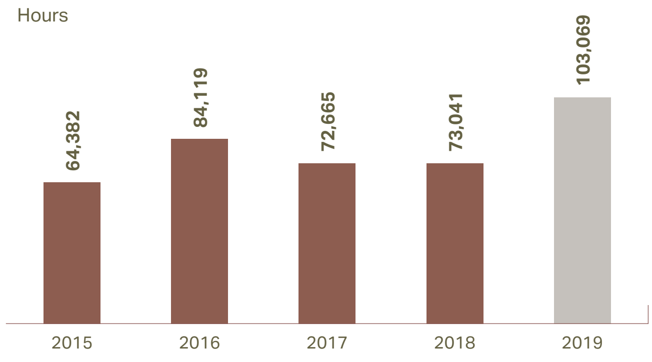
Learning and development

Fostering a learning culture continued to be a priority with a multi faceted approach to learning being adopted by the Bank, whereby varied opportunities for personal and professional growth were afforded to our employees. The learning methodologies adopted included on the job coaching, rotations, special assignments, classroom-based learning, overseas exposures, experiential learning as well as knowledge-sharing measures.

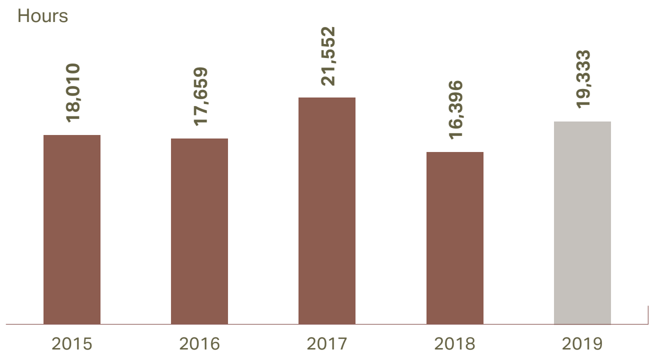
Training needs are identified at the beginning of every year, based on formulation of customised individual development plans of employees as well as based on the strategic business imperatives of the Bank. These formed the foundation to develop the annual training calendar of the Bank. During 2019, the Bank invested LKR 34.6 Mn in training and development which translated to over 103,000 hours of learning, an increase of 41% from 2018. The training hours afforded per average employee also recorded a significant increase at 6.5 days. The e-learning platform continued to grow from strength to strength reflecting an 18% growth in usage in comparison to the previous year. Ensuring value generation from training investment continued to be a priority with most technical, behavioural, and sales programmes being pegged to Return On Investment (ROI) measures.

Fostering a learning culture continued to be a priority in 2019 with investments in training and development translating to over 103,000 hours of training, an increase of 41% from 2018.

Total training hours



E-learning hours



Certification programmes

Two certification programmes focusing on operations and credit were made available to eligible employees. The rigorous programmes include classroom and e-learning sessions, assessments and interviews. Opportunities were afforded to 87 employees to participate in these certification initiatives.

Ascension and rise

The Ascension programme focuses on developing a high potential talent pool and grooming employees to take on more enriched job roles. During the year, 48 employees were placed in the programme and provided focused attention through customised development plans, special assignments, enhanced job scopes, specialised training and other opportunities. The Rise programme, a voluntary initiative, is designed to give attention to employees with performance difficulties and assist them improve individual capacity and productivity. During the year 17 employees were assisted through this programme.

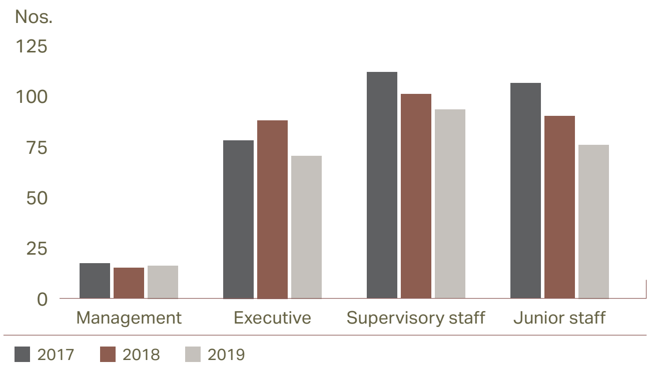
Further education and personal development

At DFCC, we consider professional development as a top priority and in this context we offer several grant and loan-based assistance schemes to encourage employees to obtain banking, professional, and post-graduate qualifications.

Career advancement and succession planning

In 2019, the promotion policy was reviewed and revamped. With the objective of enhancing clarity and transparency of the process, a scoring model was introduced. During the year 236 employees witnessed grade elevations with the gender distribution of such promotions at 52:48 (male to female) reflecting a positive alignment with the gender balance of the Bank.

Promotions by grade



Promotions by gender

Employee retention

Employee satisfaction and retention are significant aspects of the Bank's human capital strategy. The Bank has in place varied communication and grievance redressal mechanisms. In addition, we ensure that the human resource policies are reviewed annually and revised as appropriate to reflect the changing needs of our employees whilst also ensuring transparency and equality.

In 2019, the attrition rate exceeded 8%. Exit interviews are conducted for disengaging staff and remedial measures initiated where required.

Communication and grievance management

The Bank has robust grievance handling mechanisms in place. A formal grievance policy which is available to all staff, documents a clearly-defined process of grievance management. A Grievance Committee, comprising of cross functional staff across the network, is also available for staff to raise concerns and seek redress. Collectively, the 28 grievances raised during 2019 have been investigated and addressed, where applicable.

The Reachout Committee was established a few years back with the objective of providing a dedicated avenue for female employees to surface personal or professional issues they may be experiencing and seek advice or redress. During the year, five concerns were brought forward, investigated, addressed as appropriate and officially closed.

We understand and appreciate the continuous need for interactive communication with our employees and in this context offer varied avenues for employees to communicate, raise ideas, opinions and concerns with the Senior Management. The Bank has an open door policy which encourages all employees to have direct access to all levels of management. Open days are held periodically during the year where staff have the opportunity to approach Chairman, CEO, DCEO, or members of the Grievance and Reachout Committees. In addition, during 2019, the CEO initiated a series of Townhall meetings which all employees had the opportunity to attend.
The meetings enabled sharing of relevant information with our staff, but more importantly provided an interactive platform for employees to directly engage with the CEO. The feedback received from these meetings in terms of new ideas, suggested process improvements, concerns were documented and either addressed or are in the process of being addressed.

During the year the Bank, in partnership with our strategy consultants, launched the "Listening Wall" an anonymous e-platform for employees to surface ideas, suggestions, and concerns. The Listening Wall is managed externally, and as such, employees have the comfort of knowing that they can communicate in complete anonymity should they so wish. This initiative has been very successful since its introduction in the last quarter of 2019, with over 70 interactions being recorded over a period of three months.

The HR Business Partner programme continued during the year with designated staff of the HR team being assigned as business partners to departments and regions with the objective of providing staff in these locations a designated point of contact to address any HR related concerns they may have. The HR team also continued with branch visits to ensure one-on-one engagement with our regional talent pool.

Happiness and well being

Health and safety

Health and safety of our employees continue to be a priority to the Bank and in line with this in 2019 – floor supervisors were appointed from staff volunteers at larger buildings to report health and safety hazards for readdress. Through this initiative, potential hazards were identified and were rectified within the year. Within the branch network, the branch managers are held accountable to uphold the stringent health and safety standards of the Bank and are required to review their respective premises and report on a monthly basis. Considering the proactive measures in place, there were no health and safety incidents reported during the year.

The Bank has also appointed selected volunteers as fire wardens, first-aid personnel, and evacuation officers. These officers are regularly trained in safety and rescue procedures to ensure effective crisis management.

Moreover, in 2019, the annual pedometer challenge was expanded to a virtual walk challenge with over 100 employees islandwide availing of the opportunity to participate and enhance their fitness levels. Employees interested in adventure, fitness, and nature were afforded opportunities to take part in several hiking trips organised during the year. In addition, zumba, aerobics, and yoga programmes were organised throughout the year. Employees also continued to be afforded access to the services of a doctor who visits the main buildings of the Bank on a weekly basis. In an effort to enhance employee awareness and ensure top of mind focus to health issues, regular e-bulletins were disseminated throughout the year covering a wide spectrum of topics.

#TogetherWeGrow

A new initiative, #TogetherWeGrow (#TWG), was launched in 2019. This concept was initiated with the intention of building a one-team mindset with the ambition to motivate our employees to make significant shift in thinking and action. The project is driven primarily by our millenial employees on a volunteer basis and many varied committees have been set up to carry out this programme across our network with a number of employees participating enthusiastically.

During 2019, under the #TWG banner, our employees launched a number of initiatives aimed at fostering a fun and team-oriented work atmosphere. These initiatives spanned across a broad spectrum and included activities to engage employees' families such as a massive sports tournament with three other industry giants, the launch of "Bee Awards" a monthly staff recognition programme, an appreciation programme for retiring staff, introduction of communication platforms to share personal and professional achievements, inspirational messages and daily updates on strategic and business related matters etc.

Social event calendar in 2019

The Bank's social activity calendar was heavy as usual and many memorable events were organised through the year including a Neon Party, Quiz Night, Dinner Dance, the Annual Trip, *Avurudu Pola*, Sports Day, and the year end Christmas Party. The Bank choir held two outstanding performances, *Bakthi Gee* and Christmas carols, which were widely appreciated. It is noteworthy that for many events families of employees were also included.

To break the monotony of daily routines and further build camaraderie, decorating competitions were held during Vesak and Halloween which witnessed enthusiastic and light-hearted participation across the network.

DFCC Reds, a long-standing initiative aimed at engaging our millennial employees, continued to be very active and organised a series of events throughout the year, primarily targeting the millennial staff which now constitute the largest percentage of our talent pool.

Contributing to the community

Our employees were given the opportunity to contribute to the larger community through events organised by the DFCC Community Projects Team, Sustainability Unit, the HR Department and also through other social responsibility initiatives organised by departments and branches.

The Annual Blood Drive 2019 held in collaboration with the National Blood Bank recorded one of the highest donor turnouts. Commemorating the World's Elders Day, an alms giving was held with care packages distributed to the residents of the *Gamini Matha* Elder's Home. To celebrate Christmas and the notion of giving, hampers were distributed among underprivileged families during the season. These initiatives were financed from donations from our employees. Moreover, through "Save Pages to Save Trees" initiative, used textbooks collected from our employees were donated to make new books to be distributed at academic institutions islandwide. Employees also actively participated in several tree planting projects initiated by the Sustainability Unit.

Equal opportunity, diversity, and inclusion

DFCC has consistently advocated and championed a diverse and inclusive environment. Opportunities are offered to employees based on their performance and aptitude without discrimination. Gender equality has consistently been a priority for the Bank as aptly illustrated by the promotion data as well as remuneration comparator data given below:

Grade	Basic salary ratio, Male/Female
Management	48:52
Executive	49:51
Supervisory staff	50:50
Junior staff	50:50
Total	49:51

Over the recent years, the Bank has actively celebrated Women's Day. This year's celebrations included motivating speeches to our staff by two inspirational role models, one of whom is an internal staff member who earned the title of Ironman at the 2019 Ironman competition in Colombo.

To further ensure a safe and equitable work environment, the "Reachout Committee", comprising cross functional female representatives, champions the concerns of our female staff and provides them advice and assistance in relation to personal and professional concerns.

In tandem with the importance placed on inclusivity, we provide both permanent and contractual employment opportunities to differently abled persons, who have been placed in varied job roles based on their capacities and competencies.

Collective bargaining

We provide multiple avenues for our employees to present their concerns and grievances which includes the Grievance Committee, Reachout Committee, the online Listening Wall, open days with CEO and Chairman and other representatives, visits by HR representatives across the branch network, skip level meetings, Townhall meetings, the HR Business Partner programme etc. Since we provide a number of opportunities to address any issues employees may have there has not been a need to have collective agreements.

Benefits

Benefits provided to full-time employees which are not provided to contract, temporary, or part-time employees.

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

* *Executive trainees and Management trainees on fixed term contracts will also be provided*

** *Only for non-executive staff*

****Based on the offer of employment provided to the contract staff as well*

Digital progression

In keeping with the Bank's 2025 strategy of digital leadership as well as our emphasis on reducing our carbon footprint, during the year under review, the HR Department initiated a complete overhaul and upgrade of the HR information system. Phase one of the project, covering all core operational areas, was completed in Q4 of 2019 and the system made accessible to users by 1 January 2020. Balance phases which will cover resourcing, performance management and training will be completed during the first half of 2020.

In addition, a sophisticated facial recognition system was introduced throughout the network. Over 90% of recruitment advertising was done on digital platforms while digital shortlisting of potential applicants was also initiated through the Bank's website.

Business Partner Capital

Since our inception, we have established long-term, interdependent relationships with multilateral and bilateral institutions that share similar goals and values.

Multilateral and bilateral institutions

- The World Bank
- European Investment Bank (EIB)
- Asian Development Bank (ADB)
- Kreditanstalt fur Wiederaufbau (KfW) – Germany
- Deutsche Investitions-und Entwicklungsgesellschaft (DEG), a subsidiary of KfW – Germany
- Nederlandse Financierings – Maatschappij voor 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
- BlueOrchard Microfinance Fund – Luxemburg
- Commerzbank Aktiengesellschaft
- Commerzbank Finance & Covered Bond S.A.

Our primarily role in these partnerships includes serving 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 paving the path for market development and capacity building.

In 2019, we negotiated a medium-term loan of USD 75 Mn through Commerzbank Dubai. This facility was for General banking business purposes in order to support balance sheet growth.

The Bank continued to be among the 10 Participating Financial Institutions (PFI) selected by the Government of Sri Lanka (GoSL) and the Asia Development Bank (ADB) to on-lend ADB's funds to the Small and Medium Enterprise (SME) sector and for Rooftop Solar Power Generation projects.

With the Small and Medium Enterprises (SME) sector being a vital part of the Sri Lankan economy, being a PFI of this credit line has helped the Bank continue its on-going mission to nurture small and medium businesses to scale up at a crucial time in the country's economic growth. Further, being a PFI of the Rooftop Solar Power Generation loan scheme also helped DFCC to continue its contribution to the renewable energy generation efforts in Sri Lanka.

The Resource Mobilisation Unit continues to build upon the relationships the Bank has established over time by actively engaging with partner institutions to secure potential funding lines to support the Bank's rapid growth.

Correspondent banks

The Bank maintains relations with over 250 global correspondent banks which also comprise some of the world's largest financial institutions. The Bank entered into new relationships with the following banks in 2019 to facilitate customer transactions:

- Commercial Bank of PLC in Bangladesh
- Tamilnad Mercantile Bank Ltd. in India
- Alliance Bank Malaysia Berhad in Malaysia

DFCC Bank was honoured internationally by HSBC USA on recognition of "US Dollar Straight Through Processing Excellence Award" 2018 for Bank's contribution based on strict selection criteria, evaluating many of their correspondent banks. This award signifies to its customers and correspondent banks that DFCC Bank's payment processing capabilities are on par with international standards.

The entities listed below act as the Bank's nostro agents in the 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	China
Bank of New Zealand	NZD	New Zealand
Commerzbank AG	CAD	Germany
Commerzbank AG	EUR	Germany
Deutsche Bank Trust Company Americas	USD	USA
HDFC Bank	ACU $	India
HSBC Bank USA N.A.	USD	USA
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

The supply chain management and procurement policy

We have a fair, transparent, and stringent procurement policy in place which clearly defines how goods and services are procured by authorised employees, whilst ensuring that the selection of suppliers and the acquisition of goods and services are done in a non-discriminatory and economically sound manner.

A Procurement Committee (PC) led by an Executive Vice-President acts as a control measure for the procurement function of the Bank. Major IT-related procurements are submitted to an IT Steering Committee (ITSC) and referred for PC approval upon the recommendation of the ITSC. Other general procurements are either submitted to the PC for approval or to higher approving authorities upon the recommendation of the PC. Independent parties may review large value and/or specialised procurements, if required.

Suppliers of goods and services are required to register themselves with the approval of the PC, and registered suppliers are subject to review once in every two years. Suppliers undergo a rigorous evaluation process to determine quality, delivery time, pricing, after sales support, technical proficiency, and references. The Bank prefers to source its requirements from local suppliers as part of its commitment to helping local communities and businesses flourish. Suppliers may also opt to receive financial advice and assistance from the Bank.

Partners for service delivery

DFCC Bank partners with a variety of reputable vendors for various services such as:

- Cash collection, counting, storage, delivery, and transport of security goods
- Printing services including printing of account and credit card statements, cheque books, etc.
- Processing of payroll, and other reimbursements
- Personalisation, and delivery of chip-based credit cards
- Internal audit functions
- IT support
- Help desk problem management

The Bank also partners with over 1,500 merchants who are a part of the DFCC Virtual Wallet network.

Strategic alliances

DFCC Bank is diversified into several entities; the DFCC Group provides a range of services to the financial sector 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

DFCC Consulting (Pvt) Limited was established in 2004 and is a fully-owned subsidiary that engages in project consultancy 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.

The Company supports DFCC Bank through its expertise in the fields of environment, engineering, and renewable energy and carries out international consultancy assignments, sometimes in partnership with overseas consulting firms.

Currently, the Company has set up and is engaged in administering the Project Implementation Unit designated to support an ADB funded rooftop solar line of credit.

Lanka Industrial Estates Limited

Lanka Industrial Estates Limited (LINDEL) occupies a strategic location in Sapugaskanda on 125 acres of land, near the Colombo Harbour and Bandaranaike International Airport. The industrial estate offers land and buildings for lease, and the infrastructure for setting up industries. 95% of the leasable land has been let to industries, with 20 production facilities currently operating at the premises, six of which are owned by Fortune 500 Companies.

Synapsys Limited

Synapsys Limited was established in 2006 and is a fully-owned subsidiary of DFCC Bank that provides software development, MIS solutions, and IT support to DFCC Bank and other customers. With an array of innovative products and services that include two flagship and NBQSA award-winning platforms, the Company supports banks, capital markets, insurance, and retail payments across Asia and the Pacific region.

We have developed a number of interdependent business relationships with partners who share our values. We deliver sustainable value to our partners through trust, transparency, and responsible behaviour.

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. Associations include:

- American Chamber of Commerce in Sri Lanka
- Association of Board/Company Secretaries of Banks
- Association of Compliance Officers of Banks Sri Lanka
- Association of Development Financing Institutions in Asia and the Pacific
- Association of Professional Bankers – Sri Lanka
- Banks' CIO Forum
- BNI Inspire Charter-Colombo Sri Lanka
- Central Bank of Sri Lanka
- Chamber of Construction Industry Sri Lanka
- Chartered Institute of Management Accountants
- Colombo Stock Exchange
- Fitch Ratings Lanka Ltd.
- Genesis Software (Pvt) Ltd.
- Lanka Clear (Pvt) Ltd.
- Lanka Fruit and Vegetable Producers, Processors, and Exporters Association
- Lanka Swift User Group
- Leasing Council of Bankers of Sri Lanka
- Mary Martin Book Sellers Pte Ltd.
- Payment Card Industry Association of Sri Lanka
- Reed Business Information Ltd.
- Securities and Exchange Commission of Sri Lanka
- Sri Lanka Forex Association
- The Association of Banking Sector Risk Professionals of Sri Lanka
- The Ceylon Chamber of Commerce
- The Ceylon National Chamber of Industries
- The Employers' Federation of Ceylon
- The European Chamber of Commerce of Sri Lanka
- The Financial Ombudsman Sri Lanka (Guarantee) Limited
- The Institute of Bankers of Sri Lanka
- The Institute of Chartered Accountants of Sri Lanka
- The Mercantile Service Provident Society
- The National Chamber of Commerce of Sri Lanka
- The Sri Lanka Banks' Association (Guarantee) Limited

Social and Environmental Capital

DFCC Bank is committed to achieving the Sustainable Development Goals (SDGs) outlined by the United Nations to build a more prosperous, equitable, and sustainable world. Several SDGs have been addressed by DFCC Bank through the initiatives outlined in this section.

Living in a world with finite resources, we have a responsibility of being exemplary corporate citizens committed to create social values through engaging in sustainable businesses. We have endorsed the UN SDGs in our operations and carry out comprehensive programmes aimed at social development, environmental preservation, and community upliftment. At DFCC, we have created a culture that drives our employees to engage in CSR activities with great enthusiasm.

4 QUALITY EDUCATION

"*Samata* English"

"*Samata* English" is an initiative to teach Spoken English and equip and empower youth with basic English knowledge requirements to enter into the workforce. The project consists of practical activities, presentations, skills development and tutorials in classrooms with modern facilities.

"*Samata* English"was launched as a pilot in April 2017 in Gampaha and Kalutara areas. During July to October 2019, the programme was carried out in Jaffna, Polonnaruwa, Ampara, and Ratnapura areas for youth aged 18-25. Partnering with Gateway Language Centre, 112 students were selected to enroll for the course after completing an initial assessment. Upon completing the three-month course 99 students scored over 50 marks, indicating how much the course has helped to improve their spoken English skills. Gateway Language Centre conducted the final assessment and the students also received a certification from the Colombo Academy of Language Skills and Dramatic Art (CALSDA).

Furthermore, upon successful completion of the third edition of the "*Samata* English", the top eight achievers across the regions will be given the opportunity to join the Bank as interns, creating opportunities for them to apply their knowledge, gain work experience, and develop their skills.

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

"*SahayaHamuwa*"

DFCC Bank initiated a special series of workshops in 2017, named "DFCC *SahayaHamuwa*" to nurture the growth of the micro, small and medium enterprises (MSMEs) in Sri Lanka. The primary focus of these programmes is to increase the financial literacy and financial management abilities of the MSMEs in addition to the financial services offered, so as to uplift the rural economies and regional development.

The Government has also identified the MSME sector as an important strategic sector in its overall policy objectives. CBSL has supported this agenda in their implemented policies to boost this sector through various technical and financial assistance.

A total of 55 workshops were held by end December 2019, engaging over 7,500 entrepreneurs. Out of this, 18 workshops were conducted during 2019 with a participation of 3,000 entrepreneurs. Specialist and renowned guest speakers participated in these events and held active questions and answer sessions on all key aspects of financial management. The Bank has spent approximately LKR 1.9 Mn for the programmes conducted from January 2019 to December 2019.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Promoting reusable bags

In 2019, the Bank gave 10,000 foldable reusable bags to customers and 2,000 bags to staff to commemorate the World Environment Day. These 12,000 reusable bags will reduce the use of plastic bags by approximately 5 Mn over two years.

Waste management

For the second consecutive year, a Clean-Up Day was organised on 22 June. In addition to the Head Office and the Office at W A D Ramanayake Mawatha, the Clean-Up Day was extended to Nawala Office and a few selected branches.

Active participation of staff on this day resulted in removal of many unwanted items leading to cleaner and spacious work areas. Sustainability Unit also made arrangements to collect e-Waste and discarded plastic on this day at Head Office, the Office at W A D Ramanayake Mawatha, and Nawala buildings, both from the Bank and from employees. The collected e-Waste and plastic was given to Central Environment Authority (CEA) approved recycling companies.

The Bank continued to discard all its e-Waste through a CEA approved e-Waste recycling company. In addition, facilities have also been made at Head Office for staff to bring e-Waste for disposal on a continuous basis. The Bank also has an agreement with a paper recycling company to collect all discarded/used paper in the three main buildings of the Bank.

Initiatives to reduce single-use plastic

- Discontinue of issuance of plastic covers for debit cards
- Discontinue of plastic water bottles for internal use/functions
- Encouraging staff to minimise single-use plastic through regular email messages and articles in the internal newsletter and holding a "No Single-Use Plastic Day" as a Sustainability activity on a Dress-Down Day

Initiatives to reduce paper, electricity, water, etc.

- Promotion of e-Banking, e-Statements, SMS alerts during the year
- Continuing the practice of sending e-Greeting Cards instead of printed cards
- Default setting of all printers has been set for double-side printing to reduce paper usage
- Notices placed in meeting rooms, lunch rooms, wash rooms etc. reminding staff to switch-off lights when not in use, to use less paper napkins, etc.
- Making mandatory to reuse envelopes for internal purposes
- One sided paper to be used before using new paper for internal use
- Introducing additional computer monitors for approximately 250 workstations in Operations and Credit Administration, resulting in reduced use of paper

Tree planting campaign

The commemorative staff tree planting campaign was continued for the third consecutive year by the Sustainability Unit, with planting of 7,000 trees during 2019. More than 25,000 trees have been planted from 2017 in different locations in Sri Lanka.

All staff and their families are invited for these campaigns. Special invitations are sent to staff celebrating their birthdays. E-certificates are sent after the event with a Google Map link of the location of the tree planting site.

The Bank makes arrangements with the institutions which own the land or a third party to carry out maintenance after planting. Regular site visits are made to ensure that proper maintenance has been carried out.

Beach clean-up campaigns

In January 2019, a beach cleaning campaign was held in Hikkaduwa. Another beach cleaning campaign was held in September 2019 at Mount Lavinia with the participation of many staff members and their families, including both the CEO and the DCEO.

GHG Emissions

DFCC Bank is committed to making progress in reducing greenhouse gas emissions from our operations that help mitigate climate change. It is consistent with our strategy ensure environmental and social sustainability. For the sixth consecutive year, we are reporting our greenhouse gas (GHG) emissions on a voluntary basis. The physical boundary remains the same as in the previous years which is "DFCC Banking Business".

As before, our calculations are based on the WBCSD/WRI Greenhouse Gas Protocol Corporate Standard and the most recent versions of applicable Calculation Tools. Our reporting under Scopes 1 and 2 is complete except for fugitive emissions from air conditioning plants, which are relatively insignificant. Reporting on Scope 3, which is optional, is selective based on significance and data availability.

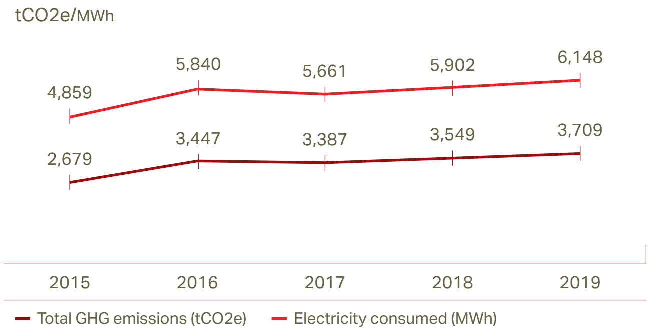
Carbon footprint

Scope	Source	GHG emissions					
		2019		2018		2017	
		tCO_2e	**%**	tCO_2e	%	tCO_2e	%
Scope1 (direct)	Stationary combustion	**0.54**	**0.01**	2.54	0.07	5.22	0.15
	Mobile combustion	**240.14**	**6.47**	199.73	5.63	172.80	5.10
	Total Scope 1	**240.68**	**6.48**	202.27	5.70	178.01	5.26
Scope 2 (indirect)	Purchased electricity (CEB)	**1,038.58**	**28**	1,063.33	29.96	1,040.40	30.71
	Total Scopes 1 and 2	**1,279.26**	**34.48**	1,265.60	35.66	1,218.40	35.97
Scope 3 (indirect)	Stationary combustion	**97.34**	**2.68**	104.57	2.95	91.27	2.69
	Purchased electricity (CEB)	**2,293.81**	**61.48**	2,135.71	60.17	2,028.08	59.87
	Employee air travel	**38.96**	**1.05**	43.51	1.23	49.69	1.47
	Total Scope 3	**2430.11**	**65.21**	2,283.79	64.35	2,169.04	64.03
	Total Scopes 1, 2 and 3	**3709.37**	**100.00**	3,549.39	100.0	3,387.44	100.0

Note: Totals may not tally exactly due to rounding

The total GHG emissions during the period under review amounted to 3709 tonnes carbon dioxide equivalent (tCO2e), an increase of 4.5% over the previous year.

Managing our environmental impact



Indirect GHG emissions from purchased electricity was by far the single largest contributor, accounting for 28% of the total in respect of Bank-owned premises (2018: 30%) and another 61.48% of the total in respect of rented premises (2018: 60.17%), bringing its total share to 90.58% (2018: 89.48%).

Given the nature of our business, the relatively high proportion of electricity in our total GHG emissions is to be expected.

Fuel consumption

Location	Number of vehicles	Litres consumed	Total Kms	Cost (LKR)
Head Office	24	84,347	603,407	11,801,042.65
Branches	7	27,271	282,745	3,574,064.72
Regional Branches	7	16,913	167,713	2,670,356.47
Total	38	128,531	1,053,865	18,045,463.84

Total fuel consumption in 2019

105,386	38	128,531	18 Mn
Total KMs	Number of vehicles	Litres consumed	Cost (LKR)

Social and Environmental Management System (SEMS)

Development projects have substantial impact on the society and environment. Our Social and Environmental impacts tend to be indirect, arising from providing financial services to projects. There are some projects that may negatively affect the environment, as well as expose the Bank to several risks, such as liability, financial, reputational, credit, and market.

The SEMS is implemented through the Sustainability Unit to ensure that the projects funded by the Bank meet the required environmental and social regulations on a continuous basis. The Bank also gives prominence to financing of green initiatives, such as renewable energy projects.

Sustainable Banking Principles (SBPs)

DFCC Bank is a signatory to eleven Sustainable Banking Principles (SBPs) promoted by Sri Lanka Banks' Association (SLBA) under the "Sustainable Banking Initiative" (SBI). The Bank was actively involved in the SBI, with the Bank's Head of Sustainability being a member of the "Core Team" of seven bankers responsible for implementation of the SBPs across all banks.

Management subcommittee on sustainability

The Management subcommittee on sustainability was established in December 2018 by CEO consisting of a cross functional management team, which provided directions to the Sustainability Unit on sustainability activities to be undertaken by the Bank during the year. This committee met on a regular basis under the presence and guidance of the CEO. AVP – Sustainability acts as the Convener/ Secretary to this committee.

Recognitions in 2019

- DFCC Bank received a Merit Award at the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) Awards Night held in Oman on 20 February 2019. The award was given under the "Outstanding Development Project Awards, Category 2 Environmental Development" for DFCC Bank's project, "Funding the Installation of Rooftop Solar Systems of Large Rooftop Owners"

- DFCC Bank was awarded a Certificate of Merit for "Outstanding Sustainable Project Financing" at the Global Sustainable Finance Awards 2019 in Karlsruhe, Germany. This was to recognise success in financing Municipal Solid Waste to Energy Projects.

Awards and Accolades

Category	Award	Project	Institution	Month 2019
Outstanding Development Project Awards, Category 2, Environmental Development	Merit	Funding the Installation of rooftop solar systems of large rooftop owners	Association of Development Financing Institutions in Asia and the Pacific (ADFIAP)	January
Sri Lanka's Most valuable and strongest brands Top-100	Position – 25	DFCC Bank, brand	Brand Finance, Sri Lanka	May
Outstanding sustainable project financing	Merit	Municipal Solid Waste to Energy Project	European Organisation for Sustainable Development with the City of Karlsruhe, Germany	July
Business Today Top-30 (2018/19)	Position – 18	DFCC Bank, brand	Business Today Magazine	October
CMI Quiz Challenge	1st Runner up (2nd place)	DFCC Bank	Chartered Management Institute	October
CSE Mastermind Quiz Awards	1st Runner up (2nd place)	DFCC Bank	Colombo Stock Exchange	November
LMD Top-100 (2018/19)	Position – 30	DFCC Bank, brand	LMD Magazine	December

Key Events of the Year

Fort Super Grade Branch opening

Annual Dinner Dance

Galle Literary Festival

Annual Awards Night

Annual *Poson Bhakthi Gee*

New Zealand Tour of Sri Lanka for the "DFCC Bank Cup"

CSE Mastermind Quiz Awards

DFCC Toastmasters Area Speech Contest

Annual Christmas Carols

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
- → Cyber-security 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. DFCC Bank's credit risk accounted for 89% 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 in the Internal Capital Adequacy Assessment Process (ICAAP). A cushion of economic capital over and above the regulatory capital requirement is maintained to cover for stress losses or losses caused by unquantifiable risks such as strategic risk, liquidity and reputation risks (risk categories which are not in Pillar I of Basel guidelines). Under ICAAP, capital is monitored on a quarterly basis based on certain stress scenarios which are subject to regular review based on macro-level anticipated developments.

j. Aligning risk management strategy to the Bank's business strategy.
k. Ensuring comprehensive, transparent, and objective risk disclosures to the Board, Corporate Management, regulators, 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 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"

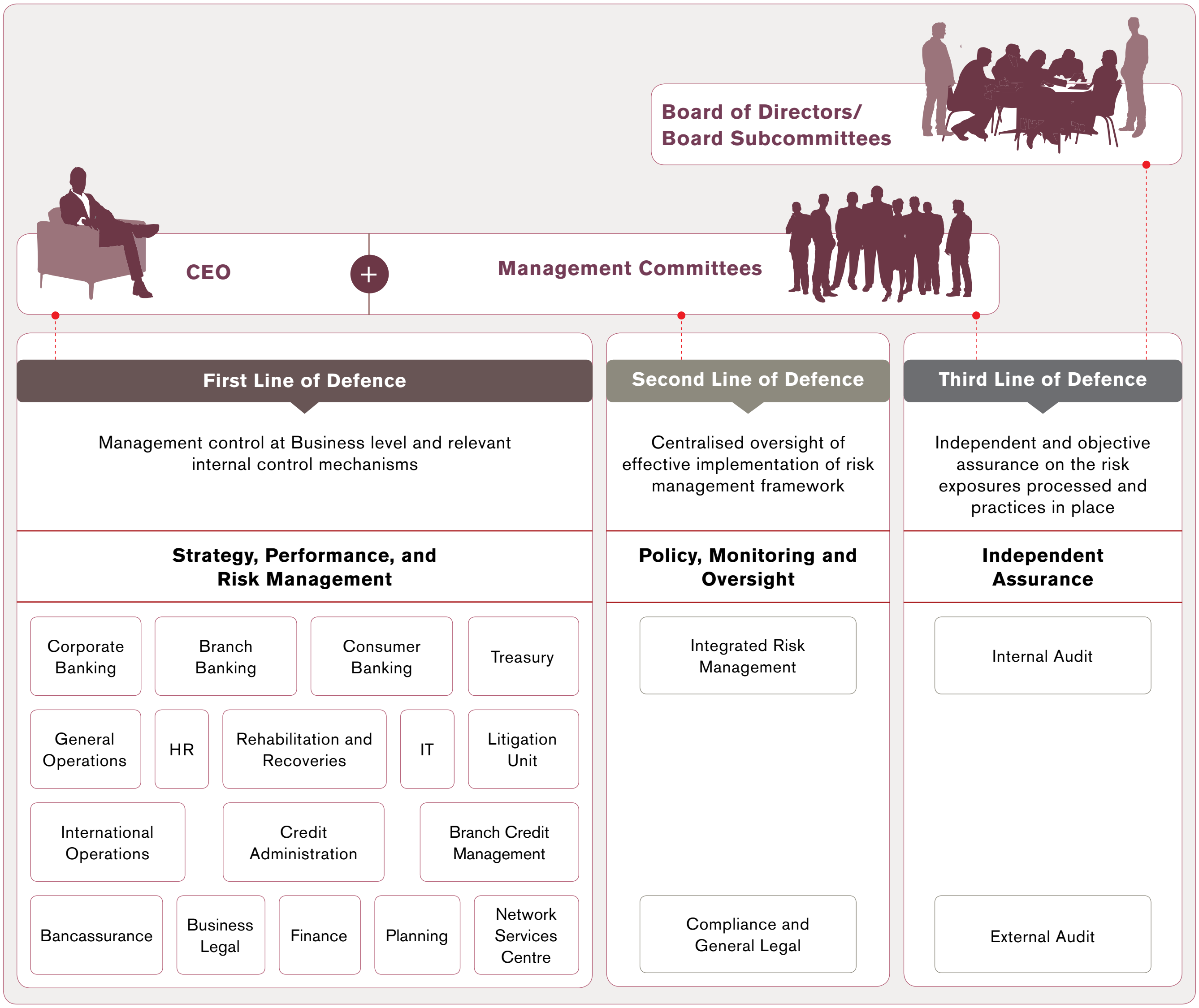
DFCC Bank PLC advocates strong risk governance applied pragmatically and consistently with a strong emphasis on the concept of "Three Lines of Defence". The governance structure encompasses accountability, responsibility, independence, reporting, communication and transparency, both internally and with 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, policy review and compliance by the Integrated Risk Management Department (IRMD), the compliance function and periodic monitoring and oversight by the Board Integrated Risk Management Committee (BIRMC) 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, Management Information Systems and analysis to monitor the Bank's risk profile. 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 at DFCC Bank PLC

The concept of "Three Lines of Defence" for integrated risk management function of DFCC Bank PLC



Risk policies and guidelines

A set of structured policies and frameworks recommended by 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)	Regulatory – 8.50% Internal limit is based on ICAAP
	Total Capital Adequacy Ratio (under Basel III) (Total capital as a percentage of total risk-weighted assets)	Regulatory – 12.50% Internal limit is based on ICAAP
Credit quality and concentration	NP ratio	< 5% (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)
	Liquidity coverage ratio	> 100% (Regulatory)
	(All currencies and rupee only)	>110% (Internal)
Market risk	Forex net open long position/Short position	As prescribed by Central Bank of Sri Lanka
Operational risk	Reputation risk of the Bank	Zero or very low risk appetite
	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	

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, cyber-security 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 129 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 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.

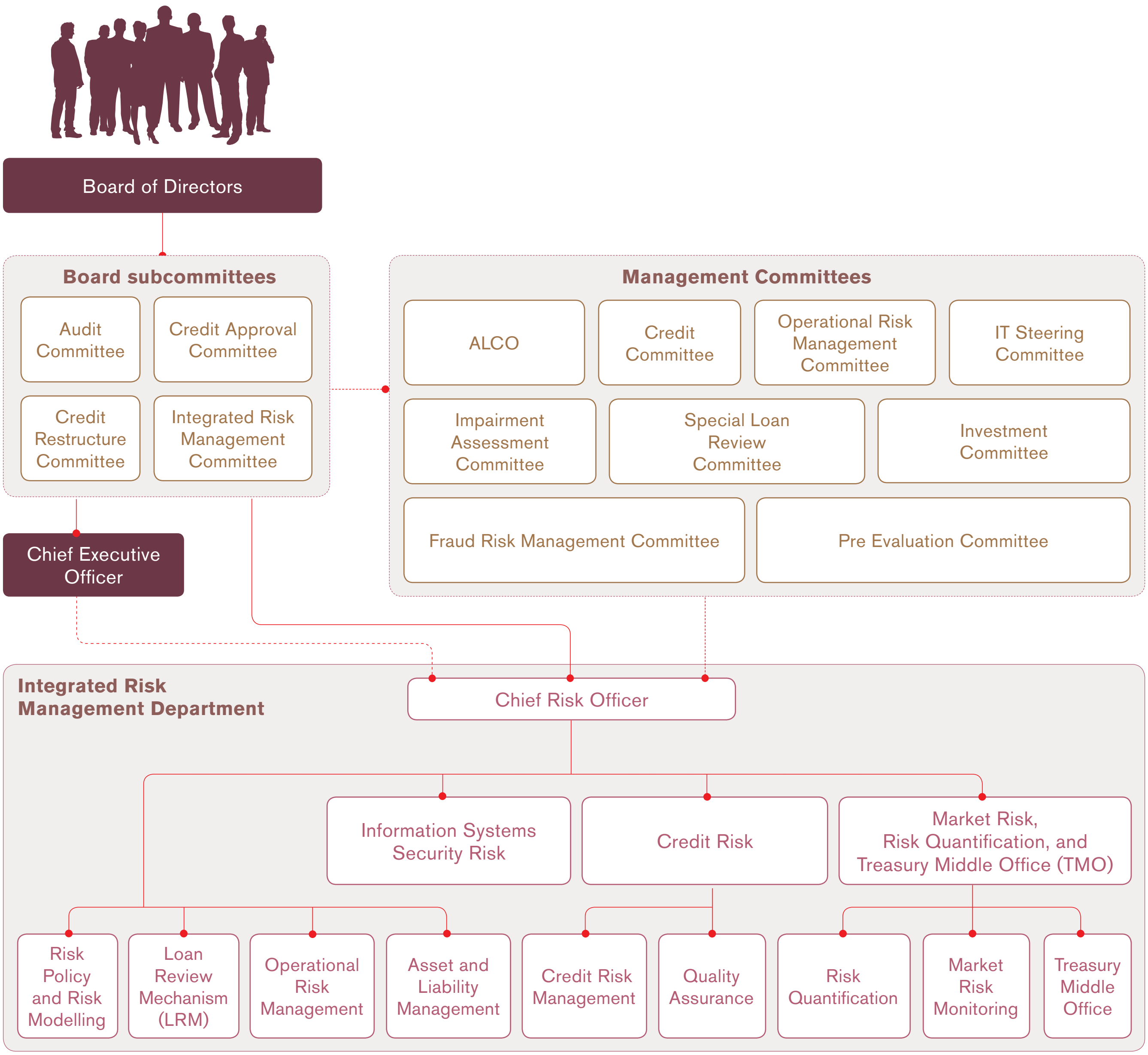
Scope and main content of risk reporting to Board Integrated Risk Management Committee

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
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 → Report of key decisions and recommendations by ALCO
Operational risks	→ Key decisions and recommendations by the ORMC and FRMC → 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 Committee (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.

Organisations structure for integrated risk management



The Integrated Risk Management Department (IRMD) is responsible for measuring and monitoring risk at operational levels on an ongoing basis to ensure compliance with the parameters set out by the Board/ BIRMC and other Executive 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 and Quality Assurance, Market Risk Monitoring, Operational Risk Management, Assets and Liability Management, Loan Review Mechanism, Risk Quantification, Information Systems Security Risk Monitoring, 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. The improvements brought in by adopting the Basel III Regulatory Standards by the banks in Sri Lanka is crucial. 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. Further, based on the current risk appetite and the business requirements, the Bank enhanced the exposure limit for lending to Maldives, which has been in place to manage the country concentration risk.

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.

Periodic validation of the credit rating models was carried out during the year. The required calibrations/amendments were primarily identified based on the results of the model validation process and necessary adjustments were introduced for better discriminatory power.

Replacing the stand-alone credit rating models previously used, the Bank procured a credit rating system which facilitates to host the internal credit rating models of the bank. The new system is expected to bring in more operational efficiencies in credit rating workflow while facilitating the rating review mechanism. The Credit Rating System will maintain a central database with all the rating related information of the clients which eventually facilitates the Bank to move in to advance approaches in credit risk quantification in Basel framework.

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 voice recording testing of Treasury transactions was further improved during the year. A new Voice Record System was implemented which has facilitated smooth record and playback of voice calls of the Treasury.

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 the 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, is evaluated by an independent authority not connected to business lines, being either the Credit Risk Management Unit (CRMU) or the Quality Assurance Unit (QAU) of IRMD, based on the size of the accommodation and the approving authority. 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 to be independent from the Credit Risk Management Unit, separate Loan Review Unit has been established. The unit has taken specific actions to increase the scope of the Loan Reviews and to obtain feedback from business units with regards to the improvements brought in to 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 timely manner. Also, the unit involves 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, and Key Risk Indicators 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.

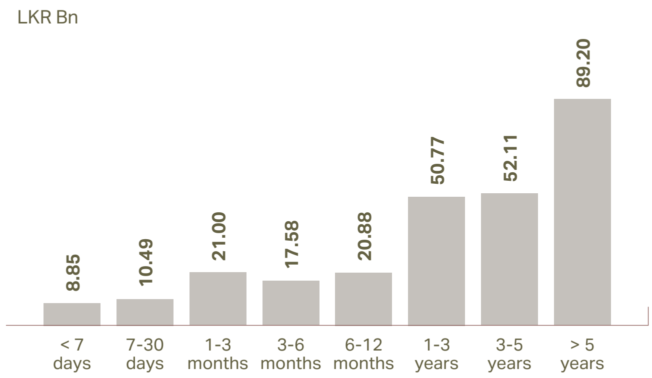
Complying with the new regulatory directions related to SLFRS 9 implementation, Risk Management Department established a process for upgrading of credit facilities from a higher stage to a lower stage. The process is supported with a Board-approved policy where prior to upgrading, an independent verification is carried out on objective evidence of increased credit risk, in addition to the regulatory minimum requirements of satisfactory performing period.

Credit risk

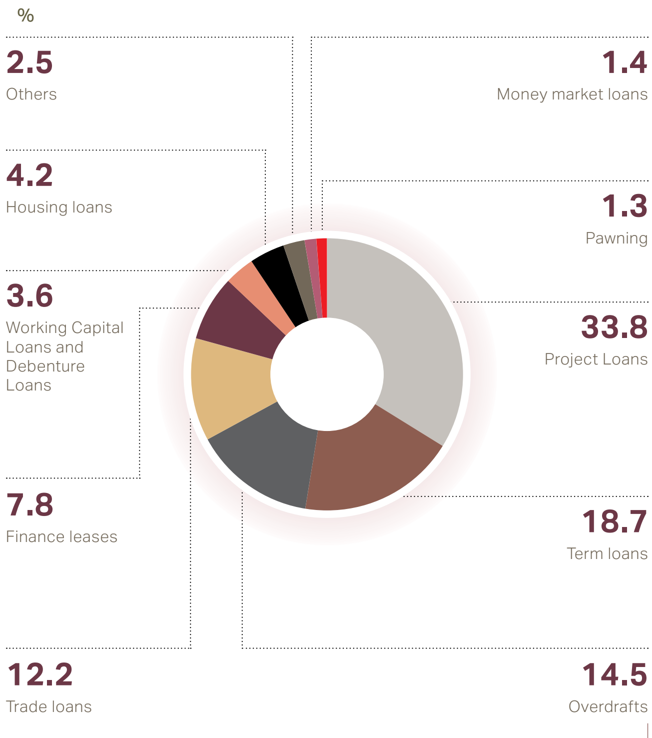
Credit risk is the risk of loss to the Bank if a customer or counterparty fails to meet its financial obligations in accordance with agreed terms and conditions. It arises principally from on-balance sheet lending such as loans, leases, trade finance, and overdrafts as well as through off-balance sheet 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 89% of the total risk-weighted assets of DFCC Bank PLC.

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 IFRS 9, a proactive approach will be adopted by 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

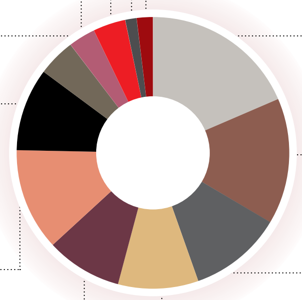


Product composition



Sectorwise portfolio distribution

%

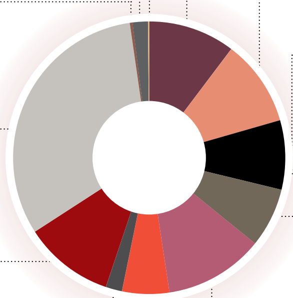


%	
3.9	Lending to overseas entities
1.3	Healthcare, social services and support services
3.2	Transportation and storage
1.9	Other
4.5	Tourism
18.5	Manufacturing
9.9	Infrastructure Development
15.0	Wholesale and Retail trade
12.2	Consumption
11.1	Construction
9.0	Financial Services
9.5	Agriculture, Forestry and Fishing

Note: "Other" category includes "Education", "Information Technology and Communication Services", "Professional, Scientific and Technical Activities", "Arts, Entertainment and Recreation" and "Lending to Ministry of Finance"

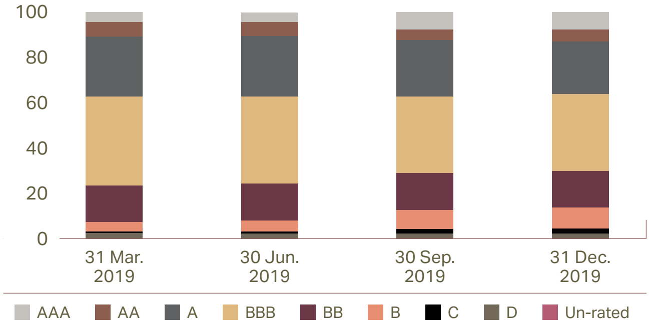
Geographical distribution of gross loans and advances

%



%	
0.1	FCBU
10.3	Region – 01 – (Colombo/Kalutara/Gampaha)
1.8	Treasury
10.3	Region – 02 – (Colombo/Ratnapura)
0.3	Premier Center
8.2	Region – 03 – (Monaragala/Galle/Matara/Hambantota)
31.9	Corporate Banking
7.1	Region – 04 (Kandy/Matale/Nuwaraeliya/Badulla/Kegalle)
10.7	Business Banking
11.8	Region – 05 (Puttlam/Kurunegala/Gampaha)
1.9	Region – 07 (Jaffna/Kilinochchi/Mullaitivu/Vavuniya/Mannar/Trincomalee)
5.6	Region – 06 (Anuradhapura/Polonnaruwa/Baticaloa/Ampara)

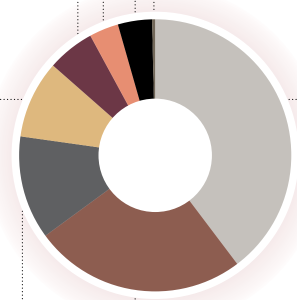
Rating distribution of portfolio



Note: Excludes Concessionary Staff Loans and Credit Card installment loans

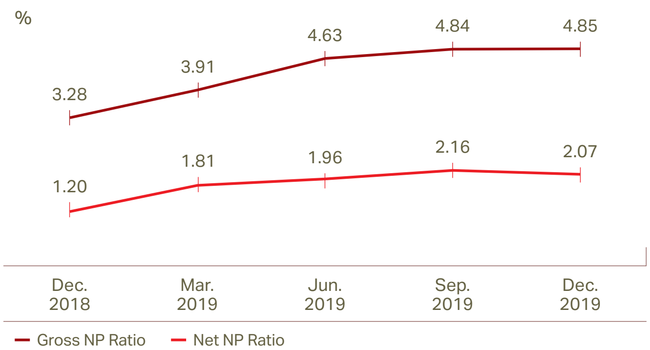
Collateral distribution of the loans and overdrafts portfolio

%



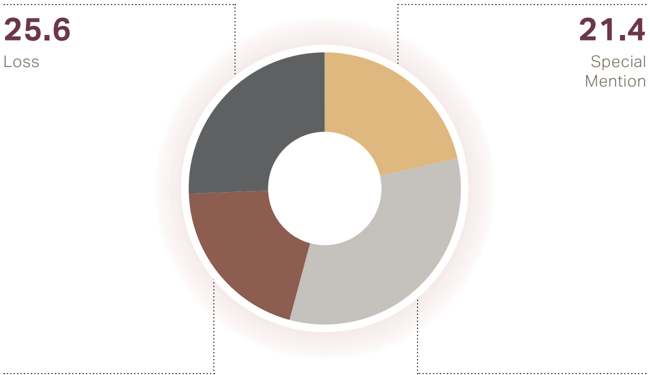
%	
3.5	Movable property
4.0	Other
5.6	Inventory and book debt
0.4	Vehicles
9.3	Deposits and securities
39.7	Immovable property
12.3	Unsecured
25.2	Guarantees

Movement of NPL



NPL composition

%



Credit risk management process at DFCC Bank PLC

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
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 have been designed for each product type and are being reviewed annually 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 → 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	→ Negative sectors 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. Negative sectors are recognised as industry sectors to which lending is disallowed while special clearance sectors are 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, large group borrowers and selected geographical regions 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/provinces → Industry reports/periodical economic analysis provide direction to lending units to identify profitable business sectors to grow the Group's portfolio and to identify industry-related risk sources and their impact → Evaluation of new products from a credit risk perspective → 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 → Independent rating review by the Credit Risk Management Unit or the Quality Assurance Unit of IRMD ensures an assessment of credit quality at the time of credit origination and annual credit reviews → 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 BIRMC → Watch listing of clients with significant arrears and obtaining feedback from business units on recovery action taken to regularise arrears. → Disseminating information to decision-makers on frequently watch-listed clients based on arrears exposures, frequent excess positions, restructured and extended facilities, rating downgrades monitored over a period of time, and crossovers to NP of watchlisted borrowers. → 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 BIRMC and the Board → Continuous contribution to effective financial reporting through loss ratio calculation, stage upgrades and involvement in 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 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 Reviews Mechanism	Quarterly

Dimensions for analysis and monitoring of credit concentration risk

Credit concentration risk measure/indicator	Frequency
Industry sector limits positions	Monthly/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*

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 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.

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.

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 liability 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 inter bank foreign currency transactions are monitored for consistency with preset limits and any excesses are reported to the Management and to BIRMC.

DFCC Bank PLC 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. In October 2013, the Bank issued a foreign currency international bond of USD 100 Mn with an original maturity of five years, which matured in October 2018. The Bank actively managed the exchange rate arising from a minor part of this transaction where a majority was hedged with the Central Bank. During the year the Bank put in place a plan after evaluating the options available for the repayment of the foreign currency bond which was settled successfully in October 2018.

Indirect exposures to commodity prices risk – Gold prices

The Bank's pawning portfolio amounted to LKR 3,620 Mn as at 31 December 2019, which is less than 1% 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 Senior Management via ALCO and BIRMC.

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 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 minimum requirement is 100% of HQLAs to be maintained over the immediate 30-day net cash outflow for 2019 which has been progressively increased from 2015).

The Central Bank of Sri Lanka (CBSL) has issued consultative guidelines for Net Stable Funding Ratio (NSFR) in November 2017, with an observation period until 31 December 2018. Commencing 1 January 2019 NSFR is in force and it requires bank to maintain a NSFR ratio of 90% which had progressively increased to 100% from 1 July 2019 onwards. 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 requires 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 – Ratios analysis	
Net loans to total assets	Quarterly
Loans to customer deposits	Quarterly
Liquid assets to short-term liabilities	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

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, terrorism, theft, or even political instability. 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.

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 has been ensured in the process of operational risk management through the 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 the 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 reasons. The risk and business impact is evaluated. Rectification measures are introduced whenever the tolerance levels are compromised
- → Review of HR attrition and exit interview comments in detail including a trend analysis with the involvement of the IRMD. The key findings of the analysis are evaluated at the ORMC in an operational risk perspective

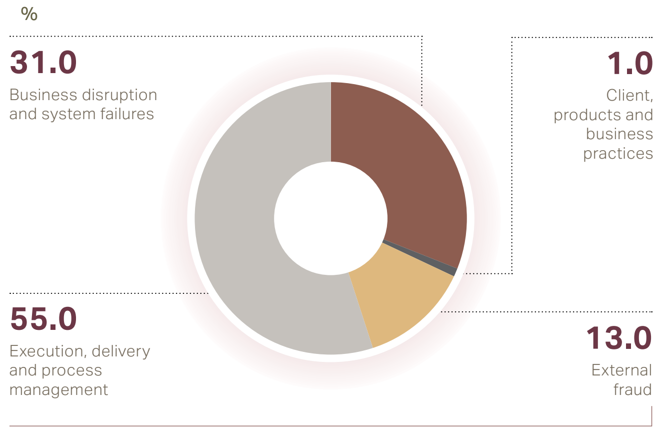
- → Establishment of the Bank's complaint management process under the Board Approved Complaints Management Policy. IRMD analyses the complaints received to identify any systemic issues and reports to ORMC
- → Conduct product and process reviews in order to identify the operational risks and recommend 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 incident reporting. A total of 135 incidents have been reported in 2019. The Bank has in place a well streamlined process of reporting and employees are continuously encouraged via training to report incidents as and when they happen. The Operational Risk Coordination Officers (ORCO) are also expected to send a monthly report to the Operational Risk Management Unit regarding operational risk related incidents if any taken place at their respective branches or departments. The operational risk incidents reported in 2019 based on the event type are categorised below:

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 included near misses and no losses. However, the actual losses resulting from the operational risk events have been very marginal and there have been no significant losses incurred as a result of the existing stringent controls that are in place.

Risk and Control Self Assessments (RCSA) and Key Risk Indicators (KRIs) process of the Bank

Monitoring of Risk and Control Self Assessments (RCSA) and Key Risk Indicators (KRIs) in key functions of the Bank, was further strengthened 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 will be 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 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

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, undertaking 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. Cash transportation, 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 comprehensive report on outsourced activities is periodically submitted to the CBSL for their review while adhering to 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 (External and 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

Management of Information Systems Security (ISS) risk under IRMD

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 evaluate risks to the confidentiality, integrity and availability (CIA) of Bank's information assets.

Main objectives of ISRM is to ensure compliance with regulatory and contractual requirements while adopting industry security best practices and align 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, Bank has adopted international security standard requirements such as ISO 27001:2013 and PCI-DSS while being compliant with Central Bank's Baseline Security Standard (BSS) and Payment related mobile application security guidelines.

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

During last year, the Bank undertook an initiative to improve the security of digital data by adopting a new data classification framework with the support from an external information security consultancy firm and completed the deployment for all business units. Further, the same process is being deployed to the branch network within 2020.

Bank extended it's early detection capability to secondary data center by implementing an AI based malicious traffic analysis solution which improved the overall process of security event and incident detection. Also, to improve the quality of the existing information security program, Bank invested on a new computer based interactive training module for cyber security which supports enhancing cyber security knowledge of Bank employees and helps them to adopt best practices when functioning business as usual.

Bank's current ISRM strategy focuses on following activities:

- Establish and manage the Information Security Management System (ISMS) based on ISO 27001:2013 and PCI Data Security Standards.
- Development of information security policies, procedures and guidelines according to information security standards.
- Identification of security risks related to the Bank's information assets and propose security controls to maintain residual risks at acceptable levels.
- Management of information security incidents and periodic information security risk assessments.
- Set and monitor information security KPIs and report the status of the indicators to the Operational Risk Management Committee
- Perform trend analysis on information security incidents and reporting, which are regularly reviewed at the ORMC and the BIRMC.
- Conduct internal vulnerability assessment and penetration testing covering IT infrastructure on defined time intervals to ensure known vulnerabilities are properly managed.
- Ensure adequate information security awareness is given to staff members to follow security best practices and detect and report information security events and incidents.

The established information security management system provides a systematic approach to managing sensitive company information by covering all aspects including people, processes, technology and information systems.

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 hinders 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 road map 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 of 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.

Bank's Board of Directors is 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 work flows 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.

One of the critical functions of the compliance is to manage and assess the Bank's Anti-money Laundering and Counter Financing Terrorism compliance, so as to ensure the compliance to international recommendations of the Financial Action Task Force as well as domestic legislative enactments. Board of Directors, Senior Management and all staff take serious note on the AML/CFT compliance and on-going basis develop, review and improve policies, procedures, systems towards minimising the AML risk and thereby avoid reputation risk.

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 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 as at 31 December 2019 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) was stressed to see if the ratio falls below the regulatory level → 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 among others. 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 the BIRMC conducts regular reviews of the stress testing outcomes including the major 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 and 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 at 31 December 2019, DFCC Bank PLC maintained a healthy risk capital position of 11.342% Tier I capital ratio and 15.810% total capital ratio based on the Basel III regulatory guidelines. This demonstrates a cushion of about 2.8% and 3.3%, respectively, for Tier I and total capital over the minimum regulatory requirements.

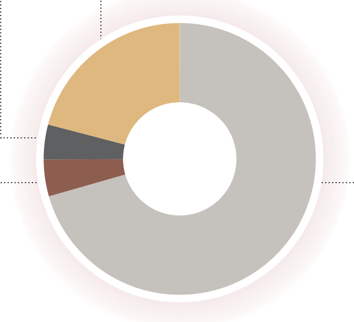
Capital adequacy measures the adequacy of the Bank's aggregate capital in relation to the risk it assumes. The capital adequacy of the Bank has been computed under the following approaches of the Basel regulations which are currently effective in the local banking industry:

- 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 2019, 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 70.6% of the total capital while the available capital buffer is 20.9%.

Capital distribution

%



Capital adequacy management

BASEL III is the new 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, called the 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 of DFCC Bank PLC 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 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.

The Banking Act Direction No. 01 of 2016 introduced capital requirements under Basel III for Licensed Commercial Banks, commencing from 1 July 2017 with specified timelines to increase minimum capital ratios to be fully implemented by 1 January 2019. The capital forecast performed under the ICAAP process has indicated the ability of the Bank to maintain a comfortable level of capital cushion in the next few years, while proposing suitable capital augmentation plans. As recommended by Bank's ICAAP to enhance Tier I capital, the Bank during 2019 raised LKR 2.8 Bn equity capital through a right issue.

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 2019		31 December 2018	
	Bank	**Group**	Bank	Group
Credit risk-weighted assets (LKR Mn)	**274,010**	**274,759**	262,980	263,747
Market risk-weighted assets (LKR Mn)	**16,956**	**16,956**	14,904	14,904
Operational risk-weighted assets (LKR Mn)	**16,074**	**16,480**	15,940	16,229
Total risk-weighted assets (LKR Mn)	**307,040**	**308,195**	293,824	294,880
Total Tier I capital adequacy ratio – Basel III (%)	**11.342**	**11.327**	10.766	10.888
Total capital adequacy ratio – Basel III (%)	**15.810**	**15.778**	16.065	16.168

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. The Bank is reasonably comfortable with the current and future availability of capital buffer to support an ambitious growth or withstand stressed market conditions.

Apart from the strong 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 and currently only a part has been taken into consideration in the capital adequacy computation under Basel III based on regulatory specifications.

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 to 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

Risk category	Impact	Key risk indicators	Limit Type
		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
		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
		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 Maldives	Internal
		Non-Performing Ratio	Internal
		Industry HHI	Internal
		Loan and OD – Exposure in BB and below grades	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 Asset Ratio for DBU (Average monthly liquid assets/total monthly liabilities)	Regulatory Internal
		Liquid Asset 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
		Clean Money Market Borrowing Limit	Internal
		Net Stable Funding Ratio	Regulatory
		Leverage Ratio	Regulatory
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
		Treasury trading securities portfolio	Internal

Risk category	Impact	Key risk indicators	Limit Type
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
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 disaster 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 introduce the Bank's Corporate Governance Report on behalf of our Board. The Corporate Governance Report provides an insight into how the Board operated and the key issues considered during the year.

The Board sets the example for employees of the Bank by implementing the highest standards of business ethics and corporate governance.

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 corporate governance framework is well-structured and is supported by a strong focus on integrity, transparency, 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.

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

18 February 2020

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 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 is 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.

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

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.

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

Non-Executive Directors

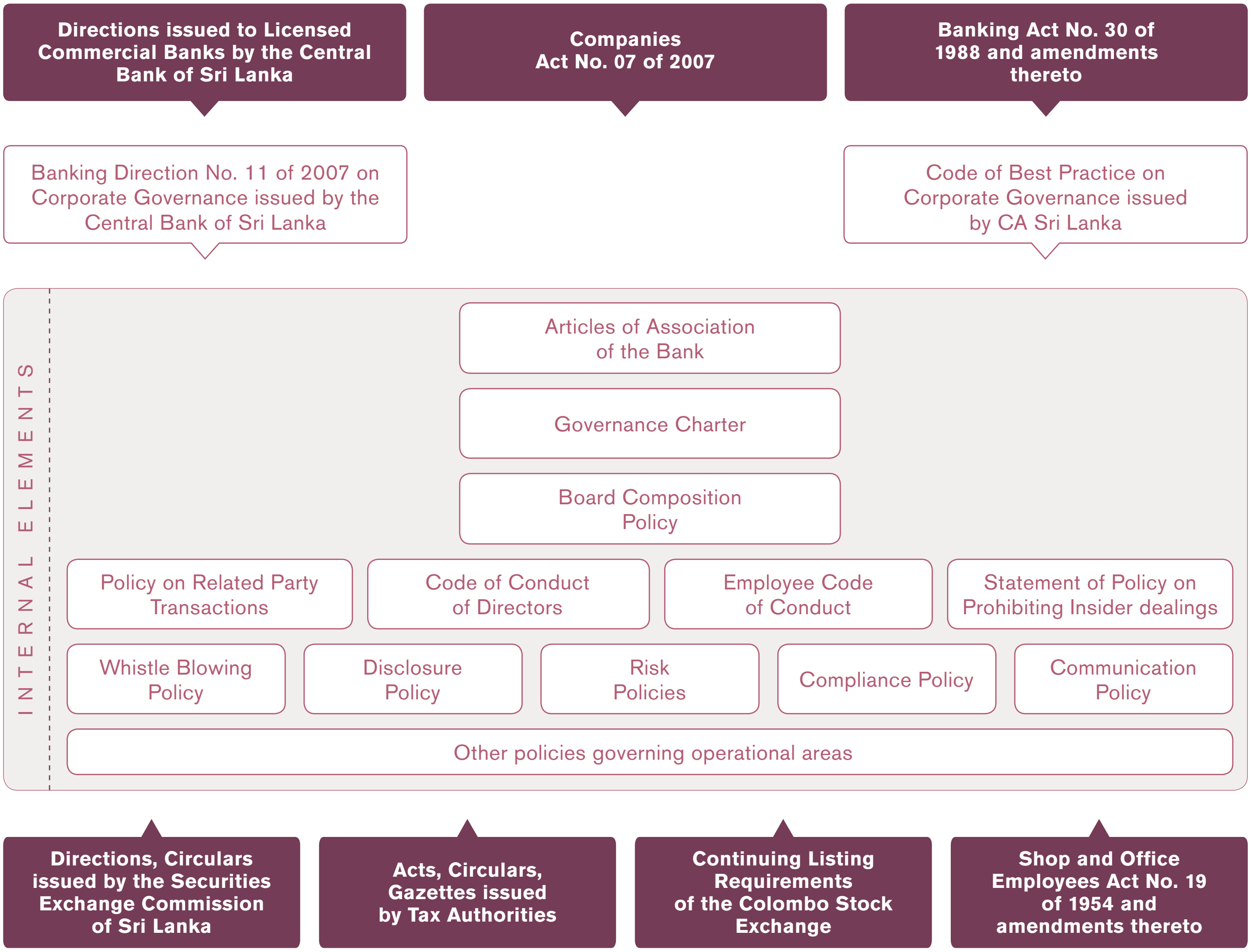
Exercise a strong independent voice, challenging and supporting Executive Directors. Scrutinise performance against objectives and monitor financial reporting. Monitor and oversea risks and controls, determine Executive Directors, and Key Management personnel (KMP) remuneration and manage Board and KMP succession through their committee responsibilities

Company Secretary

Advices the Chairman on Governance, together with updates on regulatory and compliance matters. Supports the Board agenda with clear information flow. Acts as link between Board and its committees and between Non-Executive Directors and senior management

Governance framework of the Bank

Main elements which encompasses the governance framework of the Bank

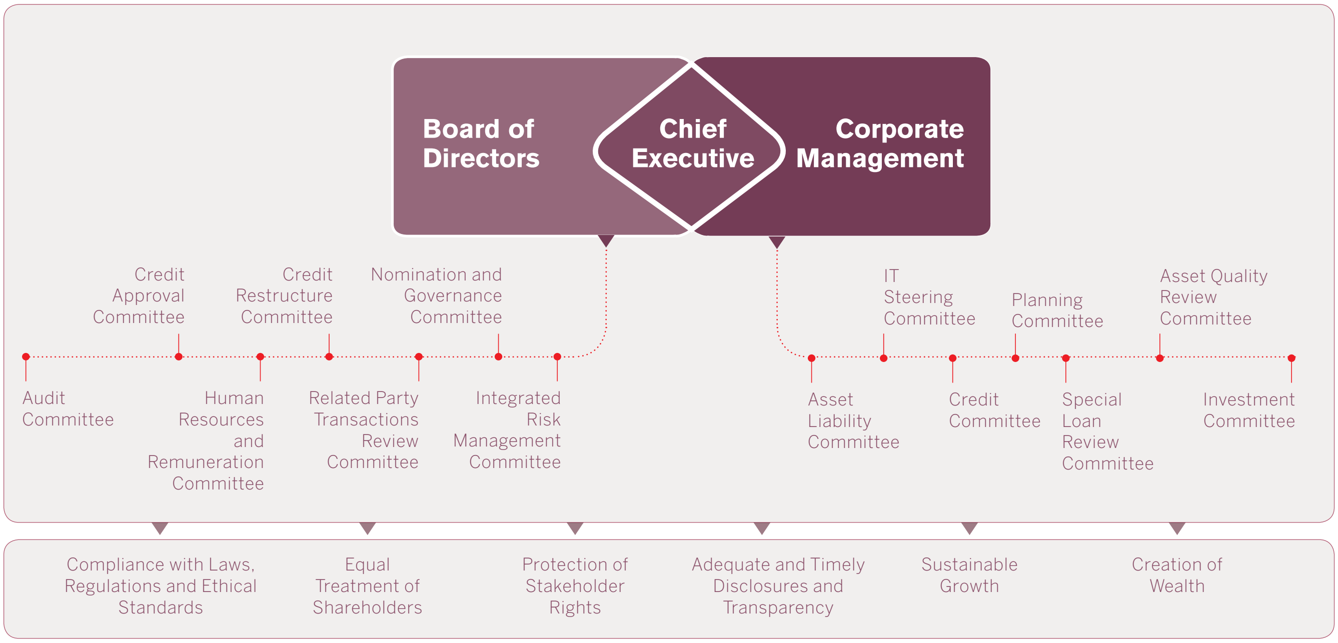


Good corporate governance is a mechanism that harmonises the interests of a wide range of stakeholders of an institution, while contributing to sustainable growth by attracting outside sources of capital. The Bank practices high standards of corporate governance based on the OECD principles of good governance.

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



Conduct and ethical framework

The Code of Conduct for Directors adopted by the Bank which the Directors are expected to abide by, encompasses the following:

→ Compliance with laws, rules, and regulations

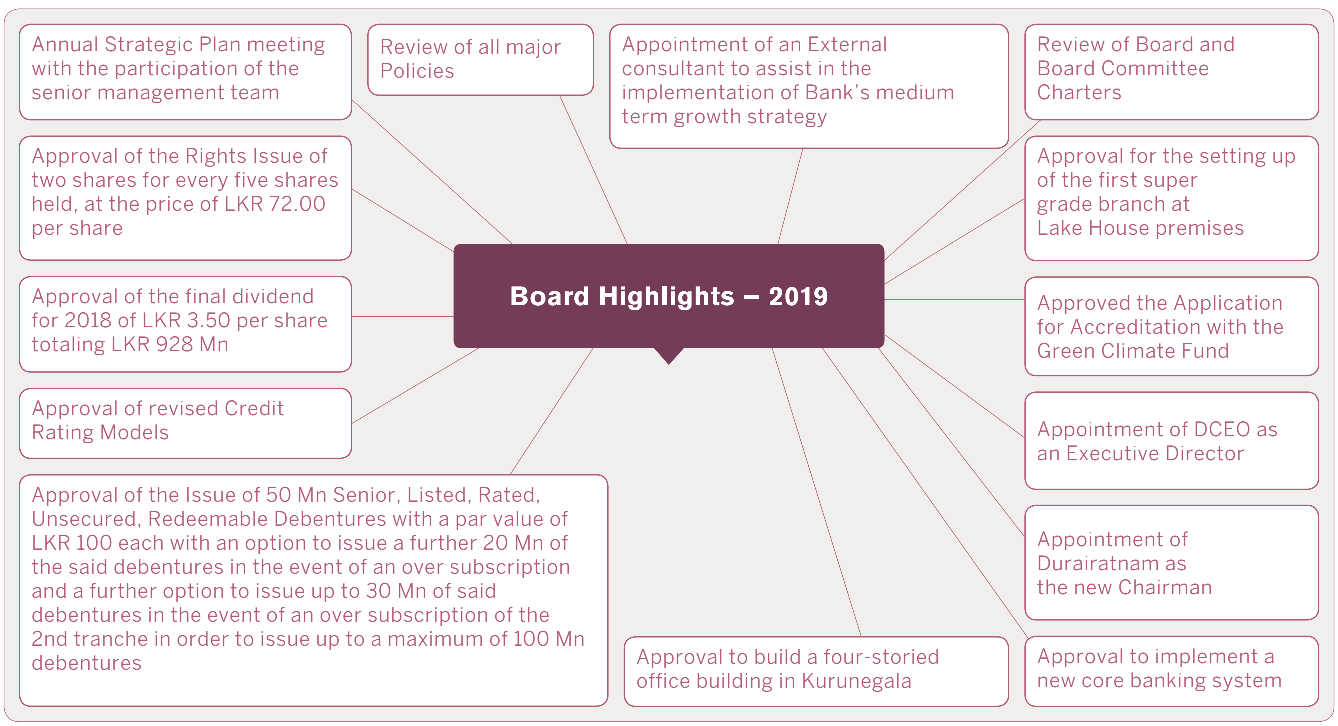
→ Avoidance of conflicts of interest

→ 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 Disciplinary Code, Statement Prohibiting Insider Trading, Whistleblowing Policy, Anti-Money Laundering Policy, Compliance Policy, Disclosure Policy etc.



Permanent Board Committees as at 31 December 2019

** 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	15	12	6	4	6	12	15
K P Cooray	12/15		6/6	4/4		10/12	12/15
T Dharmarajah	15/15	12/12			6/6		15/15
J Durairatnam	15/15		2/2	1/1		12/12	5/5
Ms L K A H Fernando	15/15	10/12			5/6		
P M B Fernando	15/15	12/12		4/4		12/12	15/15
C R Jansz	10/10		4/4	3/3		7/7	10/10
N K G K Nemmawatta	14/15					5/5	
N H T I Perera	6/6						
Ms V J Senaratne	13/15				5/6		
L H A L Silva	15/15				6/6		14/15
Ms S R Thambiayah	13/15		5/6				

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 has shared a reasonable portion of its profit with shareholders in the form of a dividend while retaining the balance 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.

Annual General Meeting

The Annual General Meeting 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. 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 2019 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 January 2019. 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 133. The Independent Assurance Report by the External Auditor on the Directors Statement on Internal Control is given on page 136.
	(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. During the year, the Charter was reviewed and updated. 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 are 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.

Rule	Governance principle	Compliance	Remarks
	(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.
	(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. The business initiative Board committees established to drive key business areas relating to SME and branch banking business, and media and branding, continued to function during the year and the members of these committees met KMPs on a regular basis to review the status of implementation of identified strategies. During the year, the Board held quarterly review meetings in order to monitor progress against the business plan. These meetings 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 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 15 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.

Rule	Governance principle	Compliance	Remarks
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 104.
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.
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.

Rule	Governance principle	Compliance	Remarks
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 is given in 3.5 (xi).
3.2 Composition of the Board			
3.2 (i)	Number of Directors	Compliant	The Board of Directors comprised ten Directors at the end of the year under review.
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 are the only Executive Directors on the Board.
3.2 (iv)	Number of Independent Directors	Compliant	There were seven Independent Directors 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.
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 a Director from office during the year under review is given in the Directors' Report. None of the Directors resigned or were removed during the year under review.

Rule	Governance principle	Compliance	Remarks
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 Fitness and propriety of Directors			
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.
3.4 Management functions delegated by the Board			
3.4 (i)	Delegation arrangements	Compliant	The Board of Directors has delegated authority to the Management subject to specific criteria, limitations, safeguards, and monitoring mechanisms.
3.4 (ii)	Extent of delegation	Compliant	The delegation of authority made by the Board is designed to facilitate efficient management of the affairs of 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.
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 The Chairman and Chief Executive Officer			
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 until 27 July 2019 was a Non-Executive Director (non-independent). The Board had appointed P M B Fernando an Independent Director as the Senior Director. The current Chairman who is an Independent Director was appointed as Chairman with effect from 28 July 2019 and P M B Fernando continues to function as the Senior Director. The Board has approved Terms of Reference (TOR) for the Senior Director. During the year the TOR was reviewed and updated.
3.5 (iii)	Disclosure of relationship between the Chairman, CEO, and other Directors	Compliant	No relationships exist between the current Chairman, the CEO, and the other Directors according to the declarations made by them except being Directors of subsidiaries and in the joint venture. The past Chairman and one other Director were on the Board of two companies outside the 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.

Rule	Governance principle	Compliance	Remarks
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.
3.5 (vii)	The Board to act in the best interest of the Bank	Compliant	The Chairman encourages exercise of independent judgement by the Directors on matters under consideration by the Board in order that the best interests of the Bank can be assured.
3.5 (viii)	Effective contribution of Non-Executive Directors	Compliant	The Chairman facilitates contributions by the Non-Executive Directors in making decisions.
3.5 (ix)	The Chairman not to engage in executive functions	Compliant	The Chairman is Non-Executive and does not supervise any management personnel of the Bank directly.
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. During the year, CEO had one-on-one meetings with potential investors and major shareholders and briefed the Board on the discussions held as appropriate. The Communications 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 Board appointed committees			
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 124.
	(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.

Rule	Governance principle	Compliance	Remarks
	(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 2019.
	(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 2019.
	(h) Meetings with External Auditor	Compliant	The Committee met with the External Auditor on four 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 2018 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 – Internal Audit attends all Committee meetings. CEO, Deputy 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 2019, 12 meetings were held. Attendance of Committee Members is given in the table on page 104.
	(o) Audit Committee activities	Compliant	Please refer Committee Report on page 124.
	(p) Secretary	Compliant	Vice President – Internal Audit serves as the Secretary of the Committee.
	(q) Process of raising issues in confidence	Compliant	The Board has adopted a Whistleblowing 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.

Rule	Governance principle	Compliance	Remarks
3.6 (iii)	Board Human Resources and Remuneration Committee		Please refer page 127.
	(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.
	(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 128.
	(a) Appointment of new Directors and KMPs	Compliant	During the year, the Committee considered and recommended to the Board, the appointment of one new Director 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. During the year the Committee reviewed and incorporated necessary changes to job descriptions of the respective 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 129.
	(a) Composition	Compliant	Please refer page 129.
	(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.

Rule	Governance principle	Compliance	Remarks
	(d) Controlling risks within prudent limits	Compliant	The Committee assesses possible risks, reviews, and takes appropriate action to mitigate such risks.
	(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 Related party transactions			
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 132. 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 139.
(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 133.
(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 136.
(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 14 to 17, 119 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 2019	
Category of related party	**LKR '000**	**%**
Directors	**315**	
Other Key Management Personnel	**41,524**	**0. 09**
Close Family Members of directors and Key Management Personnel	**1,024**	
Total Net Accommodation	**42,863**	**0. 09**
Regulatory capital – solo basis	**48,542,925**	

The total net accommodation was 0.09% 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 2019 by the other Key Management Personnel (officers performing executive functions referred to in Banking Act Determination No. 3 of 2010) amounted to LKR 99.34 Mn, LKR 148.20 Mn and LKR 20.04 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 in the table below:

Section	Disclosure requirement	Reference to annual report
168 (1) (a)	The nature of the business of the Bank and Group	Page 155 (Note 1.4 to the Financial Statements)
168 (1) (b)	Signed Financial Statements of the Bank in accordance with Section 152	Page 149 (Financial Statements)
168 (1) (c)	Auditor's Report on Financial Statements of the Bank and the Group	Page 141
168 (1) (d)	Changes in accounting policies made during the accounting period	Page 164 (Note 6 to the Financial Statements)
168 (1) (e)	Particulars of entries in the interest register made during the accounting period	Page 120 of this Report
168 (1) (f)	Remuneration and other benefits of Directors during the accounting period	Pages 119, 211 and 270 (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 121 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 119 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 211 (Note 20 to the Financial Statements)
168 (1) (j)	Auditors' relationship or any interest with the Bank and its subsidiaries	Page 118 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 123 (Signed with an acknowledgment 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 146 to 282 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

The Chairman's Statement, Chief Executive's Report and the Management Discussion and Analysis give 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 2019	LKR '000
Profit for the period	**2,073,868**
Appropriations	
Transfer to:	
Reserve fund (statutory requirement)	**103,693**
First and final dividend recommended for financial year ended 31 December 2019	**912,566**
Unappropriated profit for the period	**1,057,609**

Accounting policies

The accounting policies adopted in the preparation of the Financial Statements of the Bank and the Group are stated on pages 158 to 282 of the Annual Report.

There were no changes to the accounting policies of the Group in the year under review, other than for changes arising out of transition to SLFRS 16.

Auditors' Report

The Auditors' Report on the Financial Statements, which is unqualified, is given on page 141.

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 2020. 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 and finance, trade, law, commerce, or services. Profiles of the Directors are given on pages 14 to 17.

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

Independent Non-Executive Directors

K P Cooray

T Dharmarajah*

J Durairatnam – Chairman with effect from 28 July 2019.

Ms L K A H Fernando

P M B Fernando – Senior Director

N K G K Nemmawatta

Ms S R Thambiayah

Non-Independent Non-Executive Director

Ms V J Senaratne

Executive Directors

L H A L Silva – Chief Executive Officer

N H T I Perera – Deputy Chief Executive Officer

** due to retire in March 2020*

Appointment, retirement/resignation and re-election of Directors

N H T I Perera, Deputy Chief Executive Officer was appointed as an Executive Director of the Bank on 1 July 2019. He will retire in terms of Article 46 (ii) of the Articles of Association and is offering himself for re-election at the Annual General Meeting.

The Nomination and Governance Committee has recommended the re-election of N H T I Perera and the Board having concluded that he is a fit and proper person to be a Director in terms of the provision of the Banking Act unanimously endorsed the recommendation of the Nomination and Governance Committee.

C R Jansz retired from the Board with effect from 27 July 2019 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. Upon the retirement of C R Jansz, the Board appointed J Durairatnam as the Chairman with effect from 28 July 2019.

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 P M B Fernando 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 2019 is given below:

	Year ended 31 December 2019	Year ended 31 December 2018
Bank	**65,120**	55,271
Group	**88,545**	79,959

Directors' meetings

The Bank held 15 Board meetings during the year. The Table on page 104 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 2019	Number of shares as at 31 December 2018
K P Cooray	**Nil**	Nil
T Dharmarajah	**2,700**	500
J Durairatnam	**Nil**	Nil
Ms L K A H Fernando	**Nil**	Nil
P M B Fernando	**2,000**	1,000
C R Jansz[1]	**–**	1,000
N K G K Nemmawatta	**Nil**	Nil
N H T I Perera[2]	**16,800**	–
Ms V J Senaratne	**1,814**	1,296
L H A L Silva	**24,866**	3,476
Ms S R Thambiayah	**Nil**	Nil

[1] Not a Director as at 31 December 2019

[2] Not a Director as at 31 December 2018

Directors' interests in debentures

	31 December 2019 LKR '000	31 December 2018 LKR '000
L H A L Silva	**2,000**	2,000

No Director directly or indirectly holds options of the Bank.

Directors' interests register

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

Directors' interests in transactions with the Bank

The Directors' interests in transactions with entities/persons (other than subsidiaries, the joint venture, and associate) listed under each Director for the year ended 31 December 2019 is as follows:

	LKR '000
K P Cooray	
Associated Newspapers of Ceylon Limited	
Hotel Developers (Lanka) PLC	
Aggregate amount of accommodation	1,300,000
Associated Newspapers of Ceylon Limited	
Aggregate amount of payments for rent	16,541
Aggregate amount of payments for services	11,256
J Durairatnam	
Assetline Leasing Company Limited	
Aggregate amount of accommodation	500,000
Asian Hotels and Properties PLC	
Aggregate amount of payment for services	33
Ms L K A H Fernando	
Foodbuzz (Pvt) Limited	
R I L Property PLC	
United Motors Lanka PLC	
Aggregate amount of payment for services	610
P M B Fernando	
Laugfs Power Limited	
Aggregate amount of accommodation	96,000
C R Jansz	
Distilleries Company of Sri Lanka PLC	
Lanka Bell Limited	
Lanka Milk Foods (CWE) PLC	
Aggregate amount of payments for services	3,146
Ms V J Senaratne	
Distilleries Company of Sri Lanka PLC	
Melstacorp PLC	
Aggregate amount of accommodation	3,300,000
Distilleries Company of Sri Lanka PLC	
Aggregate amount of payment for services	50
L H A L Silva	
Aggregate amount of accommodation	2,000
LVL Energy Fund PLC	
Aggregate amount of accommodation	500,000
Lanka Financial Services Bureau Limited	
Aggregate amount of investment	1,000
Aggregate amount of payments for services	8,419

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 1,250,000.

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

T Dharmarajah

Ms L K A H Fernando

Credit Approval Committee

J Durairatnam – Chairman

K P Cooray

N K G K Nemmawatta

P M B Fernando*

**Non-voting member*

Credit Restructure Committee

J Durairatnam – Chairman

T Dharmarajah

Ms S R Thambiayah

Human Resources and Remuneration Committee

J Durairatnam – Chairman

K P Cooray

Ms S R Thambiayah

Nomination and Governance Committee

P M B Fernando – Chairman

K P Cooray

J Durairatnam

Integrated Risk Management Committee

T Dharmarajah – Chairman

Ms L K A H Fernando

Ms V J Senaratne

L H A L Silva

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

Related Party Transactions Review Committee

T Dharmarajah – Chairman

K P Cooray

J Durairatnam

P M B Fernando

L H A L Silva

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

Further details relating to the committees are given in the section on Corporate Governance and the committee reports.

Dividend

The Directors have recommended the payment of a first and final dividend of LKR 3.00 per share, (final dividend paid in the previous period, LKR 3.50 per share). The total dividend for the year will amount to approximately LKR 913 Mn (LKR 928 Mn in the previous period), which amounts to 46% of the Bank's distributable profit.

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

Property, plant, and equipment, and leasehold property

The total expenditure of acquisition on property, plant, and equipment during the year amounted to LKR 1,318 Mn, of which intangible assets amounted to LKR 317 Mn. Details of these are given in Notes 39 and 40 to the Financial Statements.

Reserves

Total reserves and retained profit amounted to LKR 39,949 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 2019 was LKR 7,530 Mn. The number of shares in issue as at 31 December 2019 was 304,188,756. Further information is given on pages 263 and 264.

The Board of Directors, on 22 January 2019 decided to raise new capital by way of a Rights Issue of two shares for every five shares held at a consideration of LKR 72.00 per share. New capital amounting to LKR 2,814 Mn was raised by way of the Rights Issue.

Share information

Information relating to earnings, net asset and market value per share are given on pages 50 and 53 of the Annual Report and also contain information pertaining to the share trading during the period.

Shareholders

As at 31 December 2019, there were 9,011 registered shareholders and the distribution is indicated on page 51.

The 20 largest shareholders as at 31 December 2019 are listed on page 52.

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 place great emphasis on following internationally accepted good corporate governance practices, and principles. Systems, and procedures are in place in order to satisfy good governance requirements.

The Directors have obtained External Auditors' assurance on effectiveness of the internal control mechanism and compliance with the Direction 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 100 to 116.

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 146 to 282
3 (8) (ii) (a)	Affirmative assurance of compliance with accounting standards and requirements	Directors' Responsibility Statement on page 139
3 (8) (ii) (b)	Affirmative assurance of the integrity of financial reporting system	Directors' Statement of Internal Control on page 133
3 (8) (ii) (c)	Assurance report issued by the External Auditor	Independent Assurance Report on page 136
3 (8) (ii) (d)	Information on Directors	Pages 14 to 17
3 (8) (ii) (d)	Remuneration of Directors	Annual Report of the Board of Directors on the State of Affairs of the Bank on page 119
3 (8) (ii) (e)	Net accommodation granted to each category of related party	Corporate Governance Report. Table on page 115
3 (8) (ii) (f)	Compensation and other transactions with Key Management Personnel	Corporate Governance Report on page 116
3 (8) (ii) (h)	Compliance with prudential requirements and regulations	This report

Acknowledgement of the content of the report

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

For and on behalf of the Board of Directors,

J Durairatnam
Chairman

L H A L Silva
Director and Chief Executive Officer

Ms A Withana
Company Secretary

18 February 2020

Report of the Audit Committee

Composition

The Board appointed Audit Committee comprises of three Independent Non-Executive Directors. The Committee is chaired by 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;

P M B Fernando – Chairman

T Dharmarajah

Ms Hiroshini Fernando

Brief profiles of the members are given on pages 14 to 17.

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 2019. 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.

The Committee has discharged the responsibilities assigned by Rule No. 3 (6) (ii) of the Corporate Governance Direction No. 11 of 2007, issued by the Central Bank of 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 2019. During the year, 12 Audit Committee meetings were held and proceedings of the Audit Committee meetings were reported regularly to the Board.

Attendance by the Committee members at the meetings is given in the table on page 104 of this Annual Report.

The Chief Executive Officer, Chief Financial Officer and Chief Operating Officer attend meetings by invitation. Senior Management also attend 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 audit.

Principle activities conducted during 2019

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, External, and Internal Auditors.
- The process followed on adoption of SLFRS 16.

- All quarterly un-audited interim Financial Statements and Financial Statements for the year ended 31 December 2019, 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 2019 Financial Statements are reliable and presents a true and fair view of the state of affairs of the Bank.

Review of internal control system

The Audit Committee assessed the effectiveness of internal control over financial reporting as at 31 December 2019 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 perform 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 133 to 135.

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 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 2019. 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. The Potential Fraud Monitoring Unit under Internal Audit carry out testing and data analytics related to potential fraud risk areas on a continuous basis.

The Internal Audit Department suggested simplified and efficient business processes where it was deemed necessary. In 2019, the Board Audit Committee reviewed 260 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.

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 October 2019 by the Board.

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 on Non-Audit Services provided by the External Auditors in October 2019.

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. 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 2019 subject to the approval of shareholders at the next Annual General Meeting.

Monitor the progress of implementation of new accounting pronouncements

The Committee reviewed the process adopted by the Bank readiness to implement SLFRS 16 on Leases and special meetings were held with External Auditors to obtain their views, inputs on SLFRS 16 to consider the impact on financial reporting on recognition, measurement, presentation, and disclosures process of the Bank.

The Committee continued to receive regular updates, detailed presentations from Management and results of independent reviews on same from the Bank's Internal Audit and External Auditor to ensure the compliance of SLFRS 9 on Financial Instruments.

Good governance and whistleblowing policy

The Committee continuously emphasised on sustaining ethical conduct amongst staff members. In this regard, a Code of Ethics and Whistleblowing policy was put in place and all members of staff were educated and encouraged to practice Whistleblowing if they suspect any wrong doing. The Whistleblowing Policy of the Bank and its subsidiaries was reviewed and recommended by the Audit Committee during the year 2019 in order to further strengthen the Policy as a communication channel to raise any genuine concerns. All appropriate procedures and techniques are in place to conduct independent investigations into incidents reported through Whistleblowing or identified through other channels. The Whistleblowing Policy guarantees the maintenance of strict confidentiality of the identity of the Whistleblowers. The Policy is subject to annual review in order to further improve its effectiveness.

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

18 February 2020

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. K P Cooray and Ms S R Thambiayah are the other members. C R Jansz functioned as the Chairman of the Committee until 27 July 2019.

The Chief Executive attended meetings and participated in its deliberations except when his own evaluation and remuneration was under discussion. He also serves as the Secretary. The Head of Human Resources assisted the Committee by providing relevant information. The Committee obtains input from external specialists as and when required.

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.

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 6 meetings during the financial year to carry out its task. The attendance by members is given on page 104 of the Annual Report.

J Durairatnam

Chairman – Human Resources and Remuneration Committee

18 February 2020

Report of the Nomination and Governance Committee

Composition

The Nominations 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 Duriaratnam, and K P Cooray serving as members. C R Jansz functioned as a member of the Committee until 27 July 2019.

The Chief Executive Officer attends the meeting by invitation, while the Secretary to the Board functions as the Secretary of the Committee.

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

Four meetings were held during the year. During the year, the committee considered and recommended to the Board the appointment of one new Director. The Committee identified persons to fill 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 KMP's 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 104 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

18 February 2020

Report of the Board Integrated Risk Management Committee

Composition of Board Integrated Risk Management Committee (BIRMC)

During the financial year ended December 2019, the composition of Board Integrated Risk Management Committee (BIRMC) of DFCC Bank was unchanged. There are three Non-Executive Directors and an Executive Director as at 31 December 2019. 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 2019 was as follows:

Mr T Dharmarajah – Chairman of the Committee/ Non-Executive Director of DFCC Bank

Mr L H A L Silva – Executive Director/Chief Executive Officer of DFCC Bank

Ms V J Senaratne – Non-Executive Director of DFCC Bank

Ms L K A H Fernando – Non-Executive Director of DFCC Bank

Mr 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 Group.
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 2019, the DFCC Bank convened six BIRMC meetings where two additional meetings were to review Internal Capital Adequacy Assessment Process (ICAAP) and risk policies. The attendance of members is listed on page 104 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 specific requirements, industry dynamics, and regulatory specifications and approved the necessary amendments to further strengthen the risk management processes in the Bank.
E. The Committee reviewed the technical validation results for the credit rating models and approved the revisions of credit rating models for Corporate, SME, and PFS exposures. These revisions focused on recognising the borrower risk profile more effectively thereby reducing the subjectivity in assigning the scores for the model parameters. These changes have been implemented in the Bank during the year facilitating better credit pricing and risk management.

F. The annual review of effectiveness and adequacy of the Management Committees was conducted by the BIRMC during the first quarter of 2019. The review results were shared with the respective committees for necessary improvements.

G. Reviewed and approved all the new products and redesign of any existing products of the Bank while taking both business and risk management perspective.

H. Reviewed and implemented the CBSL recommendations based on the examination report requirements in relation to the integrated risk management function of the Bank.

I. 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.

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.

T Dharmarajah

Chairman – Board Integrated Risk Management Committee

18 February 2020

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, K P Cooray and N K G K Nemmawatta serving as members.

C R Jansz functioned as the Chairman of the Committee until 27 July 2019.

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 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 12 meetings during the financial year to carry out its task. The attendance by members is given on page 104 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

18 February 2020

Report of the Related Party Transactions Review Committee

Composition

The Related Party Transactions Review Committee appointed by the Board of Directors, presently consists of Four Non-Executive Directors and the Chief Executive Officer. T Dharmarajah an Independent Director is the Chairman of the Committee. J Durairatnam, K P Cooray, P M B Fernando and L H A L Silva are the other members. C R Jansz functioned as a member of the Committee until 27 July 2019.

The Company Secretary functions as the Secretary of the Committee.

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 15 meetings during the financial year to carry out its task. The attendance by members is given on page 104 of the Annual Report. The proceedings of the Committee meetings have been reported regularly to the Board of Directors.

T Dharmarajah

Chairman – Related Party Transactions Review Committee

18 February 2020

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 to be in line with the said regulatory requirements.

Internal control system

The Internal Control System is the process designed and effected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of DFCC Bank PLC's ("the Bank") objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

The Internal Control System of the Bank consists of the following components:

a. The control environment;

b. The entity's risk assessment process;

c. The information system including the related business processes relevant to financial reporting and communication;

d. Control activities; and

e. Monitoring of controls.

The subset of this wider internal control system is the internal controls designed and implemented to provide reasonable assurance regarding the reliability of the financial reporting and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.

Responsibility

The Board acknowledges the responsibility for the adequacy and effectiveness of the Bank's 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 for managing material risks of the bank

The Board has set up an ongoing process for identifying, monitoring and managing the material risks faced by the Bank. This includes establishment of a dedicated Risk Management Department that provides regular reports on various risks subject to an oversight by the Internal Audit Department through Internal Audit Reports that enables the Audit Committee to review the adequacy and effectiveness of the system of internal controls continuously to match the changes in the business environment or regulatory guidelines. In making this assessment, all key processes relating to material or significant transactions captured and recorded in the books of accounts are identified and covered on an ongoing basis that is compatible with the guidance for Directors of Banks on the Directors' Statement of Internal Control issued by The Institute of Chartered Accountants of Sri Lanka.

Key internal control processes

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls 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.
- 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 and highlights significant findings in respect of any non-compliance. 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 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 124.
- 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.

Assessment of the adequacy and effectiveness of internal control

Although this process is carried out every year on a continuing basis, the Direction on Corporate Governance issued by the Central Bank of Sri Lanka requires the Board to provide a separate report 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 supplemented with Independent certification by the Auditor. The Auditors provide the independent Assurance Report in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) – 3050 issued by The Institute of Chartered Accountants of Sri Lanka.

In order to facilitate the tasks of the Auditors to issue the Independent Assurance Report, the SLSAE – 3050 requires documentation of all procedures and controls that are related to significant accounts and disclosures of the Financial Statements of the Bank with audit evidence of checks performed by the Bank on an ongoing basis.

The risk and significance based Internal Audit Plan implemented by the Internal Audit Department in consultation with the Board Audit Committee specifically included on a sample basis independent verification that the internal control process documented by the Bank, which is supported with audit evidence was in fact carried out on an ongoing basis.

Continuous monitoring of application of Sri Lanka Accounting Standards – SLFRS 9 – Financial Instruments

The Bank adopted SLFRS 9 from 1 January 2018 and made an assessment of the objective of the business model 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 Bank continues to focus on strengthening the review and testing process of the models developed. The Bank has documented procedures and polices relating changes made to underlying assumptions during 2019 and obtained approval of the Board Audit Committee and the Board. The Bank's Internal Audit Department commenced reviews and testing these processes in 2019 and will continue to do so with more focus and robust approach in 2020.

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 Board 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 GL systems and minimising the manual intervention.

Adoption of Sri Lanka Accounting Standards – SLFRS 16 – Leases

Prior to 1 January 2019, the assets held under operating leases were not recognised in the Bank's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. From 1 January 2019, the Bank adopted SLFRS 16 for the first time from 1 January 2019 which requires recognition of a right-of-use-asset and a lease liability at the lease commencement date. The Bank has carried out the required reviews of all lease agreements and has assessed the impact on Financial Statements. On initial application the Bank has opted for modified retrospective approach and has made all required adjustment to the opening balance as at 1 January 2019. Accordingly, the comparatives have not been re-stated.

Management information

The comments made by the External Auditors in connection with internal control system for the financial year ended 31 December 2018 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 2019 in connection with the internal control system will be addressed in future.

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 have reviewed the above Directors' Statement on Internal Control for the year ended 31 December 2019 and their Independent Assurance Report is on page 136 of the Annual Report.

By Order of the Board,

P M B Fernando
Chairman – Audit Committee

J Durairatnam
Chairman – Board of Directors

L H A L Silva
Chief Executive/Director

18 February 2020

Independent Assurance Report

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
: +94 - 11 244 6058
Internet : www.kpmg.com/lk

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 2019.

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 133 to 135 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

18 February 2020

Financial Reports

Financial Calendar

2019

LKR 3.50 per share Final Dividend to 2018 paid on	12 March 2019
Audited Financial Statements signed on	18 February 2019
64th Annual General Meeting to be held on	30 March 2020
LKR 3.00 per share Final Dividend for 2019 payable in cash Dividend of LKR 2.50 per share and Scrip Dividend of 50 cents per share*	April 2020
1st Quarter Interim Results released on	14 May 2019
2nd Quarter Interim Results released on	30 July 2019
3rd Quarter Interim Results released on	14 November 2019

Proposed Financial Calendar

2020

1st Quarter Interim results to be released in	May 2020
2nd Quarter Interim results to be released in	August 2020
3rd Quarter Interim results to be released in	November 2020
65th Annual General Meeting to be held in	March 2021

**subject to confirmation by shareholders*

Statement of Directors' Responsibilities in Relation to Financial Statements

The Auditor's 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 2019 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 124 to 126.

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 140.

By Order of the Board,

Ms A Withana

Company Secretary
Colombo

18 February 2020

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 2019 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 there under 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 2019, as required by the Banking Act Direction No. 11 of 2007, result of which is given on page 133 to 135 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 136 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 124 to 126.

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.

L H A L Silva
Director/Chief Executive Officer

Chinthika Amarasekara
Chief Financial Officer
Colombo

18 February 2020

Independent Auditors' Report

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
: +94 - 11 244 6058
Internet : www.kpmg.com/lk

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 2019, and income statement, statements of profit or loss and other comprehensive income, changes in equity and 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 146 to 282 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 2019, 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 Bank in accordance with the Code of Ethics issued by CA Sri Lanka ("Code of Ethics") 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 judgement, 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.

Impairment of loans and advances – "Financial Instruments"

Refer to Note 4 (Use of Judgements and Estimates), Note 17 (Impairment for Loans and Other Losses), Note 31 (Loans to and receivables from banks) and Note 32 (Loans to and receivables from other customers), to these Financial Statements.

Risk Description	Our Responses
As disclosed in Notes 31 and 32 to these financial statements, the Bank has recorded loans to and receivables from banks and loans to and receivables from other customers of LKR 8,485 Mn and LKR 285,225 Mn respectively as at 31 December 2019. High degree of complexity and judgement involved in estimating individual and collective impairment of LKR 82 Mn and LKR 12,406 Mn respectively as at that date. Given the complexity of SLFRS 9 and its pervasive impact on the financial sector we focused on the Bank's disclosure of the impact of measuring expected credit losses (ECL) on loans and receivables and the significant judgement exercised by the Bank. The models used by the Bank. to calculate ECLs are inherently complex and judgement is applied in determining the correct construct of the models. There are also a number of key assumptions made by the Bank in applying the requirements of SLFRS 9 to these models including selection and input of forward looking information The allowance for credit impairment has been identified as a key audit matter as the Bank has significant credit exposure to number of customers across a wide range of lending and other products and industries.	Our audit procedures to assess impairment of loans and advances to customers included the following: **Assessing impairment for individually significant customers** → We selected a sample (based on quantitative thresholds) of larger customers where impairment indicators have been identified by Management. We obtained Management's assessment of the recoverability of these exposures (including individual impairment calculations) and assessed whether individual impairment provisions, or lack of, were appropriate. **This included the following procedures:** → Challenging 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. → For a sample of customers loans which were not identified as displaying indicators or impairment by Management, challenged this assessment by reviewing the historical performance of the customers and from our own view whether any impairment indicators were present. **Assessing the adequacy of collectively assessed provisions** → Testing governance and controls over the application of collective provision model adjustments. This included assessing the components of model adjustments, trends in the credit risk concentration of specific portfolios and our understanding of economic conditions. → Performing analytical procedures to independently derive an estimate and compared to the Bank's collective provisions. → Testing the completeness and accuracy of key assumptions and data flows into the collective provision models. → Assessing the disclosures in the financial statements against the requirements of Sri Lanka Accounting Standards.

IT systems and controls over financial reporting

Risk description	Our responses
The Bank's key financial accounting and reporting processes are highly dependent on the automated controls over the Bank's information systems. As such that there exist a risk that lapses in the IT control environment, including automated accounting procedures, IT dependent manual control, controls preventing unauthorised access, changes to IT systems and data are critical to the recording financial information and could result in the financial reporting/accounting records being materially misstated. The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter and our audit approach could significantly differ depending on the effective operation of the Bank's IT controls.	We used our internal IT specialists to perform audit procedures to assess IT systems and controls over financial reporting, which included the following: **General IT controls design, observation and operation** → 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. → Testing 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, programme development and computer operations **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 will 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.

Auditors' 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 judgement 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 Bank.

CA Sri Lanka membership number of the engagement partner responsible for signing this Independent Auditors' Report FCA 2294.

KPMG

Chartered Accountants

Colombo, Sri Lanka

18 February 2020

Income Statement

For the year ended 31 December	Notes	Page No.	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Gross income	10	195	**43,297,015**	39,153,874	**43,648,287**	39,448,486
Interest income			**42,060,055**	38,148,193	**42,062,054**	38,149,896
Interest expenses			**29,397,598**	25,733,360	**29,363,105**	25,691,119
Net interest income	11	196	**12,662,457**	12,414,833	**12,698,949**	12,458,777
Fee and commission income			**2,165,314**	2,012,563	**2,162,006**	2,012,443
Fee and commission expenses			**119,603**	68,622	**119,603**	68,622
Net fee and commission income	12	198	**2,045,711**	1,943,941	**2,042,403**	1,943,821
Net loss from trading	13	200	**(87,116)**	(366,657)	**(87,116)**	(366,657)
Net (loss)/gain from financial instruments at fair value through profit or loss	14	200	**(2,633,183)**	2,650,664	**(2,633,183)**	2,650,664
Net gains from derecognition of financial assets	15	201	**209,890**	19,114	**209,890**	19,114
Net other operating income	16	201	**1,582,055**	(3,310,003)	**1,934,636**	(3,016,974)
Total operating income			**13,779,814**	13,351,892	**14,165,579**	13,688,745
Impairment for loans and other losses	17	202	**1,668,913**	1,056,230	**1,689,313**	1,056,230
Net operating income			**12,110,901**	12,295,662	**12,476,266**	12,632,515
Operating expenses						
Personnel expenses	18	209	**3,724,407**	3,408,312	**3,894,734**	3,555,980
Depreciation and amortisation	19	210	**843,656**	462,343	**901,410**	510,128
Other expenses	20	211	**3,005,111**	2,733,276	**3,014,501**	2,738,152
Operating profit before taxes on financial services			**4,537,727**	5,691,731	**4,665,621**	5,828,255
Taxes on financial services	21	211	**1,548,462**	1,459,070	**1,548,462**	1,459,070
Operating profit after taxes on financial services			**2,989,265**	4,232,661	**3,117,159**	4,369,185
Share of profits of associate and joint venture			**–**	–	**191,281**	307,218
Profit before income tax			**2,989,265**	4,232,661	**3,308,440**	4,676,403
Income tax expense	22	213	**915,397**	1,464,482	**1,008,146**	1,606,176
Profit for the year			**2,073,868**	2,768,179	**2,300,294**	3,070,227
Profit attributable to:						
Equity holders of the Bank			**2,073,868**	2,768,179	**2,213,529**	3,011,018
Non-controlling interests			**–**	–	**86,765**	59,209
Profit for the year			**2,073,868**	2,768,179	**2,300,294**	3,070,227
Earnings per share						
Basic/diluted earnings per ordinary share (LKR)	23	215	**7.14**	10.44	**7.62**	11.36

Notes to the financial statements from pages 155 to 282 form part of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Profit for the year	**2,073,868**	2,768,179	**2,300,294**	3,070,227
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 debt instruments):				
Net change in fair value	**2,259,672**	(1,371,412)	**2,259,672**	(1,371,412)
Reclassified to income statement	**(134,095)**	(1,649)	**(134,095)**	(1,649)
Share of other comprehensive (expenses)/income of equity accounted associate and joint venture	**–**	–	**(2,222)**	39,721
Movement in hedging reserve:				
Cash flow hedges – effective portion of changes in fair value	**(410,906)**	892,967	**(410,906)**	892,967
Cash flow hedges – reclassified to income statement	**14,299**	(809,400)	**14,299**	(809,400)
Related deferred tax	**(480,708)**	361,154	**(480,708)**	361,154
Total other comprehensive income/(expenses) that are or may be reclassified subsequently to income statement	**1,248,262**	(928,340)	**1,246,040**	(888,619)
Items that will not be reclassified to income statement				
Losses on remeasurements of defined benefit liability /(asset)	**(32,672)**	(11,881)	**(32,017)**	(11,765)
Equity investments at fair value through other comprehensive income – Net change in fair value	**(1,563,978)**	(1,951,466)	**(1,563,978)**	(1,951,466)
Share of other comprehensive income of equity accounted associate and joint venture	**–**	–	**971**	1,189
Related deferred tax	**23,716**	9,215	**23,674**	9,141
Total other comprehensive expenses on items that will not be reclassified to income statement	**(1,572,934)**	(1,954,132)	**(1,571,350)**	(1,952,901)
Other comprehensive expenses for the year, net of tax	**(324,672)**	(2,882,472)	**(325,310)**	(2,841,520)
Total comprehensive income/(expenses) for the year	**1,749,196**	(114,293)	**1,974,984**	228,707
Total comprehensive income/(expenses) attributable to:				
Equity holders of the Bank	**1,749,196**	(114,293)	**1,888,343**	169,355
Non-controlling interests	**–**	–	**86,641**	59,352
Total comprehensive income/(expenses) for the year	**1,749,196**	(114,293)	**1,974,984**	228,707

Notes to the financial statements from pages 155 to 282 form part of these financial statements.

Statement of Financial Position

As at 31 December	Notes	Page No.	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Assets						
Cash and cash equivalents	26	220	**5,450,209**	5,039,629	**5,459,359**	5,049,823
Balances with Central Bank of Sri Lanka	27	220	**8,666,547**	11,841,814	**8,666,547**	11,841,814
Placements with banks	28	221	**165,030**	425,087	**200,441**	439,727
Derivative financial assets	29	221	**631,438**	3,414,549	**631,438**	3,414,549
Financial assets measured at fair value through profit or loss	30	224	**5,307,066**	6,078,862	**5,307,066**	6,078,862
Financial assets at amortised cost – Loans to and receivables from banks	31	226	**8,403,175**	12,854,880	**8,403,175**	12,854,880
Financial assets at amortised cost – Loans to and receivables from other customers	32	227	**272,818,311**	249,733,718	**272,818,311**	249,733,718
Financial assets at amortised cost – Debt and other instruments	33	231	**21,743,857**	22,874,088	**21,743,857**	22,874,088
Financial assets measured at fair value through other comprehensive income	34	233	**72,716,407**	55,313,553	**72,716,407**	55,313,553
Investments in subsidiaries	35	237	**187,436**	167,036	**–**	–
Investments in associate	36	238	**35,270**	35,270	**31,293**	31,107
Investments in joint venture	37	239	**755,000**	755,000	**2,065,116**	1,957,455
Investment property	38	241	**9,879**	9,879	**466,977**	496,559
Property, plant and equipment	39	242	**3,230,843**	1,620,375	**3,312,641**	1,718,904
Intangible assets and goodwill	40	246	**1,184,659**	668,834	**1,362,149**	842,514
Deferred tax asset	41	248	**308,853**	491,523	**314,029**	492,678
Other assets	42	250	**3,283,300**	3,583,781	**3,372,786**	3,621,780
Asset held for sale	43	251	**–**	–	**40,000**	–
Total assets			**404,897,280**	374,907,878	**406,911,592**	376,762,011
Liabilities						
Due to banks	44	252	**24,594,828**	9,446,464	**24,594,828**	9,446,464
Derivative financial liabilities	29	221	**518,731**	121,373	**518,731**	121,373
Financial liabilities at amortised cost – Due to depositors	45	252	**247,786,974**	242,237,596	**247,457,696**	241,914,870
Financial liabilities at amortised cost – Due to other borrowers	46	254	**47,307,556**	47,413,727	**47,307,556**	47,388,679
Debt securities in issue	47	255	**14,148,198**	8,898,441	**14,148,198**	8,898,441
Retirement benefit obligation	48	256	**561,104**	408,704	**586,351**	433,315
Current tax liabilities	49	262	**581,269**	1,221,117	**648,178**	1,294,540
Deferred tax liability	41	248	**–**	–	**96,714**	90,402
Other liabilities	50	262	**5,059,187**	4,458,721	**5,266,934**	4,662,423
Subordinated term debt	51	263	**16,859,914**	16,855,352	**16,859,914**	16,855,352
Total liabilities			**357,417,761**	331,061,495	**357,485,100**	331,105,859

As at 31 December	Notes	Page No.	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Equity						
Stated capital	52	264	**7,530,371**	4,715,814	**7,530,371**	4,715,814
Statutory reserve	53	265	**2,461,968**	2,358,275	**2,461,968**	2,358,275
Retained earnings	54	265	**18,228,086**	17,187,262	**21,278,288**	20,107,150
Other reserves	55	266	**19,259,094**	19,585,032	**17,892,900**	18,216,689
Total equity attributable to equity holders of the Bank			**47,479,519**	43,846,383	**49,163,527**	45,397,928
Non-controlling interests	56	267	**–**	–	**262,965**	258,224
Total equity			**47,479,519**	43,846,383	**49,426,492**	45,656,152
Total equity and liabilities			**404,897,280**	374,907,878	**406,911,592**	376,762,011
Contingent liabilities and commitments	57	268	**130,590,400**	137,143,668	**130,590,400**	137,143,668
Net asset value per share, LKR			**156.09**	165.40	**161.62**	171.25

The notes to the financial statements from pages 155 to 282 form part of these financial statements.

I certify that these financial statements comply with the requirements of the Companies Act No. 07 of 2007.

Chinthika Amarasekara
Chief Financial Officer

The Board of Directors is responsible for the preparations of these financial statements.

For and on behalf of the Board of Directors,

J Durairatnam
Chairman
Colombo

Lakshman Silva
Director and Chief Executive

18 February 2020

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 2018	**4,715,814**	**2,224,275**	**13,298,686**	**–**	**13,779,839**	**13,858,152**	**47,876,766**
Adjustment on initial application of SLFRS 9, net of tax	–	–	(4,551,014)	–	–	2,017,938	(2,533,076)
Restated balance as at 1 January 2018	4,715,814	2,224,275	8,747,672	–	13,779,839	15,876,090	45,343,690
Profit for the year	–	–	–	–	–	2,768,179	2,768,179
Other comprehensive (expenses)/income, net of tax	–	–	(2,939,974)	60,168	–	(2,666)	(2,882,472)
Total comprehensive (expenses)/ income for the year	–	–	(2,939,974)	60,168	–	2,765,513	(114,293)
Transfers	–	134,000	–	–	–	(134,000)	–
Transfer of gains/(losses) on disposal/ write-off of equity investments at fair value through other comprehensive income to retained earnings	–	–	(62,673)	–	–	75	(62,598)
Transactions with equity holders of the Bank, recognised directly in equity							
Forfeiture of unclaimed dividends	–	–	–	–	–	5,073	5,073
Final dividend approved on 19 February 2018	–	–	–	–	–	(1,325,489)	(1,325,489)
Total contributions from and distribution to equity holders	–	–	–	–	–	(1,320,416)	(1,320,416)
Balance as at 31 December 2018	**4,715,814**	**2,358,275**	**5,745,025**	**60,168**	**13,779,839**	**17,187,262**	**43,846,383**
Balance as at 1 January 2019	**4,715,814**	**2,358,275**	**5,745,025**	**60,168**	**13,779,839**	**17,187,262**	**43,846,383**
Profit for the year	–	–	–	–	–	2,073,868	2,073,868
Other comprehensive expenses, net of tax	–	–	(30,159)	(285,557)	–	(8,956)	(324,672)
Total comprehensive (expenses)/income for the year	–	–	(30,159)	(285,557)	–	2,064,912	1,749,196
Transfers	–	103,693	–	–	–	(103,693)	–
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	–	–	(10,222)	–	–	10,222	–
Transactions with equity holders of the Bank, recognised directly in equity							
Rights issue	2,814,557	–	–	–	–	(9,250)	2,805,307
Forfeiture of unclaimed dividends	–	–	–	–	–	6,474	6,474
Final dividend approved on 18 February 2019	–	–	–	–	–	(927,841)	(927,841)
Total contributions from and distribution to equity holders	2,814,557	–	–	–	–	(930,617)	1,883,940
Balance as at 31 December 2019	**7,530,371**	**2,461,968**	**5,704,644**	**(225,389)**	**13,779,839**	**18,228,086**	**47,479,519**

The notes to the Financial Statements from pages 155 to 282 form part of these financial statements.

	Attributable to the equity holders of the Bank									
		Statutory reserve	Other reserves							
	Stated capital	Reserve fund	Fair value reserve	Exchange equalisation reserve	Hedging reserve	General reserve	Retained earnings	Total	Non-controlling interests	Total equity
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Group										
Balance as at 1 January 2018	**4,715,814**	**2,224,275**	**11,032,483**	**13,061**	**–**	**13,779,839**	**17,359,513**	**49,124,985**	**276,872**	**49,401,857**
Adjustment on initial application of SLFRS 9, net of tax	–	–	(3,707,124)	–	–	–	1,189,617	(2,517,507)	–	(2,517,507)
Restated balance at 1 January 2018	4,715,814	2,224,275	7,325,359	13,061	–	13,779,839	18,549,130	46,607,478	276,872	46,884,350
Profit for the year	–	–	–	–	–	–	3,011,018	3,011,018	59,209	3,070,227
Other comprehensive (expenses)/income, net of tax	–	–	(2,968,839)	69,774	60,168	–	(2,766)	(2,841,663)	143	(2,841,520)
Total comprehensive (expense)/income for the year	–	–	(2,968,839)	69,774	60,168	–	3,008,252	169,355	59,352	228,707
Transfers	–	134,000	–	–	–	–	(134,000)	–	–	–
Transfer of gains/(losses) on disposal/ write off of equity investments at fair value through other comprehensive income to retained earnings	–	–	(62,673)	–	–	–	75	(62,598)	–	(62,598)
Transactions with equity holders of the Bank, recognised directly in equity										
Forfeiture of unclaimed dividends	–	–	–	–	–	–	5,073	5,073	–	5,073
Change in holding through joint venture	–	–	–	–	–	–	4,109	4,109	–	4,109
Final dividend approved on 19 February 2018	–	–	–	–	–	–	(1,325,489)	(1,325,489)	–	(1,325,489)
Dividend distributed to non-controlling interest by subsidiaries	–	–	–	–	–	–	–	–	(78,000)	(78,000)
Total contributions from and distribution to equity holders	–	–	–	–	–	–	(1,316,307)	(1,316,307)	(78,000)	(1,394,307)
Balance as at 31 December 2018	**4,715,814**	**2,358,275**	**4,293,847**	**82,835**	**60,168**	**13,779,839**	**20,107,150**	**45,397,928**	**258,224**	**45,656,152**
Balance as at 1 January 2019	**4,715,814**	**2,358,275**	**4,293,847**	**82,835**	**60,168**	**13,779,839**	**20,107,150**	**45,397,928**	**258,224**	**45,656,152**
Adjustment on initial application of SLFRS 16, net of tax (Note 6.4)	–	–	–	–	–	–	(6,717)	(6,717)	–	(6,717)
Restated balance at 1 January 2019	**4,715,814**	**2,358,275**	**4,293,847**	**82,835**	**60,168**	**13,779,839**	**20,100,433**	**45,391,211**	**258,224**	**45,649,435**
Profit for the year	–	–	–	–	–	–	2,213,529	2,213,529	86,765	2,300,294
Other comprehensive expenses, net of tax	–	–	(27,922)	(4,458)	(285,557)	–	(7,249)	(325,186)	(124)	(325,310)
Total comprehensive (expenses)/income for the year	–	–	(27,922)	(4,458)	(285,557)	–	2,206,280	1,888,343	86,641	1,974,984
Transfers	–	103,693	–	–	–	–	(103,693)	–	–	–
Transfer of gains/(losses) on disposal of equity investments at fair value through other comprehensive income to retained earnings	–	–	(5,852)	–	–	–	5,852	–	–	–
Transactions with equity holders of the Bank, recognised directly in equity										
Rights issue	2,814,557	–	–	–	–	–	(9,250)	2,805,307	–	2,805,307
Forfeiture of unclaimed dividends	–	–	–	–	–	–	6,474	6,474	–	6,474
Change in holding through joint venture	–	–	–	–	–	–	33	33	–	33
Final dividend approved on 18 February 2019	–	–	–	–	–	–	(927,841)	(927,841)	–	(927,841)
Dividend distributed to non-controlling interest by subsidiaries	–	–	–	–	–	–	–	–	(81,900)	(81,900)
Total contributions from and distribution to equity holders	2,814,557	–	–	–	–	–	(930,584)	1,883,973	(81,900)	1,802,073
Balance as at 31 December 2019	**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**

The notes to the Financial Statements from pages 155 to 282 form part of these financial statements.

Statement of Cash Flows

For the year ended 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Cash flows from operating activities				
Interest receipts	**29,371,405**	21,879,208	**29,367,300**	21,919,677
Interest payments	**(29,442,467)**	(23,669,321)	**(29,410,377)**	(23,631,703)
Net commission receipts	**2,214,658**	1,965,693	**2,214,658**	1,965,693
Net trading income	**1,227,843**	6,271,792	**1,227,843**	6,271,792
Recoveries from loans previously written-off	**7,601**	10,460	**7,601**	10,460
Receipts from other operating activities	**1,989,230**	3,243,000	**2,587,700**	3,790,137
Payments on other operating activities	**(2,987,378)**	(2,878,077)	**(3,343,283)**	(2,878,077)
Cash payments to employees	**(3,688,837)**	(3,680,695)	**(3,688,837)**	(3,983,485)
Taxes on financial services	**(1,594,710)**	(1,168,279)	**(1,594,710)**	(1,168,279)
Operating cash flows before changes in operating assets and liabilities	**(2,902,655)**	1,973,781	**(2,632,105)**	2,296,215
(Increase)/decrease in operating assets:				
Balances with Central Bank/deposits held for regulatory or monetary control purposes	**3,175,265**	(1,284,129)	**3,175,265**	(1,284,129)
Financial assets at amortised cost – Loans to and receivables from other customers	**(23,535,476)**	(28,536,076)	**(23,535,476)**	(28,536,076)
Others	**60,113**	3,606,060	**71,913**	3,702,214
Increase/(decrease) in operating liabilities:				
Financial liabilities at amortised cost – Due to depositors	**6,061,028**	46,675,218	**5,799,500**	46,608,731
Negotiable certificate of deposits	**289,308**	79,186	**289,308**	79,186
Others	**2,807,301**	(2,995,967)	**3,103,016**	(2,995,967)
Net cash flows (used in)/from operating activities before income tax	**(14,045,116)**	19,518,073	**(13,728,579)**	19,870,174
Income tax paid	**(1,691,938)**	(318,441)	**(1,747,401)**	(346,537)
Net cash flows (used in)/from operating activities	**(15,737,054)**	19,199,632	**(15,475,980)**	19,523,637

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.

For the year ended 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Cash flows from investing activities				
Dividends received from investment in subsidiaries, joint venture, and associate	**152,376**	132,017	**75,500**	60,256
Dividends received from other investments	**550,774**	483,864	**550,774**	483,864
Interest received	**7,502,423**	6,718,612	**7,530,566**	6,759,816
Government Securities – net	**(14,116,047)**	(22,736,595)	**(14,116,047)**	(22,736,595)
Proceeds from sale and redemption of securities	**1,803,369**	1,262,943	**1,828,466**	1,262,943
Purchase of financial investments	**(338,003)**	(402,563)	**(338,003)**	(399,563)
Purchase of property, equipment, intangibles and investment property	**(982,654)**	(1,093,170)	**(1,026,160)**	(1,307,636)
Proceeds from sale of equipment and investment property	**26,796**	5,895	**26,777**	5,876
Net cash flows used in investing activities	**(5,400,966)**	(15,628,997)	**(5,468,127)**	(15,871,039)
Cash flows from financing activities				
Issue of new shares under Right Issue	**2,814,557**	–	**2,814,557**	–
Issue of debentures	**10,000,000**	7,000,000	**10,000,000**	7,000,000
Redemption of debentures	**(5,315,450)**	–	**(5,315,450)**	–
Borrowing, medium and long-term	**8,769,273**	7,385,449	**8,769,273**	7,385,449
Other borrowings – net	**13,314,573**	(33,701)	**13,314,573**	(33,701)
Repayment of borrowing, medium and long-term	**(7,365,360)**	(21,969,027)	**(7,365,360)**	(21,969,027)
Dividends paid	**(929,050)**	(1,286,246)	**(1,103,236)**	(1,378,130)
Net cash flows from/(used in) financing activities	**21,288,543**	(8,903,525)	**21,114,357**	(8,995,409)
Net increase/(decrease) in cash and cash equivalents	**150,523**	(5,332,890)	**170,250**	(5,342,811)
Cash and cash equivalents at the beginning of year	**5,464,716**	10,797,606	**5,489,550**	10,832,361
Cash and cash equivalents at the end of year	**5,615,239**	5,464,716	**5,659,800**	5,489,550
Reconciliation of cash and cash equivalents with items reported in the statement of financial position				
Cash and cash equivalents (Note 26)	**5,450,209**	5,039,629	**5,459,359**	5,049,823
Placements with banks (Note 28)	**165,030**	425,087	**200,441**	439,727
	5,615,239	5,464,716	**5,659,800**	5,489,550

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 155 to 282 form part of these financial statements.

Reconciliation of profit for the year to net cash flows used in operating activities

	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Profit before income tax	**2,989,265**	4,232,661	**3,308,440**	4,676,403
Add/(deduct) items not using (providing) cash:	**5,686,027**	4,092,028	**5,579,216**	3,838,616
Depreciation				
– Property, plant and equipment, and investment property	**341,764**	313,255	**392,948**	359,237
– Right of use assets	**282,313**	–	**284,113**	–
Amortisation				
Intangible assets	**219,579**	149,088	**224,349**	150,891
Unrealised loss on trading securities	**890,630**	1,038,919	**890,630**	1,038,919
Net loss/(gain) from financial instruments at fair value				
Contracts with commercial banks	**2,578,178**	(2,688,008)	**2,578,178**	(2,688,008)
CBSL swap	**–**	(58,990)	**–**	(58,990)
Interest rate swap fair value changes	**6,963**	(11,549)	**6,963**	(11,549)
Amortisation of deferred income on Government grant	**–**	46,990	**–**	46,990
Foreign exchange (gain)/loss	**(474,203)**	4,255,763	**(474,203)**	4,255,763
Impairment for loans and other losses	**1,668,913**	1,056,230	**1,689,313**	1,056,230
Notional tax credit on Treasury Bills and Bonds	**–**	(143,940)	**–**	(143,940)
Share of profits of associate and joint venture	**–**	–	**(191,281)**	(307,218)
Provision for defined benefit plans	**171,890**	134,270	**178,206**	140,291
Deduct items reported under investing activities	**(7,971,518)**	(7,249,939)	**(7,328,726)**	(7,119,625)
Dividend income	**(943,453)**	(933,088)	**(791,077)**	(801,071)
Gain on sale of Government Securities	**(110,850)**	(3,206)	**(110,850)**	(3,206)
Gain on sale of equity securities	**(99,040)**	(15,908)	**(99,040)**	(15,908)
Gain on sale of property, plant and equipment and investment property	**(33,494)**	(5,176)	**(33,494)**	(5,176)
Interest income from investments	**(6,784,681)**	(6,292,561)	**(6,294,265)**	(6,294,264)
Deduct changes in operating assets and liabilities:	**(16,440,828)**	18,124,882	**(17,034,910)**	18,128,243
Increase in account receivables	**(4,426,387)**	(4,551,732)	**(5,230,578)**	(4,311,201)
Increase in account payables	**637,288**	2,078,472	**854,585**	1,927,625
Increase/(decrease) in income tax payable	**(1,691,938)**	1,368,300	**(1,747,401)**	1,304,261
Increase in deferred tax	**182,670**	1,685,550	**184,961**	1,633,599
Increase in operating assets	**(20,300,098)**	(26,214,145)	**(20,288,301)**	(26,117,991)
Increase in operating liabilities	**9,157,637**	43,758,437	**9,191,824**	43,691,950
Net cash flows (used in)/from operating activities	**(15,737,054)**	19,199,632	**(15,475,980)**	19,523,637

The notes to the Financial Statements from pages 155 to 282 form part of these financial statements.

Notes to the Financial Statements

1 Reporting entity →

1.1 Corporate information

DFCC Bank PLC ("the 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.

On 1 October 2015 DFCC Vardhana Bank PLC (DVB) was amalgamated with DFCC Bank PLC in accordance with the provisions of Part VIII of the Companies Act No. 07 of 2007 with DFCC Bank PLC surviving as the amalgamated entity.

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 No. 73/5, Galle Road, Colombo 3.

Total staff strength of the Group and Bank on 31 December 2019 was as follow:

Group	2,192 (31 December 2018 – 1,963)
Bank	2,076 (31 December 2018 – 1,860)

1.2 Consolidated Financial Statements

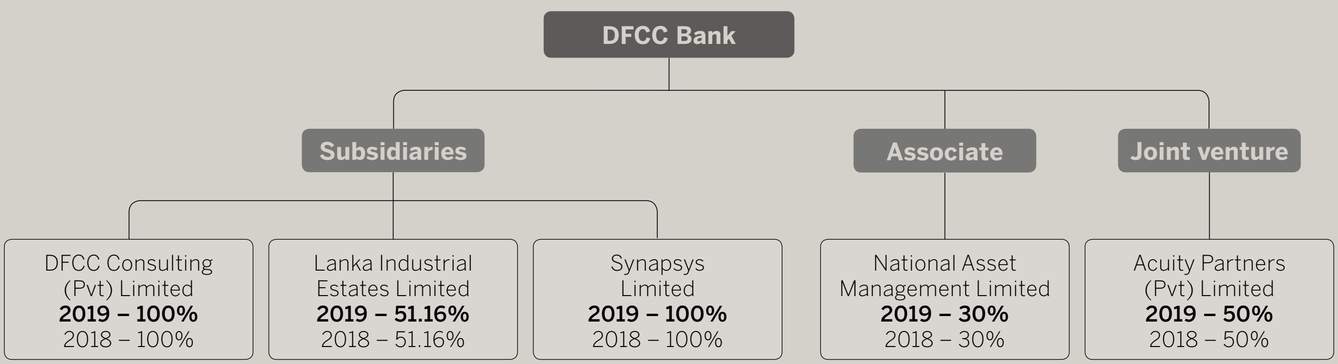
DFCC Bank PLC as the parent of subsidiaries under its control is required to present only the consolidated financial statements as per Sri Lanka Accounting Standard – SLFRS 10 on "Consolidated Financial Statements" and the proportionate share of the profit or loss and net assets of its Associates and 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, associates 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 2019 were authorised for issue by the Directors on 18 February 2020.

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 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 158 to 164.

This is the first set of the Group's annual financial statements in which SLFRS 16 on "Leases" has been applied. The related changes to significant accounting polices are described in Note 6.

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 146 and 147).
- → a Statement of Financial Position providing information on the financial position of the Group and Bank as at the year end; (Refer page 148).
- → a Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Group and Bank; (Refer pages 150 and 151).
- → 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 152 to 154).
- → Notes to the financial statements comprising accounting policies and other explanatory information. (Refer pages 155 to 282)

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	224
Derivative financial assets and derivative financial liabilities	Fair value	29	221
Financial assets measured at fair value through other comprehensive income (FVOCI)	Fair value	34	233

Non-financial assets/liabilities

Item	Basis of measurement	Note	Page
Retirement benefit obligations	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	256
The defined benefit statutory end of service gratuity obligations	Present value of the defined benefit gratuity obligation.	48	256

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 Board of Directors have made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, Board 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 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 recognized 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 IFRS Interpretations Committee and Standard Interpretations Committee) and as specifically disclosed in the Significant Accounting Policies of the Bank.

2.6 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.

The Group initially applied SLFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information have not been restated.

3 Functional and presentation currency →

These consolidated financial statements are presented in Sri Lankan Rupees (LKR), 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 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	202
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	160
Determination of control over investees.	35, 36	237, 238

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 to the ECL measurement model, including incorporation of forward-looking information and key assumptions used in estimating recoverable cash flows.	17	202
Determination of the fair value of financial instruments with significant unobservable inputs.	9.3.1	191
Measurement of defined benefit obligations: key actuarial assumptions.	48.2.2	260
Recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be utilised.	22	213
Impairment testing for Cash Generating Units (CGU) containing goodwill: key assumptions underlying recoverable amounts.	5.4	164
Recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.	57	268
Fair value of asset held for sale: Determination of fair value less costs to sell on the basis of significant unobservable inputs	43	251

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, except as specified in Note 6 on page 164.

These accounting policies have been applied consistently by Group entities.

Set out below is an index of the significant accounting polices:

5.1 Basis of consolidation

5.1.1 Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. 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 for in the financial statements and their contingencies are set out in Note 35 on page 237.

5.1.3 Non-Controlling Interests (NCI)

Details of non-controlling interests are given in Note 56 on page 267.

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 income statement. 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 Notes 36 and 37 on pages 238 and 239.

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 income statement. However, foreign currency differences arising from the translation of the following items are recognised in other comprehensive income (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 fair value through profit or loss (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 Bank'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 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 Treasury in separate portfolios to meet everyday liquidity needs. The 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 reclassifications 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 income statement. Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in income statement 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 assets 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 income statement 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 assets.

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 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.

5.3.7 Impairment

Details of impairment is given in Note 17 on page 202.

5.3.8 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 →

The Group has initially applied SLFRS 16 on "Leases" from 1 January 2019.

The Group applied SLFRS 16 using the modified retrospective approach, under which Right of Use of underlying asset (ROU asset) and lease liability were recognised at equal amounts as at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in SLFRS 16 have not generally been applied to comparative information.

6.1 Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 – Determining whether an Arrangement Contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in page 275.

On transition to SLFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied SLFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under LKAS 17 and IFRIC 4 were not reassessed for whether there is a lease under SLFRS 16. Therefore, the definition of a lease under SLFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

6.2 As a lessee

As a lessee, the Group leases some branch and office premises and IT equipment. The Group previously classified these leases as operating leases under LKAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under SLFRS 16, the Group recognises right-of-use assets and lease liabilities for leases of branch and office premises – i.e. these leases are on-balance sheet.

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 leases of branches and office premises the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019.

The Group used a number of practical expedients when applying SLFRS 16 to leases previously classified as operating leases under LKAS 17. In particular, the Group:

- on its assessment of whether leases are onerous under LKAS 37 on "Provisions, Contingent Liabilities and Contingent Assets" immediately before the date of initial application as an alternative to performing an impairment review;
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets (i.e. IT equipment);
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application
- used hindsight when determining the lease term;
- applied a single discount rate to leases with similar characteristics.

6.3 As a lessor

The Group leases out certain property and equipment. The Group had classified these leases as follows:

- finance leases of property and equipment
- operating leases of investment property

For lease out under finance leases, Group recoginses an asset at an amount equal to the net investment in the lease. Lease payments received from operating leases are recognised as income on straight-line basis.

The Group is not required to make any adjustments on transition to SLFRS 16 for leases in which it acts as a lessor.

The Group has applied SLFRS 15 "Revenue from Contracts with Customers" to allocate consideration in the contract to each lease and non-lease component.

6.4 Impact on financial statements

6.4.1 Impact on transition

On transition to SLFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities. The impact as at day one (1) on transition is summarised below:

	BANK	GROUP
As at 1 January 2019	LKR '000	LKR '000
Lease liability/Right-of-use asset use before adjustment	1,113,097	1,115,197
Adjustments on transition to Right-of-use asset	135,366	135,366
Right-of-use asset		
Property, plant and equipment	1,248,463	1,250,563
Retained earnings	–	6,717

Refer Note 39.1 and Note 50.

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 10.28%.

	BANK	GROUP
As at 1 January 2019	LKR '000	LKR '000
Operating lease commitments at 31 December 2018 as disclosed under LKAS 17 in the Group's consolidated financial statements	1,566,242	1,568,517
Discounted using the incremental borrowing rate at 1 January 2019	1,114,822	1,116,922
Recognition exemption for leases with less than 12 months of lease term at transition	(1,725)	(1,725)
Lease liabilities recognised at 1 January 2019	1,113,097	1,115,197

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 2020 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements.

The following amended/new standards are not expected to have a significant impact on the Group's consolidated financial statements.

- Amendments to References to Conceptual Framework in SLFRS Standards.
- Definition of a Business (Amendments to SLFRS 3).
- SLFRS 17 "Insurance Contracts".
- Interest benchmark reforms.

8 Financial Risk Review

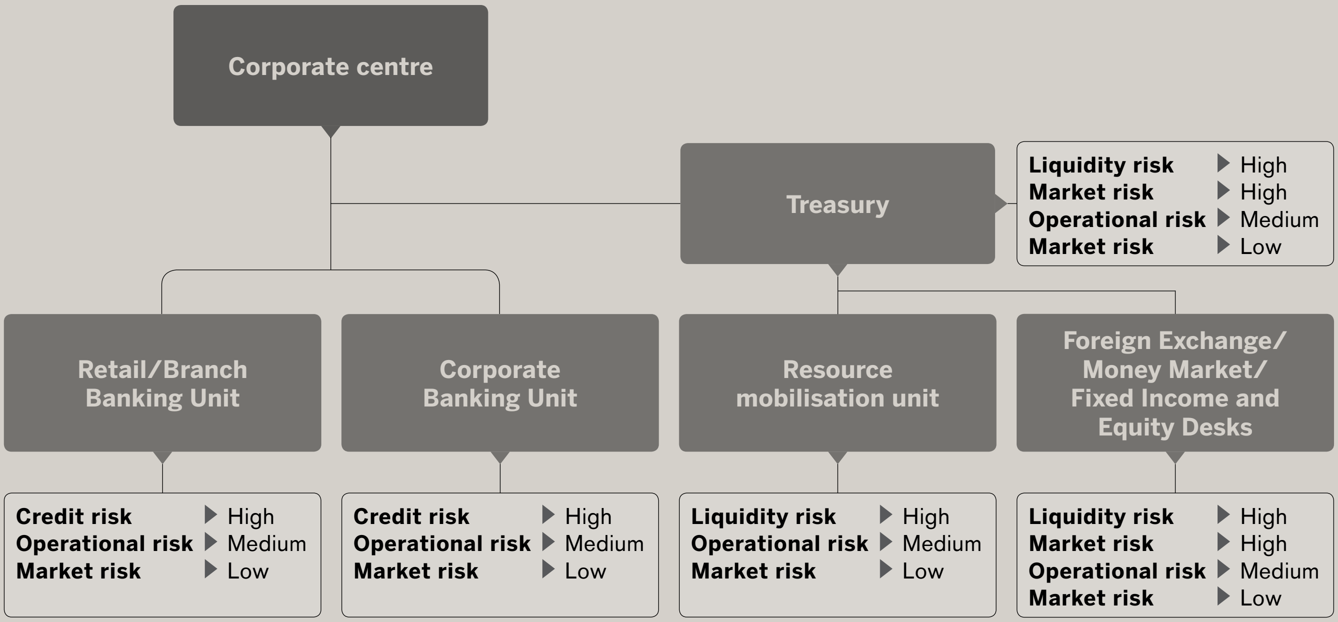
This note presents information about the Bank's exposure to financial risks and the Bank's management of capital.

8.1 Introduction and Overview

The Bank has exposure to the following key risks from financial instruments:

- Credit risk;
- Liquidity risk;
- Operational risks; and
- Market risk

The following chart provides a link between the Bank's 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 to monitor 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 Commiittee 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.

8.2.3 Credit quality analysis

The following table sets out information about the overdue status of loans and receivables from customers in Stages 1, 2 and 3.

Loans to and receivables from customers at amortised cost – gross carrying amount

As at 31 December	2019			
In LKR '000	Stage 1	Stage 2	Stage 3	Total
Current (Note 8.2.3.1)	182,849,726	5,014,881	5,427,262	193,291,869
Overdue < 30 days	34,802,427	3,459,297	1,043,267	39,304,991
Overdue > 30 days	6,368,696	28,894,745	17,364,492	52,627,933
Total	224,020,849	37,368,923	23,835,021	285,224,793

As at 31 December	2018			
In LKR '000	Stage 1	Stage 2	Stage 3	Total
Current	168,389,772	8,317,379	1,759,324	178,466,475
Overdue < 30 days	25,485,713	4,685,643	1,315,775	31,487,131
Overdue > 30 days	–	39,321,368	12,024,320	51,345,688
Total	193,875,485	52,324,390	15,099,419	261,299,294

8.2.3.1 Gross carrying amount reports under Stage 3 above, include facilities amounting to LKR 4.9 Bn granted to Government Institutions, and are fully-guaranteed by Treasury. Accordingly no provision has been made in respect of these facilities.

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:

	Derivative Type											
As at 31 December 2019	Forward		SWAP		Spot		Cross currency SWAP		Interest rate 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	Notional amount	Fair value
Derivative financial assets (Note 1)	1,135,594	8,624	48,887,233	112,011	141,332	143	10,453,667	510,660	–	–	60,617,826	631,438
Derivative financial liabilities (Note 2)	1,128,050	(2,448)	49,730,379	(516,127)	141,346	(156)	–	–	–	–	50,999,775	(518,731)
Note1												
Derivative financial assets by counterparty type												
With banks	749,746	3,684	48,887,233	112,011	141,332	143	10,453,667	510,660	–	–	60,231,978	626,498
With other customers	385,848	4,940	–	–	–	–	–	–	–	–	385,848	4,940
Total	1,135,594	8,624	48,887,233	112,011	141,332	143	10,453,667	510,660	–	–	60,617,826	631,438
Note2												
Derivative financial liabilities by counterparty type												
With banks	748,576	(2,448)	49,730,379	(516,127)	141,346	(156)	–	–	–	–	50,620,301	(518,731)
With other customers	379,474	–	–	–	–	–	–	–	–	–	379,474	–
Total	1,128,050	(2,448)	49,730,379	(516,127)	141,346	(156)	–	–	–	–	50,999,775	(518,731)

As at 31 December 2018	Derivative Type											
	Forward		SWAP		Spot		Cross currency SWAP		Interest rate 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	Notional amount	Fair value
Derivative financial assets (Note 1)	9,553,350	949,460	33,795,176	1,564,796	784,569	161	5,489,400	892,967	1,829,800	7,165	51,452,295	3,414,549
Derivative financial liabilities (Note 2)	8,702,396	(21,943)	32,803,418	(99,251)	784,588	(179)	–	–	–	–	42,290,402	(121,373)
Note1												
Derivative financial assets by counterparty type												
With banks	9,002,274	937,613	33,795,176	1,564,796	784,569	161	5,489,400	892,967	1,829,800	7,165	50,901,219	3,402,702
With other customers	551,076	11,847	–	–	–	–	–	–	–	–	551,076	11,847
Total	9,553,350	949,460	33,795,176	1,564,796	784,569	161	5,489,400	892,967	1,829,800	7,165	51,452,295	3,414,549
Note2												
Derivative financial liabilities by counterparty type												
With banks	8,154,050	(10,088)	32,803,418	(99,251)	784,588	(179)	–	–	–	–	41,742,056	(109,518)
With other customers	548,346	(11,855)	–	–	–	–	–	–	–	–	548,346	(11,855)
Total	8,702,396	(21,943)	32,803,418	(99,251)	784,588	(179)	–	–	–	–	42,290,402	(121,373)

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.

As at 31 December	**2019**	
	Gross Loan Balance LKR '000	**Security Value LKR '000**
Stage 1		
Cash collateral	**13,138,299**	**19,652,804**
Property, plant and machinery	**78,982,483**	**198,003,781**
Treasury guarantee	**3,614,059**	**7,328,863**
Others	**75,268,404**	**8,615,689**
Unsecured	**34,397,223**	**–**
Total	**205,400,468**	**233,601,137**

As at 31 December	2019	
	Gross Loan Balance LKR '000	Security Value LKR '000
Stage 2		
Cash collateral	1,360,633	1,702,338
Property, plant and machinery	21,482,134	53,779,650
Others	10,216,504	1,328,826
Unsecured	2,087,073	–
Total	35,146,344	56,810,814
Stage 3		
Cash collateral	76,026	89,403
Property, plant and machinery	7,679,725	17,449,496
Treasury guarantee (Note 8.2.3.1)	4,972,857	6,026,242
Others	4,313,852	22,272
Unsecured	5,461,571	–
Total	22,504,031	23,587,413

The above analysis does not include balances relating to lease rentals receivables.

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 table stratifies 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 for residential mortgage loan is based on valuations made by independent professional valuers.

	BANK/GROUP	
As at 31 December	**2019 LKR '000**	2018 LKR '000
LTV ratio		
Stage 1		
Less than 50%	**2,392,919**	2,042,337
51%-70%	**3,060,380**	2,511,904
71%-90%	**1,214,137**	1,194,761
More than 90%	**1,552,756**	1,361,246
Total	**8,220,191**	7,110,248

As at 31 December	BANK/GROUP 2019 LKR '000	2018 LKR '000
Stage 2		
Less than 50%	**690,096**	602,834
51%-70%	**1,206,097**	1,100,489
71%-90%	**503,044**	789,436
More than 90%	**536,146**	437,463
Total	**2,935,383**	2,930,222
Stage 3		
Less than 50%	**201,965**	80,841
51%-70%	**342,236**	111,534
71%-90%	**185,642**	43,045
More than 90%	**131,916**	20,790
Total	**861,759**	256,210
Carrying amount – amortised cost	**12,017,333**	10,296,680

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 banks

	2019		2018	
	Stage 1 LKR '000	**Total LKR '000**	Stage 1 LKR '000	Total LKR '000
Balance as at beginning	**43,451**	**43,451**	38,363	38,363
Net remeasurement of loss allowance	**38,408**	**38,408**	5,088	5,088
Balance on 31 December	**81,859**	**81,859**	43,451	43,451

Financial assets at amortised cost – Loans to and receivables from other customers

	2019				2018			
	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 at beginning	786,161	2,355,958	8,423,457	11,565,576	805,471	2,347,630	7,966,994	11,120,095
Transfer to Stage 1	767,186	(706,463)	(60,723)	–	424,482	(355,313)	(69,169)	–
Transfer to Stage 2	(60,275)	109,101	(48,826)	–	(150,485)	206,085	(55,600)	–
Transfer to Stage 3	(17,410)	(210,075)	227,485	–	(14,410)	(179,913)	194,323	–
Net remeasurement of loss allowance	(1,050,167)	(422,215)	1,727,227	254,845	(738,289)	(374,098)	524,057	(588,330)
New financial assets originated or purchased	476,987	439,272	419,288	1,335,547	466,051	713,728	394,479	1,574,258
Write-off	(611)	(1,701)	(741,068)	(743,380)	(6,659)	(2,161)	(696,652)	(705,472)
Foreign exchange and other movement	–	–	(6,106)	(6,106)	–	–	165,025	165,025
Balance as at 31 December	901,871	1,563,877	9,940,734	12,406,482	786,161	2,355,958	8,423,457	11,565,576

Financial assets at amortised cost Debt and other instruments

	2019		2018	
	Stage 1 LKR '000	Total LKR '000	Stage 1 LKR '000	Total LKR '000
Balance at beginning	1,963	1,963	1,729	1,729
Net remeasurement of loss allowance	(1,251)	(1,251)	234	234
Balance on 31 December	712	712	1,963	1,963

Loan Commitments and financial guarantee contracts

	2019			2018		
	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	162,686	34,895	197,581	159,197	15,188	174,385
Net measurement of loss allowance	1,458	(18,408)	(16,950)	3,489	19,707	23,196
Balance on 31 December	164,144	16,487	180,631	162,686	34,895	197,581

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.

The table below shows the sensitivity of the impairment provision of the Bank as at 31 December 2019 to a reasonably possible change in PDs, LGDs, and forward looking information.

	Sensitivity effect on Statement of Financial Position Increase/(Decrease) in impairment provision				Sensitivity effect on Income Statement
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	LKR '000
PD 1% increase across all age buckets	698,652	236,485	N/A	935,137	(935,137)
PD 1% decrease across all age buckets	(592,934)	(236,275)	N/A	(829,209)	829,209
LGD 5% increase	156,628	244,958	436,307	837,893	(837,893)
LGD 5% decrease	(156,628)	(244,958)	(436,307)	(837,893)	837,893
Probability weighted economic scenarios					
– Worst case 5% decrease and best case 5% increase	(42,040)	(58,479)	N/A	(100,519)	100,519
– Worst case 5% increase and best case 5% decrease	42,048	58,070	N/A	100,118	(100,118)

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 receivables from banks		Loans to and receivables from customers		Investment in debt securities		Loan commitments and financial guarantees issued	
As at 31 December	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Gross carrying amount	**8,485,034**	12,898,331	**285,224,793**	261,299,294	**85,447,418**	67,785,034	**–**	–
Amount committed/guaranteed	**–**	–	**–**	–	**–**	–	**108,145,071**	95,518,887
Concentration by sector								
Agriculture, forestry, and fishing	**–**	–	**28,282,969**	27,308,657	**–**	–	**11,139,531**	10,311,628
Manufacturing	**–**	–	**54,535,325**	56,123,392	**–**	144,018	**24,385,449**	23,194,834
Tourism	**–**	–	**13,393,587**	12,805,091	**–**	–	**7,977,653**	7,524,794
Transportation and storage	**–**	–	**9,434,389**	9,407,724	**–**	–	**1,105,107**	656,515
Construction	**–**	–	**32,559,866**	30,722,021	**252,953**	252,961	**7,074,504**	9,418,363
Infrastructure development	**–**	–	**30,024,078**	22,422,062	**–**	–	**14,869,134**	15,400,046
Wholesale and retail trade	**–**	–	**44,195,272**	48,884,603	**–**	–	**24,342,484**	14,232,368
Information technology and communication services	**–**	–	**1,531,401**	986,397	**–**	–	**660,586**	1,190,053
Financial services	**–**	–	**14,856,831**	13,633,490	**2,839,425**	3,910,214	**2,360,843**	2,573,230
Professional, scientific, and technical activities	**–**	–	**1,709,325**	951,079	**–**	–	**383,807**	119,567
Arts, entertainment, and recreation	**–**	–	**788,364**	812,394	**–**	–	**50,798**	177,809
Education	**–**	–	**1,471,284**	1,456,169	**–**	–	**283,802**	695,484
Health care, social services, and support services	**–**	–	**4,213,504**	3,680,771	**–**	–	**1,181,414**	1,290,927
Consumption	**–**	–	**36,783,616**	24,778,839	**–**	–	**7,229,734**	4,754,005
Lending to ministry of finance	**–**	–	**164,257**	298,195	**–**	–	**–**	–
Lending to overseas entities	**–**	–	**11,280,725**	7,028,410	**–**	–	**5,100,225**	3,979,264
Government	**8,485,034**	12,898,331	**–**	–	**82,355,040**	63,392,786	**–**	–
Other	**–**	–	**–**	–	**–**	85,055	**–**	–
Total	**8,485,034**	12,898,331	**285,224,793**	261,299,294	**85,447,418**	67,785,034	**108,145,071**	95,518,887

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 Ratio 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	**2019**	2018
Statutory liquid assets (LKR '000)	**90,664,914**	74,659,159
Statutory liquid assets ratio (minimum requirement 20%)		
Domestic banking unit (%)	**23.6**	22.2
Off-shore banking unit (%)	**53.1**	44.3
Liquidity coverage ratio (minimum requirement 100% in 2019 and 90% in 2018)		
All currencies (%)	**140.5**	113.5
Rupee only (%)	**234.2**	195.7

8.3.3 Maturity analysis for financial liabilities and financial assets

The following tables set out the remaining contractual maturities of the Bank's financial liabilities and financial assets.

As at 31 December 2019 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	24,594,828	9,464,866	5,791,329	9,338,633	–	–	24,594,828
Due to depositors	247,786,974	86,203,676	85,695,022	17,085,344	12,864,437	45,938,495	247,786,974
Due to other borrowers	47,307,556	9,107,966	9,149,713	14,000,752	6,154,080	8,895,045	47,307,556
Debt securities in issue	14,148,198	1,028,348	3,147,549	–	3,783,024	6,189,277	14,148,198
Other liabilities	3,786,445	2,388,520	798,747	36,775	118,536	443,867	3,786,445
Subordinated term debt	16,859,914	657,461	2,227,817	940,482	8,948,215	4,085,939	16,859,914
	354,483,915	108,850,837	106,810,177	41,401,986	31,868,292	65,552,624	354,483,915
Derivative liabilities							
Risk management:	518,731	518,731	–	–	–	–	518,731
	518,731	518,731	–	–	–	–	518,731
Financial assets by type							
Non-derivative assets							
Cash and cash equivalents	5,450,209	5,450,209	–	–	–	–	5,450,209
Balances with Central Bank	8,666,547	8,666,547	–	–	–	–	8,666,547
Placements with banks	165,030	165,030	–	–	–	–	165,030
Financial assets measured at fair value through profit or loss	5,307,066	251,593	–	–	–	5,055,473	5,307,066
Financial assets at amortised cost – Loans to and receivables from banks	8,403,175	3,307,831	15,304	4,898,610	181,430	–	8,403,175
Financial assets at amortised cost – Loans to and receivables from other customers	272,818,311	40,234,030	38,017,279	52,744,363	54,181,538	87,641,101	272,818,311
Financial assets at amortised cost – Debt and other instruments	21,743,857	1,658,360	2,614,709	13,740,868	3,729,920	–	21,743,857
Financial assets measured at fair value through other comprehensive income	72,716,407	9,450,109	3,187,401	30,008,205	15,649,171	14,421,521	72,716,407
Other assets	2,148,567	1,425,425	278,065	130,296	21,491	293,290	2,148,567
	397,419,169	70,609,134	44,112,758	101,522,342	73,763,550	107,411,385	397,419,169
Derivative assets							
Risk management:	631,438	631,438	–	–	–	–	631,438
	631,438	631,438	–	–	–	–	631,438

As at 31 December 2018 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	9,446,464	7,321,516	2,124,948	–	–	–	9,446,464
Due to depositors	242,237,596	91,844,395	86,521,960	12,141,582	11,971,314	39,758,345	242,237,596
Due to other borrowers	47,413,727	5,038,260	7,454,562	12,854,025	11,775,945	10,290,935	47,413,727
Debt securities in issue	8,898,441	5,903,657	–	2,994,784	–	–	8,898,441
Other liabilities	3,264,345	1,754,629	919,159	38,949	92,921	458,687	3,264,345
Subordinated term debt	16,855,352	662,109	227,138	2,939,798	8,942,732	4,083,575	16,855,352
	328,115,925	112,524,566	97,247,767	30,969,138	32,782,912	54,591,542	328,115,925
Derivative liabilities							
Risk management:	121,373	121,373	–	–	–	–	121,373
	121,373	121,373	–	–	–	–	121,373
Financial assets by type							
Non-derivative assets							
Cash and cash equivalents	5,039,629	5,039,629	–	–	–	–	5,039,629
Balances with Central Bank	11,841,814	11,841,814	–	–	–	–	11,841,814
Placements with banks	425,087	425,087	–	–	–	–	425,087
Financial assets measured at fair value through profit or loss	6,078,862	–	–	–	–	6,078,862	6,078,862
Financial assets at amortised cost – Loans to and receivables from banks	12,854,880	4,422,366	15,434	4,391,520	4,025,560	–	12,854,880
Financial assets at amortised cost – Loans to and receivables from other customers	249,733,718	46,493,502	33,680,311	40,236,546	55,809,633	73,513,726	249,733,718
Financial assets at amortised cost – Debt and other instruments	22,874,088	1,431,945	2,634,993	15,051,018	3,756,132	–	22,874,088
Financial assets measured at fair value through other comprehensive income	55,313,553	8,311,960	21,973,238	7,737,500	5,443,116	11,847,739	55,313,553
Other assets	2,309,581	1,753,299	167,428	27,308	27,308	334,238	2,309,581
	366,471,212	79,719,602	58,471,404	67,443,892	69,061,749	91,774,565	366,471,212
Derivative assets							
Risk management:	3,414,549	3,414,549	–	–	–	–	3,414,549
	3,414,549	3,414,549	–	–	–	–	3,414,549

The following tables set out the remaining contractual maturities of the group's financial liabilities and financial assets.

As at 31 December 2019 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	24,594,828	9,464,866	5,791,329	9,338,633	–	–	24,594,828
Financial liabilities at amortised cost – Due to depositors	247,457,696	86,062,548	85,605,622	16,986,594	12,864,437	45,938,495	247,457,696
Financial liabilities at amortised cost – Due to other borrowers	47,307,556	9,107,967	9,149,713	14,000,752	6,154,080	8,895,045	47,307,556
Debt securities issued	14,148,198	1,028,348	3,147,549	–	3,783,024	6,189,277	14,148,198
Other liabilities	3,907,977	2,510,052	798,747	36,775	118,536	443,867	3,907,977
Subordinated term debt	16,859,914	657,460	2,227,817	940,482	8,948,215	4,085,939	16,859,914
	354,276,169	108,831,241	106,720,777	41,303,236	31,868,292	65,552,623	354,276,169
Derivative Liabilities							
Trading:	–	–	–	–	–	–	–
Risk management:	518,731	518,731	–	–	–	–	518,731
	518,731	518,731	–	–	–	–	518,731
Financial Assets by type							
Non-derivative assets							
Cash and cash equivalents	5,459,359	5,459,359	–	–	–	–	5,459,359
Balances with Central Bank	8,666,547	8,666,547	–	–	–	–	8,666,547
Placements with banks	200,441	165,030	35,411	–	–	–	200,441
Financial assets measured at fair value through profit or loss	5,307,066	251,593	–	–	–	5,055,473	5,307,066
Financial assets at amortised cost – Loans to and receivables from banks	8,403,175	3,307,831	15,304	4,898,610	181,430	–	8,403,175
Financial assets at amortised cost – Loans to and receivables from other customers	272,818,311	40,234,030	38,017,279	52,744,363	54,181,538	87,641,101	272,818,311
Financial assets at amortised cost – Debt and other instruments	21,743,857	1,658,360	2,614,709	13,740,868	3,729,920	–	21,743,857
Financial assets measured at fair value through other comprehensive income	72,716,407	9,450,109	3,187,401	30,008,205	15,649,171	14,421,521	72,716,407
Other assets	2,238,051	1,514,909	278,065	130,296	21,491	293,290	2,238,051
	397,553,214	70,707,768	44,148,169	101,522,342	73,763,550	107,411,385	397,553,214
Derivative Assets							
Trading:	–	–	–	–	–	–	–
Risk management:	631,438	631,438	–	–	–	–	631,438
	631,438	631,438	–	–	–	–	631,438

As at 31 December 2018 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	9,446,464	7,321,516	2,124,948	–	–	–	9,446,464
Financial liabilities at amortised cost – Due to depositors	241,914,870	91,521,669	86,521,960	12,141,582	11,971,314	39,758,345	241,914,870
Financial liabilities at amortised cost – Due to other borrowers	47,388,679	5,013,212	7,454,562	12,854,025	11,775,945	10,290,935	47,388,679
Debt securities issued	8,898,441	5,903,657	–	2,994,784	–	–	8,898,441
Other liabilities	3,421,922	1,852,209	979,156	38,949	92,921	458,687	3,421,922
Subordinated term debt	16,855,352	662,109	227,138	2,939,798	8,942,732	4,083,575	16,855,352
	327,925,728	112,274,372	97,307,764	30,969,138	32,782,912	54,591,542	327,925,728
Derivative Liabilities							
Trading:	–	–	–	–	–	–	–
Risk management:	121,373	121,373	–	–	–	–	121,373
	121,373	121,373	–	–	–	–	121,373
Financial Assets by type							
Non-derivative assets							
Cash and cash equivalents	5,049,823	5,049,823	–	–	–	–	5,049,823
Balances with Central Bank	11,841,814	11,841,814	–	–	–	–	11,841,814
Placements with banks	439,727	439,727	–	–	–	–	439,727
Financial assets measured at fair value through profit or loss	6,078,862	–	–	–	–	6,078,862	6,078,862
Financial assets at amortised cost – Loans to and receivables from banks	12,854,880	4,422,366	15,434	4,391,520	4,025,560	–	12,854,880
Financial assets at amortised cost – Loans to and receivables from other customers	249,733,718	46,493,502	33,680,311	40,236,546	55,809,633	73,513,726	249,733,718
Financial assets at amortised cost – Debt and other instruments	22,874,088	1,431,945	2,634,993	15,051,018	3,756,132	–	22,874,088
Financial assets measured at fair value through other comprehensive income	55,313,553	8,311,960	21,973,238	7,737,500	5,443,116	11,847,739	55,313,553
Other assets	2,347,579	1,791,297	167,428	27,308	27,308	334,238	2,347,579
	366,534,044	79,782,434	58,471,404	67,443,892	69,061,749	91,774,565	366,534,044
Derivative Assets							
Trading:	–	–	–	–	–	–	–
Risk management:	3,414,549	3,414,549	–	–	–	–	3,414,549
	3,414,549	3,414,549	–	–	–	–	3,414,549

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 three 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

	2019 Carrying amount LKR '000	**2019 Fair value LKR '000**	2018 Carrying amount LKR '000	2018 Fair value LKR '000
Balances with Central Bank	**8,666,547**	**8,666,547**	11,841,814	11,841,814
Cash and cash equivalents	**5,450,209**	**5,450,209**	5,039,629	5,039,629
Placements with banks	**165,030**	**165,030**	425,087	425,087
Unencumbered debt securities issued by sovereigns	**71,954,148**	**71,954,148**	65,829,371	65,829,371
Total liquidity reserves	**86,235,934**	**86,235,934**	83,135,901	83,135,901

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 2019						
Cash and cash equivalents	26	**–**	**–**	**5,450,209**	**–**	**5,450,209**
Balances with Central Bank	27	**–**	**8,666,547**	**–**	**–**	**8,666,547**
Placements with banks	28	**–**	**–**	**165,030**	**–**	**165,030**
Derivative financial assets	29	**–**	**–**	**631,438**	**–**	**631,438**
Financial assets measured at fair value through profit or loss	30	**–**	**–**	**5,307,066**	**–**	**5,307,066**
Financial assets at amortised cost – Loans to and receivables from banks	31	**–**	**–**	**8,403,175**	**–**	**8,403,175**
Financial assets at amortised cost – Loans to and receivables from other customers	32	**–**	**–**	**272,818,311**	**–**	**272,818,311**
Financial assets at amortised cost – Debt and other instruments	33	**43,883**	**–**	**21,699,974**	**–**	**21,743,857**
Financial assets measured at fair value through other comprehensive income	34	**16,625,375**	**–**	**56,091,032**	**–**	**72,716,407**
Other assets		**–**	**–**	**–**	**2,148,567**	**2,148,567**
Non-financial assets		**–**	**–**	**–**	**6,846,673**	**6,846,673**
Total assets		**16,669,258**	**8,666,547**	**370,566,235**	**8,995,240**	**404,897,280**
31 December 2018						
Cash and cash equivalents	26	–	–	5,039,629	–	5,039,629
Balances with Central Bank	27	–	11,841,814	–	–	11,841,814
Placements with banks	28	–	–	425,087	–	425,087
Derivative financial assets	29	–	–	3,414,549	–	3,414,549
Financial assets measured at fair value through profit or loss	30	–	–	6,078,862	–	6,078,862
Financial assets at amortised cost – Loans to and receivables from banks	31	–	–	12,854,880	–	12,854,880
Financial assets at amortised cost – Loans to and receivables from other customers	32	–	–	249,733,718	–	249,733,718
Financial assets at amortised cost – Debt and other instruments	33	5,056,061	–	17,818,027	–	22,874,088
Financial assets measured at fair value through other comprehensive income	34	5,502,192	–	49,811,361	–	55,313,553
Other assets		–	–	–	2,309,581	2,309,581
Non-financial assets		–	–	–	5,022,117	5,022,117
Total assets		10,558,253	11,841,814	345,176,113	7,331,698	374,907,878

** Represents assets that are not pledged but that the Bank 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 Bank would not consider readily available to secure funding in the normal course of business.*

8.4 Market risk

"Market risk" is the risk that changes in market prices – e.g., interest rates, equity prices, foreign exchange rates, and credit spreads (not relating to changes in the obligor's/ issuer's credit standing) – will affect the Bank's income or the value of its holdings of financial instruments. 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 risks

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 and segregation of reporting responsibilities of Treasury Front Office, Middle Office and Back Office.

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 2019				
Assets subject to market risk				
Cash and cash equivalents	26	**926,842**	–	**926,842**
Placements with banks	28	**165,030**	–	**165,030**
Derivative financial assets	29	**631,438**	**631,438**	–
Financial assets measured at fair value through profit or loss	30	**5,307,066**	**5,307,066**	–
Financial assets at amortised cost – Loans to and receivables from banks	31	**8,403,175**	–	**8,403,175**
Financial assets at amortised cost – Loans to and receivables from other customers	32	**272,818,311**	–	**272,818,311**
Financial assets at amortised cost – Debt and other instruments	33	**21,743,857**	–	**21,743,857**
Financial assets measured at fair value through other comprehensive income	34	**72,716,407**	–	**72,716,407**
Liabilities subject to market risk				
Due to banks	44	**24,594,828**	–	**24,594,828**
Derivative financial liabilities	29	**518,731**	**518,731**	–
Financial liabilities at amortised cost – Due to depositors	45	**247,786,974**	–	**247,786,974**
Financial liabilities at amortised cost – Due to other borrowers	46	**47,307,556**	–	**47,307,556**
Debt securities in issue	47	**14,148,198**	–	**14,148,198**
Subordinated term debt	51	**16,859,914**	–	**16,859,914**

	Note	Carrying amount LKR '000	Market risk measure Trading portfolio LKR '000	Non-trading portfolio LKR '000
31 December 2018				
Assets subject to market risk				
Cash and cash equivalents	26	1,242,995	–	1,242,995
Placements with banks	28	425,087	–	425,087
Derivative financial assets	29	3,414,549	3,414,549	–
Financial assets measured at fair value through profit or loss	30	6,078,862	6,078,862	–
Financial assets at amortised cost – Loans to and receivables from banks	31	12,854,880	–	12,854,880
Financial assets at amortised cost – Loans to and receivables from other customers	32	249,733,718	–	249,733,718
Financial assets at amortised cost – Debt and other instruments	33	22,874,088	–	22,874,088
Financial assets measured at fair value through other comprehensive income	34	55,313,553	–	55,313,553
Liabilities subject to market risk				
Due to banks	44	9,446,464	–	9,446,464
Derivative financial liabilities	29	121,373	121,373	–
Financial liabilities at amortised cost – Due to depositors	45	242,237,596	–	242,237,596
Financial liabilities at amortised cost – Due to other borrowers	46	47,413,727	–	47,413,727
Debt securities in issue	47	8,898,441	–	8,898,441
Subordinated term debt	51	16,855,352	–	16,855,352

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 Value at Risk (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 liquidity.
- 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 prices 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 2019 LKR '000	Position as at 31 December 2018 LKR '000
Marked-to-market value of the total quoted equity portfolio	**4,777,423**	5,386,889
Value-at-risk (under 99% probability for a quarterly time horizon)	**12.35%**	22.74%
Maximum possible loss of value in the marked-to-market value of the portfolio as indicated by the VaR over a quarterly period	**590,012**	1,224,979
Unrealised gains in the trading equity portfolio reported in the fair value reserve	**2,612,462**	3,593,558

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 2019 LKR '000	Position as at 31 December 2018 LKR '000
Marked-to-market value of the total quoted equity portfolio	**8,812,702**	10,215,281
Value-at-risk (under 99% probability for a quarterly time horizon) (%)	**18.20**	17.80
Maximum possible loss of value in the marked-to-market value of the portfolio as indicated by the VaR over a quarterly period	**1,603,912**	1,818,320
Unrealised gains in the trading equity portfolio reported in the fair value reserve	**4,476,529**	6,061,300

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.

8.4.4 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 2019

Portfolio	Face Value LKR '000	Marked-to market value LKR '000	Duration	Interpretation of duration
Treasury Securities measured at FVOCI/LKR Bills and Bonds	**56,484,827**	**61,442,296**	**2.39**	**Portfolio value will decline approximately by 2.39% as a result of 1% increase in the interest rates**
Treasury Securities measured at FVOCI/Sovereign Bonds	**2,177,160**	**2,260,552**	**1.73**	**Portfolio value will decline approximately by 1.73% 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 2019 is Nil. Market risk exposure for interest rate risk in the FVOCI Rupee portfolio as at 31 December 2019 is depicted by duration of 2.39%.

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 1,470.9 Mn, as at 31 December 2019.

Market risk exposure for interest rate risk in the FVOCI US Dollar portfolio as at 31 December 2019 is depicted by duration of 1.73%.

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 39.2 Mn, as at 31 December 2019.

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 2019 is quantified based on the assumed change in the interest rates for each time period and is given in table below:

	0 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 2019					
Cash and cash equivalents	333,741	–	–	–	–
Placements with banks	165,030	–	–	–	–
Loans to and receivables from banks	27,803	3,280,028	15,304	–	5,080,040
Loans to and receivables from customers	151,965,068	7,780,400	12,106,527	14,419,459	78,745,361
Investment securities	310,454	6,219,359	3,341,870	2,852,941	72,722,083
	152,802,096	17,279,787	15,463,701	17,272,400	156,547,484
Due to banks	6,502,929	8,129,761	2,148,769	2,566,164	5,000,000
Due to other borrowers	9,178,922	8,835,038	10,163,228	3,435,505	15,511,272
Deposits from customers	75,196,582	54,615,104	49,236,046	55,107,361	8,177,872
Debt securities in issue	–	–	3,000,000	–	10,000,000
Subordinated liabilities	–	–	2,000,000	–	14,000,000
	90,878,433	71,579,903	66,548,043	61,109,030	52,689,144
Net rate sensitive assets/(liabilities)	61,923,663	(54,300,116)	(51,084,342)	(43,836,630)	103,858,340
Assumed change in interest rates (%)	0.50	1.00	1.50	2.00	
Impact	309,618	(497,751)	(574,699)	(438,366)	
Total net impact if interest rates increase				(1,201,198)	
Total net impact if interest rates decline				1,201,198	

	0 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 2018					
Cash and cash equivalents	304,618	–	–	–	–
Placements with banks	425,089	–	–	–	–
Loans to and receivables from banks	29,796	4,437,577	15,434	–	8,417,080
Loans to and receivables from customers	141,488,372	7,882,526	12,494,899	14,181,994	70,646,819
Investment securities	2,472,145	1,035,292	9,915,675	14,692,556	39,576,211
	144,720,020	13,355,395	22,426,008	28,874,550	118,640,110
Due to banks	7,285,625	36,365	–	2,124,474	–
Due to other borrowers	3,567,792	1,474,741	2,230,085	5,224,951	34,920,905
Deposits from customers	82,067,918	52,592,276	49,824,583	22,962,960	28,080,954
Debt securities in issue	–	5,758,994	151,757	–	2,994,784
Subordinated liabilities	–	681,781	103,150	123,988	15,966,105
	92,921,335	60,544,157	52,309,575	30,436,373	81,962,748
Net rate sensitive assets/(liabilities)	51,798,685	(47,188,762)	(29,883,567)	(1,561,823)	36,677,362
Assumed change in interest rates (%)	0.50	1.00	1.50	2.00	
Impact	258,993	(432,564)	(336,190)	(15,618)	
Total net impact if interest rates increase				(525,379)	
Total net impact if interest rates decline				525,379	

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.

8.4.5 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 2019, DFCC carried a USD equivalent net open/unhedged "Overbought" position of LKR 0.038 Bn. The impact of exchange rate risk is given below:

	Amount
Net exposure – USD equivalent	213,000
Value of position in LKR '000	38,645
Exchange rate (USD/LKR) as at 31 December 2019	181.43
Possible potential loss to Bank – LKR '000	
– If Exchange rate (USD/LKR) depreciates by 1%	386
– If exchange rate depreciates by 10%	3,864
– If exchange rate depreciates by 15%	5,797

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 2019 are as follows:

	Risk-weighted assets LKR '000	Quantified possible exposure LKR '000
Interest rate risk	**12,235,896**	**1,529,487**
Equity price risk	**4,388,936**	**548,617**
Foreign exchange and gold risk	**331,520**	**41,440**
Total	**16,956,352**	**2,119,544**

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 Integrated Risk Management Department (IRMD), and recognise necessary improvements in the systems, processes and procedures.
c. Analyse downtime of the critical systems, attrition information, exit interview comments and customer complaints to identify operational risks and recommend mitigating controls. The key findings of the analysis are evaluated at the Operational Risk Management Commitee (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 within 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.

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 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.
c. Ensure capital impact of business decisions are properly assessed and taken into consideration during product planning and approval process.
d. Ensure capital consumption by business actions are adequately priced.

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, 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.

8.5.1.1 Key regulatory ratios – Capital adequacy

Item	31 December 2019		31 December 2018	
	Bank	Group	Bank	Group
Regulatory capital (LKR '000)				
Common equity Tier 1	**34,824,554**	**34,908,304**	31,633,211	32,106,706
Tier 1 Capital	**34,824,554**	**34,908,304**	31,633,211	32,106,706
Total Capital	**48,542,925**	**48,626,675**	47,203,364	47,676,859
Regulatory capital ratios (%)				
Common equity Tier 1 Capital ratio	**11.342**	**11.327**	10.766	10.888
Minimum requirement 2019 – 7.00% (2018 – 6.375%)				
Tier 1 capital ratio	**11.342**	**11.327**	10.766	10.888
Minimum requirement 2019 – 8.5% (2018 – 7.875%)				
Total capital ratio	**15.810**	**15.778**	16.065	16.168
Minimum requirement 2019 – 12.5% (2018 – 11.875%)				

Basel III computation of capital ratios

Item	Amount (LKR '000)			
	31 December 2019		31 December 2018	
	Bank	Group	Bank	Group
Common Equity Tier 1 (CET1) Capital after Adjustments	**34,824,554**	**34,908,304**	31,633,211	32,106,706
Common Equity Tier 1 (CET1) Capital	**42,000,264**	**45,050,466**	38,041,191	40,961,078
Equity Capital (Stated Capital)/Assigned Capital	**7,530,371**	**7,530,371**	4,715,814	4,715,814
Reserve Fund	**2,461,968**	**2,461,968**	2,358,275	2,358,275
Published retained earnings/(Accumulated retained losses)	**18,228,086**	**21,278,288**	17,187,263	20,107,150
Published accumulated Other Comprehensive Income (OCI)			–	–
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	**7,175,710**	**10,142,162**	6,407,980	8,854,372
Goodwill (net)	**–**	**156,226**	–	156,226
Intangible assets (net)	**1,184,659**	**1,205,923**	668,834	686,288
Investment in capital of banks and financial institutions	**5,762,829**	**8,648,828**	5,595,930	7,867,360
Others	**228,221**	**131,185**	143,216	144,498
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	**–**	**–**	–	–

Item	Amount (LKR '000)			
	31 December 2019		31 December 2018	
	Bank	Group	Bank	Group
Investment in own shares	–	–	–	–
Others (specify)	–	–	–	–
Tier 2 Capital after adjustments	13,718,371	13,718,371	15,570,153	15,570,153
Tier 2 Capital	13,718,371	13,718,371	15,570,153	15,570,153
Qualifying Tier 2 Capital Instruments	12,034,562	12,034,562	14,417,256	14,417,256
Revaluation gains	–	–	–	–
Loan loss provisions	1,683,809	1,683,809	1,152,897	1,152,897
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	34,824,554	34,908,304	31,633,211	32,106,706
Total Tier 1 Capital	34,824,554	34,908,304	31,633,211	32,106,706
Total Capital	48,542,925	48,626,675	47,203,364	47,676,859
Total Risk Weighted Assets (RWA)				
RWAs for credit risk	274,009,885	274,759,093	262,979,953	263,746,741
RWAs for market risk	16,956,352	16,956,352	14,903,582	14,903,582
RWAs for operational risk	16,074,112	16,479,374	15,940,116	16,228,641
CET1 Capital Ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	11.342	11.327	10.766	10.888
of which: Capital Conservation Buffer (%)	1.25	1.25	1.875	1.875
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 (%)	11.342	11.327	10.766	10.888
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer and Surcharge on D-SIBs) (%)	15.810	15.778	16.065	16.168
of which: Capital Conservation Buffer (%)	1.25	1.25	1.875	1.875
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 →

See accounting policy in Note 5.3.5.

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 judgement 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 judgement 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.

As at 31 December 2019	Notes	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Bank/Group					
Financial assets					
Derivative financial assets	29				
Forward foreign exchange contracts		–	631,438	–	631,438
Financial assets measured at fair value through profit or loss	30				
Equity securities – quoted		4,777,423	–	–	4,777,423
Units in unit trusts – quoted		3,740	–	–	3,740
Units in unit trusts – unquoted		–	525,903	–	525,903
Financial assets measured at fair value through other comprehensive income	34				–
Government of Sri Lanka Treasury Bills and Bonds		61,442,296	–	–	61,442,296
Sri Lanka Sovereign Bonds		2,260,552	–	–	2,260,552
Equity securities – quoted		8,812,702	–	–	8,812,702
Equity securities – unquoted		–	–	200,357	200,357
Preference shares		–	–	500	500
		77,296,713	1,157,341	200,857	78,654,911
Financial liabilities					
Derivative financial liabilities	29				
Forward foreign exchange contracts		–	518,731	–	518,731
		–	518,731	–	518,731

As at 31 December 2018	Notes	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Bank/Group					
Financial assets					
Derivative financial assets	29				
Forward foreign exchange contracts		–	3,414,549	–	3,414,549
Financial assets measured at fair value through profit or loss	30				
Equity securities – quoted		5,386,889	–	–	5,386,889
Units in unit trusts – quoted		169,025	–	–	169,025
Units in unit trusts – unquoted		–	522,948	–	522,948
Financial assets measured at fair value through other comprehensive income	34				
Government of Sri Lanka Treasury Bills and Bonds		44,032,404	–	–	44,032,404
Sri Lanka Sovereign Bonds		876,579	–	–	876,579
Equity securities – quoted		10,215,281	–	–	10,215,281
Equity securities – unquoted		–	–	188,789	188,789
Preference shares		–	–	500	500
		60,680,178	3,937,497	189,289	64,806,964
Financial liabilities					
Derivative financial liabilities	29				
Forward foreign exchange contracts		–	121,373	–	121,373
		–	121,373	–	121,373

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 table shows 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 Level 2 or Level 2 to Level 1 in 2019 and no transfers in either direction in 2018.

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	
	2019 LKR '000	2018 LKR '000
Balance at 1 January	**188,789**	249,294
Purchased during the year	**1,000**	–
Gain included in OCI		
– Net change in fair value (unrealised)	**10,568**	(60,505)
Balance at 31 December	**200,357**	188,789

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 2019.

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	
Equity securities As at 31 December 2019	Increase LKR '000	Decrease LKR '000
Adjusted net assets value (5% movement)	10,018	(10,018)

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:

As at 31 December 2019	Notes	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Fair value LKR '000	Carrying amount LKR '000
Bank						
Assets						
Cash and cash equivalents	26	–	5,450,209	–	5,450,209	5,450,209
Balances with Central Bank of Sri Lanka	27	–	8,666,547	–	8,666,547	8,666,547
Placements with banks	28	–	165,030	–	165,030	165,030
Financial assets at amortised cost – Loans to and receivables from banks	31	–	8,403,175	–	8,403,175	8,403,175
Financial assets at amortised cost – Loans to and receivables from other customers	32	–	–	269,198,869	269,198,869	272,818,311
Financial assets at amortised cost – Debt and other instruments	33	20,531,578	1,724,319	–	22,255,897	21,743,857
Other assets	42	–	–	2,148,567	2,148,567	2,148,567
Total		20,531,578	24,409,280	271,347,436	316,288,294	319,395,696
Liabilities						
Due to banks	44	–	24,594,828	–	24,594,828	24,594,828
Financial liabilities at amortised cost – Due to depositors	45	–	–	248,066,585	248,066,585	247,786,974
Financial liabilities at amortised cost – Due to other borrowers	46	–	–	47,307,556	47,307,556	47,307,556
Debt securities in issue	47	–	14,708,677	–	14,708,677	14,148,198
Other liabilities	50	–	–	3,786,445	3,786,445	3,786,445
Subordinated term debt	51	–	17,389,799	–	17,389,799	16,859,914
Total		–	56,693,304	299,160,586	355,853,890	354,483,915

As at 31 December 2018	Notes	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	–	5,039,629	–	5,039,629	5,039,629
Balances with Central Bank of Sri Lanka	27	–	11,841,814	–	11,841,814	11,841,814
Placements with banks	28	–	425,087	–	425,087	425,087
Financial assets at amortised cost – Loans to and receivables from banks	31	–	12,854,880	–	12,854,880	12,854,880
Financial assets at amortised cost – Loans to and receivables from other customers	32	–	–	245,484,907	245,484,907	249,733,718
Financial assets at amortised cost – Debt and other instruments	33	16,846,671	2,147,755	–	18,994,426	22,874,088
Other assets	42	–	–	2,309,581	2,309,581	2,309,581
Total		16,846,671	32,309,165	247,794,488	296,950,324	305,078,797
Liabilities						
Due to banks	44	–	9,446,464	–	9,446,464	9,446,464
Financial liabilities at amortised cost – Due to depositors	45	–	–	241,998,898	241,998,898	242,237,596
Financial liabilities at amortised cost – Due to other borrowers	46	–	–	47,413,727	47,413,727	47,413,727
Debt securities in issue	47	–	8,137,682	–	8,137,682	8,898,441
Other liabilities	50	–	–	3,264,345	3,264,345	3,264,345
Subordinated term debt	51	–	16,397,686	–	16,397,686	16,855,352
Total		–	33,981,832	292,676,970	326,658,802	328,115,925

As at 31 December 2019	**Notes**	**Level 1 LKR '000**	**Level 2 LKR '000**	**Level 3 LKR '000**	**Fair value LKR '000**	**Carrying amount LKR '000**
Group						
Assets						
Cash and cash equivalents	**26**	**–**	**5,459,359**	**–**	**5,459,359**	**5,459,359**
Balances with Central Bank of Sri Lanka	**27**	**–**	**8,666,547**	**–**	**8,666,547**	**8,666,547**
Placements with banks	**28**	**–**	**200,441**	**–**	**200,441**	**200,441**
Financial assets at amortised cost – Loans to and receivables from banks	**31**	**–**	**8,403,175**	**–**	**8,403,175**	**8,403,175**
Financial assets at amortised cost – Loans to and receivables from other customers	**32**	**–**	**–**	**269,198,868**	**269,198,868**	**272,818,311**
Financial assets at amortised cost – Debt and other instruments	**33**	**20,531,578**	**1,724,319**	**–**	**22,255,897**	**21,743,857**
Other assets	**42**	**–**	**–**	**2,238,053**	**2,238,053**	**2,238,053**
Total		**20,531,578**	**24,453,841**	**271,436,921**	**316,422,340**	**319,529,743**
Liabilities						
Due to banks	**44**	**–**	**24,594,828**	**–**	**24,594,828**	**24,594,828**
Financial liabilities at amortised cost – Due to depositors	**45**	**–**	**–**	**248,066,585**	**248,066,585**	**247,457,696**
Financial liabilities at amortised cost – Due to other borrowers	**46**	**–**	**–**	**47,307,556**	**47,307,556**	**47,307,556**
Debt securities in issue	**47**	**–**	**14,708,677**	**–**	**14,708,677**	**14,148,198**
Other liabilities	**50**	**–**	**–**	**3,907,977**	**3,907,977**	**3,907,977**
Subordinated term debt	**51**	**–**	**17,389,799**	**–**	**17,389,799**	**16,859,914**
Total		**–**	**56,693,304**	**299,282,118**	**355,975,422**	**354,276,169**

As at 31 December 2018	Notes	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	–	5,049,823	–	5,049,823	5,049,823
Balances with Central Bank of Sri Lanka	27	–	11,841,814	–	11,841,814	11,841,814
Placements with banks	28	–	439,727	–	439,727	439,727
Financial assets at amortised cost – Loans to and receivables from banks	31	–	12,854,880	–	12,854,880	12,854,880
Financial assets at amortised cost – Loans to and receivables from other customers	32	–	–	245,484,907	245,484,907	249,733,718
Financial assets at amortised cost – Debt and other instruments	33	16,846,671	2,147,755	–	18,994,426	22,874,088
Other assets	42	–	–	2,347,579	2,347,579	2,347,579
Total		16,846,671	32,333,999	247,832,486	297,013,156	305,141,629
Liabilities						
Due to banks	44	–	9,446,464	–	9,446,464	9,446,464
Financial liabilities at amortised cost – Due to depositors	45	–	–	241,676,172	241,676,172	241,914,870
Financial liabilities at amortised cost – Due to other borrowers	46	–	–	47,388,679	47,388,679	47,388,679
Debt securities in issue	47	–	8,137,682	–	8,137,682	8,898,441
Other liabilities	50	–	–	3,421,922	3,421,922	3,421,922
Subordinated term debt	51	–	16,397,686	–	16,397,686	16,855,352
Total		–	33,981,832	292,486,773	326,468,605	327,925,728

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 banks and 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 banks and other customers – Other loans

	Composition (%)
Floating rate loan portfolio	60
Fixed rate loans	
– With remaining maturity less than one year	22
– Others	18

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

Carrying value of amounts due to banks approximates their fair value as these balances have a remaining maturity of less than one year from the reporting date.

9.4.6 Due to other customers

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 Other borrowing

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 →

	BANK		GROUP	
For the year ended 31 December	**2019 LKR '000**	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Interest income (Note 11.1.1)	**42,060,055**	38,148,193	**42,062,054**	38,149,896
Fee and commission income (Note 12.1.1)	**2,165,314**	2,012,563	**2,162,006**	2,012,443
Net loss from trading (Note 13)	**(87,116)**	(366,657)	**(87,116)**	(366,657)
Net fair value (loss)/gains from financial instruments at fair value through profit or loss (Note 14)	**(2,633,183)**	2,650,664	**(2,633,183)**	2,650,664
Net gains from derecognition of financial assets (Note 15)	**209,890**	19,114	**209,890**	19,114
Net other operating income (Note 16)	**1,582,055**	(3,310,003)	**1,934,636**	(3,016,974)
	43,297,015	39,153,874	**43,648,287**	39,448,486

11 Net interest income →

Accounting Policy →

Effective interest rate

Interest income and expense are recognised in income statement 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.

From 1 January 2018, with the adoption of Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" the Bank has aligned its interest recognition policy with internal risk management practices. 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

	BANK		GROUP	
For the year ended 31 December	**2019 LKR '000**	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Interest income (Note 11.1.1)	**42,060,055**	38,148,193	**42,062,054**	38,149,896
Interest expenses (Note 11.1.2)	**(29,397,598)**	(25,733,360)	**(29,363,105)**	(25,691,119)
Net interest income	**12,662,457**	12,414,833	**12,698,949**	12,458,777

11.1.1 Interest income

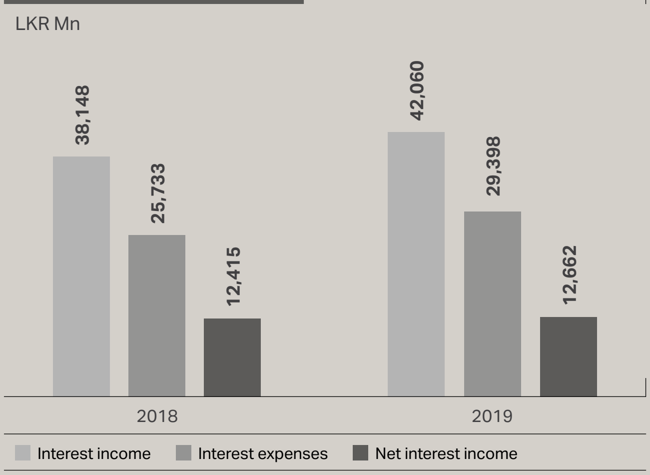
For the year ended 31 December	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Placements with banks	**195,841**	274,164	**198,193**	275,868
Financial assets measured at fair value through profit or loss	**12,105**	63,624	**12,105**	63,624
Financial assets at amortised cost – Loans to and receivables from banks	**648,557**	659,520	**648,204**	659,520
Financial assets at amortised cost – Loans to and receivables from other customers	**34,626,817**	31,196,112	**34,626,817**	31,196,112
Financial assets at amortised cost – Debt and other instruments	**2,049,050**	2,160,287	**2,049,050**	2,160,287
Financial assets measured at fair value through other comprehensive income	**4,527,685**	3,794,486	**4,527,685**	3,794,485
Total interest income	**42,060,055**	38,148,193	**42,062,054**	38,149,896

11.1.2 Interest expenses

For the year ended 31 December	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Due to banks	**1,371,203**	871,842	**1,371,237**	871,842
Financial liabilities at amortised cost – Due to depositors	**21,900,545**	18,730,263	**21,863,289**	18,688,021
Financial liabilities at amortised cost – Due to other borrowers	**2,703,845**	2,179,549	**2,706,574**	2,179,549
Debt securities in issue	**3,422,005**	3,951,706	**3,422,005**	3,951,707
Total interest expenses	**29,397,598**	25,733,360	**29,363,105**	25,691,119

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.

Net interest income



As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Financial assets measured at amortised cost	**319,395,696**	305,078,797	**319,529,743**	305,141,629
Financial assets measured at fair value through other comprehensive income	**72,716,407**	55,313,553	**72,716,407**	55,313,553
Total	**392,112,103**	360,392,350	**392,246,150**	360,455,182
Financial liabilities measured at amortised cost	**354,483,915**	328,115,925	**354,276,169**	327,925,728

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

For the year ended 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Fee and commission income (Note 12.1.1)	**2,165,314**	2,012,563	**2,162,006**	2,012,443
Fee and commission expenses	**119,603**	68,622	**119,603**	68,622
Net fee and commission income	**2,045,711**	1,943,941	**2,042,403**	1,943,821

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

For the year ended 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Loans and advances	**812,655**	708,689	**812,655**	708,569
Credit cards	**115,454**	38,311	**115,454**	38,311
Trade and remittances	**544,193**	541,248	**544,193**	541,248
Customer accounts	**412,037**	444,792	**412,037**	444,792
Guarantees	**268,312**	259,962	**268,312**	259,962
Others (Management, consulting and other fees)	**12,663**	19,561	**9,355**	19,561
Fee and commission income	**2,165,314**	2,012,563	**2,162,006**	2,012,443

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 IFRS 15
Retail and corporate banking service	The Bank 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 Bank 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 Bank.	

13 Net loss 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.

For the year ended 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Foreign exchange from banks	**538,838**	402,015	**538,838**	402,015
Government Securities				
Net marked to market loss	**–**	(726)	**–**	(726)
Net capital gain/(loss)	**21,072**	(40,639)	**21,072**	(40,639)
Equities				
Net marked to market loss	**(919,614)**	(1,018,554)	**(919,614)**	(1,018,554)
Net capital gain	**7,912**	21,000	**7,912**	21,000
Dividend income	**264,676**	270,247	**264,676**	270,247
	(87,116)	(366,657)	**(87,116)**	(366,657)

14 Net (loss)/gain 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 unrealised fair value changes and foreign exchange differences are included.

14.1 Net income from financial instruments mandatorily measured at FVTPL other than those included in "net trading income"

For the year ended 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Forward exchange fair value changes				
– Contracts with commercial banks	**(2,578,178)**	2,688,008	**(2,578,178)**	2,688,008
– Contract with CBSL	**–**	58,990	**–**	58,990
Loss on financial assets fair value through profit or loss Equity securities	**(48,042)**	(107,883)	**(48,042)**	(107,883)
Interest rate swap fair value changes	**(6,963)**	11,549	**(6,963)**	11,549
	(2,633,183)	2,650,664	**(2,633,183)**	2,650,664

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 29.3). The Bank has applied the fair value hedge accounting for a part of its foreign currency liabilities using forward contracts during the year 2019.

15 Net gains from derecognition of financial assets →

Accounting Policy →

"Net gains from derecognition of financial assets" comprised realised gains less losses related to debt instruments measured at FVOCI and financial assets measured at amortised cost and FVTPL as per SLFRS 9.

For the year ended 31 December	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Fair value through profit or loss				
Gain on sale of equity securities	**99,040**	15,908	**99,040**	15,908
Fair value through other comprehensive income				
Gain on sale of Government Securities	**110,850**	3,206	**110,850**	3,206
	209,890	19,114	**209,890**	19,114

16 Net other operating income →

Accounting Policy →

Net other operating income includes 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.

For the year ended 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Financial assets measured at fair value through other comprehensive income				
Dividend income	**526,276**	527,424	**526,276**	527,424
Equities measured at fair value through profit or loss				
Dividend income	**125**	3,400	**125**	3,400
Dividend income from subsidiaries, joint venture and associate	**152,376**	132,017	**–**	–
Net gain from repurchase transactions	**351,895**	237,005	**351,895**	237,005
Premises rental income	**23,344**	44,456	**317,722**	309,118
Gain on sale of property, plant and equipment	**33,494**	5,175	**33,494**	5,175
Foreign exchange gain/(loss)	**474,203**	(4,255,763)	**474,203**	(4,255,763)
Recovery of loans written-off	**7,601**	10,460	**9,052**	13,104
Amortisation of deferred income on Government grant – CBSL swap	**–**	(46,990)	**–**	(46,990)
Others	**12,741**	32,813	**221,869**	190,553
	1,582,055	(3,310,003)	**1,934,636**	(3,016,974)

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 (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

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". The Group does not apply the low credit risk exemption to any other financial instruments.

Individually assessed loans and advances and 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 held-to-maturity 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. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

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 uses three criteria for determining whether there has been a significant increase in credit risk:

- a quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due, except for, for which a backstop of 60 days past due is applied.

Generating the term structure of PD

The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

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 or, for SMEs up to aggregate loan limit of 25 Mn, more than 60 days past due (inline with Central Bank Guideline No. 6 of 2019). 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. Due dates are determined without considering any grace period that might be available to the borrower.

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 Interest Rate GDP Growth Rate Inflation Rate Exchange Rate	Base case scenario along with two other scenarios has been used (Best Case and Worst Case)

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. Under the Bank's forbearance policy, 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. Both retail and corporate loans are subject to the forbearance policy. The Bank's Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Bank's forbearance policy, 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/in default 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.

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. For loans secured by retail property, Loan to Value (LTV) ratios are a key parameter in determining LGD. 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 Banked on the basis of shared risk characteristics, which may include:

- instrument type;
- credit risk grade;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The Bankings are subject to regular review to ensure that exposures within a particular Bank 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 maturity or derecognition.

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;

→ where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

→ 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

The following regulation has issued by the Central Bank of Sri Lanka which had/is expected to have an impact on the expected credit loss calculation:

1. **Circular No. 6 of 2019 on the adoption of Sri Lanka Accounting Standard – SLFRS 9 "Financial Instruments" issued by the Bank Supervision Department of Central Bank of Sri Lanka.**
   The Bank adopted the above circular from 1 January 2019 to exercise the option to rebut the 30-day rebuttable presumption on significant increase in credit risk to 60 days for the customers and facilities eligible as per the circular.
2. **Circular No. OIC/010/2019 of 29 May 2019 Moratorium/Concessions to Tourism Industry**
   In view of the adverse impact on tourism industry due to the prevailing economic conditions in the country, licensed banks were requested to grant concessions to those individuals and entities operating in that industry. Accordingly, DFCC Bank also granted those concessions to the customers who were eligible and requested for concessions.
3. **Circular No. 2 of 2020 of 30 January 2020 – Credit Support to Accelerate Economic Growth**
   CBSL has issued the above circular with a view to accelerating economic growth in the country by providing special credit support scheme to eligible small and medium enterprise borrowers during the period from 1 January 2020 to 31 December 2020. The Bank is in the process of evaluating the application received from the eligible customers as per this circular.

For the year ended 31 December	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Financial assets at amortised cost - Loans to and receivables from banks	**38,408**	5,088	**38,408**	5,088
Financial assets at amortised cost - Loans to and receivables from other customers	**1,590,392**	985,928	**1,590,392**	985,928
Financial assets at amortised cost - Debt and other instruments	**(1,251)**	234	**(1,251)**	234
Financial assets measured at fair value through other comprehensive income	**14,384**	–	**14,384**	–
Loan commitments	**(16,950)**	23,196	**(16,950)**	23,196
Other debts	**63,483**	41,503	**63,483**	41,503
Investment in subsidiaries	**(20,400)**	–	**–**	–
Write-offs – loans to and receivables from other customers	**847**	281	**847**	281
	1,668,913	1,056,230	**1,689,313**	1,056,230

Impairment charges

For the year ended 31 December 2019	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 banks	31.2	38,408	–	–	38,408
Financial assets at amortised cost – Loans to and receivables from other customers	32.1.4	116,321	(790,380)	2,264,451	1,590,392
Financial assets at amortised cost – Debt and other instruments	33.2.3	(1,251)	–	–	(1,251)
Financial assets measured at fair value through other comprehensive income		14,384	–	–	14,384
Loan commitments	57.1.1	1,458	(18,408)	–	(16,950)
		169,320	(808,788)	2,264,451	1,624,983
Other debts					63,483
Investment in subsidiaries					(20,400)
Write-offs – loans to and receivables from other customers					847
Total impairment charge – Bank					1,668,913
Adjustment for investment in subsidiaries	35.1				20,400
Total impairment charge – Group					1,689,313

For the year ended 31 December 2018	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 banks	31.2	5,088	–	–	5,088
Financial assets at amortised cost – Loans to and receivables from other customers	32.1.4	(12,651)	10,489	988,090	985,928
Financial assets at amortised cost – Debt and other instruments	33.2.3	234	–	–	234
Loan commitments	57.1.1	3,489	19,707	–	23,196
		(3,840)	30,196	988,090	1,014,446
Other debts					41,503
Write-offs – Loans to and receivables from other customers					281
Total impairment charge – Bank/Group					1,056,230

18 Personnel expenses →

Accounting Policy →

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		GROUP	
		2019 LKR '000	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Salaries and other benefits		**3,210,136**	2,953,203	**3,352,556**	3,076,566
Contributions to defined benefit plans	18.1.1	**171,890**	134,270	**178,206**	140,604
Contributions to defined contribution plans	18.1.2	**342,381**	320,839	**363,972**	338,810
		3,724,407	3,408,312	**3,894,734**	3,555,980

18.1.1 Contributions to defined benefit plans

For the year ended 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Funded pension liability				
Current service cost	**54,839**	51,282	**54,839**	51,282
Interest on obligation	**250,331**	237,225	**250,331**	237,225
Expected return on pension assets	**(240,353)**	(228,190)	**(240,353)**	(228,190)
	64,817	60,317	**64,817**	60,317
Unfunded pension liability				
Interest on obligation	**5,678**	5,736	**5,678**	5,736
	5,678	5,736	**5,678**	5,736
Unfunded end of service gratuity liability				
Current service cost	**66,582**	41,274	**71,027**	45,857
Interest on obligation	**34,813**	26,943	**36,684**	28,694
	101,395	68,217	**107,711**	74,551
Total defined benefit plans	**171,890**	134,270	**178,206**	140,604

18.1.2 Contributions to defined contribution plans

For the year ended 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Employer's contribution to Employees' Provident Fund	**285,205**	267,366	**302,613**	281,271
Employer's contribution to Employees' Trust Fund Board	**57,176**	53,473	**61,359**	57,539
Total defined contribution plans	**342,381**	320,839	**363,972**	338,810

19 Depreciation and amortisation →

For the year ended 31 December	Note	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Depreciation					
Investment property	38	**–**	–	**28,836**	23,265
Property, plant and equipment	39	**341,764**	313,255	**364,112**	335,972
Right-of-use assets	39	**282,313**	–	**284,113**	–
Amortisation					
Intangible assets	40	**219,579**	149,088	**224,349**	150,891
		843,656	462,343	**901,410**	510,128

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 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Directors' emoluments	**20,595**	17,835	**21,075**	18,135
Auditors' remuneration				
Audit fees and expenses	**5,424**	4,350	**6,231**	5,213
Audit related fees and expenses	**1,477**	1,210	**1,697**	1,210
Fees for non-audit services	**1,840**	114	**1,938**	114
Professional and legal expenses	**22,723**	13,189	**22,723**	13,189
Premises, equipment and establishment expenses	**1,521,317**	1,498,179	**1,521,317**	1,521,695
Other overhead expenses	**1,431,735**	1,198,399	**1,439,520**	1,178,596
	3,005,111	2,733,276	**3,014,501**	2,738,152

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 value added tax and nation building tax on financial services adjusted for emoluments of employees and depreciation computed as per prescribed rates.

Nation Building Tax on financial services (NBT)

NBT on financial services is calculated in accordance with Nation Building Tax Act, No. 09 of 2009 and subsequent amendments thereto. NBT is chargeable on the same base used for calculation of VAT on financial services. NBT has been removed with effect from 1 December 2019.

Debt Repayment Levy on financial services (DRL)

With effect from 1 October 2018, DRL of 7% was introduced on the value addition attributable to the supply of financial services through an amendment to the Finance Act, No. 35 of 2018. DRL is chargeable on the same base used for calculation of VAT on financial services before deducting the VAT and NBT on financial services. This levy has been removed with effect from 1 January 2020.

21.1 Composition

For the year ended 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Value Added Tax on financial services (Note 21.1.1)	**963,734**	1,099,802	**963,734**	1,099,802
Nation Building Tax on financial services (Note 21.1.2)	**131,607**	146,719	**131,607**	146,719
Debt Repayment Levy on Financial Services (Note 21.1.3)	**453,121**	212,549	**453,121**	212,549
Total	**1,548,462**	1,459,070	**1,548,462**	1,459,070

21.1.1 Value Added Tax on financial services

For the year ended 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
– Current year	**950,588**	1,100,392	**950,588**	1,100,392
– Under/(over) provision in respect of previous year	**13,146**	(590)	**13,146**	(590)
	963,734	1,099,802	**963,734**	1,099,802

21.1.2 Nation Building Tax on financial services

For the year ended 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
– Current year	**129,854**	146,719	**129,854**	146,719
– Under provision in respect of previous year	**1,753**	–	**1,753**	–
	131,607	146,719	**131,607**	146,719

21.1.3 Debt Repayment Levy on financial services

For the year ended 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
– Current year	**557,044**	212,549	**557,044**	212,549
– Over provision in respect of previous year	**(103,923)**	–	**(103,923)**	–
	453,121	212,549	**453,121**	212,549

22 Income tax expenses →

Accounting Policy →

Income tax expense comprises current and deferred tax. It is recognised in income statement 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 year LKR. 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.

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.

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.

Withholding tax on dividend distributed by subsidiaries, associate company and joint venture company

Dividend distributed out of the taxable profit of the subsidiaries, associate company and joint venture company suffers a 14% deduction at source and is not available for set off against the tax liability of the Bank. Thus the withholding tax deducted at source is added to the tax expense of the subsidiary companies, the associate company and joint venture company in the Group financial statements as a consolidation adjustment.

22.1 Amount recognised in income statement

For the year ended 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Current tax expense				
Current year	**1,362,295**	1,877,096	**1,441,255**	1,950,338
Change in estimates related to prior years	**(173,014)**	(101,486)	**(174,133)**	(101,571)
	1,189,281	1,775,610	**1,267,122**	1,848,767
Dividend tax deducted at source on dividends received from subsidiaries/equity accounted investments	**–**	–	**12,402**	14,655
Economics service charge write off	**–**	–	**257**	–
	1,189,281	1,775,610	**1,279,781**	1,863,422
Deferred tax expense				
Origination and reversal of temporary differences	**(273,884)**	(311,128)	**(271,635)**	(257,246)
Tax expense on continuing operations	**915,397**	1,464,482	**1,008,146**	1,606,176

The Group has considered the relevant provisions of the Inland Revenue Act, No. 24 of 2017 which came into effect from 1 April 2018, when computing the current and deferred tax assets/liabilities.

22.1.1 Sri Lanka Development Bonds (SLDB) as an exempt income for income tax calculation

As per the announcement made by the Department of Inland Revenue on 12 February 2020, interest income earned from SLDB is exempt from income tax with effect from 1 April 2018. This further clarified to the Inland Revenue Act. No. 24 of 2017. Accordingly, the already recognised income tax liability on SLDB interest income was reversed from the Financial Statement as at 31 December 2019.

22.1.2 Reconciliation of effective tax rate with income tax rate

For the year ended 31 December	BANK 2019 %	BANK 2019 LKR '000	BANK 2018 %	BANK 2018 LKR '000	GROUP 2019 %	GROUP 2019 LKR '000	GROUP 2018 %	GROUP 2018 LKR '000
Tax using 28% tax rate on profit before tax (PBT)	**28.00**	**836,994**	28.00	1,185,145	**28.00**	**926,363**	28.00	1,309,393
Adjustment in respect of current income tax of prior periods	**(5.79)**	**(173,014)**	(2.40)	(101,486)	**(5.26)**	**(174,133)**	(2.17)	(101,571)
Non-deductible expenses	**50.57**	**1,511,553**	21.05	891,027	**45.95**	**1,520,103**	19.26	900,767
Allowable deductions	**(35.71)**	**(1,067,439)**	(8.71)	(368,834)	**(32.66)**	**(1,080,626)**	(8.25)	(385,847)
Dividend income	**(6.24)**	**(186,661)**	(5.00)	(211,753)	**(5.64)**	**(186,661)**	(4.53)	(211,753)
Tax incentives	**4.41**	**131,832**	5.12	216,555	**3.98**	**131,832**	4.60	215,166
Taxable timing difference from capital allowances on assets	**4.55**	**136,016**	3.90	164,956	**4.11**	**136,016**	3.53	164,956
Tax losses from prior year	**–**	**–**	–	–	**(0.17)**	**(5,772)**	(0.17)	(7,936)
Taxed at different rates	**–**	**–**	–	–	**–**	**–**	0.06	2,902
Withholding tax on dividend received	**–**	**–**	–	–	**0.37**	**12,402**	0.31	14,655
Adjustments	**–**	**–**	–	–	**0.01**	**257**	(0.80)	(37,310)
Current tax expense	**39.79**	**1,189,281**	41.96	1,775,610	**38.69**	**1,279,781**	39.84	1,863,422

23 Earnings per share →

Accounting Policy →

The Group presents basic and diluted earnings per share (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	**2019**	2018	**2019**	2018
Profit attributable to equity holders of the Bank (LKR '000)	**2,073,868**	2,768,179	**2,213,529**	3,011,018
Weighted average number of ordinary shares (Note 23.3)	**290,373,009**	265,097,688	**290,373,009**	265,097,688
Basic earnings per ordinary share – LKR	**7.14**	10.44	**7.62**	11.36

Earnings per share for 2018 was not retrospectively adjusted as there was no bonus element in the Rights Issue that was exercised on May 2019.

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	**2019**	2018	**2019**	2018
Number of shares in issue at beginning	**265,097,688**	265,097,688	**265,097,688**	265,097,688
Number of shares exercised in the form of Rights Issue	**39,091,068**	–	**25,275,321**	–
Weighted average number of ordinary shares for basic earnings per ordinary share calculation	**304,188,756**	265,097,688	**290,373,009**	265,097,688

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 cash and allotment of new ordinary shares for the year ended 31 December 2019. (The Bank approved a final dividend of LKR 3.50 per share for the year ended 31 December 2018). The total dividend recommended by the Board is to be approved at the Annual General Meeting to be held on 30 March 2020.

	BANK	
For the year ended 31 December	**2019**	2018
Dividend per share (LKR)	**3.00**	3.50

Compliance with Sections 56 and 57 of Companies Act No. 07 of 2007

As required by Section 56 of the Companies Act, No. 07 of 2007 the Board of Directors of the Bank 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 18 February 2020 have been audited by Messrs KPMG.

Dividend paid during the year

	BANK	
For the year ended 31 December	**2019**	2018
First and final dividend for 2018 – LKR 3.50 per share (2017 – LKR 5.00 per share)	**927,841**	1,325,489

25 Classification of financial assets and financial liabilities →

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			
As at 31 December 2019	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
Financial assets					
Cash and cash equivalents	26	–	–	5,450,209	5,450,209
Balances with Central Bank of Sri Lanka	27	–	–	8,666,547	8,666,547
Placements with banks	28	–	–	165,030	165,030
Derivative financial assets	29	631,438	–	–	631,438
Financial assets measured at fair value through profit or loss	30	5,307,066	–	–	5,307,066
Financial assets at amortised cost – Loans to and receivables from banks	31	–	–	8,403,175	8,403,175
Financial assets at amortised cost – Loans to and receivables from other customers	32	–	–	272,818,311	272,818,311
Financial assets at amortised cost – Debt and other instruments	33	–	–	21,743,857	21,743,857
Financial assets measured at fair value through other comprehensive income	34	–	72,716,407	–	72,716,407
Other assets	42	–	–	2,148,567	2,148,567
Total financial assets		5,938,504	72,716,407	319,395,696	398,050,607
Financial Liabilities					
Due to banks	44	–	–	24,594,828	24,594,828
Derivative financial liabilities	29	518,731	–	–	518,731
Financial liabilities at amortised cost – Due to depositors	45	–	–	247,786,974	247,786,974
Financial liabilities at amortised cost – Due to other borrowers	46	–	–	47,307,556	47,307,556
Debt securities in issue	47	–	–	14,148,198	14,148,198
Other liabilities	50	–	–	3,786,445	3,786,445
Subordinated term debt	51	–	–	16,859,914	16,859,914
Total financial liabilities		518,731	–	354,483,915	355,002,646

As at 31 December 2018	Note	Bank			
		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	–	–	5,039,629	5,039,629
Balances with Central Bank of Sri Lanka	27	–	–	11,841,814	11,841,814
Placements with banks	28	–	–	425,087	425,087
Derivative financial assets	29	3,414,549	–	–	3,414,549
Financial assets measured at fair value through profit or loss	30	6,078,862	–	–	6,078,862
Financial assets at amortised cost – Loans to and receivables from banks	31	–	–	12,854,880	12,854,880
Financial assets at amortised cost – Loans to and receivables from other customers	32	–	–	249,733,718	249,733,718
Financial assets at amortised cost – Debt and other instruments	33	–	–	22,874,088	22,874,088
Financial assets measured at fair value through other comprehensive income	34	–	55,313,553	–	55,313,553
Other assets	42	–	–	2,309,581	2,309,581
Total financial assets		9,493,411	55,313,553	305,078,797	369,885,761
Financial liabilities					
Due to banks	44	–	–	9,446,464	9,446,464
Derivative financial liabilities	29	121,373	–	–	121,373
Financial liabilities at amortised cost – Due to depositors	45	–	–	242,237,596	242,237,596
Financial liabilities at amortised cost – Due to other borrowers	46	–	–	47,413,727	47,413,727
Debt securities in issue	47	–	–	8,898,441	8,898,441
Other liabilities	50	–	–	3,264,345	3,264,345
Subordinated term debt	51	–	–	16,855,352	16,855,352
Total financial liabilities		121,373	–	328,115,925	328,237,298

As at 31 December 2019	Note	Group			
		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	–	–	5,459,359	5,459,359
Balances with Central Bank of Sri Lanka	27	–	–	8,666,547	8,666,547
Placements with banks	28	–	–	200,441	200,441
Derivative financial assets	29	631,438	–	–	631,438
Financial assets measured at fair value through profit or loss	30	5,307,066	–	–	5,307,066
Financial assets at amortised cost – Loans to and receivables from banks	31	–	–	8,403,175	8,403,175
Financial assets at amortised cost – Loans to and receivables from other customers	32	–	–	272,818,311	272,818,311
Financial assets at amortised cost – Debt and other instruments	33	–	–	21,743,857	21,743,857
Financial assets measured at fair value through other comprehensive income	34	–	72,716,407	–	72,716,407
Other assets	42	–	–	2,238,053	2,238,053
Total financial assets		5,938,504	72,716,407	319,529,743	398,184,654
Financial liabilities					
Due to banks	44	–	–	24,594,828	24,594,828
Derivative financial liabilities	29	518,731	–	–	518,731
Financial liabilities at amortised cost – Due to depositors	45	–	–	247,457,696	247,457,696
Financial liabilities at amortised cost – Due to other borrowers	46	–	–	47,307,556	47,307,556
Debt securities in issue	47	–	–	14,148,198	14,148,198
Other liabilities	50	–	–	3,907,977	3,907,977
Subordinated term debt	51	–	–	16,859,914	16,859,914
Total financial liabilities		518,731	–	354,276,169	354,794,900

As at 31 December 2018	Note	Group			
		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	–	–	5,049,823	5,049,823
Balances with Central Bank of Sri Lanka	27	–	–	11,841,814	11,841,814
Placements with banks	28	–	–	439,727	439,727
Derivative financial assets	29	3,414,549	–	–	3,414,549
Financial assets measured at fair value through profit or loss	30	6,078,862	–	–	6,078,862
Financial assets at amortised cost – Loans to and receivables from banks	31	–	–	12,854,880	12,854,880
Financial assets at amortised cost – Loans to and receivables from other customers	32	–	–	249,733,718	249,733,718
Financial assets at amortised cost – Debt and other instruments	33	–	–	22,874,088	22,874,088
Financial assets measured at fair value through other comprehensive income	34	–	55,313,553	–	55,313,553
Other assets	42	–	–	2,347,579	2,347,579
Total financial assets		9,493,411	55,313,553	305,141,629	369,948,593
Financial liabilities					
Due to banks	44	–	–	9,446,464	9,446,464
Derivative financial liabilities	29	121,373	–	–	121,373
Financial liabilities at amortised cost – Due to depositors	45	–	–	241,914,870	241,914,870
Financial liabilities at amortised cost – Due to other borrowers	46	–	–	47,388,679	47,388,679
Debt securities in issue	47	–	–	8,898,441	8,898,441
Other liabilities	50	–	–	3,421,922	3,421,922
Subordinated term debt	51	–	–	16,855,352	16,855,352
Total financial liabilities		121,373	–	327,925,728	328,047,101

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. There were no cash and cash equivalents held by the Group companies that were not available for use by the Group.

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 net cash flows used in operation activities is also presented for comparability.

	BANK		GROUP	
As at 31 December	**2019 LKR '000**	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Cash in hand	**4,565,648**	3,856,512	**4,565,932**	3,857,117
Balances with banks	**884,561**	1,183,117	**893,427**	1,192,706
	5,450,209	5,039,629	**5,459,359**	5,049,823

26.1 Analysis by currency

	BANK		GROUP	
As at 31 December	**2019 LKR '000**	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Cash in hand	**4,565,648**	3,856,512	**4,565,932**	3,857,117
Held in local currency	**4,523,367**	3,796,634	**4,523,651**	3,797,239
Held in foreign currency	**42,281**	59,878	**42,281**	59,878
Balances with Banks	**884,561**	1,183,117	**893,427**	1,192,706
Local Banks	**35**	61	**8,901**	9,650
Foreign Banks	**884,526**	1,183,056	**884,526**	1,183,056
	5,450,209	5,039,629	**5,459,359**	5,049,823

27 Balances with Central Bank of Sri Lanka →

Accounting Policy →

Balances with Central Bank are carried at amortised cost in the statement of financial position.

	BANK		GROUP	
As at 31 December	**2019 LKR '000**	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Statutory balances with Central Bank of Sri Lanka	**8,666,547**	11,841,814	**8,666,547**	11,841,814

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 rate was 5.00% with effect from 1 March 2019 (minimum rate was 6.00% up to 1 March 2019). Central Bank introduced average 100% margin requirements against letters of credit for importation of motor vehicles and non-essential consumer goods, with effect from 29 September 2018. There are no reserve requirement for deposit liabilities of the Foreign Currency Banking Unit and foreign currency deposit liabilities in the Domestic Banking Unit.

28 Placements with banks →

Accounting policies in Notes 5.3.

As at 31 December	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Central Bank of Sri Lanka	**165,030**	425,087	**165,030**	425,087
Commercial Bank of Ceylon PLC	**–**	–	**35,411**	14,640
Total	**165,030**	425,087	200,441	439,727

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.

Up to 1 January 2018 the Bank has not designated any derivative held-for-risk management purposes as a qualifying hedge relationship and therefore the Bank has not adopted hedge accounting. However, from 1 January 2018 the Bank has applied hedge accounting principles of SLFRS 9 on "Financial Instruments".

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 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Instrument type				
Interest rate				
Interest rate swaps	–	7,165	–	7,165
	–	7,165	–	7,165
Interest rate and foreign exchange				
Cross currency swaps	**510,660**	892,967	**510,660**	892,967
Foreign exchange				
Forward foreign exchange contracts – Currency swaps	**108,069**	2,472,889	**108,069**	2,472,889
– Other	**12,709**	41,528	**12,709**	41,528
	631,438	3,414,549	**631,438**	3,414,549

29.4.2 Liabilities

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Instrument type				
Foreign exchange				
Forward foreign exchange contracts – Currency swaps	**492,283**	36,940	**492,283**	36,940
– Other	**26,448**	84,433	**26,448**	84,433
	518,731	121,373	**518,731**	121,373

29.4.3 Fair value hedge

The amount relating to items designated as hedging instruments and hedge effectiveness at 31 December 2019 were as follow:

	Asset LKR '000	Line item in the statement of financial position	Amount set off in the income statements LKR '000
Foreign currency risk			
Hedge of foreign exchange risk arising from foreign currency denominated long term liabilities using FX forwards	25,004,743	Derivative assets (liabilities) held-for-risk management purposes	212,822

The amount relating to items designated as hedged items at 31 December 2019 were as follow:

Line item in the statement of financial position in which the hedged items is included	Carrying amount of liability LKR '000	Amount set off in the income statement LKR '000
Due to other customers	12,299,247	58,631
Due to other borrowings	12,705,496	154,191
	25,004,743	212,822

Following table summarises the impact on the line items in income statement.

For the year ended 31 December 2019	**Balance before the hedging adjustment LKR '000**	**Hedging adjustment LKR '000**	**Balance after the hedging adjustment LKR '000**
Foreign exchange gain/(loss) (Note 16)	**687,025**	**(212,822)**	**474,203**
Forward exchange fair value changes – Contracts with commercial banks (Note 14)	**(2,791,000)**	**212,822**	**(2,578,178)**

30 Financial assets measured at fair value through profit or loss →

Accounting Policy →

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.

		BANK		GROUP	
As at 31 December	Note	**2019 LKR '000**	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Quoted equity securities	30.1	**4,777,423**	5,386,889	**4,777,423**	5,386,889
Quoted units in Unit Trust	30.2	**3,740**	169,025	**3,740**	169,025
Unquoted units in Unit Trust	30.3	**525,903**	522,948	**525,903**	522,948
		5,307,066	6,078,862	**5,307,066**	6,078,862

30.1 Quoted equity securities – Bank/Group

As at 31 December	2019			2018		
	Number of ordinary shares	**Cost * LKR '000**	**Fair value LKR '000**	Number of ordinary shares	Cost * LKR '000	Fair value LKR '000
Commercial Bank of Ceylon PLC – Voting	**47,628,006**	**1,931,775**	**4,524,661**	46,965,028	1,854,812	5,386,889
Tokyo Cement Company (Lanka) PLC – Voting	**700,000**	**26,235**	**33,600**	–	–	–
Tokyo Cement Company (Lanka) PLC – Non-voting	**300,000**	**10,623**	**11,760**	–	–	–
Chevron Lubricants Lanka PLC	**400,000**	**26,137**	**29,960**	–	–	–
Piramal Glass Ceylon PLC	**2,015,904**	**7,540**	**9,072**	–	–	–
Dialog Axiata PLC	**1,235,357**	**13,117**	**15,195**	–	–	–
Access Engineering PLC	**330,062**	**5,908**	**7,195**	–	–	–
Aitken Spence PLC	**500,000**	**24,430**	**23,250**	–	–	–
ACL Cables PLC	**655,299**	**37,252**	**37,680**	–	–	–
Teejay Lanka PLC	**1,000,000**	**44,668**	**40,800**	–	–	–
Royal Ceramics Lanka PLC	**500,000**	**37,276**	**44,250**	–	–	–
		2,164,961	**4,777,423**		1,854,812	5,386,889

**Cost is reduced by write-off of diminution in value other than temporary in respect of investments.*

30.2 Quoted units in Unit Trust – Bank/Group

As at 31 December	2019			2018		
	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**	2,112,810	106,070	169,025
		1,963	**3,740**		106,070	169,025

30.3 Unquoted units in Unit Trust – Bank/Group

As at 31 December	2019			2018		
	Number of units	**Cost LKR '000**	**Fair value LKR '000**	Number of units	Cost LKR '000	Fair value LKR '000
NAMAL Growth Fund	**2,125,766**	**251,539**	**245,608**	2,125,766	251,539	241,215
NAMAL Income Fund	**983,621**	**10,042**	**15,031**	1,981,068	20,226	29,066
National Equity Fund	**250,000**	**2,657**	**6,858**	250,000	2,657	6,736
Guardian Acuity Equity Fund	**9,052,505**	**150,000**	**157,275**	9,052,505	150,000	145,932
JB Vantage Value Equity Fund	**5,224,660**	**100,000**	**101,131**	5,224,660	100,000	99,999
		514,238	**525,903**		524,422	522,948

Refer Note 9.3.1 for valuation techniques and significant unobservable inputs.

31 Financial assets at amortised cost – Loans to and receivables from banks →

Accounting Policy →

Accounting policies in Notes 5.3 and 17.

"Financial assets at amortised cost – Loans to and receivables from Banks" include amounts due from banks.

As per SLFRS 9, loans to and receivables from 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 to and receivables from 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 for loans and other losses" in the Income Statement.

	BANK/GROUP	
As at 31 December	**2019 LKR '000**	2018 LKR '000
Gross loans and receivables (Note 31.1)	**8,485,034**	12,898,331
Accumulated impairment under Stage 1 (Note 31.2)	**(81,859)**	(43,451)
Net loans and receivables	**8,403,175**	12,854,880

31.1 Analysis

31.1.1 By product

	BANK/GROUP	
As at 31 December	**2019 LKR '000**	2018 LKR '000
Sri Lanka Development Bonds	**8,485,034**	12,898,331
Gross loans and receivables	**8,485,034**	12,898,331

31.1.2 By currency

	BANK/GROUP	
As at 31 December	**2019 LKR '000**	2018 LKR '000
United States Dollar	**8,485,034**	12,898,331
Gross loans and receivables	**8,485,034**	12,898,331

31.2 Movement in impairment during the year

As at 31 December	Bank/Group 2019 LKR '000	2018 LKR '000
Stage 1		
Balance at beginning	**43,451**	38,363
Charge to income statement	**38,408**	5,088
Balance on 31 December	**81,859**	43,451

32 Financial assets at amortised cost – Loans to and receivables from other customers →

Accounting Policy →

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 to 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		GROUP	
	2019 LKR '000	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Gross loans and receivables (Note 32.1)	**285,224,793**	261,299,294	**285,224,793**	261,299,294
Allowance for impairment (Note 32.1.4)	**(12,406,482)**	(11,565,576)	**(12,406,482)**	(11,565,576)
Net loans and receivables	**272,818,311**	249,733,718	**272,818,311**	249,733,718
Gross loans and receivables				
Stage 1	**224,020,849**	193,875,485	**224,020,849**	193,875,485
Stage 2	**37,368,923**	52,324,390	**37,368,923**	52,324,390
Stage 3*	**23,835,021**	15,099,419	**23,835,021**	15,099,419
	285,224,793	261,299,294	**285,224,793**	261,299,294
Provision for impairment				
Stage 1	**901,871**	786,161	**901,871**	786,161
Stage 2	**1,563,877**	2,355,958	**1,563,877**	2,355,958
Stage 3	**9,940,734**	8,423,457	**9,940,734**	8,423,457
	12,406,482	11,565,576	**12,406,482**	11,565,576
Net loans and receivables	**272,818,311**	249,733,718	**272,818,311**	249,733,718

** Gross loans and receivables reports under Stage 3 above, include facilities amounting to LKR 4 .9 Bn granted to Government institutions and are fully guaranteed by Treasury. Accordingly no provision has been made in respect of these facilities.*

32.1 Analysis

32.1.1 By product

As at 31 December	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Overdrafts	**41,691,542**	40,785,975	**41,691,542**	40,785,975
Trade finance	**35,637,646**	39,942,531	**35,637,646**	39,942,531
Lease rentals receivable (Note 32.1.1.1)	**22,173,952**	18,312,071	**22,173,952**	18,312,071
Credit cards	**1,448,853**	504,613	**1,448,853**	504,613
Pawning	**3,620,611**	3,194,318	**3,620,611**	3,194,318
Staff loans	**2,096,715**	1,966,944	**2,096,715**	1,966,944
Term loans	**176,290,391**	155,150,990	**176,290,391**	155,150,990
Commercial papers and asset back notes	**2,227,583**	1,329,352	**2,227,583**	1,329,352
Preference shares unquoted	**37,500**	112,500	**37,500**	112,500
Gross loans and receivables	**285,224,793**	261,299,294	**285,224,793**	261,299,294

32.1.1.1 Lease rentals receivable

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Gross investment in leases:				
Lease rentals receivable				
– within one year	**11,037,691**	9,333,666	**11,037,691**	9,333,666
– one to five years	**16,323,550**	13,040,987	**16,323,550**	13,040,987
	27,361,241	22,374,653	**27,361,241**	22,374,653
Less: Deposit of rentals	**14,057**	10,411	**14,057**	10,411
Unearned income on rentals receivable				
– within one year	**2,579,963**	2,045,398	**2,579,963**	2,045,398
– one to five years	**2,593,269**	2,006,773	**2,593,269**	2,006,773
	22,173,952	18,312,071	**22,173,952**	18,312,071

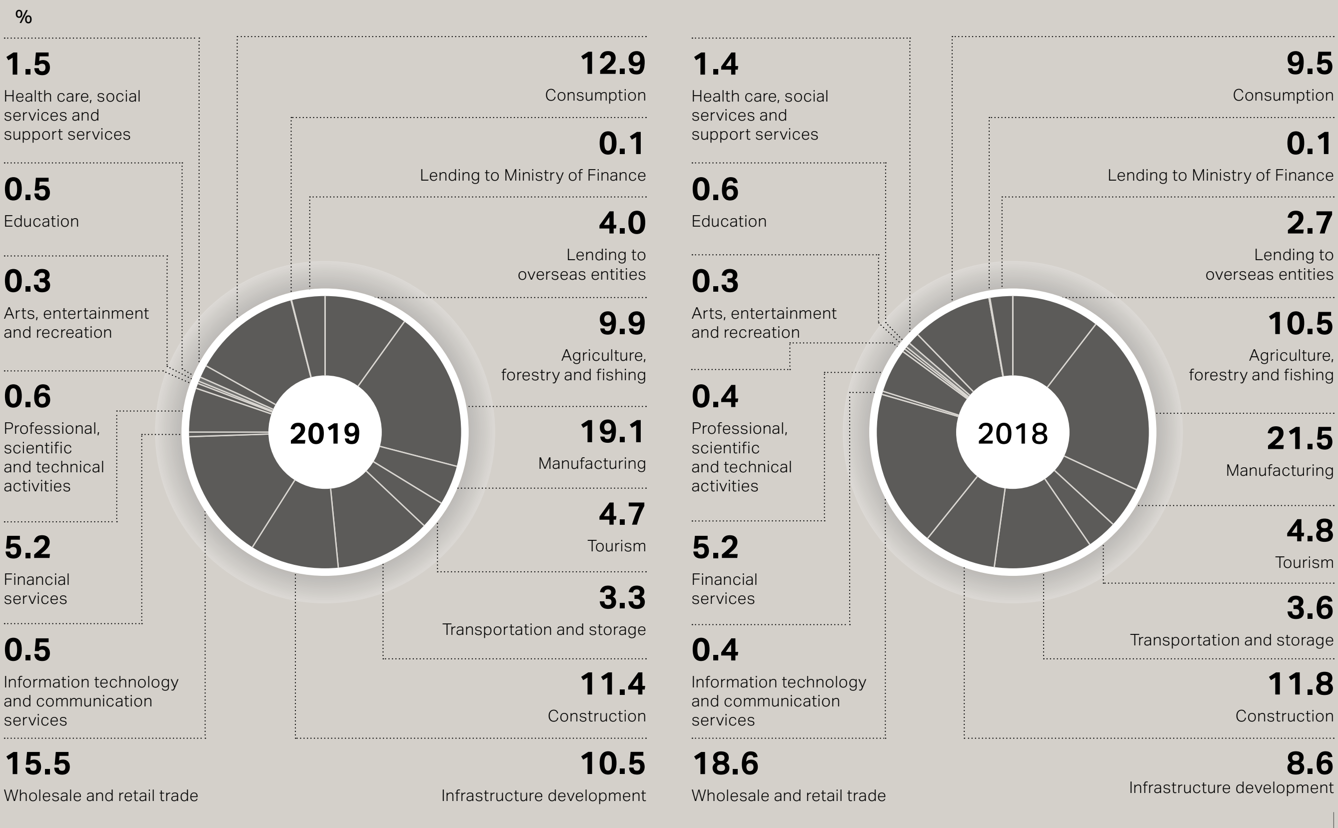
32.1.2 By currency

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Sri Lankan Rupee	**250,669,907**	227,858,928	**250,669,907**	227,858,928
United States Dollar	**33,678,971**	32,636,916	**33,678,971**	32,636,916
Great Britain Pound	**662,214**	566,915	**662,214**	566,915
Australian Dollar	**36,797**	42,077	**36,797**	42,077
Euro	**176,904**	194,458	**176,904**	194,458
Gross loans and receivables	**285,224,793**	261,299,294	**285,224,793**	261,299,294

32.1.3 By industry

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Agriculture, forestry and fishing	**28,282,969**	27,308,657	**28,282,969**	27,308,657
Manufacturing	**54,535,325**	56,123,392	**54,535,325**	56,123,392
Tourism	**13,393,587**	12,805,091	**13,393,587**	12,805,091
Transportation and storage	**9,434,389**	9,407,724	**9,434,389**	9,407,724
Construction	**32,559,866**	30,722,021	**32,559,866**	30,722,021
Infrastructure development	**30,024,078**	22,422,062	**30,024,078**	22,422,062
Wholesale and retail trade	**44,195,272**	48,884,603	**44,195,272**	48,884,603
Information technology and communication services	**1,531,401**	986,397	**1,531,401**	986,397
Financial services	**14,856,831**	13,633,490	**14,856,831**	13,633,490
Professional, scientific, and technical activities	**1,709,325**	951,079	**1,709,325**	951,079
Arts, entertainment, and recreation	**788,364**	812,394	**788,364**	812,394
Education	**1,471,284**	1,456,169	**1,471,284**	1,456,169
Healthcare, social services, and support services	**4,213,504**	3,680,771	**4,213,504**	3,680,771
Consumption	**36,783,616**	24,778,839	**36,783,616**	24,778,839
Lending to Ministry of Finance	**164,257**	298,195	**164,257**	298,195
Lending to overseas entities	**11,280,725**	7,028,410	**11,280,725**	7,028,410
Gross loans and receivables	**285,224,793**	261,299,294	**285,224,793**	261,299,294

Analysis by industry



32.1.4 Movements in impairment during the year

As at 31 December	BANK/GROUP 2019 LKR '000	2018 LKR '000
Stage 1		
Balance as at 1 January	**786,161**	805,471
Charge/(Write back) to income statement	**116,321**	(12,651)
Write-off during the year	**(611)**	(6,659)
Balance on 31 December	**901,871**	786,161
Stage 2		
Balance as at 1 January	**2,355,958**	2,347,630
(Write back)/charge to income statement	**(790,380)**	10,489
Write-off during the year	**(1,701)**	(2,161)
Balance on 31 December	**1,563,877**	2,355,958
Stage 3		
Balance as at 1 January	**8,423,457**	7,966,994
Charge to income statement	**2,264,451**	988,090
Effect of foreign currency movement	**9,475**	166,694
Write-off during the year	**(741,068)**	(696,652)
Other movements	**(15,581)**	(1,669)
Balance on 31 December	**9,940,734**	8,423,457
Total	**12,406,482**	11,565,576

33 Financial assets at amortised cost – Debt and other instruments →

Accounting Policy →

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.

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Quoted debentures (Note 33.1)	**3,091,666**	4,390,285	**3,091,666**	4,390,285
Sri Lanka Government Securities (Note 33.2)				
Treasury Bills (Note 33.2.1)	**968,754**	236,135	**968,754**	236,135
Treasury Bonds (Note 33.2.2)	**17,683,437**	18,247,668	**17,683,437**	18,247,668
Total	**21,743,857**	22,874,088	**21,743,857**	22,874,088

33.1 Quoted debentures

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Quoted debentures (Note 33.1.1)	**3,092,378**	4,392,248	**3,092,378**	4,392,248
Accumulated impairment under stage 1 (Note 33.2.3)	**(712)**	(1,963)	**(712)**	(1,963)
	3,091,666	4,390,285	**3,091,666**	4,390,285

33.1.1 Quoted debentures

As at 31 December	2019 Number of debentures	2019 Cost of investment LKR '000	2018 Number of debentures	2018 Cost of investment LKR '000
Access Engineering PLC	**2,500,000**	**252,953**	2,500,000	252,961
Alliance Finance Company PLC	**–**	**–**	4,221,693	461,755
Commercial Credit and Finance PLC	**4,500,000**	**450,000**	4,500,000	461,911
Hemas Holdings PLC	**–**	**–**	827,900	85,055
Lanka ORIX Leasing Company PLC	**–**	**–**	3,000,000	306,806
LB Finance PLC	**1,155,200**	**116,342**	1,155,200	116,344
Lion Brewery (Ceylon) PLC	**–**	**–**	1,412,500	144,018
People's Leasing & Finance PLC	**12,500,000**	**1,285,231**	12,500,000	1,285,295
Senkadagala Finance PLC	**3,650,000**	**371,962**	3,650,000	371,981
Singer Finance (Lanka) PLC	**2,500,000**	**256,960**	2,500,000	256,961
Siyapatha Finance PLC	**–**	**–**	2,000,000	217,800
Softlogic Finance PLC	**–**	**–**	706,500	72,431
Vallibel Finance PLC	**3,500,000**	**358,930**	3,500,000	358,930
Total investments in quoted debentures – Bank/Group	**–**	**3,092,378**	–	4,392,248

33.1.2 Quoted debentures – By collateralisation

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Pledged as collateral	**43,883**	973,086	**43,883**	973,086
Unencumbered	**3,048,495**	3,419,162	**3,048,495**	3,419,162
	3,092,378	4,392,248	**3,092,378**	4,392,248

33.2 Treasury Bills – By collateralisation

33.2.1 Treasury Bills

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Unencumbered	**968,754**	236,135	**968,754**	236,135
	968,754	236,135	**968,754**	236,135

33.2.2 Treasury Bonds – By collateralisation

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Pledged as collateral	**–**	4,082,975	**–**	4,082,975
Unencumbered	**17,683,437**	14,164,693	**17,683,437**	14,164,693
	17,683,437	18,247,668	**17,683,437**	18,247,668

33.2.3 Movement in impairment during the year

As at 31 December	BANK/GROUP 2019 LKR '000	BANK/GROUP 2018 LKR '000
Stage 1		
Balance at beginning	**1,963**	1,729
(Reversal)/charge to income statement	**(1,251)**	234
Balance on 31 December	**712**	1,963

34 Financial assets measured at fair value through other comprehensive income →

Accounting Policy →

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 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Government of Sri Lanka Treasury Bills (Note 34.5)	**4,813,939**	17,851,707	**4,813,939**	17,851,707
Government of Sri Lanka Treasury Bonds (Note 34.6)	**54,770,406**	26,180,697	**54,770,406**	26,180,697
Sri Lanka development bonds - unencumbered	**1,857,951**	–	**1,857,951**	–
Sri Lanka sovereign bonds – unencumbered	**2,260,552**	876,579	**2,260,552**	876,579
	63,702,848	44,908,983	**63,702,848**	44,908,983
Equity securities				
Quoted (Note 34.1)	**8,812,702**	10,215,281	**8,812,702**	10,215,281
Unquoted (Note 34.2)	**200,357**	188,789	**200,357**	188,789
Preference shares (Note 34.3)	**500**	500	**500**	500
	9,013,559	10,404,570	**9,013,559**	10,404,570
Total	**72,716,407**	55,313,553	**72,716,407**	55,313,553

34.1 Quoted ordinary Shares

As at 31 December	2019 Number of ordinary shares	2019 Cost* LKR '000	2019 Fair value LKR '000	2018 Number of ordinary shares	2018 Cost* LKR '000	2018 Fair value LKR '000
Banks, Finance and Insurance						
Commercial Bank of Ceylon PLC – Voting	**82,560,377**	**3,348,620**	**7,843,236**	81,250,621	3,208,869	9,319,446
Commercial Bank of Ceylon PLC – Non-voting	**267,187**	**21,705**	**22,177**	262,182	21,254	25,405
National Development Bank PLC	**3,021,280**	**465,605**	**302,128**	2,864,868	449,041	306,542
		3,835,930	**8,167,541**		3,679,164	9,651,393
Chemicals and pharmaceuticals						
Chemical Industries (Colombo) PLC – Voting	**247,900**	**14,131**	**14,874**	247,900	14,131	9,792
Chemical Industries (Colombo) PLC – Non-voting	**389,400**	**15,577**	**18,535**	389,400	15,577	11,682
		29,708	**33,409**		29,708	21,474
Construction and Engineering						
Access Engineering PLC	**1,134,753**	**17,826**	**24,738**	923,000	16,920	13,014
Colombo Dockyard PLC	**160,000**	**12,160**	**9,920**	160,000	12,160	8,880
		29,986	**34,658**		29,080	21,894
Diversified Holdings						
Carson Cumberbatch PLC	**46,967**	**7,745**	**8,924**	46,967	7,745	8,078
Hayleys PLC	**7,333**	**2,225**	**1,283**	7,333	2,225	1,371
Hemas Holdings PLC	**927,599**	**59,946**	**74,208**	894,777	57,189	79,635
John Keells Holdings PLC	**521,482**	**66,947**	**87,400**	672,758	86,368	106,969
Melstacorp PLC	**2,069,940**	**90,053**	**90,042**	2,069,940	90,053	104,118
Richard Pieris & Co. PLC	**1,233,948**	**11,907**	**14,561**	1,612,956	15,563	16,936
		238,823	**276,418**		259,143	317,107

As at 31 December	2019			2018		
	Number of ordinary shares	Cost* LKR '000	Fair value LKR '000	Number of ordinary shares	Cost* LKR '000	Fair value LKR '000
Healthcare						
Asiri Hospital Holdings PLC	1,500,000	31,094	30,000	–	–	–
Hotels and Travels						
Dolphin Hotels PLC	93,900	906	2,301	100,000	964	2,480
Investment Trusts						
Ceylon Guardian Investment Trust PLC	152,308	5,918	13,906	152,308	5,918	10,585
Ceylon Investment PLC	288,309	9,428	14,848	288,309	9,428	11,244
		15,346	28,754		15,346	21,829
Telecommunications						
Dialog Axiata PLC	4,050,000	38,405	49,815	2,550,000	24,602	25,755
Manufacturing						
ACL Cables PLC	40,000	2,278	2,300	40,000	2,278	1,480
Ceylon Grain Elevators PLC	148,997	9,197	10,205	148,997	9,197	8,865
Chevron Lubricants Lanka PLC	761,628	27,907	57,046	761,628	27,907	55,218
Kelani Tyres PLC	75,000	4,538	3,720	75,000	4,538	2,700
Piramal Glass Ceylon PLC	5,000,000	14,024	22,500	5,000,000	14,024	19,000
Royal Ceramics Lanka PLC	139,800	16,996	12,372	139,800	16,996	10,443
Teejay Lanka PLC	75,000	3,141	3,060	75,000	3,141	2,438
Tokyo Cement Company (Lanka) PLC – Voting	120,000	5,734	5,760	120,000	5,734	3,000
Tokyo Cement Company (Lanka) PLC – Non-voting	1,472,515	25,759	57,723	1,472,515	25,759	34,605
		109,574	174,686		109,574	137,749
Power and Energy						
Vallibel Power Erathna PLC	2,400,000	6,400	15,120	2,400,000	6,400	15,600
Total quoted ordinary shares – Bank		4,336,172	8,812,702		4,153,981	10,215,281
Commercial Bank of Ceylon PLC – Equity adjustment**		1,454,863	–	–	1,454,863	–
Total quoted ordinary shares – Group		5,791,035	8,812,702		5,608,844	10,215,281

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	2019			2018		
	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**	**181,972**	9,184	918	171,661
Lanka Clear (Private) Limited	**100,000**	**1,000**	**15,000**	100,000	1,000	12,578
Lanka Financial Services Bureau Limited	**200,000**	**2,000**	**–**	100,000	1,000	1,165
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/Group		**7,303**	**200,357**		6,303	188,789

** Cost is reduced by write-off of diminution in value other than temporary in respect of investments.*

Refer Note 9.3.1 for valuation techniques and significant unobservable inputs.

34.3 Unquoted irredeemable preference shares

As at 31 December	2019			2018		
	Number of preference shares	**Cost LKR '000**	**Fair value* LKR '000**	Number of preference shares	Cost LKR '000	Fair value LKR '000
Arpico Finance Company PLC	**50,000**	**500**	**500**	50,000	500	500
Total investments in unquoted irredeemable preference shares – Bank/Group		**500**	**500**		500	500

34.4 Equity securities

34.4.1 Composition*

34.4.1.1 Bank

	Ordinary Shares		Preference shares	Total	
As at 31 December	Quoted LKR '000	Unquoted LKR '000	Unquoted LKR '000	**2019 LKR '000**	2018 LKR '000
Performing investments	8,812,702	200,357	–	**9,013,059**	10,404,570
Non-performing investments	–	–	500	**500**	–
	8,812,702	200,357	500	**9,013,559**	10,404,570

34.4.1.2 Group

As at 31 December	Ordinary Shares		Preference shares	Total	
	Quoted LKR '000	Unquoted LKR '000	Unquoted LKR '000	**2019 LKR '000**	2018 LKR '000
Performing investments	8,812,702	200,357	–	**9,013,059**	10,404,570
Non-performing investments	–	–	500	**500**	–
	8,812,702	200,357	500	**9,013,559**	10,404,570

** 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

As at 31 December	Bank		Group	
	2019 LKR '000	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Pledged as collateral	**530,523**	3,364,984	**530,523**	3,364,984
Unencumbered	**4,283,416**	14,486,723	**4,283,416**	14,486,723
	4,813,939	17,851,707	**4,813,939**	17,851,707

34.6 Government of Sri Lanka Treasury Bonds – By collateralisation

As at 31 December	Bank		Group	
	2019 LKR '000	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Pledged as collateral	**16,094,852**	2,137,208	**16,094,852**	2,137,208
Unencumbered	**38,675,554**	24,043,489	**38,675,554**	24,043,489
	54,770,406	26,180,697	**54,770,406**	26,180,697

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	2019 Cost LKR '000	2019 Market value/ Directors' valuation LKR '000	2018 Cost LKR '000	2018 Market value/ Directors' valuation LKR '000
Unquoted						
DFCC Consulting (Pvt) Limited	100	500,000	**5,000**	**52,731**	5,000	44,608
Lanka Industrial Estates Limited	51.16	8,169,205	**97,036**	**538,375**	97,036	528,662
Synapsys Limited	100	31,216,649	**135,000**	**113,735**	135,000	77,127
			237,036	**704,841**	237,036	650,397
Less: Allowance for impairment (Note 35.1)			**49,600**	**–**	70,000	–
			187,436	**704,841**	167,036	650,397

35.1 Movements in impairment allowance

As at 31 December	2019 LKR '000	2018 LKR '000
Balance at beginning	**70,000**	70,000
Reversal to income statement	**(20,400)**	–
Balance on 31 December	**49,600**	70,000

Based on the internal assessment carried out, the Board is of the view that there was no need for any additional impairment.

Market value is arrived by using the audited/reviews Financial Statements as at the reporting date.

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 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
National Asset Management Limited (ownership 30%)				
Balance at beginning	**35,270**	35,270	**31,107**	67,266
Share of profit after tax	**–**	–	**1,262**	2,429
Share of other comprehensive expenses	**–**	–	**(330)**	(8,588)
Dividend received – Elimination on consolidation	**–**	–	**–**	(30,000)
Impact on transition to SLFRS 16	**–**	–	**(746)**	–
Balance on 31 December	**35,270**	35,270	**31,293**	31,107

36.1 Summarised financial information of associate

As at 31 December	2019 LKR '000	2018 LKR '000
Percentage ownership interest (%)	**30**	30
Non-current assets	**56,708**	49,603
Current assets	**67,472**	63,086
Non-current liabilities	**(10,458)**	(3,821)
Current liabilities	**(9,463)**	(5,229)
Net assets (100%)	**104,259**	103,639
Group's share of net assets (30%)	**31,278**	31,092
Goodwill on acquisition	**15**	15
Adjusted Group's share of net assets (30%)	**31,293**	31,107

For the year ended 31 December	2019 LKR '000	2018 LKR '000
Revenue	**74,631**	86,962
Profit after tax (100%)	**4,207**	8,096
Other comprehensive expenses (100%)	**(1,102)**	(28,625)
Total comprehensive income/(expenses) (100%)	**3,105**	(20,528)
Group's share in profit	**1,262**	2,429
Group's share in other comprehensive expenses	**(330)**	(8,558)
Group's share in total comprehensive income/(expenses)	**932**	(6,158)
Contingent liabilities of equity accounted investee	**Nil**	Nil
Capital and other commitments of equity accounted investee	**Nil**	Nil

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.

Transitional approach followed by Associate.

National Assets Management Limited initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application.

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	2019 Cost of investment LKR '000	2018 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	2019 LKR '000	2018 LKR '000
Share of identifiable assets and liabilities of joint venture as at the beginning of the year	**2,142,143**	1,801,399
Share of unrealised profit on disposal of investments	**(184,688)**	(184,688)
Balance at beginning	**1,957,455**	1,616,711
Adjustment on initial application of SLFRS 16, net of tax (Note 6.4)	**(5,972)**	15,568
Share of profit net of tax	**190,019**	304,789
Share of other comprehensive income	**(920)**	49,498
Change in holding – through subsidiary of joint venture	**34**	4,109
Dividend received during the year	**(75,500)**	(33,220)
Group's share of net assets – 50%	**2,065,116**	1,957,455

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) Limited.

For the year ended 31 December	2019 LKR '000	2018 LKR '000
Percentage ownership interest (%)	**50**	50
Revenue	**1,006,027**	858,296
Expenses	**712,503**	710,453
Share of profit of equity accounted investees	**493,522**	516,783
Other gains	**–**	12,734
Income tax (reversal)/expense	**(181,219)**	222,463
Profit after tax (100%)	**605,828**	899,823
Other comprehensive (expenses)/income (100%)	**(12,700)**	272,046
Total comprehensive income (100%)	**593,127**	1,171,869
Profit attributable to equity holders	**380,037**	609,579
Other comprehensive (expenses)/income attributable to equity holders	**(1,839)**	103,927
Total comprehensive income attributable to equity holders	**378,199**	713,505
Group's share in profit	**190,019**	304,789
Group's share in other comprehensive (expenses)/income	**(920)**	49,498
Group's share in total comprehensive income	**189,099**	354,287

As at 31 December	2019 LKR '000	2018 LKR '000
Current assets	**6,225,285**	7,055,575
Non-current assets	**11,648,835**	10,131,268
Current liabilities	**(8,259,697)**	(9,452,066)
Non-current liabilities	**(2,606,618)**	(1,037,686)
Net assets (100%)	**4,499,608**	4,284,287
Group's share of net assets (50%) – before consolidation adjustment	**2,249,804**	2,142,144
Share of unrealised profit on disposal investment*	**(184,688)**	(184,688)
Groups share of net assets 50%	**2,065,116**	1,957,455
Contingent liabilities of equity accounted investee	**Nil**	Nil
Capital and other commitments of equity accounted investee	**Nil**	Nil

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.

**This to elimination of 50% of the profits on disposal of subsidiary to joint venture Company during the year 2010.*

Transitional approach followed by Joint Venture

Acuity Partners (Pvt) Limited initially applied SLFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach comparative information is not restated and the cumulative effect of initially applying SLFRS 16 is recognised in retained earnings at the date of initial application.

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 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	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Cost				
Balance at beginning	**9,879**	–	**665,519**	464,348
Acquisition	**–**	–	**4,489**	280,371
Transferred from property, plant and equipment	**–**	9,879	**–**	(79,200)
Written off during the year	**–**	–	**(5,235)**	–
Cost as at 31 December	**9,879**	9,879	**664,773**	665,519
Less: Accumulated depreciation				
Balance at beginning	**–**	–	**168,960**	145,695
Charge for the year	**–**	–	**28,836**	23,265
Accumulated depreciation as at 31 December	**–**	–	**197,796**	168,960
Carrying amount as at 31 December	**9,879**	9,879	**466,977**	496,559

38.1 Details of investment properties

As at 31 December 2019	Buildings sq. ft.	Extent of land perches*	Number of buildings	Cost LKR '000	Accumulated depreciation/ impairment LKR '000	Carrying value LKR '000	Fair value LKR '000	Date of valuation
4 A,4th Cross Lane, Borupana, Ratmalana	–	20.0	–	2,600	–	2,600	15,000	31 December 2017
259/30, Kandy Road, Bambarakelle, Nuwara-Eliya	–	93.5	–	7,279	–	7,279	88,800	20 May 2018
Bank				**9,879**	**–**	**9,879**	**103,800**	
Pattiwila Road, Sapugaskanda, Makola	482,150	21,920	18	654,894	197,796	457,098	5,413,750	31 March 2019
Group				**664,773**	**197,796**	**466,977**	**5,517,550**	

**1 perch – 25.2929 m2; 1Sq.ft = 0.0929 m2*

The fair value of investment property as at 31 December 2019 situated at Pattiwila 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 income statement

Rental income from investment property of Group for 2019, LKR 227 Mn (2018 – LKR 226 Mn).

Operating expenses on investment property of Group for 2019 – LKR 43 Mn (2018 – LKR 38 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
Office equipment and motor vehicles	5
Fixtures and fittings	10

Derecognition

The carrying amount of property and equipment is derecognised 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 income statement.

39.1 Reconciliation of carrying amount – Bank

	Land and buildings 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 2019 LKR '000**	Total 31 December 2018 LKR '000
Cost at beginning	668,985	–	2,315,715	1,009,317	354,814	–	**4,348,831**	3,708,882
Recognition of right-of-use asset on initial application of SLFRS 16 (Note 6.4.1)	–	1,248,463	–	–	–	–	**1,248,463**	–
Adjusted balance at beginning	668,985	1,248,463	2,315,715	1,009,317	354,814	–	**5,597,294**	3,708,882
Acquisitions	–	434,075	210,459	177,616	774	178,582	**1,001,506**	671,029
Less: Transfer to investment property	–		–	–	–	–	**–**	9,879
Less: Disposals	–	22,651	94,126	6,803	53,195	–	**176,775**	21,201
Cost as at 31 December	668,985	1,659,887	2,432,048	1,180,130	302,393	178,582	**6,422,025**	4,348,831
Accumulated Depreciation at beginning	245,620	–	1,586,150	655,632	241,054	–	**2,728,456**	2,435,632
Depreciation for the year	10,528	282,313	234,082	71,201	25,953	–	**624,077**	313,255
Less: Accumulated depreciation on disposals	–	8,693	93,595	6,255	52,808	–	**161,351**	20,431
Accumulated depreciation as at 31 December	256,148	273,620	1,726,637	720,578	214,199	–	**3,191,182**	2,728,456
Carrying value as at 31 December	412,837	1,386,267	705,411	459,552	88,194	178,582	**3,230,843**	1,620,375

39.1.1 List of freehold lands and buildings

	Number of buildings in land holdings	Buildings Sq. ft.	Extent of land Perches*	Cost LKR '000	Accumulated depreciation LKR '000	Carrying amount LKR '000
73/5, Galle Road, Colombo 3	1	57,200	104.45	85,518	78,500	7,018
5, Deva Veediya, Kandy	1	4,600	12.54	16,195	7,757	8,438
73, W A D Ramanayake Mawatha, Colombo 2	1	21,400	45.00	197,268	137,617	59,651
No. 454, Main Street, Negombo	1	19,087	29.00	170,325	32,274	138,051
No. 77, Colombo Road, Kurunegala**			30.00	199,679	–	199,679
				668,985	256,148	412,837

** 1 perch = 25.2929 m2; 1 Sq.ft = 0.0929 m2*

*** cost includes stamp duty*

39.1.2 Market value of properties

	LKR Mn	Date of valuation
73/5, Galle Road, Colombo 3	1,509	31 December 2017
5, Deva Veediya, Kandy	125	31 December 2017
73, W A D Ramanayake Mawatha, Colombo 2	705	31 December 2017
No. 454, Main Street, Negombo	275	18 May 2018
No. 77, Colombo Road, Kurunegala	192	29 January 2018

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.

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	**2019 LKR '000**	2018 LKR '000
Buildings	**199,702**	199,702
Office equipment	**1,195,006**	1,205,302
Furniture and fittings	**392,578**	344,280
Motor vehicles	**174,611**	215,328
	1,961,897	1,964,612

39.2 Reconciliation of carrying amount – Group

	Land and building 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 2019 LKR '000**	Total 31 December 2018 LKR '000
Cost at beginning	922,386	–	2,365,225	1,022,993	406,141	–	**4,716,745**	4,053,461
Recognition of right-of-use asset on initial application of SLFRS 16 (Note 6.4.1)	–	1,250,563	–	–	–	–	**1,250,563**	–
Adjusted balance at beginning	922,386	1,250,563	2,365,225	1,022,993	406,141	–	**5,967,308**	4,053,461
Acquisitions	–	434,075	214,755	178,638	774	178,582	**1,006,824**	694,363
Less: Transfer to Investment property	–	–	–	–	–	–	**–**	9,879
Less: Disposals	–	22,651	100,560	6,803	53,195	–	**183,209**	21,200
Cost as at 31 December	922,386	1,661,987	2,479,420	1,194,828	353,720	178,582	**6,790,923**	4,716,745
Accumulated depreciation at beginning	411,081	–	1,627,624	674,054	285,082	–	**2,997,841**	2,682,300
Depreciation for the year	22,339	284,113	238,680	71,739	31,354	–	**648,225**	335,972
Less: Accumulated depreciation on disposals	–	8,693	100,028	6,255	52,808	–	**167,784**	20,431
Accumulated depreciation as at 31 December	433,420	275,420	1,766,276	739,538	263,628	–	**3,478,282**	2,997,841
Carrying amount as at 31 December	488,966	1,386,567	713,144	455,290	90,092	178,582	**3,312,641**	1,718,904

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 Group acquired property, plant and equipment to the aggregate value of LKR 1,002 Mn and LKR 1,007 Mn respectively (2018 – LKR 671 Mn and LKR 694 Mn respectively). Cash payments amounting to LKR 567 Mn and LKR 573 Mn respectively (2018 – LKR 671 Mn and LKR 694 Mn respectively) were made during the year for purchase of property plant and equipment by the Bank and Group.

39.5 Disposal of property, plant and equipment during the year

During the financial year, the Bank and Group disposed of property, plant and equipment to the aggregate value of LKR 177 Mn and LKR 183 Mn respectively (2018 – LKR 21 Mn and LKR 21 Mn respectively). Cash amounting to LKR 27 Mn and LKR 27 Mn respectively (2018 – LKR 6 Mn and LKR 6 Mn respectively) were received during the year for disposal of property, plant and equipment by the Bank and Group. 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 (2018 – Nil).

39.7 Amount of contractual commitments for the acquisition of property, plant and equipment

There are no contractual commitments for the acquisition of property, plant and equipment as at the reporting date.

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 2019. 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 income statement 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 income statement. Goodwill is not amortised.

The estimated useful lives for current and comparative periods are as follows:

Computer software 5 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	Note	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Computer software	40.1	**838,472**	642,829	**859,736**	645,395
Software under development	40.2	**346,187**	26,005	**346,187**	40,893
Goodwill on consolidation	40.3	**–**	–	**156,226**	156,226
Total		**1,184,659**	668,834	**1,362,149**	842,514

40.1 Computer software

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Cost at beginning	**1,722,199**	1,300,058	**1,730,041**	1,307,859
Acquisitions	**316,962**	255,050	**325,543**	255,091
Transfer from prepayments	**98,260**	167,091	**113,147**	167,091
Cost as at 31 December	**2,137,421**	1,722,199	**2,168,731**	1,730,041
Accumulated amortisation at beginning	**1,079,370**	930,282	**1,084,646**	933,755
Amortisation for the year	**219,579**	149,088	**224,349**	150,891
Accumulated amortisation as at 31 December	**1,298,949**	1,079,370	**1,308,995**	1,084,646
Carrying amount as at 31 December	**838,472**	642,829	**859,736**	645,395

40.2 Software under development

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
As at beginning	**26,005**	128,307	**40,893**	128,307
Addition to working progress	**418,442**	64,789	**418,442**	79,677
Transfers/adjustments	**(98,260)**	(167,091)	**(113,148)**	(167,091)
Cost as at 31 December	**346,187**	26,005	**346,187**	40,893

40.3 Goodwill on consolidation

As at 31 December	GROUP 2019 LKR '000	GROUP 2018 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 2019.

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 2019. 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 Group acquired intangible assets to the aggregate value of LKR 317 Mn and LKR 326 Mn respectively (2018 – LKR 255 Mn. Cash payments amounting to LKR 415 Mn and LKR 439 Mn respectively (2018 – LKR 422 Mn were made for purchase intangible assets by the Bank and Group respectively, during the year.

40.8 Amount of contractual commitments for the acquisition of intangible assets

There are no contractual commitments for the acquisition of intangible assets as at the reporting date.

41 Deferred taxation →

Accounting policy in Note 22.

As at 31 December	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Deferred tax asset/liability				
Deferred tax liability (Note 41.1)	**–**	–	**96,714**	90,402
Deferred tax asset (Note 41.2)	**308,853**	491,523	**314,029**	492,678
Net deferred tax asset	**308,853**	491,523	**217,315**	402,276

41.1 Deferred tax liability

As at 31 December	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Balance at beginning	**927,029**	1,269,468	**1,019,562**	1,307,919
Recognised in income statement	**(118,076)**	(175,254)	**(111,824)**	(121,172)
Recognised in other comprehensive income	**374,387**	(167,185)	**374,387**	(167,185)
	1,183,340	927,029	**1,282,125**	1,019,562
Transferred from deferred tax asset	**(1,183,340)**	(927,029)	**(1,185,411)**	(929,160)
	–	–	**96,714**	90,402

41.2 Deferred tax asset

As at 31 December	BANK		GROUP	
	2019 LKR '000	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Balance at beginning	**1,418,552**	75,441	**1,421,838**	78,601
Adjustment on initial application of SLFRS 9	**–**	1,004,053	**–**	1,004,053
Effect of foreign currency movement	**438**	–	**438**	–
Recognised in income statement	**155,808**	135,874	**159,811**	136,074
Recognised in other comprehensive income	**(82,605)**	203,184	**(82,647)**	203,110
	1,492,193	1,418,552	**1,499,440**	1,421,838
Offset against deferred tax liability	**(1,183,340)**	(927,029)	**(1,185,411)**	(929,160)
	308,853	491,523	**314,029**	492,678

41.3 Recognised deferred tax assets and liabilities

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Assets				
Property, equipment and software	–	–	–	(1,227)
Gratuity liability and actuarial losses on defined benefit plans	140,304	97,477	144,515	101,990
Fair value through other comprehensive income financial assets	–	193,970	–	193,970
Unutilised tax losses	–	–	3,036	–
Cross currency SWAP	87,651	–	87,651	–
Expected credit loss – loans to and receivables from banks and other customers	1,264,238	1,127,105	1,264,238	1,127,105
	1,492,193	1,418,552	1,499,440	1,421,838
Liabilities				
Property, equipment and software	201,059	186,883	267,015	251,204
Finance leases	561,345	716,748	561,345	716,748
Fair value through other comprehensive income financial assets	397,788	–	397,788	–
Cross currency SWAP	–	23,399	–	23,398
Right of use asset	23,148	–	23,148	–
Undistributed profits of the group	–	–	32,829	28212
	1,183,340	927,029	1,282,125	1,019,562

41.4 Unrecognised deferred tax assets

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Accumulated tax losses				
Synapsys Limited – Subsidiary	–	–	–	8,791
	–	–	–	8,791

41.5 Impact due to corporate income tax rate change

As per LKAS 12 – Income Taxes, deferred tax assets and liabilities should be measured at the tax rate that are expected to be applied in the period in which the asset will be realised or the liability will be settled, based on the tax rate (and tax laws) that have been enacted or substantively enacted by the reporting date.

As per the proposed changes by the Government, the tax rate applicable for companies (including banks) has revised to 24% while all taxes related to information technology services are to be abolished. However, as these changes have not been legislated as at the reporting date, the prevailing income tax rates has been used for the deferred tax computation as at 31 December 2019.

42 Other assets →

Accounting policy in Note 5.3.2.

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Financial assets				
Refundable deposits	**15,729**	12,686	**21,659**	14,454
Other receivables	**885,952**	446,878	**971,017**	492,612
Clearing account balances	**1,245,377**	1,840,512	**1,245,377**	1,840,512
Due from subsidiaries (Note 42.1)	**1,509**	9,505	–	–
	2,148,567	2,309,581	**2,238,053**	2,347,579
No-financial assets				
Advances and prepayments (Note 42.2)	**1,003,548**	1,130,984	**1,003,548**	1,130,984
Defined benefit asset (Note 48.1.2)	**131,185**	143,217	**131,185**	143,217
	1,134,733	1,274,201	**1,134,733**	1,274,201
	3,283,300	3,583,781	**3,372,786**	3,621,780

42.1 Due from subsidiaries

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000
DFCC Consulting (Pvt) Limited	**1,509**	1,854
Synapsys Limited	**–**	7,651
	1,509	9,505

42.2 Advances and prepayments includes LKR 40.6 Mn incurred by the Bank to acquire computer software.

The maturity analysis of other assets is given in Note 8.3.3 on pages 175 to 178.

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.

	GROUP	
As at 31 December	**2019 LKR '000**	2018 LKR '000
Investment in subsidiary	**40,000**	–
	40,000	–

On 16 December 2019, Synapsys Limited (Synapsys), a subsidiary of the Bank has acquired 100% of the equity interest in Agrithmics (Pvt) Ltd. (Agrithmics). The Company had transferred its internally developed intangible asset namely, "Tea Integrated Payment System (TIPS)", which had been previously impaired to Agrithmics for fair value of LKR 40 Mn and in return Agrithmics has issued 4 Mn. equity shares to Synapsys, granting it 100% control of Agrithmics.

The Group's strategic purpose of obtaining the control of Agrithmics is to partner with another investor and transfer the ownership interest of Agrithmics to a third party. Accordingly in December 2019, the management committed to a plan to progressively dispose its investment in the Subsidiary Agrithmics. As at the reporting date Synapsys is in the process of negotiating with a buyer to transfer 51% of the equity interest of Agrithmics. The sale is expected to be completed by February 2020.

Accordingly, the investment in Subsidiary is presented as Assets held for sale in these financial statements based on the Unit of accounting concept.

Agrithmics has neither generated income nor incurred expenses for the year ended 31 December 2019 since the incorporation. Agrithmics only asset consists of the software transferred by Synapsys on 16 December 2019.

The Group has not consolidated the financial results of Agrithmics in these financial statements since the said investment in Agrithmics has been classified as asset held for sale as at the reporting date.

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 2019, 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.

43.3 Measurement of fair values

Fair value hierarchy
The non-recurring fair value measurement for the asset held for sale of LKR 40 Mn (after costs to sell) has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

Method of computation
The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of my future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

44 Due to banks →

Accounting policy in Note 5.3.3.2.

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 is recognised in income statement.

	BANK		GROUP	
As at 31 December	**2019 LKR '000**	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Borrowings – Foreign banks	**6,343,513**	803,188	**6,343,513**	803,188
– Local banks	**14,648,882**	4,947,133	**14,648,882**	4,947,133
Securities sold under repurchase (Repo) agreements	**3,602,433**	3,696,143	**3,602,433**	3,696,143
	24,594,828	9,446,464	**24,594,828**	9,446,464

The maturity analysis of due to banks is given in Note 8.3.3 on pages 175 to 178.

45 Financial liabilities at amortised cost – Due to depositors →

Accounting policy in Note 5.3.3.2.1.

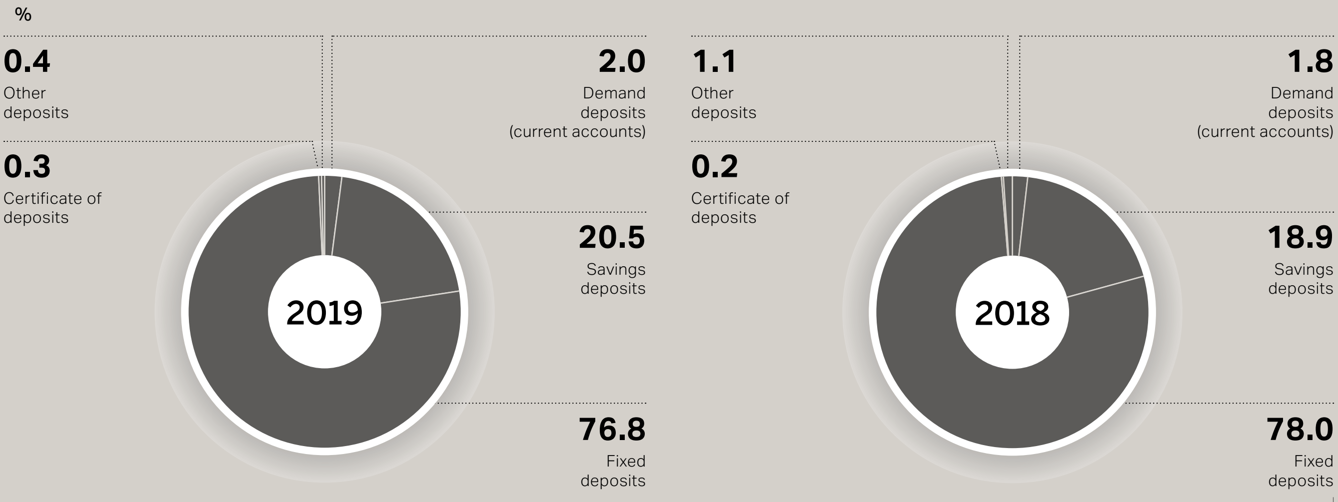
	BANK		GROUP	
As at 31 December	**2019 LKR '000**	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Total amount due to depositors	**247,786,974**	242,237,596	**247,457,696**	241,914,870

45.1 Analysis

45.1.1 By product

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Demand deposits (current accounts)	**5,021,910**	4,340,818	**5,021,860**	4,340,528
Savings deposits	**50,847,818**	45,840,477	**50,816,178**	45,826,819
Fixed deposits	**190,178,094**	188,938,547	**189,880,506**	188,629,769
Certificate of deposits	**838,979**	553,593	**838,979**	553,593
Other deposits	**900,173**	2,564,161	**900,173**	2,564,161
	247,786,974	242,237,596	**247,457,696**	241,914,870

Deposit mix – Bank



45.1.2 By currency

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Sri Lanka Rupee	**200,933,935**	180,708,645	**200,614,380**	180,397,137
United States Dollar (USD)	**44,140,636**	58,332,363	**44,130,913**	58,321,145
Great Britain Pound (GBP)	**1,023,696**	1,082,211	**1,023,696**	1,082,211
Others	**1,688,707**	2,114,377	**1,688,707**	2,114,377
	247,786,974	242,237,596	**247,457,696**	241,914,870

45.1.3 By institution/customers

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Deposits from banks	**2,342,417**	557,907	**2,342,417**	557,907
Deposits from finance companies	**1,738,402**	699,261	**1,738,402**	699,261
Deposits from other customers	**243,706,155**	240,980,428	**243,376,877**	240,657,702
	247,786,974	242,237,596	**247,457,696**	241,914,870

The maturity analysis of deposits from customers is given in Note 8.3.3 on pages 175 to 178.

46 Financial liabilities at amortised cost – Due to other borrowers →

Accounting policy in Note 5.3.3.2.1.

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Repayable in foreign currency				
Borrowing sourced from				
Multilateral institutions	**2,281,613**	3,081,358	**2,281,613**	3,081,358
Bilateral institutions	**14,725,462**	18,292,688	**14,725,462**	18,292,688
	17,007,075	21,374,046	**17,007,075**	21,374,046
Repayable in Rupees				
Borrowing sourced from				
Multilateral institutions	**17,862,168**	18,809,537	**17,862,168**	18,809,537
Bilateral institutions	**1,334,315**	1,250,544	**1,334,315**	1,250,544
Central Bank of Sri Lanka – refinance loans (secured)	**260,912**	130,355	**260,912**	130,355
Securities sold under repurchase (Repo) agreements	**10,843,086**	5,849,245	**10,843,086**	5,824,197
	30,300,481	26,039,681	**30,300,481**	26,014,633
	47,307,556	47,413,727	**47,307,556**	47,388,679

46.1 Assets pledged as security

Nature	31 December 2019 LKR '000	31 December 2018 LKR '000
Assignment in terms of Section 88 A of the Monetary Law of Loans refinanced by Central Bank	**260,912**	130,355

47 Debt securities in issue →

See accounting policy in Note 5.3.

47.1 Debt securities at amortised cost issued by Bank

Year of Issuance	Face value LKR '000	Interest rate %	Repayment terms	Issue date	Maturity date	BANK/GROUP 31 December 2019 LKR '000	31 December 2018 LKR '000
Debenture issue – Listed (LKR)							
	3,000,000	9.10	5 Years	10 June 2015	10 June 2020	**3,149,261**	3,142,542
	5,315,450	10.63	3 Years	28 March 2017	18 March 2019	**–**	5,755,899
	3,804,760	13.50	5 Years	28 March 2019	28 March 2024	**4,179,217**	–
	1,784,070	13.75	7 Years	28 March 2019	28 March 2026	**1,962,734**	–
	4,411,170	13.90	10 Years	28 March 2019	28 March 2029	**4,856,986**	–
	18,315,450					**14,148,198**	8,898,441
Due within one year						**3,149,261**	5,755,899
Due after one year						**10,998,937**	3,142,542
						14,148,198	8,898,441

47.2 Carrying values are the discounted amounts of principal and interest.

47.3 There were no debt securities in issue designated as FVTPL.

47.4 The Bank/Group did not have any defaults of principle or interest or other breaches with repect to its debt securities during the years ended 31 December 2019.

47.5 Debt Securities Issued- Listed debentures

Debenture category	Interest payable frequency	Applicable interest rate %	Interest rate of comparative Government securities (Gross) p.a. %	Balance as at 31 December 2019 LKR '000	Market price Highest	Market price Lowest	Market price Last traded	Yield last traded %
Fixed rate								
2015/2020	Annually	9.10	8.00	**3,149,261**	N/T	N/T	N/T	N/A
2019/2024	Annually	13.50	9.50	**4,179,217**	N/T	N/T	N/T	N/A
2019/2026	Annually	13.75	9.60	**1,962,734**	N/T	N/T	N/T	N/A
2019/2029	Annually	13.90	9.90	**4,856,986**	N/T	N/T	N/T	N/A
				14,148,198				

N/T – Not traded

Other Ratios	31 December 2019	31 December 2018
Debt to equity ratio	**2.03**	1.83
Interest cover	**1.44**	1.64
Liquid asset ratio (%)	**26.9**	23.9

47.6 Disclosures regarding the utilisation of funds as per the objectives stated in the debenture prospectus

Objective as per Prospectus	Proposed Date of allocation as per Prospectus	Amount allocated from Proceeds (LKR) (A)	% of Total Proceeds	Amount utilised as at 31 December 2019 (LKR) (B)	% of utilisation against allocation (B/A)	Clarification if not fully utilised including where the funds are invested (e.g. Whether lent to related party/s etc.)
To support the lending activities of the bank.	Over the period of twelve months from the date of allotment.	LKR 10 Bn.	100%	LKR 10 Bn	100%	N/A

48 Retirement benefit obligation →

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 55 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 55 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.

48.1 Composition

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Unfunded defined benefit plans (Note 48.1.1)	**561,104**	408,704	**586,351**	433,315
Funded defined benefit plans (Note 48.1.2)	**(131,185)**	(143,217)	**(131,185)**	(143,217)
	429,919	265,487	**455,166**	290,098

48.1.1 Unfunded defined benefit plans

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Defined benefit				
– unfunded pension (Note 48.1.1.1)	**60,013**	60,573	**60,013**	60,573
– unfunded end of service gratuity (Note 48.1.1.2)	**501,091**	348,131	**526,338**	372,742
	561,104	408,704	**586,351**	433,315

48.1.1.1 Unfunded pension liability

As at 31 December	BANK/GROUP 2019 LKR '000	BANK/GROUP 2018 LKR '000
Balance at beginning	**60,573**	61,147
Interest on obligation	**5,678**	5,736
Benefits paid	**(6,995)**	(6,995)
Actuarial experience loss	**757**	685
Present value of defined benefit pension obligations	**60,013**	60,573

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 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Balance at beginning	**348,131**	269,431	**372,742**	291,563
Current service cost	**66,582**	41,274	**71,027**	45,857
Interest on obligation	**34,813**	26,943	**36,684**	28,694
Benefits paid	**(33,135)**	(22,427)	**(38,158)**	(23,264)
Actuarial experience loss	**84,700**	32,910	**84,043**	29,892
Present value of defined benefit pension obligations	**501,091**	348,131	**526,338**	372,742

48.1.2 Funded pension liability/(Asset)

As at 31 December	BANK/GROUP	
	2019 LKR '000	2018 LKR '000
Present value of defined benefit pension obligations (Note 48.1.2.1)	**2,594,387**	2,503,310
Fair value of pension assets (Note 48.1.2.2)	**(2,725,572)**	(2,646,527)
Defined benefit asset	**(131,185)**	(143,217)

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 & Associate has estimated the asset ceiling as at 31 December 2019 to be LKR 190.6 Mn in his report dated 26 January 2020.

48.1.2.1 Movement in defined pension obligation

As at 31 December	BANK/GROUP	
	2019 LKR '000	2018 LKR '000
Present value of defined benefit pension obligations at the beginning	**2,503,310**	2,372,248
Current service cost	**54,839**	51,282
Interest on obligation	**250,331**	237,225
Benefits paid	**(184,183)**	(166,793)
Actuarial experience (gain)/loss	**(29,910)**	9,348
Present value of defined benefit pension obligations	**2,594,387**	2,503,310

48.1.2.2 Movement in pension assets

As at 31 December	BANK/GROUP	
	2019 LKR '000	2018 LKR '000
Pension assets at the beginning	**2,646,527**	2,554,068
Expected return on pension assets	**240,353**	228,190
Benefits paid	**(184,183)**	(166,793)
Actuarial experience gain	**22,875**	31,062
Pension assets	**2,725,572**	2,646,527

48.1.2.3 Plan assets consist of the following

As at 31 December	BANK/GROUP	
	2019 LKR '000	2018 LKR '000
Debentures	**195,563**	195,563
Fixed deposits	**2,564,247**	2,483,417
Others	**(34,238)**	(32,453)
	2,725,572	2,646,527

48.1.2.4 The expected benefit pay out in the future years to the defined benefit obligation – Bank

As at 31 December 2019	Unfunded pension liability* LKR '000	Unfunded end of service gratuity * LKR '000	Funded pension liability* LKR '000
Within next 12 months	6,995	40,496	195,419
Between 2 and 5 years	27,980	190,501	963,497
Beyond 5 years	34,975	491,646	1,557,471

** 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 2019.

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

As at	31 December 2019		31 December 2018	
	Pension benefit (%)	End of service gratuity (%)	Pension benefit (%)	End of service gratuity (%)
Discount rate per annum				
Pre-retirement	10	10	10	10
Post-retirement	10	Not applicable	10	Not applicable
Future salary increases per annum	10.5	10.5	10.5	10.5
Expected rate of return on pension assets	10	–	10	–
Actual rate of return on pension assets	10.8	–	11.2	–
Mortality	UP 1984 mortality table	RP-2000 mortality table	UP 1984 mortality table	RP-2000 mortality table
Retirement age	55 years	55 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 principle actuarial assumptions in the previous year has not changed. The discount rate is the yield rate on 31 December 2019 with a term equaling the estimated period for which all benefit payments will continue. This period is approximately 20.6 years for pension and 10.6 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.

Principal Actuarial Assumptions – Group

The subsidiaries have used discount rates ranging 10% – 11% and the salary increment rate ranging 5% – 8%.

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 income statement increase/(decrease) LKR '000	Effect on defined benefit obligation increase/(decrease) LKR '000
Funded pension liability		
Discount rate		
1%	200,887	(200,887)
-1%	(233,135)	233,135
Salary increment rate		
1%	(38,676)	38,676
-1%	36,864	(36,864)
Unfunded pension liability		
Discount rate		
1%	3,726	(3,726)
-1%	(4,205)	4,205
Unfunded end of service gratuity*		
Discount Rate		
1%	42,880	(42,880)
-1%	(49,873)	49,873
Salary increment rate		
1%	(48,073)	48,073
-1%	42,212	(42,212)

** Salary increment not applicable for ex-employees.*

48.3 Historical information

As at	31 December 2018 LKR '000	31 December 2017 LKR '000	31 December 2016 LKR '000	31 December 2015 LKR '000	31 March 2015 LKR '000
Present value of the defined benefit obligation	2,503,310	2,372,248	2,280,943	2,296,454	2,141,648
Fair value of plan assets	(2,646,527)	(2,554,068)	(2,446,306)	(2,237,646)	2,139,052
(Surplus)/deficit in the plan	(143,217)	(181,820)	(165,363)	58,808	2,596

49 Current tax liabilities →

Accounting policy in Note 22.

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Balance at beginning	**1,221,117**	507,580	**1,294,540**	537,491
Provision for the year (Note 22.1)	**1,362,295**	1,877,096	**1,441,255**	1,950,338
Reversal of (over)/under provision (Note 22.1)	**(173,014)**	(101,486)	**(174,133)**	(101,571)
Self-assessment payments	**(1,559,324)**	(783,007)	**(1,615,790)**	(811,104)
Notional tax credits	**–**	(150,292)	**–**	(150,292)
Withholding tax/other credits	**(269,805)**	(128,774)	**(297,694)**	(130,322)
Balance as at 31 December	**581,269**	1,221,117	**648,178**	1,294,540

50 Other liabilities →

Accounting Policy →

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.

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Financial liabilities				
Prior year's dividends	**46,981**	48,970	**46,981**	48,970
Security deposit for leases	**–**	200	**101,849**	76,959
Lease liability*	**1,302,528**	–	**1,302,701**	–
Account payables	**2,430,801**	3,215,175	**2,456,446**	3,295,993
Due to subsidiaries (Note 50.2)	**6,135**	–	**–**	–
	3,786,445	3,264,345	**3,907,977**	3,421,922
Non-financial liabilities				
Accruals	**552,874**	497,952	**571,153**	508,440
Prepaid loan and lease rentals	**44,298**	49,836	**112,234**	85,473
Provision for undrawn commitments (Note 57.1.1)	**180,631**	197,581	**180,631**	197,581
Other provisions (Note 50.1)	**494,939**	449,007	**494,939**	449,007
	1,272,742	1,194,376	**1,358,957**	1,240,501
	5,059,187	4,458,721	**5,266,934**	4,662,423

**Lease liability as at 31 December 2019 includes lease liabilities recognised as at 1 January 2019 on adoption of SLFRS 16.*

50.1 Other provisions

Other provisions includes benefit payable to employees.

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000	GROUP 2019 LKR '000	GROUP 2018 LKR '000
Balance at beginning	**449,007**	525,412	**449,007**	525,412
Provisions for the financial year	**449,939**	449,007	**449,939**	449,007
Provisions used during the year	**(367,336)**	(479,955)	**(367,336)**	(479,955)
Provisions reversed during the year	**(36,671)**	(45,457)	**(36,671)**	(45,457)
Balance as at 31 December	**494,939**	449,007	**494,939**	449,007

50.2 Due to subsidiaries

As at 31 December	BANK 2019 LKR '000	BANK 2018 LKR '000
Synapsys Limited	**6,135**	–
	6,135	–

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	Issue date	Maturity date	BANK/GROUP 31 December 2019 LKR '000	BANK/GROUP 31 December 2018 LKR '000
Listed debentures							
Issued by Bank	6,043,140	12.75	7 years	9-Nov-16	9-Nov-23	**6,134,277**	6,132,187
	956,860	12.15	5 years	9-Nov-16	9-Nov-21	**971,190**	970,618
	4,086,530	13.00	7 years	29-Mar-18	29-Mar-25	**4,471,362**	4,470,024
	2,913,470	12.60	5 years	29-Mar-18	29-Mar-23	**3,180,325**	3,178,651
Transferred on amalgamation	2,000,000	9.4	5 Years	10-Jun-15	10-Jun-20	**2,102,760**	2,103,872
	16,000,000					**16,859,914**	16,855,352
Due after one year						**16,859,914**	16,855,352
						16,859,914	16,855,352

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 2019 LKR '000**	Market price Highest	Market price Lowest	Market price Last traded	Yield last traded %	Last traded date
Fixed rate									
2015-2020	Annually	9.40	8.00	**2,102,760**	N/T	N/T	N/T	N/A	N/A
2016-2021	Annually	12.15	8.60	**971,190**	N/T	N/T	N/T	N/A	N/A
2016-2023	Annually	12.75	9.23	**6,134,277**	102.0	99.80	99.80	12.75	6 June 2019
2018-2025	Annually	13.00	9.58	**4,471,362**	N/T	N/T	N/T	N/A	N/A
2018-2023	Annually	12.60	9.20	**3,180,325**	101.58	99.73	101.58	12.00	8 July 2019
				16,859,914					

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

As at 31 December	BANK **2019 LKR '000**	BANK 2018 LKR '000	GROUP **2019 LKR '000**	GROUP 2018 LKR '000
Payable within one year	**2,102,760**	–	**2,102,760**	–
Payable after one year	**14,757,154**	16,855,352	**14,757,154**	16,855,352
Total	**16,859,914**	16,855,352	**16,859,914**	16,855,352

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 2019.

The maturity analysis of Subordinated liabilities is given in Note 8.3.3 on pages 175 to 178.

52 Stated capital →

Accounting Policy →

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets.

As at 31 December	Number of ordinary voting shares **2019**	Number of ordinary voting shares 2018	BANK/GROUP **2019 LKR '000**	BANK/GROUP 2018 LKR '000
Balance at beginning	**265,097,688**	265,097,688	**4,715,814**	4,715,814
Rights issue of ordinary voting shares	**39,091,068**	–	**2,814,557**	–
Balance as at 31 December	**304,188,756**	265,097,688	**7,530,371**	4,715,814

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.

52.1 The Bank issued ordinary shares during the year by way of a Rights Issue to the existing shareholders of the Bank in the proportion of two (2) ordinary shares for every five (5) ordinary shares held as at end of trading on 28 March 2019 at an issue price of LKR 72 per share.

52.2 Disclosures regarding the utilisation of funds as per the objectives stated in the Rights issue Circular

Objective as per Prospectus	Proposed Date of allocation as per Prospectus	Amount allocated from Proceeds (LKR) (A)	% of Total Proceeds	Amount utilised as at 31 December 2019 (LKR) (B)	% of utilisation against allocation (B/A)	Clarification if not fully utilised including where the funds are invested (e.g. Whether lent to related party/s etc.)
To improve the capital adequacy ratio (CAR) of the Bank in the light of regulatory requirement introduced in line with the Basel III accord.	By 31 December 2019	LKR 2.814 Bn.	100%	LKR 2.814 Bn.	100%	N/A
Support the Bank's asset growth.	Over the period of twelve months from the date of allotment.	LKR 2.814 Bn.	100%	LKR 2.814 Bn.	100%	N/A

53 Statutory reserve →

Reserve fund

As at 31 December	BANK/GROUP 2019 LKR '000	BANK/GROUP 2018 LKR '000
Balance at beginning	**2,358,275**	2,224,275
Transfers	**103,693**	134,000
Balance as at 31 December	**2,461,968**	2,358,275

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	**2019 LKR '000**	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Balance at Beginning	**17,187,262**	13,858,152	**20,107,150**	17,359,513
Adjustment on initial application of SLFRS 9, net of tax	**–**	2,017,938	**–**	1,189,617
Adjustment on initial application of SLFRS 16, net of tax	**–**	–	**(6,717)**	–
Restated balance	**17,187,262**	15,876,090	**20,100,433**	18,549,130
Profit for the year	**2,073,868**	2,768,179	**2,213,529**	3,011,018
Other comprehensive expense net of tax	**(8,956)**	(2,666)	**(7,249)**	(2,766)
Transfers	**(103,693)**	(134,000)	**(103,693)**	(134,000)
Dividends	**(927,841)**	(1,325,489)	**(927,841)**	(1,325,489)
Forfeiture of unclaimed dividends	**6,474**	5,073	**6,474**	5,073
Disposal of equity investments	**10,222**	75	**5,852**	75
Rights issue expenses	**(9,250)**	–	**(9,250)**	–
Change in holding through joint venture	**–**	–	**33**	4,109
Balance as at 31 December	**18,228,086**	17,187,262	**21,278,288**	20,107,150

This represents cumulative net earnings, inclusive of final dividend approved amounting to LKR 928 Mn.

The balance is retained and reinvested in the business of the Bank.

55 Other reserves →

As at 31 December 2019	BANK			
	Fair value reserve LKR '000	**Hedging reserve LKR '000**	**General reserve LKR '000**	**Total LKR '000**
Balance as at the beginning of the year	**5,745,025**	**60,168**	**13,779,839**	**19,585,032**
Movements/transfers	**(40,381)**	**(285,557)**	**–**	**(325,938)**
Balance as at the end of the year	**5,704,644**	**(225,389)**	**13,779,839**	**19,259,094**

As at 31 December 2018	BANK			
	Fair value reserve LKR '000	Hedging reserve LKR '000	General reserve LKR '000	Total LKR '000
Balance as at the beginning of the year	13,298,686	–	13,779,839	27,078,525
Adjustment on initial application of SLFRS 9	(4,551,014)	–	–	(4,551,014)
Restated balance as at the beginning of the year	8,747,672	–	13,779,839	22,527,511
Movements/transfers	(3,002,647)	60,168	–	(2,942,479)
Balance as at the end of the year	5,745,025	60,168	13,779,839	19,585,032

As at 31 December 2019	GROUP				
	Fair value reserve LKR '000	**Exchange equalisation reserve LKR '000**	**Hedging reserve LKR '000**	**General reserve LKR '000**	**Total LKR '000**
Balance as at the beginning of the year	**4,293,847**	**82,835**	**60,168**	**13,779,839**	**18,216,689**
Movements/transfers	**(33,774)**	**(4,458)**	**(285,557)**	**–**	**(323,789)**
Balance as at the end of the year	**4,260,073**	**78,377**	**(225,389)**	**13,779,839**	**17,892,900**

As at 31 December 2018	GROUP				
	Fair value reserve LKR '000	Exchange equalisation reserve LKR '000	Hedging reserve LKR '000	General reserve LKR '000	Total LKR '000
Balance as at the beginning of the year	11,032,483	13,061	–	13,779,839	24,825,383
Impact of the adoption of SLFRS 9	(3,707,124)	–	–	–	(3,707,124)
Restated balance as at the beginning of the year	7,325,359	13,061	–	13,779,839	21,118,259
Movements/transfers	(3,031,512)	69,774	60,168	–	(2,901,570)
Balance as at the end of the year	4,293,847	82,835	60,168	13,779,839	18,216,689

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:

As at 31 December	Lanka Industrial Estates Limited	
	2019 LKR '000	2018 LKR '000
Non-current assets	**527,777**	574,903
Current assets	**329,284**	274,495
Non-current liabilities	**(104,282)**	(97,270)
Current liabilities	**(214,358)**	(223,462)
Net assets*	**538,373**	528,666
Net assets attributable to NCI – 48.84%	**262,965**	258,224
Revenue	**343,200**	304,474
Profit	**177,640**	121,219
OCI	**(254)**	293
Total comprehensive income	**520,590**	121,512
Profit allocated to NCI – 48.84%	**86,765**	59,209
OCI allocated to NCI – 48.84%	**(124)**	143
Cash flows from operating activities	**193,394**	218,556
Cash flows from investment activities	**6,419**	(175,358)
Cash flows from financing activities (dividends to NCI – NIL)	**(167,676)**	(160,392)
Net increase (decrease) in cash and cash equivalents	**32,137**	(117,194)

**See Note 35.*

57 Contingent liabilities and commitments →

Accounting Policy →

Contingencies and commitments

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.

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.

57.1 Contingencies and commitments

	BANK		GROUP	
As at 31 December	**2019 LKR '000**	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Guarantees issued to –				
Banks in respect of indebtedness of customers of the Bank	**422,500**	112,091	**422,500**	112,091
Companies in respect of indebtedness of customers of the Bank	**9,181,978**	9,595,123	**9,181,978**	9,595,123
Principal collector of customs (duty guarantees)	**344,629**	356,374	**344,629**	356,374
Shipping guarantees	**1,170,860**	2,180,336	**1,170,860**	2,180,336
Documentary credit	**12,958,343**	12,520,899	**12,958,343**	12,520,899
Bills for collection	**3,131,185**	3,810,321	**3,131,185**	3,810,321
Performance bonds	**5,122,213**	3,893,464	**5,122,213**	3,893,464
Forward exchange contracts	**17,089,574**	36,956,995	**17,089,574**	36,956,995
Commitments in ordinary course of business – Commitments for unutilised credit facilities	**78,944,548**	66,860,600	**78,944,548**	66,860,600
Capital expenditure approved by the Board of Directors				
Contracted	**567,644**	219,598	**567,644**	219,598
Not contracted	**1,656,926**	637,867	**1,656,926**	637,867
	130,590,400	137,143,668	**130,590,400**	137,143,668

57.1.1 Movement in impairment during the year

As at 31 December	2019 LKR '000	2018 LKR '000
Stage 1		
Balance at beginning	**162,686**	159,197
Charge to income statement	**1,458**	3,489
Balance on 31 December	**164,144**	162,686
Stage 2		
Balance at beginning	**34,895**	15,188
(Reversal)/charge to income statement	**(18,408)**	19,707
Balance on 31 December	**16,487**	34,895
Total	**180,631**	197,581

Classified under other liabilities in Note 50 on page 262.

57.2 Litigation against the Bank

Litigation against the Bank

57.2.1 A client has filed action against five defendants including the 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 to be set aside, and also claiming LKR 6 Mn as damages from the Bank. The Bank is defending the case before the District Court.

57.2.2 There are four cases filed in the District the Court of Kandy and one case filed in District Court of Negombo and another case 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 cases before the respective District Courts.

57.2.3 There is one case filed 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 case before the District Court.

57.2.4 There is one case filed 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 case before the District Court of Teldeniya.

57.2.5 A client has filed a case in the District Court of Matara 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 case before the District Court of Matara.

57.2.6 Case filed in the Labour Tribunal by one ex-employee of the Bank, claiming compensation from the Bank.

57.2.7 Case filed in the Labour Tribunal – Galle by an ex-employee of the Bank, claiming compensation and reinstatement from the Bank.

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, Executive Vice President – Strategic Planning and Subsidiaries, Chief Risk Officer, Chief Financial Officer, Chief Operating Officer, and Senior Vice President – Treasury and Resource Mobilisation 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	**2019 LKR '000**	2018 LKR '000	**2019 LKR '000**	2018 LKR '000
Number of persons	**15**	16	**17**	18
Short-term employment benefits	**131,371**	153,304	**149,315**	169,857
Post-employment benefits – Pension	**1,976**	1,757	**1,976**	1,757
– Others	**19,028**	17,837	**19,521**	18,292
	152,375	172,898	**170,812**	189,906

58.2.3 Other transactions with key management personnel and their close family members

Statement of Financial Position – Bank

As at 31 December	**2019**		2018	
	Number of KMPs	**LKR '000**	Number of KMPs	LKR '000
Assets				
Financial assets at amortised cost – Loans to and receivables from other customers	**12**	**29,579**	15	26,920
		29,579		26,920
Liabilities				
Financial liabilities at amortised cost – Due to depositors	**26**	**382,601**	25	301,585
Debt securities in issue	**1**	**2,206**	1	2,168
		384,807		303,753
Contingent liabilities and commitments		**10,963**		14,986

Income statement – Bank

For the year ended 31 December	2019 LKR '000	2018 LKR '000
Interest income	2,335	1,770
Interest expenses	38,042	31,011
Fee and commission income	19	37

58.3 Transaction with entities in which Directors of the Bank have significant influence

Statement of Financial Position – Bank

As at 31 December	2019 LKR '000	2018 LKR '000
Liabilities		
Financial liabilities at amortised cost – Due to depositors	326,428	45,743
Debt securities in issue	118,239	118,239
	444,667	163,982
Contingent liabilities and commitments	10,000	–

Income Statement – Bank

For the year ended 31 December	2019 LKR '000	2018 LKR '000
Interest income	4,565	12,389
Interest expenses	16,139	13,653
Fee and commission income	497	2,166
Other operating expenses	1,134	417

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	2019 LKR '000	2018 LKR '000
Liabilities		
Financial liabilities at amortised cost – Due to depositors	341,179	313,631
Financial liabilities at amortised cost – Due to other borrowers	–	25,054
	341,179	338,685
Contingent liabilities and commitments	450	150

Income Statement – Bank

For the year ended 31 December	2019 LKR '000	2018 LKR '000
Interest income	**5**	353
Interest expenses	**36,117**	38,541
Fee and commission income	**38**	54
Net other operating income	**77,166**	71,883
Other operating expenses net of reimbursements	**116,024**	99,906

Other transactions – Bank

For the year ended 31 December	2019 LKR '000	2018 LKR '000
Payments made for purchase of computer software	**31,961**	38,432

58.4.2 Transactions with joint venture

Statement of Financial Position – Bank

As at 31 December	2019 LKR '000	2018 LKR '000
Assets		
Financial assets at amortised cost – Loans to and receivables from other customers	41,861	108,708
	41,861	108,708
Liabilities		
Financial liabilities at amortised cost – Due to depositors	3,414	159
	3,414	159

Income statement – Bank

For the year ended 31 December	2019 LKR '000	2018 LKR '000
Interest income	**12,631**	15,763
Fee and commission income	**1,005**	5
Net other operating income	**75,500**	33,220
Other operating expenses	**17,907**	9,841

58.4.3 Transactions with associate

Statement of Financial Position – Bank

As at 31 December	2019 LKR '000	2018 LKR '000
Liabilities		
Financial liabilities at amortised cost – Due to depositors	**26**	25
	26	25

Income Statement – Bank

For the year ended 31 December	2019 LKR '000	2018 LKR '000
Fee and commission income	**18**	17
Net other operating income	**–**	27,036

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	2019 LKR '000	2018 LKR '000
Contribution prepaid as at beginning	**143,217**	181,820
Contribution due for the financial year recognised as expense in income statement	**(64,817)**	(60,317)
Recognition of actuarial gains in the other comprehensive income	**52,785**	21,714
Contribution prepaid (Note 48.1.2)	**131,185**	143,217

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.

58.6.1 Individually significant transactions included in the Statement of Financial Position

Statement of Financial Position – Bank

As at 31 December	2019 LKR '000	2018 LKR '000
Assets		
Balances with Central Bank of Sri Lanka	**8,666,547**	11,841,814
Placements with banks	**165,030**	425,087
Financial assets at amortised cost – Loans to and receivables from banks	**8,485,034**	12,898,331
Financial assets at amortised cost – Loans to and receivables from other customers	**15,517,585**	9,582,437
Financial assets at amortised cost – Debt and other instruments	**18,652,191**	18,524,971
Financial assets measured at fair value through other comprehensive income	**63,702,848**	44,908,983
	115,189,235	98,181,623
Liabilities		
Due to Banks	**9,284,419**	5,233,952
Financial liabilities at amortised cost – Due to depositors	**2,626,954**	2,393,850
Financial liabilities at amortised cost – Due to other borrowers	**21,768,994**	23,290,043
Debt securities in issue	**4,612,231**	2,154,010
Subordinated term debt	**6,154,314**	5,439,044
	44,446,912	38,510,899
Commitments		
Undrawn credit facilities	**7,438,628**	7,633,207

Income Statement – Bank

For the year ended 31 December	2019 LKR '000	2018 LKR '000
Interest income	**8,936,036**	7,396,060
Interest expenses	**3,852,541**	3,144,112
Fee and commission income	**1,050**	1,174
Net gain/(loss) from trading	**1,532**	(8,740)
Net gains from derecognition of financial assets	**7,185**	364

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 a 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.

Name of the related party	Relationship	Nature of the transaction	Aggregate value of related party transactions entered into during the financial year	Aggregate value of related party transactions as a percentage of Net Revenue/Income	Terms and conditions of the related party transactions
Entities owned by Government of Sri Lanka	Related party	On balance sheet credit facilities	Facilities approved during the year – LKR 5,500 Mn	1.37%*	Terms and conditions under normal commercial terms similar to other non related customers

** Actual income on the facilities disbursed as a percentage of the total annual consolidated income 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 →

See accounting policy in Note 6.

Accounting Policy →

The Group has applied SLFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under LKAS 17 and IFRIC 4. The details of accounting policies under LKAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

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.

This policy is applied to contracts entered into, on or after 1 January 2019.

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.

The Group recognises lease payments received under operating leases as income on a straightline basis over the lease term as part of "other revenue".

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from SLFRS 16.

Policy applicable prior to 1 January 2019

Determining whether an Arrangement Contains a Lease

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

Leased Assets

Leases of property, plant and equipment that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

Lease Payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Contingent rents, if any, are recognised as revenue in the period in which they are earned.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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.

The Branch and office premises were entered in to many years ago and previously, these leases were classified as operating leases under LKAS 17.

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).

	Office premises LKR '000
2019	
Balance at 1 January	1,248,463
Depreciation charge for the year	(282,313)
Additions to right-of-use assets	434,075
Derecognition of right-of-use assets	(13,958)
Balance at 31 December	**1,386,267**

See Note 8.3.3 for maturity analysis of lease liabilities as at 31 December 2019.

The future minimum lease payments under non-cancellable operating leases were payable as follows:

At 31 December	2019 LKR '000
Maturity analysis – Contractual undiscounted cash flows	
Less than one year	241,248
Between one and five years	1,007,904
More than five years	317,090
Total undiscounted lease liabilities at 31 December	**1,566,242**
Total discounted lease liabilities at 31 December	**1,302,528**

Refer Note 30.

59.3 Amounts recognised in income statement

For the year ended 31 December	2019 LKR '000
Leases under SLFRS 16	
Interest on lease liabilities	130,694
Expenses relating to short-term leases	1,725

For the year ended 31 December	2018 LKR' 000
Operating leases under LKAS 17	
Lease expense	320,131

59.4 Amounts recognised in statement of cash flows

For the year ended 31 December	2019 LKR' 000
Total cash outflow for leases	**278,496**

59.5 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 four 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. Expenses 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.

For the year ended	31 December 2019				
	Corporate Banking LKR '000	Banking LKR '000	Treasury LKR '000	Other LKR '000	Total LKR '000
External revenue					
Interest income	13,281,469	21,896,086	6,709,512	39,255	41,926,322
Net fees and commission income	487,259	1,459,649	–	–	1,946,909
Net loss from trading	–	–	(87,116)	–	(87,116)
Net loss from financial instruments at fair value through profit or loss	–	–	(2,633,183)	–	(2,633,183)
Net gain from derecognition of financial assets	–	–	209,890	–	209,890
Net other operating income	4,927	19,291	1,508,269	665,818	2,198,305
Income from external customers	13,773,656	23,375,027	5,707,372	705,073	43,561,126
Inter segment revenue	(10,140)	(27,116)	–	(353,798)	(391,054)
Total segment revenue	13,763,516	23,375,027	5,707,372	351,275	43,170,073

For the year ended	31 December 2019				
	Corporate Banking LKR '000	Banking LKR '000	Central Treasury LKR '000	Other LKR '000	Total LKR '000
Other material non-cash items:					
– Impairment losses on financial assets					(1,689,313)
– Depreciation and amortisation					(901,410)
Other expenses					(37,270,910)
Segment profit before tax					3,308,440
Segment assets	120,581,116	150,810,122	116,520,149	1,946,190	389,857,577
Segment liabilities	69,159,387	155,296,677	103,429,227	50,803	327,936,094
Information on cash flows					
Cash flows from operating activities					(15,475,980)
Cash flows from investing activities					(5,468,127)
Cash flows from financing activities					21,114,357
Net cash flows generated during the year					170,250
Capital expenditure:					
Property, plant and equipment	335	332,672	2,683	9,808	345,498
Intangible assets	–	401,407	–	8,578	409,985

For the year ended	31 December 2018				
	Corporate Banking LKR '000	Retail Banking LKR '000	Treasury LKR '000	Other LKR '000	Total LKR '000
External revenue					
Interest income	11,430,796	20,526,257	6,191,140	43,946	38,192,139
Net fees and commission income	452,289	1,419,243	–	–	1,871,533
Net loss from trading	–	–	(366,657)	–	(366,657)
Net loss from financial instruments at fair value through profit or loss	–	–	2,650,664	–	2,650,664
Net gain from derecognition of financial assets	–	–	19,114	–	19,114
Net other operating income	2,817	210,253	(3,598,984)	583,892	(2,802,022)
Income from external customers	11,885,903	22,155,754	4,895,277	627,838	39,564,770
Inter segment revenue	(10,426)	(31,816)	–	(333,225)	(375,468)
Total segment revenue	11,885,903	22,155,754	4,895,277	294,613	39,189,302

For the year ended	31 December 2018				
	Corporate Banking LKR '000	Retail Banking LKR '000	Treasury LKR '000	Other LKR '000	Total LKR '000
Other material non-cash items:					
– Impairment losses on financial assets					(1,056,230)
– Depreciation and amortisation					(510,128)
Other expenses					(32,946,541)
Segment profit before tax					4,676,403
Segment assets	113,769,777	135,643,532	110,716,934	1,854,134	361,984,377
Segment liabilities	60,660,651	132,297,045	82,735,357	44,365	275,737,418
Information on cash flows					
Cash flows from operating activities					19,523,637
Cash flows from investing activities					(15,871,039)
Cash flows from financing activities					(8,995,409)
Net cash flows generated during the year					(5,342,811)
Capital expenditure:					
Property, plant and equipment	2,663	398,231	183	199,007	600,085
Intangible assets		279,138	130,003	14,889	424,030

60.3 Reconciliations of information on reportable segments to the amounts reported in the financial statements

For the year ended	2019 LKR '000	2018 LKR '000
Revenues		
Total revenue for reportable segments	**43,561,126**	39,564,770
Unallocated amounts	**478,215**	259,184
Elimination of inter-segment revenue	**(391,054)**	(375,468)
Consolidated revenue	**43,648,287**	39,448,486

As at 31 December	2019 LKR '000	2018 LKR '000
Assets		
Total assets for reportable segments	**389,857,577**	361,984,377
Other unallocated amounts	**17,054,015**	14,777,634
Consolidated total assets	**406,911,592**	376,762,011
Liabilities		
Total liabilities for reportable segments	**327,936,094**	275,737,418
Other unallocated amounts	**29,549,006**	55,368,441
Consolidated total liabilities	**357,485,100**	331,105,859

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 First and Final Dividend

The Directors have recommended to the shareholders for approval, the payment of a first and final dividend of LKR 3.00 per share which will consist of LKR 2.50 per share in cash and 50 cents in the forms of a scrip dividend, for the financial year ended 31 December 2019. 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.

61.2 Proposed Debenture Issue

The Board of Directors decided to issue up to seventy million (70,000,000) Basel III compliant, subordinated, listed, rated, unsecured, redeemable debentures with a non-viability conversion option, each at an issue price (par value) of LKR 100 with a term up to seven years subject to obtaining all necessary regulatory and other approvals.

62 Comparative Figures →

Reclassification of comparative figures

The following information has been reclassified with the current year's classification in order to provide a better presentation:

	Current Presentation		As disclosed previously	
	BANK LKR '000	GROUP LKR '000	BANK LKR '000	GROUP LKR '000
Income Statement				
Fee and commission expenses	68,622	68,622	–	–
Other expenses (Note 20)	2,733,276	2,738,152	2,801,898	2,806,774
Statement of Financial Position				
Due from subsidiaries	–	–	9,505	–
Other assets (Note 42)	3,583,781	3,621,780	3,574,276	3,621,780
Intangible assets	–	–	668,834	686,288
Goodwill on consolidation	–	–	–	156,226
Intangible assets and goodwill (Note 40)	668,834	842,514	–	–

63 Directors' responsibility →

The Board of Directors of the Bank is responsible for the preparation and presentation of these financial statements. Please refer page 139 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	216-219
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 5.3.8 – Designation at fair value through profit or loss	164
		Notes to the financial statements: Note 08 – Financial risk review	166-186
	ii. Reclassifications of financial instruments from one category to another.	Principal accounting policies: Note 5.3.3 – Reclassification of financial assets	162
	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	254
	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	231
	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	195-216
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	196-198
	ii. Fee income and expense.	Notes to the financial statements: Note 12 – Net fee and commission income	198-199
	iii. Amount of impairment losses by class of financial assets.	Notes to the financial statements: Note 17 – Impairment for loans and other losses	202-209
	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	196-198
1.3	Other Disclosures	Principal accounting policies:	
1.3.1	Accounting policies for financial instruments.	Note 5.3 – Financial assets and Financial liabilities	160-164
1.3.2	Information on hedge accounting.	Notes to the financial statements: Note 29 – Derivate financial assets/liabilities	221-224
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	189-195
	ii. Description of how fair value was determined.	Notes to the financial statements: Note 9 – Fair value of financial instruments	189-195
	iii. The level of inputs used in determining fair value.	Notes to the financial statements: Notes 9 – Valuation models	189

Disclosure Requirements	Description	Page No.
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	194-195
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	166-186
2.1.2 Management's objectives, policies, and processes for managing those risks.	Notes to the financial statements: Note 8 – Financial risk review	166-186
2.1.3 Changes from the prior period.	Notes to the financial statements: Note 62 – Comparative figures	282
2.2 Quantitative Disclosures		
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	166-186
2.2.2 Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed.		
i. Credit Risk		
a. Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets.	Notes to financial statements: Note 8.2.3 – Credit quality analysis Note 8.2.4 – Collateral held and other credit enhancement	168-169 169-171
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	168-169 169-171 171-173
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	169-171
d. 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 8.2 – Credit risk (Financial risk review)	167-174
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	175-179
b. Description of approach to risk management.	Notes to the financial statements: Note 8.3 – Financial risk review	174-180
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)	174-180
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 8.3 – Market risk (Financial risk review)	181-185

Disclosure Requirements	Description	Page No.
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 8.3 – Market risk (Financial risk review)	181-185
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)	186-188
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	183
→ 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	159-160 237-238 238-239 239-241
b. Quantitative Disclosures		
→ 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	224-225 233-237
→ 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	200 201 201-202
vi. Interest Rate Risk in the Banking Book		
a. Qualitative Disclosures → Nature of interest rate risk in the banking book (IRRBB) and key assumptions.	Notes to the financial statements: Note 8 – Financial risk review	166-186
b. Quantitative Disclosures → 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).	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	166-186 184-185
2.2.3 Information on concentrations of risk.	Notes to the financial statements: Note 8 – Financial risk review	166-186

Disclosure Requirements	Description	Page No.
3. Other Disclosures		
3.1 Capital		
3.1.1 Capital Structure		
i. Qualitative Disclosures. 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.	Notes to the financial statements: Note 8.5.1.1 – Key regulatory ratios – capital adequacy	187-188
ii. Quantitative Disclosure 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	Notes to the financial statements: Note 8.5.1.1 – Key regulatory ratios – capital adequacy	187-188
3.1.2 Capital adequacy		
i. Qualitative Disclosures A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.	Notes to the financial statements: Note 8.5.1 – Qualitative disclosures (capital management)	186
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	186-188
b. Total and Tier 1 capital ratio	Notes to the financial statements: Note 8.5.1.1 – Key regulatory ratios – capital adequacy	187

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

Item	Amount (LKR '000)			
	31 December 2019		31 December 2018	
	Total unweighted value	**Total weighted value**	Total unweighted value	Total weighted value
Total Stock of High-Quality Liquid Assets (HQLA)	**69,787,641**	**69,287,520**	59,051,156	58,436,168
Total Adjusted Level 1A Assets	**68,787,399**	**68,787,399**	57,763,228	57,763,228
Level 1 Assets	**68,787,399**	**68,787,399**	57,763,228	57,763,228
Total Adjusted Level 2A Assets	**–**	**–**	82,790	70,372
Level 2A Assets	**–**	**–**	82,790	70,372
Total Adjusted Level 2B Assets	**1,000,242**	**500,121**	1,205,138	602,569
Level 2B Assets	**1,000,242**	**500,121**	1,205,138	602,569
Total cash outflows	**371,758,700**	**70,252,115**	348,143,975	75,603,272
Deposits	**147,120,309**	**12,580,009**	125,793,063	10,717,223
Unsecured wholesale funding	**103,187,321**	**49,175,375**	119,467,310	54,249,315
Secured funding transactions	**9,512,615**	**–**	5,874,993	–
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	**109,145,071**	**5,703,347**	93,785,071	7,413,196
Additional requirements	**2,793,384**	**2,793,384**	3,223,539	3,223,539
Total cash inflows	**32,247,053**	**20,948,383**	35,061,571	24,115,047
Maturing secured lending transactions backed by collateral	**11,019,081**	**10,864,930**	11,407,416	11,335,760
Committed facilities	**1,000,000**	**–**	1,000,000	–
Other inflows by counterparty which are maturing within 30 days	**17,265,465**	**8,722,163**	18,087,434	9,368,362
Operational deposits	**871,364**	**–**	1,152,256	–
Other cash inflows	**2,091,143**	**1,361,290**	3,414,465	3,410,925
Liquidity Coverage Ratio (%) (Stock of High-Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days)* 100		**140.53**		113.49

Basel III Computation of Liquidity Coverage Ratio – LKR Only

Item	Amount (LKR '000)			
	31 December 2019		31 December 2018	
	Total unweighted value	**Total weighted value**	Total unweighted value	Total weighted value
Total Stock of High-Quality Liquid Assets (HQLA)	**67,502,165**	**67,002,044**	58,114,699	57,499,712
Total Adjusted Level 1A Assets	**66,501,923**	**66,501,923**	56,826,771	56,826,771
Level 1 Assets	**66,501,923**	**66,501,923**	56,826,771	56,826,771
Total Adjusted Level 2A Assets	**–**	**–**	82,790	70,372
Level 2A Assets	**–**	**–**	82,790	70,372
Total Adjusted Level 2B Assets	**1,000,242**	**500,121**	1,205,138	602,569
Level 2B Assets	**1,000,242**	**500,121**	1,205,138	602,569
Total cash outflows	**290,363,031**	**47,293,395**	252,398,912	45,858,939
Deposits	**140,992,846**	**11,999,556**	119,663,789	10,151,659
Unsecured wholesale funding	**60,638,199**	**30,809,652**	60,195,036	27,801,226
Secured funding transactions	**9,512,615**	**–**	5,874,993	–
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	**76,944,718**	**2,209,534**	63,555,764	4,796,723
Additional requirements	**2,274,653**	**2,274,653**	3,109,330	3,109,330
Total cash inflows	**27,887,066**	**18,686,633**	24,177,696	16,478,234
Maturing secured lending transactions backed by collateral	**10,615,642**	**10,461,491**	9,305,602	9,233,947
Committed facilities	**1,000,000**	**–**	1,000,000	–
Other inflows by counterparty which are maturing within 30 days	**14,811,718**	**7,495,289**	13,865,013	7,240,746
Operational deposits	**–**	**–**	–	–
Other cash inflows	**1,459,706**	**729,853**	7,081	3,541
Liquidity Coverage Ratio (%) (Stock of High-Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days)* 100		**234.22**		195.71

Maturity of Financial Assets and Financial Liabilities

As at 31 December 2019	Up to 1 Month 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	5,450,209	–	–	–	–	–	–	5,450,209
Balances with Central Bank of Sri Lanka	8,666,547	–	–	–	–	–	–	8,666,547
Placement with banks	165,030	–	–	–	–	–	–	165,030
Derivative financial assets	631,438	–	–	–	–	–	–	631,438
Financial assets measured at fair value through profit or loss	–	251,593	–	–	–	–	5,055,473	5,307,066
Financial assets at amortised cost – Loans to and receivables from banks	–	3,307,832	15,304	–	4,898,610	181,430	–	8,403,175
Financial assets at amortised cost – Loans to and receivables from other customers	23,554,701	16,679,328	17,720,749	20,296,530	52,744,363	54,181,538	87,641,101	272,818,311
Financial assets at amortised cost – Debt and other instruments	–	1,658,361	848,502	1,766,206	13,740,868	3,729,920	–	21,743,857
Financial assets measured at fair value through other comprehensive income	–	9,450,109	1,918,348	1,269,053	30,008,205	15,649,171	14,421,521	72,716,407
Other assets	1,254,323	171,102	173,457	104,608	130,296	21,491	293,290	2,148,567
Total financial assets	39,722,248	31,518,325	20,676,360	23,436,397	101,522,342	73,763,550	107,411,385	398,050,607

As at 31 December 2019	Up to 1 Month 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 liabilities								
Due to banks	6,963,019	2,501,847	2,671,686	3,119,642	9,338,634	–	–	24,594,828
Derivative financial liabilities	518,731	–	–	–	–	–	–	518,731
Financial liabilities at amortised cost – Due to depositors	27,094,032	59,109,644	50,554,195	35,140,828	17,085,344	12,864,437	45,938,494	247,786,974
Financial liabilities at amortised cost – Due to other borrowers	1,231,073	7,876,894	1,473,106	7,676,607	14,000,751	6,154,080	8,895,045	47,307,556
Debt securities in issue	–	1,028,348	3,147,549	–	–	3,783,024	6,189,277	14,148,198
Other liabilities	1,158,317	1,242,411	539,089	259,657	36,775	118,536	431,660	3,786,445
Subordinated term debt	–	657,460	2,105,589	122,228	940,482	8,948,215	4,085,940	16,859,914
Total financial liabilities	36,965,172	72,416,604	60,491,214	46,318,962	41,401,981	31,868,292	65,540,416	355,002,646
Total net financial assets/(liabilities)	2,757,076	(40,898,279)	(39,814,854)	(22,882,565)	60,120,355	41,895,258	41,870,969	43,041,961
Contingencies								
Guarantees	16,242,180	–	–	–	–	–	–	16,242,180
Acceptance	–	5,731,026	756,207	4,869	–	–	–	6,492,102
Forward contracts	–	–	8,920,969	5,949,976	1,389,763	–	–	16,260,708
Cross CCY SWAP	–	–	–	–	828,867	–	–	828,867
Documentary credit	–	4,009,527	1,878,510	557,776	20,428	–	–	6,466,241
Bills for collection	3,131,185	–	–	–	–	–	–	3,131,185
Total contingencies	19,373,365	9,740,553	11,555,686	6,512,621	2,239,058	–	–	49,421,283
Commitments								
Undrawn overdrafts	16,649,526	–	–	–	–	–	–	16,649,526
Undrawn loans	28,971,431	–	–	–	–	–	–	28,971,431
Undrawn credit card limits	3,626,159	–	–	–	–	–	–	3,626,159
Undrawn indirect credit facilities	28,989,551	–	–	–	–	–	–	28,989,551
Capital commitments	–	–	504,000	68,837	1,651,732	–	–	2,224,569
Undrawn leases	707,881	–	–	–	–	–	–	707,881
Total commitments	78,944,548	–	504,000	68,837	1,651,732	–	–	81,169,117
Total commitments and contingencies	98,317,913	9,740,553	12,059,686	6,581,458	3,890,790	–	–	130,590,400

As at 31 December 2018	Up to 1 Month 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	5,039,629	–	–	–	–	–	–	5,039,629
Balances with Central Bank of Sri Lanka	11,841,814	–	–	–	–	–	–	11,841,814
Placement with banks	425,087	–	–	–	–	–	–	425,087
Derivative financial assets	3,414,549	–	–	–	–	–	–	3,414,549
Financial assets measured at fair value through profit or loss	–	–	–	–	–	–	6,078,862	6,078,862
Financial assets at amortised cost – Loans to and receivables from banks	29,796	4,392,570	15,434	–	4,391,520	4,025,560	–	12,854,880
Financial assets at amortised cost – Loans to and receivables from other customers	21,887,477	24,606,025	17,403,911	16,276,400	40,236,546	55,809,633	73,513,726	249,733,718
Financial assets at amortised cost – Debt and other instruments	1,144,917	287,028	180,123	2,454,870	15,051,018	3,756,132	–	22,874,088
Financial assets measured at fair value through other comprehensive income	7,563,696	748,264	9,735,552	12,237,686	7,737,500	5,443,116	11,847,739	55,313,553
Other assets	1,681,562	71,739	70,656	96,772	27,308	27,308	334,236	2,309,581
Total financial assets	53,028,527	30,105,626	27,405,676	31,065,728	67,443,892	69,061,749	91,774,563	369,885,761

As at 31 December 2018	Up to 1 Month 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 liabilities								
Due to banks	7,285,151	36,365	–	2,124,948	–	–	–	9,446,464
Derivative finanical liabilities	121,373	–	–	–	–	–	–	121,373
Financial liabilities at amortised cost – Due to depositors	32,869,795	58,974,600	55,856,377	30,665,583	12,141,582	11,971,314	39,758,345	242,237,596
Financial liabilities at amortised cost – Due to other borrowers	3,563,518	1,474,741	2,230,085	5,224,477	12,854,025	11,775,945	10,290,935	47,413,727
Debt securities in issue	–	5,751,901	151,757	–	2,994,784	–	–	8,898,441
Other liabilities	1,410,720	343,909	345,532	573,627	38,949	92,921	458,687	3,264,345
Subordinated term debt	–	662,109	103,150	123,988	2,939,798	8,942,732	4,083,575	16,855,352
Total financial liabilities	45,250,557	67,243,625	58,686,901	38,712,623	30,969,138	32,782,912	54,591,542	328,237,298
Total net financial assets/(liabilities)	7,777,970	(37,137,999)	(31,281,225)	(7,646,895)	36,474,754	36,278,837	37,183,021	41,648,463
Contingencies								
Guarantees	16,137,389	–	–	–	–	–	–	16,137,389
Acceptance	1,916,875	2,966,377	1,060,953	215,328	–	–	–	6,159,533
Forward contracts	–	20,805,170	5,421,901	9,920,524	–	–	–	36,147,595
Cross CCY SWAP	–	–	–	113,316	696,084	–	–	809,400
Documentary credit	1,698,660	3,990,706	68,553	603,448	–	–	–	6,361,367
Bills for collection	3,810,321	–	–	–	–	–	–	3,810,321
Total contingencies	23,563,245	27,762,253	6,551,407	10,852,616	696,084	–	–	69,425,605
Commitments								
Undrawn overdrafts	13,552,649	–	–	–	–	–	–	13,552,649
Undrawn loans	31,235,817	–	–	–	–	–	–	31,235,817
Undrawn credit card limits	2,024,246	–	–	–	–	–		2,024,246
Undrawn indirect credit facilities	19,648,916	–	–	–	–	–	–	19,648,916
Capital commitments	857,465	–	–	–	–	–		857,465
Undrawn leases	398,972	–	–	–	–	–	–	398,972
Total commitments	67,718,065	–	–	–	–	–	–	67,718,065
Total commitments and contingencies	91,281,310	27,762,253	6,551,407	10,852,616	696,084	–	–	137,143,670

Maturity Gap Analysis of Foreign Currency Denominated Financial Assets and Financial Liabilities – USD

As at 31 December 2019	Up to 1 Month 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	21,242	36,912	15,046	6,462	71,177	16,377	89,237	256,453
Total liabilities	48,393	46,250	38,339	45,741	105,540	55,037	40,587	379,887
Total net financial assets/(liabilities)	(27,151)	(9,338)	(23,293)	(39,279)	(34,363)	(38,660)	48,650	(123,434)

As at 31 December 2018	Up to 1 Month 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	35,987	50,559	22,979	809	40,906	37,776	70,543	259,559
Total liabilities	88,141	52,854	42,687	82,719	80,355	69,468	44,972	461,196
Total net financial assets/(liabilities)	(52,154)	(2,295)	(19,708)	(81,910)	(39,449)	(31,692)	25,571	(201,637)

Sensitivity of Financial Assets and Financial Liabilities

As at 31 December 2019	Up to 1 Month 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	333,741	–	–	–	–	–	–	5,116,468	5,450,209
Balances with Central Bank of Sri Lanka	–	–	–	–	–	–	–	8,666,547	8,666,547
Placements with banks	165,030	–	–	–	–	–	–	–	165,030
Derivative financial assets	–	–	–	–	–	–	–	631,438	631,438
Financial assets measured at fair value through profit or loss	–	–	–	–	–	–	–	5,307,066	5,307,066
Financial assets at amortised cost – Loans to and receivables from banks	27,803	3,280,028	15,304	–	4,898,610	181,430	–	–	8,403,175
Financial assets at amortised cost – Loans to and receivables from other customers	151,965,068	7,780,400	12,106,527	14,419,459	30,880,893	21,916,367	25,948,101	7,801,496	272,818,311
Financial assets at amortised cost – Debt and other Instruments	30,628	1,710,556	1,098,091	1,909,319	13,740,868	3,254,395	–	–	21,743,857
Financial assets measured at fair value through other comprehensive income	279,826	4,508,803	2,243,779	943,622	30,000,100	15,649,171	10,077,548	9,013,558	72,716,407
Other assets	–	–	–	–	–	–	–	2,148,567	2,148,567
Total financial assets	**152,802,096**	**17,279,787**	**15,463,701**	**17,272,400**	**79,520,471**	**41,001,363**	**36,025,649**	**38,685,140**	**398,050,607**

As at 31 December 2019	Up to 1 Month 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 liabilities									
Due to banks	6,502,929	8,129,761	2,148,769	2,566,164	5,000,000	–	–	247,205	24,594,828
Derivative financial liabilities	–	–	–	–	–	–	–	518,731	518,731
Financial liabilities at amortised cost – Due to depositors	75,196,582	54,615,104	49,236,046	55,107,361	7,224,188	886,927	66,757	5,454,009	247,786,974
Financial liabilities at amortised cost – Due to other borrowers	9,178,922	8,835,038	10,163,228	3,435,505	4,458,154	2,149,461	8,903,657	183,591	47,307,556
Debt Securities in issue	–	–	3,000,000	–	–	3,804,760	6,195,240	1,148,198	14,148,198
Other liabilities	–	–	–	–	–	–	–	3,786,445	3,786,445
Subordinated term debt	–	–	2,000,000	–	956,860	8,956,610	4,086,530	859,914	16,859,914
Total financial liabilities	**90,878,433**	**71,579,903**	**66,548,043**	**61,109,030**	**17,639,202**	**15,797,758**	**19,252,184**	**12,198,093**	**355,002,646**
Interest rate sensitivity gap	**61,923,663**	**(54,300,116)**	**(51,084,342)**	**(43,836,630)**	**61,881,269**	**25,203,605**	**16,773,465**	**26,487,047**	

As at 31 December 2018	Up to 1 Month 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	304,618	–	–	–	–	–	–	4,735,011	5,039,629
Balances with Central Bank of Sri Lanka	–	–	–	–	–	–	–	11,841,814	11,841,814
Placements with banks	425,087	–	–	–	–	–	–	–	425,087
Derivative financial assets	–	–	–	–	–	–	–	3,414,549	3,414,549
Financial assets measured at fair value through profit or loss	–	–	–	–	–	–	–	6,078,862	6,078,862
Financial assets at amortised cost – Loans to and receivables from banks	29,796	4,437,577	15,434		4,391,520	3,980,553	–	–	12,854,880
Financial assets at amortised cost – Loans to and receivables from others	141,488,372	7,882,526	12,494,899	14,181,994	24,669,960	19,371,704	26,605,155	3,039,108	249,733,718
Financial assets at amortised cost – Debt and other Instruments	1,152,235	287,028	180,123	2,454,870	15,051,018	3,748,814	–	–	22,874,088
Financial assets measured at fair value through other comprehensive income	1,319,910	748,264	9,735,552	12,237,686	7,737,500	5,443,117	7,588,444	10,503,080	55,313,553
Other assets								2,309,581	2,309,581
Total financial assets	144,720,018	13,355,395	22,426,008	28,874,550	51,849,998	32,544,188	34,193,599	41,922,005	369,885,761

As at 31 December 2018	Up to 1 Month 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 liabilities									
Due to banks	7,285,625	36,365		2,124,474					9,446,464
Derivative financial liabilities	–	–	–	–	–	–	–	121,373	121,373
Financial liabilities at amortised cost – Due to depositors	82,067,918	52,592,276	49,824,583	22,962,960	26,304,650	1,701,676	74,628	6,708,905	242,237,596
Financial liabilities at amortised cost – Due to other borrowers	3,567,792	1,474,741	2,230,085	5,224,477	12,854,025	11,775,945	10,286,662	–	47,413,727
Debt securities in issue	–	5,758,994	151,757	–	2,987,690	–	–	–	8,898,441
Other liabilities	–	–	–	–	–	–	–	3,264,345	3,264,345
Subordinated term debt	–	681,781	103,150	123,988	2,939,798	8,942,732	4,063,903	–	16,855,352
Total Financial Liabilities	92,921,335	60,544,157	52,309,575	30,435,899	45,086,163	22,420,353	14,425,193	10,094,623	328,237,298
Interest Rate Sensitivity Gap	51,798,683	(47,188,762)	(29,883,567)	(1,561,349)	6,763,835	10,123,835	19,768,406	31,827,382	

Key regulatory ratios

Item	**31 December 2019**		31 December 2018	
	Bank	**Group**	Bank	Group
Regulatory capital (LKR '000)				
Common equity Tier 1	**34,824,554**	**34,908,304**	31,633,211	32,106,706
Tier 1 capital	**34,824,554**	**34,908,304**	31,633,211	32,106,706
Total capital	**48,542,925**	**48,626,675**	47,203,364	47,676,859
Regulatory capital ratios (%)				
Common equity Tier 1 capital ratio [Minimum requirement: 2019 – 7% (2018 – 6.375%)]	**11.342**	**11.327**	10.766	10.888
Tier 1 capital ratio [Minimum requirement: 2019 – 8.5% (2018 – 7.875%]	**11.342**	**11.327**	10.766	10.888
Total capital ratio [Minimum requirement: 2019 – 12.5% (2018 – 11.875%]	**15.810**	**15.778**	16.065	16.168
Computation of leverage ratio				
Tier 1 Capital	**34,824,554**	**34,908,304**	N/A	N/A
Total Exposures	**460,516,043**	**459,563,903**	N/A	N/A
On-Balance Sheet Items (excluding Derivatives and securities financing transactions, but including Collateral)	**395,302,362**	**394,350,222**	N/A	N/A
Derivative Exposures	**34,403,158**	**34,403,158**	N/A	N/A
Securities Financing Transaction Exposures	**2,419,209**	**2,419,209**	N/A	N/A
Other off-Balance Sheet Exposures	**28,391,314**	**28,391,314**	N/A	N/A
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)	**7.56**	**7.60**		
Computation of Net stable funding ratio				
Total Available Stable Funding	**290,698,778**	**N/A**	N/A	N/A
Required Stable Funding – On Balance Sheet Assets	**254,049,220**	**N/A**	N/A	N/A
Required Stable Funding – Off Balance Sheet Items	**2,271,779**	**N/A**	N/A	N/A
Total Required Stable Funding	**256,320,999**	**N/A**	N/A	N/A
Net Stable Funding Ratio (%)	**113.41**	**N/A**	N/A	N/A

Basel III computation of capital ratios

Item	31 December 2019 Bank LKR '000	31 December 2019 Group LKR '000	31 December 2018 Bank LKR '000	31 December 2018 Group LKR '000
Common equity Tier 1 (CET 1) capital after adjustments	38,824,554	34,908,304	31,633,211	32,106,706
Common equity Tier 1 (CET 1) capital	42,000,264	45,050,466	38,041,191	40,961,078
Equity capital (stated capital)/assigned capital	7,530,371	7,530,371	4,715,814	4,715,814
Reserve fund	2,461,968	2,461,968	2,358,275	2,358,275
Published retained earnings/(accumulated retained losses)	18,228,086	21,278,288	17,187,263	20,107,150
Published accumulated Other Comprehensive Income (OCI)	–	–	–	–
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 CET 1 capital	7,175,710	10,142,162	6,407,980	8,854,372
Goodwill (net)	–	156,226	–	156,226
Intangible assets (net)	1,184,659	1,205,923	668,834	686,288
Investment in capital of banks and financial institutions	5,762,829	8,648,828	5,595,930	7,867,360
Others	228,221	131,185	143,216	144,498
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	13,718,371	13,718,371	15,570,153	15,570,153
Tier 2 capital	13,718,371	13,718,371	15,570,153	15,570,153
Qualifying Tier 2 capital instruments	12,034,562	12,034,562	14,417,256	14,417,256
Revaluation gains	–		–	–
Loan loss provisions	1,683,809	1,683,809	1,152,897	1,152,897
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)	–	–	–	–
CET 1 capital	34,824,554	34,908,304	31,633,211	32,106,706
Total Tier 1 capital	34,824,554	34,908,304	31,633,211	32,106,706
Total capital	48,542,925	48,626,675	47,203,364	47,676,859

Item	31 December 2019		31 December 2018	
	Bank	**Group**	Bank	Group
Total risk weighted assets (RWA) (LKR '000)				
RWAs for credit risk	**274,009,885**	**274,759,093**	262,979,953	263,746,741
RWAs for market risk	**16,956,352**	**16,956,352**	14,903,582	14,903,582
RWAs for operational risk	**16,074,112**	**16,479,374**	15,940,116	16,228,641
CET 1 capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on d-sibs) (%)	**11.34**	**11.33**	10.77	10.89
of which: capital conservation buffer (%)	**1.25**	**1.25**	1.88	1.88
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 (%)	**11.34**	**11.33**	10.77	10.89
Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on d-sibs) (%)	**15.81**	**15.78**	16.07	16.17
of which: capital conservation buffer (%)	**1.25**	**1.25**	1.88	1.88
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 2019 – 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	95,929,195	–	95,929,195	–	2,451,076	3
Claims on foreign sovereigns and their Central Banks	–	–	–	–	–	–
Claims on public sector entities	11,251,137	1,232,228	164,220	616,114	780,334	100
Claims on official entities and multilateral development banks	–	–	–	–	–	–
Claims on banks exposures	1,964,738	53,895,005	1,964,738	1,078,292	1,161,338	38
Claims on financial institutions	12,180,348	–	12,180,348	–	5,986,893	49
Claims on corporates	110,460,172	48,117,089	94,533,375	23,376,614	114,661,894	97
Retail claims	36,934,640	–	36,934,640	–	28,115,553	76
Claims secured by residential property	10,515,337	–	10,515,337	–	7,732,718	74
Claims secured by commercial real estate	82,897,974	1,943,181	82,897,974	1,943,181	84,841,155	100
Non-performing assets (NPAs) (i)	6,438,940	–	6,438,940	–	6,990,662	109
Higher-risk categories	405,118	–	405,118	–	1,012,795	250
Cash Items and other assets	21,786,588	75,462,121	21,786,588	3,064,976	20,275,467	82
Total	390,764,187	180,649,624	363,750,473	30,079,177	274,009,885	

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 2019 – 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	**95,929,195**	**–**	**95,929,195**	**–**	**2,451,076**	**3**
Claims on foreign sovereigns and their Central Banks	**–**	**–**	**–**	**–**	**–**	**–**
Claims on public sector entities	**11,251,137**	**1,232,228**	**164,220**	**616,114**	**780,334**	**100%**
Claims on official entities and multilateral development banks	**–**	**–**	**–**	**–**	**–**	**–**
Claims on banks exposures	**2,029,846**	**53,895,005**	**2,029,846**	**1,078,292**	**1,183,269**	**38%**
Claims on financial institutions	**12,180,348**	**–**	**12,180,348**	**–**	**5,986,893**	**49%**
Claims on corporates	**110,460,172**	**48,117,089**	**94,533,375**	**23,376,614**	**114,661,894**	**97%**
Retail claims	**36,934,640**	**–**	**36,934,640**	**–**	**28,115,553**	**76%**
Claims secured by residential property	**10,515,337**	**–**	**10,515,337**	**–**	**7,732,718**	**74%**
Claims secured by commercial real estate	**82,897,974**	**1,943,181**	**82,897,974**	**1,943,181**	**84,841,155**	**100%**
Non-performing assets (NPAs) (i)	**6,438,940**	**–**	**6,438,940**	**–**	**6,990,662**	**109%**
Higher-risk categories	**435,113**	**–**	**435,113**	**–**	**1,087,781**	**250%**
Cash items and other assets	**22,448,029**	**75,462,121**	**22,448,029**	**3,064,976**	**20,927,758**	**82%**
Total	**391,520,731**	**180,649,624**	**364,507,017**	**30,079,177**	**274,759,093**	

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: Exposures by Asset Classes and Risk Weights

Description	Amount (LKR '000) as at 31 December 2019 (Post CCF and CRM) – Bank Level							
Risk weight asset classes	0%	20%	50%	75%	100%	150%	>150%	Total credit exposures amount
Claims on Central Government and Central Bank of Sri Lanka	83,673,814	12,255,381	–	–	–	–	–	95,929,195
Claims on foreign sovereigns and their Central Banks	–	–	–	–	–	–	–	–
Claims on public sector entities	–	–	–	–	780,334	–	–	780,334
Claims on official entities and multilateral development banks	–	–	–	–	–	–	–	–
Claims on banks exposures	–	1,500,178	1,363,099	–	179,753	–	–	3,043,030
Claims on financial institutions	–	1,670,000	9,714,910	–	795,438	–	–	12,180,348
Claims on corporates	–	2,608,847	2,322,035	–	112,979,107		–	117,909,989
Retail claims	578,271	2,784,598	–	24,052,552	9,519,219	–	–	36,934,640
Claims secured by residential property	–	–	5,565,239	–	4,950,098	–	–	10,515,337
Claims secured by commercial real estate	–	–	–	–	84,841,155	–	–	84,841,155
Non-performing assets (NPAs)	–	–	384,615	–	4,566,268	1,488,057	–	6,438,940
Higher-risk categories	–	–	–	–	–	–	405,118	405,118
Cash items and other assets	4,565,304	13,489	–	–	20,272,771	–	–	24,851,564
Total	88,817,389	20,832,493	19,349,898	24,052,552	238,884,143	1,488,057	405,118	393,829,650

Description	Amount (LKR '000) as at 31 December 2019 (Post CCF and CRM) – Group							
Risk weight asset classes	0%	20%	50%	75%	100%	150%	>150%	Total credit exposures amount
Claims on Central Government and Central Bank of Sri Lanka	83,673,814	12,255,381	–	–	–	–	–	95,929,195
Claims on foreign sovereigns and their Central Banks	–	–	–	–	–	–	–	–
Claims on public sector entities	–	–	–	–	780,334	–	–	780,334
Claims on official entities and multilateral development banks	–	–	–	–	–	–	–	–
Claims on banks exposures	–	1,535,589	1,392,796	–	179,753	–	–	3,108,138
Claims on financial institutions	–	1,670,000	9,714,910	–	795,438	–	–	12,180,348
Claims on corporates	–	2,608,847	2,322,035	–	112,979,107	–	–	117,909,989
Retail claims	578,271	2,784,598	–	24,052,552	9,519,219	–	–	36,934,640
Claims secured by residential property	–	–	5,565,239	–	4,950,098	–	–	10,515,337
Claims secured by commercial real estate	–	–	–	–	84,841,155	–	–	84,841,155
Non-performing assets (NPAs)	–	–	384,615	–	4,566,268	1,488,057	–	6,438,940
Higher-risk categories	–	–	–	–	–	–	435,113	435,113
Cash items and other assets	4,574,454	13,489	–	–	20,925,062	–	–	25,513,005
Total	88,826,539	20,867,904	19,379,595	24,052,552	239,536,434	1,488,057	435,113	394,586,194

Market Risk under Standardised Measurement Method

Item	31 December 2019 RWA	
	Bank LKR '000	Group LKR '000
(a) RWA for interest rate risk	2,119,544	2,119,544
General interest rate risk	1,529,487	1,529,487
(i) Net long or short position	1,529,487	1,529,487
(ii) Horizontal disallowance	–	–
(iii) Vertical disallowance	–	–
(iv) Options	–	–
Specific interest rate risk	–	–
(b) RWA for equity	548,617	548,617
(i) General equity risk	326,558	326,558
(ii) Specific equity risk	222,059	222,059
(c) RWA for Foreign exchange and gold	41,440	41,440
Capital charge for market risk [(a)+(b)+(c)]* CAR	16,956,352	16,956,352

Operational risk under basic indicator approach/the standardised approach/ the alternative standardised approach – Bank

Business lines	Capital charge factor	Fixed factor	Gross income year ended 31 December		
	%		1st year LKR '000	2nd year LKR '000	3rd year LKR '000
The basic indicator approach	15		13,738,321	13,299,696	13,147,262
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			
Capital charges for operational risk (LKR '000)					
The basic indicator approach	2,009,264				
The standardised approach					
The alternative standardised approach					
Risk weighted amount for operational risk (LKR '000)					
The basic indicator approach	16,074,112				
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 year ended 31 December		
	%		1st year LKR '000	2nd year LKR '000	3rd year LKR '000
The basic indicator approach	15		14,124,085	13,633,414	13,440,935
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			
Capital charges for operational risk (LKR '000)					
The basic indicator approach	2,059,922				
The standardised approach					
The alternative standardised approach					
Risk weighted amount for operational risk (LKR '000)					
The basic indicator approach	16,479,374				
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 (2015)	Subordinated Term-debt (2016 – Type A)	Subordinated Term-debt (2016 – Type B)	Subordinated Term-debt (2018 – Type A)	Subordinated Term-debt (2018 – 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	C2306	C 2366	C2367	C2393	C2394
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	10 June 2015	9 November 2016	9 November 2016	26 March 2018	26 March 2018
Par value of instrument (LKR)		100	100	100	100	100
Perpetual or dated	Perpetual	Dated	Dated	Dated	Dated	Dated
Original maturity date, if applicable	N/A	10 June 2020	9 November 2021	9 November 2023	29 March 2023	29 March 2025
Amount recognised in regulatory capital (in LKR '000 as at the reporting date)	7,530,371	400,000	382,744	4,834,512	2,330,776	4,086,530
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
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	9.4	12.15	12.75	12.6	13
Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative

Description of the capital instrument (Bank only)	Stated capital	Subordinated Term-debt (2015)	Subordinated Term-debt (2016 – Type A)	Subordinated Term-debt (2016 – Type B)	Subordinated Term-debt (2018 – Type A)	Subordinated Term-debt (2018 – Type B)
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Convertible	Convertible
If convertible, conversion trigger (s)	N/A	N/A	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
If convertible, fully or partially	N/A	N/A	N/A	N/A	Fully	Fully
If convertible, mandatory or optional	N/A	N/A	N/A	N/A	Mandatory	Mandatory
If convertible, conversion rate	N/A	N/A	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

N/A – Not applicable

Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – Bank Only

Item	Amount (LKR '000) as at 31 December 2019					
	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	5,450,209	5,462,138	5,462,138	–	–	
Balances with Central Bank of Sri Lanka	8,666,547	8,666,547	8,666,547	–	–	
Placements with banks	165,030	165,000	165,000	–	–	
Derivative financial assets	631,438	–	–	–	–	Included under other asset in regulatory reporting
Financial Assets measured at fair value through profit or loss	5,307,066	66,975,402	62,431,165	2,612,462	1,931,775	The difference is due to the Government and equity securities held for trading which are classified as FVOCI in published Financial Statements
Financial assets at amortised cost – Loans to and receivable from banks	8,403,175	–	–	–	–	Stated under held to maturity in regulatory reporting
Financial assets at amortised cost – Loans to and receivables from other customers	272,818,311	275,140,797	248,703,439	–	26,437,358	The impairment allowance for loans and advances on a collective and individual basis in accordance with SLFRS 9 – "Financial Instrument". The general and specific provisions are made in accordance with Central Bank of Sri Lanka. The difference between the balance under SLFRS and previous GAAP.
Financial assets at amortised cost – Debt and other instruments	21,743,857	35,019,471	31,861,558	–	3,157,913	The difference is due to the Government and equity securities held for investment purposes which are classified as FVOCI in published Financial Statements
Financial assets measured at fair value through other comprehensive income	72,716,407	–	–	–	–	Classified into held to maturity and held for trading regulatory reporting
Investments in subsidiaries	187,435	977,705	125,669	–	852,036	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

Item	Amount (LKR '000) as at 31 December 2019					
	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	**3,230,843**	3,230,844	3,230,844	–	–	
Intangible assets and goodwill	**1,184,659**	1,184,659	–	–	1,184,659	
Deferred tax assets	**308,853**	–	–	–	–	
Other assets	**3,283,300**	4,971,050	3,094,234		1,876,816	
Total assets	**404,897,280**	**401,803,492**	**363,750,473**	**2,612,462**	**35,440,557**	
Liabilities						
Due to banks	**24,594,828**	–	–	–	–	Included under Other Borrowings in regulatory reporting
Derivative financial liabilities	**518,731**	–	–	–	–	Included under Other Liabilities in regulatory reporting
Financial liabilities at amortised cost – Due to depositors	**247,786,974**	239,793,978	–	–	239,793,978	Interest payable on borrowing and deposits added to the Other Liabilities in regulatory reporting
Financial liabilities at amortised cost – Due to other borrowers	**47,307,556**	84,003,414	–	–	84,003,414	Due to banks and Debt Securities Issued are included under this heading in regulatory reporting
Debt securities in issue	**14,148,198**	–	–	–	–	Included under Other Borrowings in regulatory reporting
Retirement benefit obligation	**561,104**	–	–	–	–	Included under Other Liabilities in regulatory reporting
Current tax liabilities	**581,269**	1,247,916	–	–	1,247,916	Taxes are computed based on different profits under each reporting method.
Deferred tax liabilities	–	557,596	–	–	557,596	Due to deferred tax adjustments on Government Securities classified as available-for-sale financial assets.
Other liabilities	**5,059,187**	16,989,435	–	–	16,989,435	Interest payable on Borrowing and deposits added to the Other Liabilities in regulatory reporting
Subordinated term debt	**16,859,914**	16,000,000	12,034,562	–	3,965,438	Regulatory reporting reports only the principal amount
Total liabilities	**357,417,761**	**358,592,339**	**12,034,562**	–	**346,557,777**	

Item	Amount (LKR '000) as at 31 December 2019					
	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	**11,119,967**	**11,119,967**	**9,623,989**	**–**	**1,495,978**	
Performance bonds	**5,122,213**	**5,122,213**	**4,923,733**	**–**	**198,480**	
Letters of credit and acceptances	**12,958,343**	**12,958,343**	**12,803,418**	**–**	**154,925**	
Other contingent items (Bills on collection and capital expenditure approved by the Board)	**5,355,755**	**5,355,754**	**–**	**–**	**5,355,754**	
Undrawn loan commitments	**78,944,548**	**78,944,548**	**78,944,548**	**–**	**–**	
Other commitments (FX commitments)	**17,089,574**	**17,089,575**	**74,353,936**	**–**	**–**	
Total Off-Balance Sheet Liabilities	**130,590,400**	**130,590,400**	**180,649,624**	**–**	**7,205,137**	
Shareholders' equity						
Equity Capital (Stated Capital)/Assigned Capital	**7,530,371**	**7,530,371**	**–**	**–**	**–**	
of which amount eligible for CET1	**–**	**–**	**–**	**–**	**–**	
of which amount eligible for AT1	**–**	**–**	**–**	**–**	**–**	
Retained earnings	**18,228,086**	**19,656,153**	**–**	**–**	**–**	Due to differences which arise in profits computed in previous GAAP and SLFRSs
Accumulated other comprehensive income	**5,704,644**	**–**	**–**	**–**	**5,704,644**	Accumulated other comprehensive income is only applicable in published Financial Statements
Other reserves	**16,016,418**	**16,024,629**	**–**	**–**	**–**	Due to differences which arise in profits computed in previous GAAP and SLFRSs
Total Shareholders' Equity	**47,479,519**	**43,211,153**	**–**	**–**	**5,704,644**	

Ten Year Summary

LKR Mn	Based on previous GAAP	Based on LKAS 39							Based on SLFRS 9	
		For the year ended 31 March				For the nine months ended 31 December	For the year ended 31 December			
	2011	2012	2013	2014	2015	2015	2016	2017	2018	**2019**
Bank										
Operating results										
Total income	14,191	7,652	10,433	10,481	10,394	10,036	26,754	35,942	39,154	**43,297**
Profit before income tax	7,876	2,883	3,492	3,211	3,771	1,589	4,414	5,792	4,233	**2,989**
Income tax expense	739	430	570	623	531	521	1,125	1,377	1,464	**915**
Profit after tax	7,137	2,453	2,921	2,587	3,240	1,068	3,289	4,415	2,768	**2,074**
Statement of Financial Position										
Assets										
Cash and short-term funds	11,991	3,646	7,103	4,245	2,296	9,859	13,745	21,355	17,307	**14,282**
Loans to and receivables from banks and other customers	39,344	54,982	60,668	62,575	73,933	164,920	198,085	224,660	262,589	**281,221**
Financial investments	4,032	16,277	19,298	25,609	29,909	66,861	72,461	80,374	84,267	**99,767**
Investment in associate, joint venture, and subsidiary companies	3,132	4,451	4,446	6,659	6,648	823	902	957	957	**978**
Other assets	1,427	1,841	1,645	1,853	1,826	3,688	4,919	5,761	9,788	**8,649**
Total assets	59,926	81,197	93,160	100,941	114,612	246,151	290,112	333,107	374,908	**404,897**
Liabilities										
Due to depositors	3,688	12,445	15,548	16,630	22,485	110,891	140,514	193,308	242,238	**247,787**
Due to other borrowers	32,261	36,489	41,605	45,262	46,346	87,379	97,291	84,607	82,614	**102,910**
Other liabilities	3,758	1,010	1,223	1,639	1,686	5,062	6,457	7,316	6,210	**6,720**
Equity	20,219	31,253	34,784	37,410	44,095	42,819	45,850	47,877	43,846	**47,480**
Total equity and liabilities	59,926	81,197	93,160	100,941	114,612	246,151	290,112	333,107	374,908	**404,897**
Return on equity (%)*	39.7	11.7	12.9	10.6	12.8	5.0	10.99	13.4	7.6	**7.6**
Return on total assets (%)*	12.3	3.7	3.8	3.0	3.5	1.0	1.30	1.48	0.80	**0.78**
Earnings per share (LKR)	26.95	9.25	11.02	9.76	12.22	4.03	12.41	16.65	10.44	**7.14**
Market value per share (LKR)	171.8	112.6	131.1	143.9	202.8	168.1	122.50	124.00	93.00	**91.90**
Price earnings ratio (times)	6.4	12.2	11.9	14.7	16.6	41.7	9.87	7.45	8.91	**12.87**
Earnings yield (%)	15.6	8.2	8.4	6.8	6.0	2.4	10.13	13.43	11.23	**7.77**
Dividend per share (LKR)	10.00	4.00	5.00	5.50	6.00	2.50	4.50	5.00	3.50	**3.00**
Dividend cover (times)	2.7	3.1	2.8	2.0	2.2	0.7	4.96	3.70	2.09	**2.04**
Gross dividend (LKR Mn)	2,649	795	1,060	1,325	1,458	1,591	663	1,193	1,325	**928**
Liquid assets to liabilities (as specified in the Banking Act No. 30 of 1998) (%)	295	52	53	77	48	22	27	27	24	**24**
Number of employees	451	466	461	477	495	1445	1,642	1,770	1,860	**2,076**

** 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

AA- (lka) credit rating from Fitch Ratings Lanka Limited.

Annual General Meeting (AGM)

The AGM will be held at the Cinnamon Lakeside Colombo, Sir Chittampalam A Gardiner Mawatha, Colombo 2, on 30 March 2020.

For any clarification on this report please write to:

The Company Secretary
DFCC Bank PLC
No. 73/5, Galle Road,
Colombo 03, Sri Lanka or
E-mail to: info@dfccbank.com

Company Secretary

Ms A Withana

Auditors

KPMG
Chartered Accountants

VAT registration number
409000088-7000

Registered office

73/5, Galle Road, Colombo 03,
Sri Lanka.
Phone: +94 11 244 2442
Fax: +94 11 244 0376
E-mail: info@dfccbank.com
Website: www.dfcc.lk

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LKA8355DFCCX0190000E106

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