65 YEARS

DFCC BANK
Keep Growing

Digitally Yours

Annual Report 2020

Digitally Yours

In the pre-2020 era, banking was shaped by the traditional brick and mortar model whilst a complementary digital transformation gained rapid ground. Today, as a consequence of COVID-19, the thrust into a digitally enabled world has taken place more quickly than envisaged. An age is upon us, where the 'old' will finally give way to the 'new' and digital becomes the new mainstream. The foresight of DFCC in reading the signs well before and developing its digital platform, products and services ahead of many, has enabled us to remain a bank for all customers – every segment and every demographic... for all time.

http:/dfcc2020.annualreports.lk

65 YEARS

DFCC BANK
Keep Growing

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About this Report

This Annual Report is available as:

- A concise Integrated Annual Report in print form
- Online HTML
- CD and PDF formats
- The "Perennial Compendium" available on the DFCC Bank website tracks the Bank's activities throughout the year

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.

Reporting period and boundary

DFCC Bank's Annual Report for 2020 covers the 12-month period from 1 January 2020 to 31 December 2020. 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 13 the Board of Directors of DFCC Bank, in the spirit of good governance, accepts responsibility for the entirety of this Annual Report 2020. The information contained herein, as in the past, complies with all applicable laws, regulations, and standards.

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

Statutory Frameworks

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

Reporting Frameworks

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

Assurance

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

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

Precautionary principle

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

About DFCC Bank

Established in 1955 as the first development bank in Sri Lanka and one of the oldest in the region, DFCC Bank has been the lender of choice for trailblazing Sri Lankan entrepreneurs and continues to be the preferred lender for "Green" development projects including waste-to-energy, hydro, wind, and solar energy projects. Having honed its expertise in project lending for over six decades, the Bank turned to commercial banking in 2015. Today, DFCC Bank provides comprehensive development and commercial banking services and is at the forefront of pioneering digitally-enabled products and services, offering customers unparalleled service, convenience, and value.

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 can avail themselves of the Bank's services via online and mobile banking and DFCC MySpace, the Bank's self-banking solution. Find more details on the Bank's branch network on page 56.

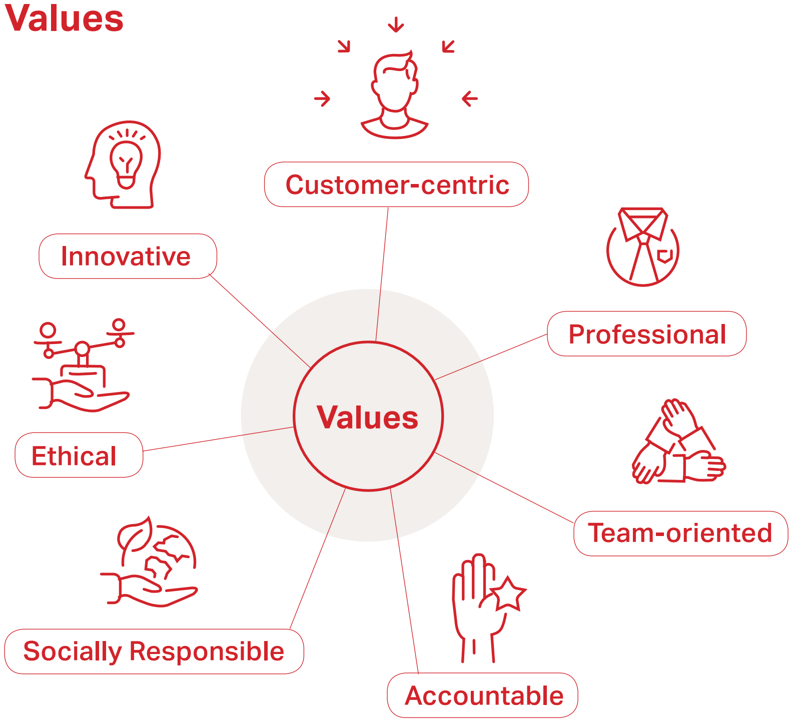
Vision

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 multi-disciplinary team of professionals and synergies of our financial services group.

Values



A Pioneer's Journey

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

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

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

1984
Finance Leasing is officially introduced.

1985
An Insurance Agency business is commenced.

Medium-term Working Capital Financing is officially introduced.

1986
The Head Office is inaugurated.

1988
The first branch in Kandy is opened.

1989
Short-term Working Capital Financing is officially introduced.

1991
NAMAL is officially founded.

1992
Lanka Industrial Estates Limited is founded.

Lanka Ventures Limited is founded.

1993
Reached No. 1 position in Market Capitalisation.

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

1996
Fixed Deposit Mobilisation is introduced.

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

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

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

2000
Structured and managed Sri Lanka's first Rated Debenture Issue for Sri Lanka Telecom.

2001
DFCC acquired ABN AMRO Securities (Pvt) Limited and renamed the company to DFCC Stock Brokers (Pvt) Limited.

2002
Fitch Ratings Lanka Limited assigned the SLAA National Rating for Implied Long-Term Unsecured Senior Debt of DFCC Bank.

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

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

2003
DFCC acquires 94.16% of MERC Bank and renames it as DFCC Vardhana Bank.

2004
DFCC Consulting is founded.

2008
Acuity Partners (Pvt) Limited commences commercial operations.

2011
Shareholding in DFCC Vardhana Bank increased to 99.1%.

2014
Appointed by GOSL to administer the EUR 90 Mn Credit Line from the European Investment Bank.

2015
DFCC Bank and DFCC Vardhana Bank are amalgamated in October to form DFCC Bank PLC.

2016
DFCC Virtual Wallet launches as yet another financial inclusion enabler by DFCC Bank, a first in Sri Lanka's banking industry.

2017
DFCC Bank launches DFCC Premier Go app to empower Premier customers.

2018
DFCC Bank launches DFCC iConnect, a cutting-edge payments solution for businesses.

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

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

2020
DFCC Bank awarded the No. 1 Cash Management Service Provider in Sri Lanka by Euromoney.

DFCC Bank awarded Market Leader in Cash Management (Domestic Banks) and Best Services in Cash Management in Sri Lanka by Asiamoney.

DFCC Group Structure

Subsidiaries

DFCC Consulting (Pvt) Limited

Incorporated – 9 September 2004

Principal activity – Consultancy

Directors
L H A L Silva
R A Dasanayake
T W de Silva

Synapsys Limited

Incorporated – 11 October 2006

Principal activity – Information technology services and IT enabled services

Directors
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

Lanka Industrial Estates Limited

Incorporated – 12 March 1992

Principal activity – Operating an industrial estate

Directors
L H A L Silva – Chairman
Dr A Saarrankan
R A Dasanayake
T W de Silva
Dr R M K Ratnayake
A D Tudawe

Joint Venture

Acuity Partners (Pvt) Limited

Incorporated – 7 February 2008

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

Directors
A J Alles – Chairman
M R Abeywardena – MD
R Dissanayake
D Pallewatte
N H T I Perera
L H A L Silva
Ashok Goonesekere

Associate Company

National Asset Management Limited

Incorporated – 28 September 1990

Principal activity – Licensed unit trust and investment management

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

Highlights

Group	Based on SLFRS 9			Based on LKAS 39	
LKR Mn	**Year ended 31 December 2020**	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
Operating results					
Total income	**43,604**	43,648	39,448	35,987	26,980
Profit before tax	**3,944**	3,308	4,676	5,891	4,674
Tax expense	**1,097**	1,008	1,606	1,458	1,205
Profit attributable to equity holders of the Bank	**2,745**	2,214	3,011	4,362	3,415
Statement of financial position					
Assets					
Cash and short-term funds	**28,063**	14,326	17,331	21,390	13,824
Loans to and receivables from banks and other customers	**306,062**	272,818	249,690	213,704	185,872
Financial investments	**120,932**	108,171	100,580	91,707	84,675
Investments in associate and joint venture	**2,481**	2,096	1,989	1,684	1,443
Other assets	**9,829**	9,500	7,172	5,983	5,400
Total assets	**467,367**	406,911	376,762	334,468	291,214
Liabilities					
Due to depositors	**309,566**	247,458	241,915	192,920	140,220
Due to other borrowers	**97,406**	102,910	82,589	84,578	97,224
Other liabilities	**8,686**	7,117	6,602	7,568	6,660
Total liabilities	**415,658**	357,485	331,106	285,066	244,104
Equity					
Total equity attributable to equity holders of the Bank	**51,426**	49,163	45,398	49,125	46,850
Non-controlling interests	**283**	263	258	277	260
Total equity and liabilities	**467,367**	406,911	376,762	334,468	291,214
Return on equity, %*	**6.16**	5.32	7.70	12.08	10.3
Return on total assets, %*	**0.91**	0.59	0.88	1.47	1.4
Earnings per share, LKR	**9.00**	7.62	11.36	16.45	12.88
Net asset value per share, LKR	**168.06**	161.62	171.25	185.31	176.73
Capital adequacy					
Core capital ratio, %	**–**	–	–	–	14.60
Total capital ratio, %	**–**	–	–	–	17.47
Common equity Tier I Capital ratio, % (Basel III)	**10.82**	11.33	10.89	13.09	–
Tier I capital ratio, % (Basel III)	**10.82**	11.33	10.89	13.09	–
Total capital ratio, % (Basel III)	**15.75**	15.78	16.17	16.53	–

** After eliminating fair value reserve.*

Supporting customers in unprecedented times

- Customers provided with relief during pandemic through concessions including temporary overdrafts, import and export loans, extensions on short-term loans, and permanent overdraft facilities
- Mobile ATM service rolled out to several districts to enable customers to withdraw money and pay bills
- Range of digital apps upgraded to facilitate cashless and contactless transactions including DFCC Virtual Wallet, DFCC Pay, and DFCC iConnect

Renewed approach to sustainability

- A vision to be the leading bank contributing towards sustainability by 2030
- New Sustainability Policy builds on DFCC Bank's achievements in sustainability
- Contributing towards a resilient Sri Lanka
- Social and Environmental Management System (SEMS) ensures projects funded by the Bank meet required environmental and social regulations
- Recognised for sustainability initiatives by ADFIAP Development Awards and Global Sustainable Finance Awards

Awards and recognition

- No.1 Cash Management Service Provider in Sri Lanka - Euromoney
- Ranked 28th on Brand Finance Top 100 Most Valuable Brands 2020
- Ranked 20th on Business Today's Top 30 corporates in Sri Lanka 2019-2020
- Ranked 29th among LMD's Most Awarded 2019/20 and Hall of Fame (Top 50)
- Most popular banking and finance website at BestWeb.lk competition

Reach

- The upgraded Kurunegala Branch and Pinnacle Centre were relocated
- Customers have access to over 4,500 ATM's across the country via the LankaPay ATM network
- Contact Centre available to customers 24/7
- Interactive DFCC Chatz chatbot assists customers via DFCC Bank website, Facebook, and Viber in English, Sinhala, and Tamil

The Bank for Everyone

- New propositions designed around customers' lifestyles
- Salary Plus aimed at mass salaried customers
- Salary Partner aimed at upper level of mass salaried customers
- Pinnacle aimed at high-net-worth individuals

Message from the Chairman

By combining the commercial banking mindset with the development banking mindset we have crafted over 65 years, DFCC Bank is well placed to leverage this expertise to build long-lasting relationships that benefit both our customers and our bank.

http://dfcc2020.annualreports.lk/cm

Dear Shareholders,

2020 saw the world go through what is possibly the most tumultuous period of our lifetime. 2021 sees hope renewed and the reality of the world reshaped. However, I do come across many discussions on "rebuilding Sri Lanka" and I have to admit that I am not a fan of the word "rebuild" – I do not feel we are broken. We have had a setback. The metaphorical wheel was reinvented in 2020 as businesses and institutions scrambled to rethink the way they worked and interacted, and I feel that after a year, businesses have adjusted to this new normal. Customer centricity and digital-first is the basis of our Vision 2025 strategy, and it is one that has proven to be extremely resilient and seen the Bank readily adapt to the changing situation in 2020. DFCC Bank is ready for business in 2021.

2021 will be a year of building loyal relationships. Relationships are what proved to be the most critical capital in 2020. While many were ready to write-off certain businesses and industries due to the impact of the pandemic, we saw value, not in the industries themselves but the relationships we have built with our customers. We saw that they needed our support in these arduous times and we stepped up – that is why DFCC Bank was one of the largest lenders in the market in 2020. This was not happenstance but the result of always thinking ahead. We had our processes, practices, and workflows up and running in the past year and we approach 2021 with optimism built on the experience of the past year.

Given the ongoing uncertainties, it would not be prudent to say that we are pursuing vast growth in 2021. We are more concerned with how our customers are doing and whether 2021 will be a better year for them. With that in mind, we are looking at achieving three things this year: building upon the existing relationships with our customers, building relationships with new customers, and building relationships with key players in underserved markets. We will accomplish this by combining the commercial banking mindset with the development banking mindset that we have crafted over 65 years. DFCC Bank is one of the few in the market who possess this mindset and we are well placed to leverage this expertise to build long-lasting relationships that benefit both our customers and us. That niche expertise is what will see us through the year. We understand what it takes for businesses to recover from a rough patch or for start-ups to find their footing. While most commercial banks will seek to lend for up to five years, we can lend up to ten years because we understand the needs of our customers and are looking to build long-term relationships with them. While other banks are classifying industries by risk, we are willing to look at any industry with a fresh perspective. We have identified smaller industries such as the cinnamon trade to do business with and we remain bullish on the tourism industry despite the challenges it faces.

I would also take this opportunity to highlight that DFCC Bank celebrated its 65th anniversary in 2020, marking our presence as one of the oldest banks in the region and a pioneer in Sri Lanka's banking sector. Over that course of time, we have refined our processes, evolved our vision, and we know where we are heading. Despite the challenges that 2020 wrought on the country, the Bank and its employees worked diligently and achieved a substantial amount of lending, brought in deposits, and strengthened our liquidity so as to not be reliant on development funding, and clarified the priorities of our various business units. Our numbers reflect this.

2020 challenged us like no other year. While our ongoing shift to becoming a customer centric, digital-first bank saw us more than adequately equipped to deal with the new social distancing norms, building and maintaining our relationships with our customers without being able to see or interact with them was an incredibly difficult feat. Managing uncertainty throughout the year was another key concern. We continued to invest in ways to get closer to our customers. We launched DFCC Video Chatz to give our customers that extra human touch and launched our new Pinnacle Centre in Colombo 07 to attract high-end customers. The Pinnacle proposition is a clear statement of intent by DFCC Bank that we are top-of-the-line relationship and liability bankers, that we are agile, and that we offer a bespoke service. These efforts are already paying dividends.

Our branches will have a refreshed approach in 2021 and go that extra mile to see who needs our support and how we can build new relationships. We will also be continuing our focus on building liquidity. Sustainability is also a major focus for the Bank going forward, with a new policy, strategy, and plan rolled out in 2020. We have set grand goals for the Bank to achieve by the end of the decade: to be the bank for Green Finance, to be a carbon neutral bank, and to achieve a sustainable work lifestyle by 2030. These goals will help the Bank to strengthen its own resilience and that of its stakeholders and of the nation.

I thank our shareholders for their continued support of the Bank. There is intrinsic strength in our statement of financial position, and I remain optimistic that despite all the hardships our country and our Bank has gone through these past few years, our resilient character has endured all challenges. Today, we are ready to go out and build our relationships. DFCC Bank is ready.

I would like to thank the Board of Directors for their guidance, our CEO Mr Lakshman Silva for his firm leadership of our Bank during extraordinary times, and the management team and our employees across all levels for their efforts to support our customers.

I would also like to express my gratitude for the support of the officials of the Central Bank of Sri Lanka and the Ministry of Finance.

Finally, I thank our customers for their continued loyalty, trust, and support of our Bank. We will continue to focus on your needs and provide you with outstanding service.

J Durairatnam
Chairman

17 February 2021

Chief Executive's Review

The Bank's agility was on full display in 2020 as it fully embraced its goal of becoming a customer centric, digital-first bank to serve our customers during unprecedented times.

http://dfcc2020.annualreports.lk/ceor

2020 was a pivotal year for DFCC Bank, marking 65 years of being a pioneer in Sri Lanka's banking sector and one of the oldest banks in the region. The year also marked the firm establishment of the Bank as a fully-fledged commercial bank in the minds of the public. The Bank has made great strides in recent years to capture market share by demonstrating itself to be a fully committed commercial bank. Most importantly, the Bank's agility was on full display in 2020 as it fully embraced its goal of becoming a customer centric, digital-first bank to serve its customers during unprecedented times.

The pandemic also created the opportunity for the Bank to change mindsets, not just to adapt to the new normal but beyond it as well. During 2020, the Bank implemented the "War Room" concept, in which four key focus areas were identified: deposit mobilisation, managing the debt moratorium, cost optimisation, and strengthening alternative channels. It took all the Bank's employees to come together, despite the logistical impediments and obstacles posed by the pandemic and actualise these four key focus areas so that we could serve our customers and provide relief to them, while complying with the Government's mandates.

A resilient strategy

Vision 2025 has proven to be a very resilient plan. Although our KPIs are quite ambitious and the pandemic would have slowed down certain aspects, we were also able to successfully implement many significant improvements two years ahead of schedule. We are now ready to acquire and onboard customers remotely via our digital platforms. Credit hubs came about as one of our many process improvements, which simplifies individual client processing by offloading it from the business units and branches and shifting them to seven centralised credit hubs, thus boosting turnaround times. Workflows have been introduced and the Google Workspace suite has been fully implemented across the Bank. We have introduced more convenient features and propositions for our customers, such as chatbots to complement our Contact Centre staff and systems in assisting our customers. We launched the Pinnacle Centre in Colombo 07 to attract high-end customers to the Bank and our customer centric focus has been vital to its success. We have done a lot of work to improve the customer experience through our Customer Experience Unit and our sophisticated Contact Centre now has the ability to monitor customer feedback. Our digital propositions such as DFCC iConnect and the DFCC Virtual Wallet are increasingly popular among our customers and we have worked steadily to introduce new features to our platforms and apps. A new core banking system will be completed in 2021 and transform how we interact with our customers and respond to their needs.

Dealing with the global pandemic

As a relatively new commercial bank in the Sri Lankan banking sector, DFCC Bank really swung into full gear as our liability growth was comparatively higher than other commercial banks during the year. Building our Current Accounts and Savings Accounts (CASA) has been a vital means of securing low-cost funding and we made great strides in 2020. We were also fortunate to not have to let go of any of our 2,072 employees across all our business units. Extensive health and safety precautions were exercised across our branch network. We encouraged working from home wherever possible and provided laptops and VPN connections to employees to facilitate this. In cases where working from home was not possible, we identified strategic locations for our employees to work from and implemented a roster system to maintain social distancing and reduce footfall at branches. We also extensively participated in the Central Bank's moratorium programmes to offer concessions to our individual and business customers, providing them with some relief during these uncertain times.

Financial performance

2019 had already been a difficult year for the country, but we saw progress towards the latter end of that year and started 2020 on a positive note. Indicators such as loan growth and liability growth were positive until the pandemic gripped the world in March. For the first time in our 65-year history, we had provided an unprecedented amount of relief measures, concessions, and extensions to our customers on a large scale. Naturally, our forecasts for the year were impacted; our interest margins fell, capital ratios were affected, and the impacts will continue to be felt in the years following 2020.

Against all odds, under adversarial conditions, the Bank delivered sound results for the year ended 31 December 2020. Total income grew to LKR 43,300 Mn from LKR 43,297 Mn in the previous year. Deposits experienced a 25% growth to LKR 310 Bn and advances grew 11% to LKR 302 Bn. Although net fee and commission income grew slightly to LKR 2,061 Mn from LKR 2,046 Mn the previous year, net interest income declined by 13% to LKR 11,007 Mn due to the developments during the year. This resulted in our interest margin decreasing to 2.53% in December 2020 from 3.25% in December 2019. Our non-performing loans ratio grew to 5.56% from 4.85% over the same period, in line with the rest of the banking sector. The cost management procedures we employed during the pandemic proved to be effective, with our total operating expenses declining by 2% to LKR 7,387 Mn and a cost-to-income ratio of 48.97% for the year.

Our Group as a whole recorded a profit before tax of LKR 3,944 Mn and profit after tax of LKR 2,847 Mn against LKR 3,308 Mn and LKR 2,300 Mn respectively in 2019. Our subsidiaries all contributed positively to this growth. Our earnings per ordinary share improved by 9.7%, increasing from LKR 7.14 in 2019 to LKR 7.83 in 2020. We declared a final dividend of LKR 3.00 per share by way of a scrip dividend for the year ended 31 December 2020. More details about our financial performance can be found in the Financial Capital section of this report.

A renewed approach to sustainability

In 2020, we took a fresh look at how DFCC Bank approaches sustainability and felt that our existing initiatives needed to be revitalised and better aligned to the overarching Vision 2025 strategy. Thus, we set about developing a new Sustainability strategy and implemented it with the blessing of the Board of Directors. The new strategy focuses on building the resilience of the Bank by developing a resilient business and working towards becoming a bank specialised in green finance, careful consideration of our impacts on our environment and working towards becoming carbon neutral, and developing resilient communities by developing a sustainable culture and lifestyle. The agenda of our sustainability initiatives is to ultimately strengthen the resilience of the Bank, its stakeholders, and the country through digitisation, empowerment, innovation and inclusivity.

Awards and recognition

The Bank received a fair number of awards and recognition during the year. We were ranked the number one Cash Management Service Provider in Sri Lanka by Euromoney. Further, the Bank was awarded Market Leader in Cash Management (Domestic Banks) and Best Service in Cash Management in Sri Lanka by Asiamoney, earned Merit awards by the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) for our *Samata English* and *#TogetherWeGrow* initiatives, and won awards for our automated debt moratorium initiative by SLASSCOM and our website by bestweb.lk.

Outlook

Going forward, our focus will be to engage with our customers to ensure that recoveries are taking place. Our centralised credit hubs will go a long way to ensuring that our customers are helped with their requirements looked at on a standardised basis across the country. We have identified sectors to target in 2021 and internal champions who will drive our initiatives in sectors across the country. We will continue to expand our digital footprint and the launch of the core banking system will be a significant achievement that will be the foundation for at least the next decade of innovations at the Bank.

Having recently been appointed as the Chairman of the Sri Lanka Banks' Association, I have a positive outlook on the country and the Sri Lankan banking sector as a whole. After a long period of uncertainty, we have political stability and a policy direction that should help to strengthen the country. Unforeseen circumstances aside, although there are many challenges to overcome, we feel that 2021 will be the year that we can take a quantum leap.

Acknowledgements

I wish to express my gratitude to our Chairman, Mr J Durairatnam, and our Board of Directors for their guidance and support of our initiatives. I thank the Governor, the staff of the Central Bank of Sri Lanka, and the Treasury and its officials for their support. I would like to specifically acknowledge our subsidiaries, who have played a key role in our growth.

I thank our staff for their efforts and perseverance during these difficult times. Finally, I would like to thank our customers for their continued loyalty, and our shareholders for their continued patience and support.

L H A L Silva
Chief Executive Officer

17 February 2021

Board of Directors

J Durairatnam

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

Skills and experience

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

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

Other current appointments:

Listed companies: He is a Director of Asian Hotels and Properties PLC.

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

L H A L Silva

Director/Chief Executive Officer (CEO)
(Member of the Board since October 2015 and as CEO from August 2017)

Skills and experience

Mr Silva held the position of Deputy Chief Executive Officer during October 2015 – August 2017. He 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 PLC (DVB) in 2003. He served as the Chief Executive Officer and Executive Director of DVB from January 2010 to September 2015 and functioned as the Chief Operating Officer of DVB until his appointment as the Chief Executive Officer of DVB in January 2010.

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

Other current appointments:

Listed companies: He is the Chairman of Lanka Ventures PLC and LVL Energy Fund PLC.

Others: He is the Chairman of DFCC Consulting (Pvt) Limited, Lanka Industrial Estates Limited and Synapsys Limited, subsidiary companies of DFCC Bank PLC and a Director of Acuity Partners (Pvt) Limited, the joint venture company of DFCC Bank PLC.

He is also a Director of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), member of the Board of Management of the Sri Lanka Sustainable Energy Authority and a member of the Financial System Stability Consultative Committee of the Central Bank of Sri Lanka. He also serves as the Chairman of Lanka Financial Services Bureau Limited and Sri Lanka Banks' Association (Guarantee) Limited.

P M B Fernando
Senior Director
Independent Non-Executive Director
(Member of the Board since July 2013)

Skills and experience

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

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

Other current appointments:

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

Others: He is a Director of Synapsys Limited, a subsidiary company of DFCC Bank PLC, Laugfs Leisure Limited, Laugfs Eco Sri Limited, Reach Asia Leisure Limited, Evoke International Limited and Lanka Hospitals Diagnostics (Pvt) Limited.

Ms S R Thambiayah
Independent Non-Executive Director
(Member of the Board since March 2015)

Skills and experience

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

After starting her career at Nestle Lanka PLC in Marketing, Ms Thambiayah joined the hospitality industry in 1999 at Hotel Renuka and Renuka City Hotel. After her Master's of Management in Hospitality, she joined the Hotel Team at Expedia Inc in New York, USA where she worked as a Market Manager until her return to Sri Lanka. On her return she was appointed as Managing Director of Hotel Renuka and Renuka City Hotel.

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

Other current appointments:

Listed companies: She is the Executive Chairperson of Renuka Hotels PLC, the Joint Managing Director of Renuka City Hotels PLC and a Director of Cargo Boat Development Company PLC.

Others: She is a Director of Crescent Launderers & Dry Cleaners (Pvt) Limited, Renuka Consultants & Service Limited, Renuka Properties Limited, Lancaster Holdings Limited and Portfolio Management Services (Pvt) Limited.

She is also a Member of the Management Committee of the Tourist Hotels Association of Sri Lanka, a Member of the Committee of the Ceylon Chamber of Commerce representing "General Interest" and a Member of the Board of Directors of the Sri Lankan Convention Bureau.

Ms V J Senaratne
Non-Executive Director
(Member of the Board since July 2015)

Skills and experience

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

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

Other current appointments:

Listed companies: She is an Alternate Director of Melstacorp PLC and Distilleries Company of Sri Lanka PLC. She is also the Chief Legal Officer and Company Secretary of Distilleries Company of Sri Lanka PLC.

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

Ms L K A H Fernando

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

Skills and experience

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

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

Other current appointments:

Listed companies: She is the Chief Executive Officer/Executive Director of R I L Property PLC and a Director of United Motors Lanka PLC

Others: She is a Director of Foodbuzz (Pvt) Limited, Unimo Enterprises Limited, and UML Heavy Equipment Limited.

N K G K Nemmawatta

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

Skills and experience

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

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

Other current appointments:

None.

N H T I Perera

Director/Deputy Chief Executive Officer
(Member of the Board since July 2019)

Skills and experience

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

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

Other current appointments:

Listed companies: None.

Others: He is a Director of Synapsys Limited, Acuity Partners Limited, Acuity Stock Brokers (Pvt) Limited and Guardian Acuity Asset Management Limited. He also functions as Chairman of the Audit Committee of the Acuity Group.

Ms H M N S Gunawardana
Non-Executive Director
(Member of the Board since July 2020)

Skills and experience

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

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

Other current appointments:

Listed companies: None.

Others: She is the Joint Managing Partner of Capital City Law – Colombo, Group Legal Consultant – International Distilleries Lanka Limited and Consultant, CHEC Port City (Colombo) (Pvt) Limited, She is also a member of the Company Law Advisory Commission of Sri Lanka and a Director of Capital City Corporate Services (Pvt) Limited.

H A J De S Wijeyeratne
Independent Non-Executive Director
(Member of the Board since July 2020)

Skills and experience

Mr Wijeyeratne counts over 28 years of experience in the fields of general management, financial management and auditing which has been acquired while being employed at Investcorp Bank, Bahrain, Grindlays Bahrain Bank, Ernst & Young, Bahrain and Ernst & Young, Sri Lanka. In addition, he has held the position of Chief Executive Officer of the Sri Lanka Institute of Nanotechnology (Pvt) Limited (SLINTEC) for over five years (2013 to 2019) and a consultant for ZONE 24x7 an IT company involved in data analytics and machine learning (2019 to 2020). He was an Independent Director of Union Assurance PLC until September 2020 and was also the Chairman of the Board Audit and Compliance Committee.

He is an Associate member of The Institute of Chartered Accountants of Sri Lanka and a Fellow member of the Chartered Institute of Management Accountants, UK.

Other current appointments:

Listed companies: None.

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

Ms A Withana
Secretary to the Board (Since May 2011)

Skills and experience

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

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

Other current appointments:

Listed companies: She is also the Company Secretary of DFCC Bank PLC.

Others: None.

Corporate Management

Lakshman Silva
Chief Executive Officer

Thimal Perera
Deputy Chief Executive Officer

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

Aasiri Iddamalgoda
Senior Vice President
Branch Banking and SME

Achintha Hewanayake
Senior Vice President
Chief Operating Officer

Ashok Goonesekere
Senior Vice President
Chief Risk Officer

Chinthika Amarasekara
Senior Vice President
Chief Financial Officer

Gillian Edwards
Senior Vice President
Consumer Banking

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

Sohantha Wijesingha
Senior Vice President
Corporate Banking

Sonali Jayasinghe
Senior Vice President
Human Resources

Management Team

Anton Arumugam
Vice President
Liabilities and Trade Business Development

Hemanatha Samaranayaka
Vice President
Business Development

Jayangani Perera
Vice President
Branch Credit Management

Nilmini Gunaratne
Vice President
Marketing and Sustainability

Niroshini Wettasinha
Vice President
Head of Legal

Nishan Weerasooriya
Vice President
Head of Information Technology

Pradeepa De Alwis
Vice President
Regional Manager

Prasanna Premaratne
Vice President
Trade Services and International Remittances

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

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
Regional 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

Iresha Kumbukage
Vice President
Credit Administration

Jayan Fernando
Vice President
Head of Internal Audit

Kelum Perera
Vice President
Regional Manager

Lakmal Rajasekara
Vice President
Branch Manager – Dambulla

Mangala Senaratna
Vice President
Corporate Banking

Nalin Karunatileka
Vice President
Project Management and BCP

Nimali Ranaraja
Vice President
Corporate Banking

Palanadesan Rajanathan
Vice President
Corporate Banking

Pavithra Dias
Vice President
Branch Operations

Pradeep Ariyaratne
Vice President
Restructuring and Close Monitoring

Ranjith Dissanayake
Vice President Branch Manager – Kurunegala

Ravi Dassanayake
Vice President
Strategic Planning and Subsidiaries

Sajith Silva
Vice President
Bancassurance

Samathri Kariyawasam
Vice President
General Legal

Shan Heenkenda
Vice President
Employee Relations and Subsidiaries

Subhashi Cooray
Vice President
Core Banking Project

Terrence Etugala
Vice President
Regional Manager

Thejaka Perera
Vice President
Litigation and Legal Recoveries

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 32) that are continually transformed by the Bank's activities (Management Discussion and Analysis, page 32).

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 22), sound governance (page 104) and risk management (page 79) practices, stakeholder engagement and expectations (page 26), materiality (page 30), strategic objectives (page 24), 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
Page 32

Institutional capital
Cutting-edge, knowledge-based tangibles and intangibles owned and controlled by the Bank
Page 46

Investor capital
Loyal investor base nurtured and rewarded through sound governance and ethical business practices
Page 51

Customer capital
Trust and loyalty earned by putting the customer at the heart of all we do
Page 54

Business partner capital
Strong relationships with multilateral and bilateral institutions, correspondent banks and suppliers, nurtured over the years
Page 68

Employee capital
A multidisciplinary team of professionals with a passion to serve
Page 63

Social and environmental capital
Positive contribution towards the community and environmental Inputs
Page 71

Activities

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

Developing products and services
Develop products and services that serve changing customer needs

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

Improving customer centricity
Through training and development of staff, improving the level of customer service, and providing 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

Growth in loans for 2020 – LKR 29 Bn

Growth in deposits for 2020 – LKR 62 Bn

1,826 Saubagya working capital loans approved amounting to LKR 10 Bn

Proposed scrip dividend of LKR 3.00 per share

Growth in book value – LKR 2 Bn

Reduction of unnecessary costs

Responsive to the needs of customers across various segments through sophisticated Contact Centre and relevant products

Improved brand recognition (employee and employer)

Sales-driven, customer centric culture

Enhanced profitability at customer level

Acquisition and retention of premier customers

Improved risk rating via early warning system

Dedicated SME customer management

Branch rationalisation and digitisation

Voice of customer platforms

Building a socially responsible brand

Faster, efficient processes

Shifting employees towards more rewarding, value-adding work and away from manual and iterative tasks

Increased awareness and responsibility towards communities and the environment

Sustainable work lifestyle

Outcomes

Value derived by the Bank

Sustainable growth in the financial position

Resilience to changes in the operating environment

Cost savings

Strong brand value

Customer patronage

A loyal and satisfied team

Value delivered to stakeholders

65 years of heritage and experience to deliver customers the most customer centric, digital-first approach of any commercial bank in Sri Lanka

Improved systems and processes for better service

Innovative banking services and products for customers

On-time payments for goods and services provided by suppliers

Remuneration, training and development, and welfare for employees

Financial inclusion

Uplifting of communities through CSR initiatives

Financed projects adhering to stipulated environmental standards

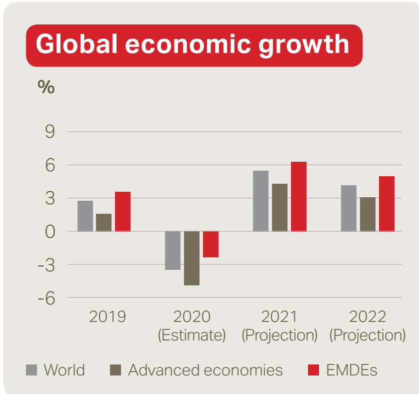
Impact

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

Operating Environment

Global economy

The COVID-19 global pandemic led to a global recession, the likes of which have not been seen since the Great Depression and the two World Wars of the 20th century. It has led to a significant human toll, negatively impacted small businesses, and worsened inequality. Although global economic activity started recovering after the initial lockdowns were lifted in the middle of the year, the continued spread of the virus led to more lockdowns later in the year and moderated economic activity. Projections by the International Monetary Fund (IMF) indicate that the global economy declined by 3.5% in 2020. Advanced economies contracted by 4.9%, while emerging market and developing economies (EMDEs) contracted by 2.4%. However, the performance of EMDEs is primarily due to China's exceptional rebound, whereas the rest of the EMDEs were impacted by continuing outbreaks and slower recoveries.



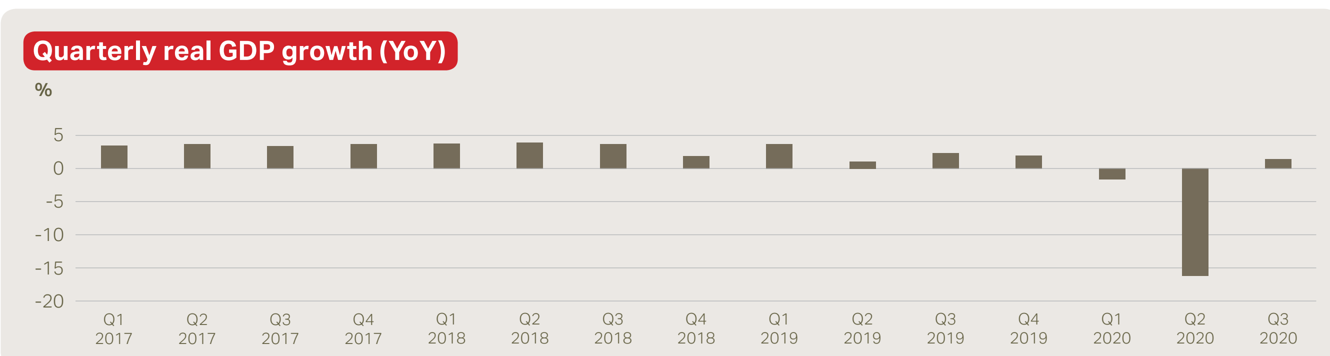
Source: World Economic Outlook Update – January 2021, International Monetary Fund

Uncertainty continues to linger over 2021. With the approvals for multiple vaccines and the rollout of vaccination campaigns in certain countries, the IMF projects a 5.5% recovery in the global economy. Although economic activity appears to be adapting to the new normal, the rise of new variants of the COVID-19 virus followed by lockdowns and logistical difficulties with vaccine distribution continue to pose risks to pandemic recovery efforts. Major central banks are expected to maintain their current policy stances to support economic recovery, which would result in advanced economies largely remaining at their current levels while EMDEs gradually improve.

Sri Lankan economy

The Sri Lankan economy has been largely susceptible to political instability in recent years, while the Easter Sunday attacks took a great toll on the economy in 2019. Although the economy started to recover in the latter part of 2019, the COVID-19 pandemic brought an abrupt halt to that momentum as the Government took measures to control the spread of the virus. The country experienced capital outflows, exchange rate depreciation, and increased pressure on government finances. This led to the economy shrinking by 16.3% in Q2, its largest drop in history. Economic activity returned to positive growth for the first time in the year in Q3 at 1.5% as businesses adapted to the new normal and the Agriculture, Industry, and Services sectors reported positive growth.

The Central Bank of Sri Lanka (CBSL) expects the Sri Lankan economy to have contracted by 3.9% in 2020, whereas the IMF has projected a 4.6% contraction. Although tourism and financial inflows were significantly dampened by the pandemic, the external sector was boosted by workers remittances surpassing USD 7 Bn. and restrictions imposed on imports. The country's official reserves were maintained at USD 5.7 Bn by the end of the year.



Source: Central Bank of Sri Lanka

The banking sector

The Sri Lankan banking sector was well positioned in capital and liquidity at the start of 2020 due to the implementation of international best practices and regulatory requirements that required banks to establish buffers to maintain adequate levels of capital and muted credit growth leading to excess liquidity.

An expansion of credit was recorded in the sector but was primarily driven by increased loans and advances to the Government and State-Owned Enterprises (SOEs). Rupee deposits increased significantly during the nine months ended September 2020 and were the major source of funding for the sector. Deposits continued to grow during the pandemic, with rupee deposit growth increasing from 7.7% YTD September 2019 to 19.3% YTD September 2020 and foreign currency deposit growth increasing from 14.0% to 14.3% during the same period. Credit growth declined in comparison to deposit growth, with the credit to deposit ratio falling to 84.8% in September 2020 from 88.2% in December 2019.

However, despite the debt moratorium provided to businesses and individuals affected by the COVID-19 pandemic, the increase in non-performing loans (NPLs) poses a credit risk to the banking sector and the full impact of the pandemic on asset quality is yet to be determined. Without appropriate remedial actions being taken, the solvency and liquidity of the sector may come under pressure.

Outlook

The CBSL remains bullish on the Sri Lankan economy in 2021, anticipating a strong growth of approximately 5-6%. The performance of the country's sovereign bond yields and stock market indices indicates increased confidence from domestic investors in the Sri Lankan economy. Moreover, tourism and financial inflows are expected to pick up in 2021 as the country reopens its borders. Lending rates are expected to continue their decline from 2020 as a result of the excess liquidity in the domestic money market. The CBSL has stated that it will continue its accommodative monetary policy stance to continue the momentum in the economy's recovery. Along with the incentives being offered for capital investment, the low interest rate regime currently in place is expected to improve economic growth prospects and support debt consolidation efforts. Furthermore, the CBSL expects inflation to remain within the targeted range of 4-6% over the medium-term, although external factors such as an increase in global petroleum prices or pressures from domestic supply-side factors could pose inflation risks.

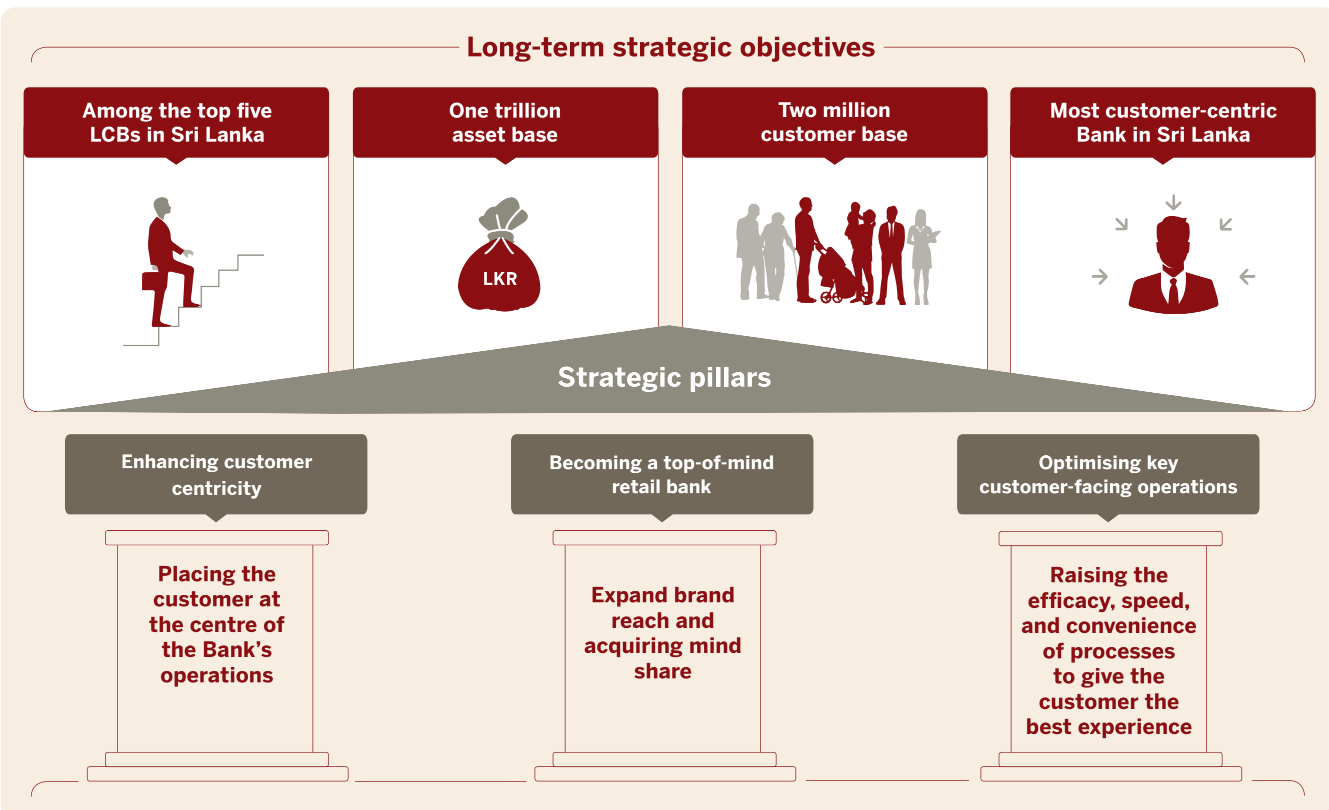
Strategic Direction and Outlook

The Bank has formulated a strategy that determines its direction and scope in the short, medium, and long term. The strategy has been designed with developing resilience in a constantly changing operating environment in mind and thus building a sustainable bank. Development of the strategy took into consideration the Bank's business model, the market environment, the Bank's stakeholder relationships, material issues, as well as the vision, mission, and values of the Bank.

In 2019, the Bank introduced a new strategic framework, Vision 2025. The strategy outlines the Bank's objectives and the goals it wishes to achieve by 2025: to be among the top five commercial banks in Sri Lanka; to achieve LKR 1 Tn asset base; to grow the Bank's customer base to two million; and to become the most customer centric bank in Sri Lanka. Vision 2025 is built upon three strategic pillars: enhancing customer centricity; becoming a top-of-mind retail bank; and optimising key customer-facing operations.

Key to ensuring that the Bank achieves its goals is its continued investment in its people, processes, and the tools to implement its strategy and monitor its progress. In 2020, the Bank accelerated certain aspects of its strategy as a result of the pandemic shifting priorities. Google Workspace was implemented during the year and played a critical role in the shift to working from home. The new core banking system will be launched in 2021 and will further facilitate the Bank's digital-first approach and augment its operational, digital, and data-related capabilities.

Vision 2025



Strategic outlook

When the Bank crafted its Vision 2025 strategy, the world was a vastly different place. However, the strategy was designed to allow the Bank to be agile and flexible during times of turmoil and this aspect of the strategy was put to the test during 2020. The digitisation of the Bank had to be significantly accelerated to accommodate the new restrictions and requirements that were imposed due to the pandemic. Simultaneously, new guidelines, controls, and directions by regulators as well as the economic realities meant that the Bank's plans had to be re-engineered to work with the new norms.

Aspects about the industry that the Bank had previously assumed would become the norm by 2025, such as the digital-first approach and branchless banking, became the norm in 2020. The Bank had to rework its plans while also accommodating the almost overnight shift to working from home. Although these changes occurred sooner than anticipated, they were still aligned with the long-term goals of the Bank's strategy. The focus on certain sectors also had to be re-evaluated for the transformed operating environment. Sectors such as the leisure sector had to take a backseat while priority was given to other sectors that were considered critical, such as the agriculture, pharmaceutical, IT, education, service, export, and other essential sectors.

To deal with the pandemic, the Bank established the "War Room" initiative, a centralised command centre where project teams could co-locate and visually communicate project activities. Four key focus areas and teams were established through the initiative: deposit mobilisation, manage debt moratorium, cost optimisation, and strengthen alternative channels.

Deposit mobilisation

The team prioritised bringing deposits and building the Bank's liability base in the aftermath of the pandemic by identifying the key sectors that will emerge and sustain themselves in the short to medium term.

Manage debt moratorium

The team was dedicated to managing customers who utilised the moratoriums to ensure that obligations were fulfilled by the end of the moratorium period and non-performing loans were kept to a minimum, while assisting customers in fully utilising the benefits of the CBSL's support schemes.

Cost optimisation

The team focused on improving the Bank's cost-to-income ratio and executing cost-saving activities across the Bank.

Strengthen alternative channels

The team focused on adapting to and capitalising on the alternate channels that were embraced during the pandemic, including digital, cards, and the Contact Centre. The Contact Centre played a crucial role in serving customers remotely and ensuring that customer-facing processes continued smoothly, as well as proactively reaching out to customers to generate business for the Bank.

The uncertainty that was present in 2020 is likely to continue well into 2021. The Bank will focus on helping its customers across all sectors to build back stronger for the post-COVID recovery and ensure business continuity. Special focus will be given to exports, services, and SMEs, as these will be critical to strengthening the country's economy. The pandemic has also inspired the Bank to start thinking about new models of banking that diverge from traditional banking, as working from home and digital banking look set to continue for the foreseeable future. The Bank's Pinnacle proposition aimed at high-net-worth customers was well received in 2020, as the Bank looked to providing customers with value-adding bespoke services and solutions that complemented their active lifestyles beyond the standard banking propositions. The Pinnacle proposition will continue to be expanded upon in 2021. Sustainability considerations will also play a bigger role in all aspects of the Bank's operations and business as it works towards becoming the bank recognised for Green Financing by 2030.

As Vision 2025 proves itself to be a resilient strategy, 2021 will see the Bank continue its journey of becoming a data-driven, digital-first bank with a customer centric approach.

Stakeholders

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

Shareholders and investors

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

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

Customers

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

Employees

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

Business partners

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

Regulators

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

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

Communities

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

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

Advocacy groups

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

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

Industry associations

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

Stakeholder engagement

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

Type of stakeholder	Mode of engagement	Frequency	Key topics discussed
Shareholders and investors	Annual General Meeting	Annually	→ Board governance → Sustainable performance of the Bank → Plans to optimise returns to shareholders → Local and international expansion plans
	Corporate website	Continuous	
	Annual reports	Annually	
	Colombo Stock Exchange announcements	Quarterly/As and when required	
	Press conferences and media releases	As and when required	
	Investor forums and road shows	As and when required	
	Investor relations hotline	Continuous	
	Meetings and teleconferences	As and when required	
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
	Social media	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, policies, 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	
Business partners	Meetings, surveys	As and when required	→ Health of the Bank and latest developments → Engagement activities with suppliers → Responsible procurement
	Corporate website	Continuous	
	Teleconferences	As and when required	
	Annual reports	Annually	
	Supplier Management Policy	Continuous	
	Meetings	As and when required	

Type of stakeholder	Mode of engagement	Frequency	Key topics discussed
Regulators	Prudential reports	Monthly	→ Compliance with best practices → Compliance with Government regulations → Developments in the financial sector → Access to finance → Business and financial information → Corporate developments
	Meetings	As and when required	
	Forums and conferences	As and when required	
	Participation in task forces	As and when required	
	Corporate website	Continuous	
	Media releases	As and when required	
Communities	Corporate Social Responsibility initiatives	Continuous	→ CSR initiatives → Investing in the community through sponsorships, scholarships, etc. → Responsible lending → CSR project awareness → Communication to general public → Entrepreneur and SME development → Workshops, seminars, etc.
	Corporate website	Continuous	
	Sponsorships	Continuous	
	Branch network	Continuous	
	Public and DFCC events	Periodically	
	Contact Centre	Continuous	
	Media releases	As and when required	
	Press conferences	As and when required	
	Social media	Continuous	
Advocacy groups	Discussions with editors and journalists, researchers, and other professionals	As and when required	→ Fellowship with media → Corporate activity → Sustainable Policy and Strategy of the Bank → Sustainable performance and initiatives of the Bank → Initiatives towards digitisation → Local and international expansion plans
	Annual media get-together	Annually	
	Press conferences	As and when required	
	Meetings	As and when required	
	Corporate website	Continuous	
	Contact Centre	Continuous	
	Media releases	As and when required	
	Annual reports	Annually	
Industry associations	Meetings	As and when required	→ Products, services, corporate news → Corporate activity → Awareness of products, services, and promotions → Initiatives towards digitisation → Local and international expansion plans
	Forums and conferences	As and when required	
	Participation in taskforces	As and when required	
	Corporate website	Continuous	
	Sponsorships	Continuous	
	Contact Centre	Continuous	
	Press conferences	As and when required	
	Teleconferences	As and when required	
	Annual reports	Annually	
	Social media	Continuous	
	Awards programmes	Periodically	

Materiality

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

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

Materiality = Relevance + Magnitude of Impact + Probability of Occurrence

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

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

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

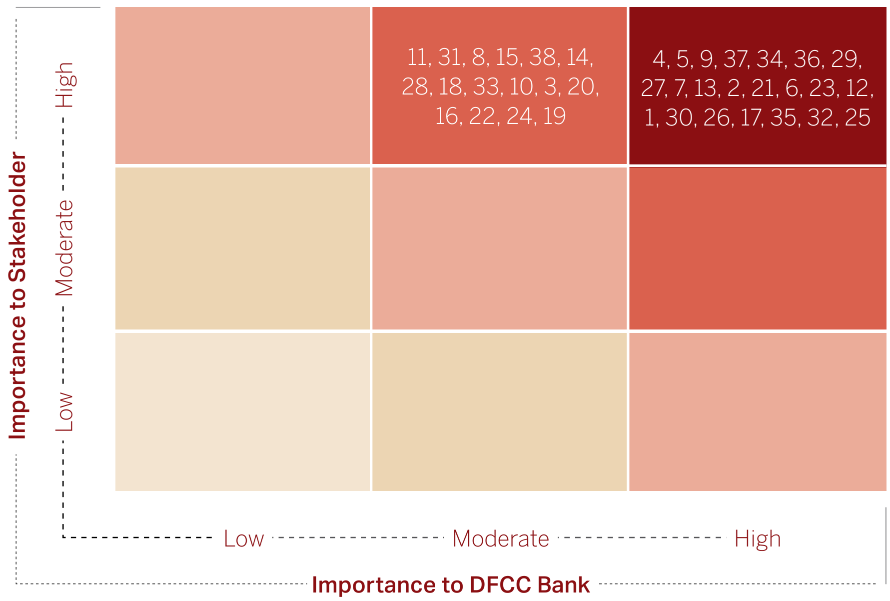
The Bank's external environment includes economic, environment, governance, and social-related trends. The Bank's Sustainability Strategy and Plan needs to account for relevant trends, i.e., those that are material.

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

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

33. Environmental and social impacts from economic activities
34. Increasing importance of organisational reputation
35. Declining trends in exports
36. Need to improve business resilience
37. Use of new technologies, e.g., digitisation, Artificial Intelligence, robotic process automation, etc.
38. Growth of MSMEs

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



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

Management approach

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

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

Financial Capital

Financial performance

Overview

Despite the adverse macroeconomic challenges faced, DFCC Bank concluded the year ended 31 December 2020 with sound performance and growth. Whilst the country was in the process of recovering from the incidents of 2019, the banking industry in particular, being an essential service, was flung into unprecedented market conditions in the wake of the global COVID-19 pandemic. With the industry encountering various challenges from the first quarter, 2020 has been a year full of trials, having to work under the new normal. With many interruptions, significant growth momentum and development was observed in the period between June and October before the second wave of COVID hit.

DFCC Bank was equipped to handle each market situation, putting adaptability and customer-centricity to the forefront of each business process. Every effort was made to ensure that customers experienced uninterrupted banking facilities whilst significant changes were made to working arrangements in order to deliver a seamless banking experience.

DFCC Bank adapted to the "new normal", innovating wherever possible and digitising processes in order to cater to an ever-evolving market. The Bank introduced several concessionary schemes to its clientele in accordance with the Directions/Guidelines of Central Bank of Sri Lanka extending financial and advisory support to all segments of customers.

Low interest rates, reducing interest margins, restrictions on fee-based income and higher allowances for impairment of loans and advances due to uncertainties and potential implications of COVID-19 along with the two-month island-wide lockdown subdued economic activities both locally and globally, impacted the Bank's performance during this year. Although 2020 was a challenging year, the Bank committed to deliver sustainable long-term value to its shareholders. The Bank's total assets increased by LKR 60,180 Mn and recorded a growth of 15% from December 2019. This constitutes a loan portfolio growth of LKR 29,091 Mn to LKR 301,909 Mn compared to LKR 272,818 Mn as at 31 December 2019, recording an increase of 11%. The Bank's deposit base as at 31 December 2020 increased to LKR 310,027 Mn from LKR 247,787 Mn as at 31 December 2019, a growth of 25%. Accordingly, loan-to-deposit ratio improved to 97% in December 2020 from 110% in December 2019. The Bank's CASA ratio which represents the proportion of low-cost deposits increased to 23.8% by 31 December 2020 compared to 22.72% in December 2019. Profit after tax of the Bank grew by 15% to LKR 2,388 Mn, recording a growth in earnings per share (EPS) by 9.7% during the year 2020.

Income statement analysis

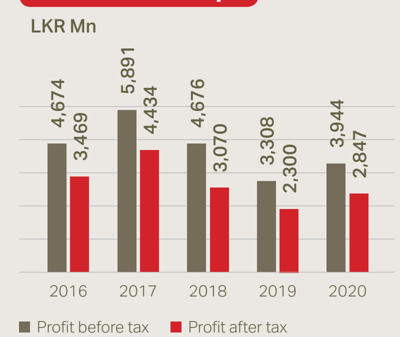
Profitability

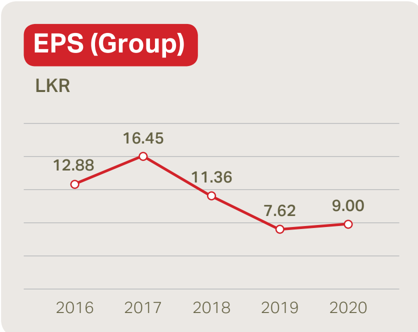
DFCC Bank PLC, the largest entity within the Group, reported a profit before tax (PBT) of LKR 3,398 Mn and a profit after tax (PAT) of LKR 2,388 Mn for the year ended 31 December 2020. This compares with a PBT of LKR 2,989 Mn and a PAT of LKR 2,074 Mn in the previous year. However, profit recorded for 2019 includes the fair value loss on investment in Commercial Bank's equity securities of LKR 939 Mn. With the view of concentrating on core banking profitability and re aligning the business model to meet the emerging trends, the Bank has reclassified the investment made in the equity securities of Commercial Bank of Ceylon PLC from fair value through profit or loss to fair value through other comprehensive income in accordance with the option given in the "Guidance Notes on Accounting Consideration of the COVID-19 Outbreak" issued by the Institute of Chartered Accountants of Sri Lanka. This reclassification reflected the efforts taken by the Bank to refocus on core business profitability.

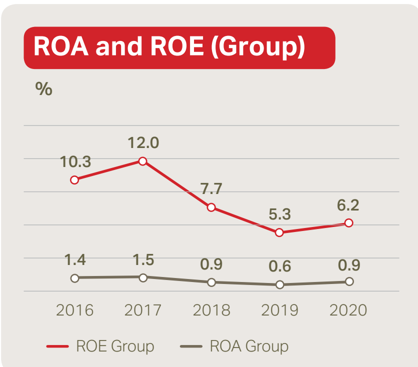
The Group recorded a PBT of LKR 3,944 Mn and PAT of LKR 2,847 Mn for the year ended 31 December 2020 as compared to LKR 3,308 Mn and LKR 2,300 Mn respectively in 2019. All the member entities of the Group made positive contributions to this performance.

The Bank's return on equity (ROE) improved to 4.93% in 2020 from 4.54% in 2019. The Bank's return on assets (ROA) before tax was 0.78% and maintained at the same level as the previous year.

Profit before and after tax (Group)





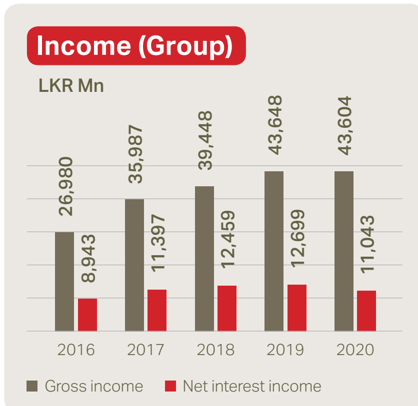


Net interest income

The Bank's total income for the year 2020 was LKR 43,300 Mn compared to LKR 43,297 Mn in the previous period. Interest income accounted for 90% of the total income of the Bank. The Bank recorded LKR 11,007 Mn in net interest income (NII), which is a 13% decline year-on-year primarily due to a drop in AWPLR by more than 400 bps over the past 12 months and due to the business implications that arose after 18 March 2020 due to the pandemic situation and the monetary policy adopted by the Central Bank of Sri Lanka, including concessions granted as pandemic relief to borrowers. As a result, the interest margin decreased to 2.53% from 3.25% in 2019.

Fee and commission income

Fee and commission income in 2020 was primarily driven by lower levels of consumer spending resulting from COVID-19 which crystalised in the form of lower interchange income, international payments, foreign exchange and ATM reciprocity. However, the concentrated effort to increase non-funded business has materialised with a marginal increase therein to LKR 2,061 Mn for the year ended 31 December 2020 from LKR 2,046 Mn in the comparative period despite the adverse impact of the pandemic and reduction of some fees and charges by the Bank as required by the regulator.



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

Impairment charge on loans and other losses

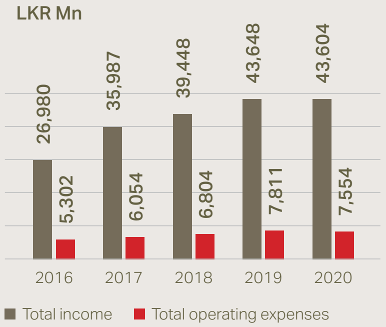
The uncertain economic outlook and the potential future impacts of COVID-19 along with the moratorium schemes offered to customers to support recovery required amendments to our existing model used for the computation of Expected Credit Loss against our lending portfolio. Bank placed additional focus on the Expected Credit Loss (ECL) provision based on the internal models allowance for overlay computed based on stress testing the exposures to risk elevated sectors, and amendments to weightages assigned to macro economic scenarios to better reflect the potential implications of COVID-19 pandemic and the moratorium schemes introduced to support the recovery of the economy.

The Bank also considered the long-term economic trend in calculating the impairment provision in line with the guidelines issued by The Institute of Chartered Accountants of Sri Lanka, as the extent of the economic downturn cannot be reasonably estimated. With the above, DFCC Bank continued to be prudent as in the past in assessing the quality of the credit portfolio and making adequate provisions. DFCC Bank's non-performing loans (NPL) ratio moved up to 5.56% in December 2020 from 4.85% in December 2019 in line with the overall banking sector growth in NPLs. Considering all these factors, Bank's total impairment charge increased by 98% from LKR 1,669 Mn in 2019 to LKR 3,298 Mn for the year ended 31 December 2020. Furthermore, as the impacts of the COVID-19 pandemic will continue to be felt for some time, the Bank continues to closely monitor its loan portfolio and provisioning levels.

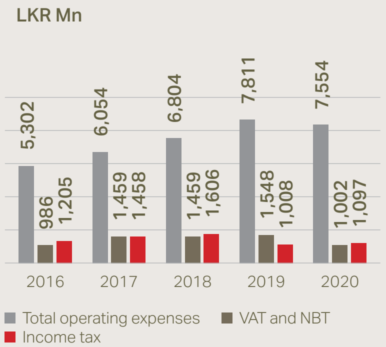
Operating expenses

As a result of effective cost management procedures followed under the pandemic environment, the Bank was successful in recording a decline of 2% in total operating expenses to LKR 7,387 Mn in 2020. This was achieved while introducing many safety measures across the branch network in order to provide seamless service to customers and to secure a safety environment to the employees and all stakeholders. To better aid our internal processes, the Bank 's timely investment in Google G-Suit enterprises enabled a smooth transition for our staff to work from home with minimal disruption to their day-to-day activities with zero impact on banking operations. During the year, the Bank created multiple channels for service delivery to access to customers and provide uninterrupted services during the pandemic situation which also contributed towards an increase in revenue streams, deposits and the Bank's customer base. Careful monitoring and effective cost control measures adopted during the year helped to reduce the operating expenses to this level and resulted in a cost to income ratio of 48.97% for 2020.

Total income and total operating expenses (Group)



Expenses (Group)



Profit after tax (PAT)

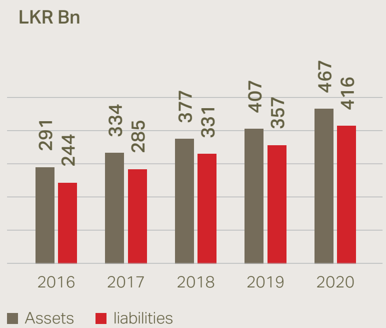
The Bank recorded a PAT growth of 15% to LKR 2,388 Mn for the year 2020 compared to LKR 2,074 Mn in 2019. Bank's total tax expense which includes financial services VAT (15%) and income tax (28%) is LKR 2,012 Mn year ended 31 December 2020. As a result, the Bank's tax expense taken as a percentage of operating profit for the year stood at 46%.

Financial position analysis

Assets

Despite the challenges faced by the economy and the banking sector, DFCC Bank's total assets increased by LKR 60,180 Mn, recording a growth of 15% from December 2019. This constitutes a loan portfolio growth of LKR 29,091 Mn to LKR 301,909 Mn compared to LKR 272,818 Mn as at 31 December 2019, an increase of 11%. Following the Bank's prudent lending policies, it did not pursue aggressive growth, particularly to sectors that exhibited stress. The Bank has implemented a number of relief schemes in line with the directives from the Central Bank of Sri Lanka to support those customers affected. This includes over 1,826 *"Saubagya"* COVID-19 working capital loans amounting to LKR 10 Bn approved for affected customers. The Bank's net asset value per share grew by 3% to LKR 161.30 from LKR 156.09 in 2019.

Assets and liabilities (Group)



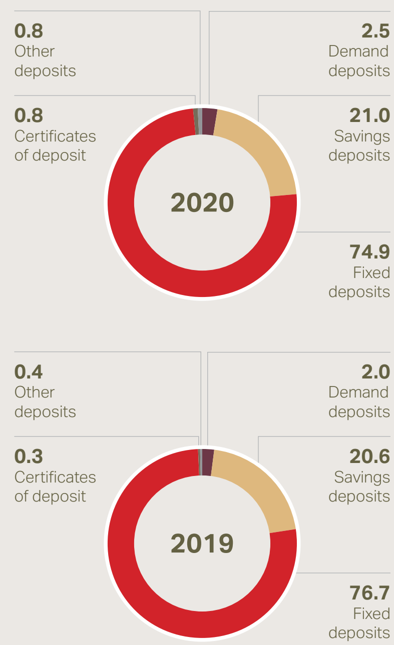
Liabilities

The liabilities increased by 16% over the previous year to LKR 415,720 Mn as at the year end. The main increase was due to the substantial growth in customer deposits of LKR 62,240 Mn.

With the 25% increase in deposits, DFCC Bank was able to report loan to deposit ratio of 97.38%. The Bank's CASA ratio, which represents the proportion of low cost deposits in the total deposits of the Bank, was 23.8% as at 31 December 2020. 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 30.19% as at 31 December 2020.

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

Deposits mix (Group)



Equity and compliance with capital requirements

DFCC Bank's total equity increased to LKR 49,357Mn as at 31 December 2020 from LKR 47,480 in December 2019. The main contributor to the increase was the growth in retained earnings by LKR 1,424 Mn.

As per the relief measures introduced by the Central Bank of Sri Lanka, banks were permitted to release 50 basis points from the capital conservation buffers maintained to date. The Bank expects the debt moratorium and concessionary working capital loans introduced by the Central Bank of Sri Lanka to help the businesses to recommence their operations and reach normalcy soon. However, reduction in the cash flows from moratorium and delayed payments by customers who did not enjoy moratoriums are expected to have a negative impact on the earnings, cash flows and liquidity position of the Bank. Based on the internal assessment undertaken by the Bank, there is no significant adverse impact to the regulatory capital ratios maintained by the Bank. As a further reinforcement to Tier II Capital, the Bank has issued a listed, rated, unsecured, subordinated, redeemable debenture of LKR 4.5 Bn during the 4th Quarter of the year 2020.In order to support future growth as a full-service retail bank, the Bank has consistently maintained a capital ratio above the Basel III minimum capital requirements. As at 31 December 2020, the Bank recorded Tier I and total capital adequacy ratios of 10.82% and 15.76%, respectively, which are well above the minimum regulatory requirements of 8% and 12% including Capital Conservation buffer of 2%.

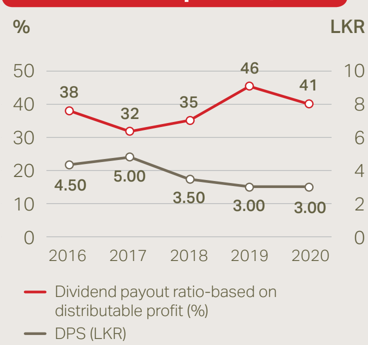
Credit quality

Following The Bank's prudent lending policies, it did not pursue aggressive growth particularly in sectors that exhibited stress. During the year, the Bank had a moderate growth in its loan book covering corporate, retail, and small and medium-size business segments. The 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 amidst stressed economic situation.

Dividend policy

The banking industry faced many challenges during the year from both the business and regulatory fronts due to the global pandemic. The adverse business environment became constraints for the growth of returns on equity. The minimum capital requirements became more stringent with the adoption of BASEL III. The Bank's dividend policy seeks to maximise shareholder wealth whilst ensuring there is sufficient capital for expansion as it leverages its island-wide presence and investments in technology. Accordingly, the Board of Directors has approved a final dividend of LKR 3.00per share in the form of a scrip dividend for the year ended 31 December 2020, balancing the needs of shareholders with business plans. Accordingly, the dividend payout ratio for the year ended 31 December 2020 is 41% on the distributable profit.

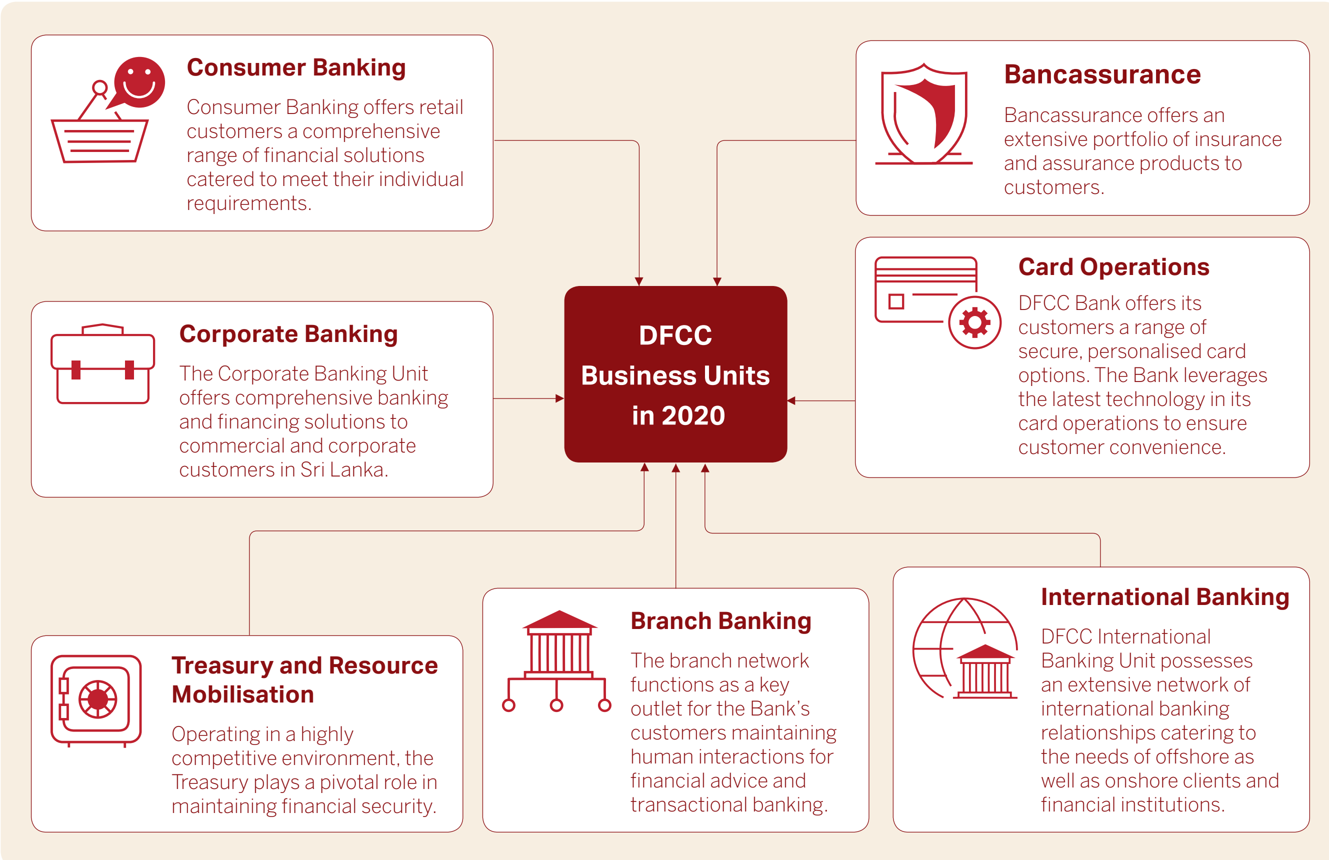
DPS and dividend payout ratio (as a % – based on distributable profits)



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 2020 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 2,847 Mn during the year ended 31 December 2020. This is compared to LKR 2,300 Mn made in the year 2019. DFCC Bank accounted for majority of the Group profit with profit after tax of LKR 2,388 Mn while LINDEL (LKR 208 Mn), Acuity (LKR 407 Mn), Synapsys (LKR 7 Mn) and DFCC Consulting (LKR 12 Mn) contributed positively by way of profit after tax to the Group. In the previous year, Synapsys, Acuity, DFCC Consulting and LINDEL reported profit after tax of LKR 36 Mn, LKR 190 Mn, LKR 11.6 Mn and LKR 177.6 Mn respectively. The associate company, NAMAL contributed LKR 0.6 Mn to the Group, compared to LKR 1.3 Mn in the year 2019. An Inter-company dividend of LKR 139.3 Mn was paid to DFCC Bank by LINDEL (LKR 85.8 Mn), DFCC Consulting (LKR 3.5 Mn) and Acuity (LKR 50 Mn) during the year.



Consumer Banking

Retail banking

DFCC Bank offers a comprehensive range of financial solutions to its retail customers catered to meet their individual requirements. Customers can avail themselves of flexible financial solutions including personal loans, overdrafts, housing loans, vehicle loans, leasing, pensioners' loans, and education loans. A range of attractive deposit products are also available that cater to individuals across target segments. Within the corporate structure, Retail Banking is divided into two separate units for assets and liabilities.

Assets

Housing loans

Housing loans are an integral part of DFCC's retail lending portfolio and the consumer banking offering. Housing loans are offered to fixed income earners and professionals in the private and government sectors, as well as entrepreneurs. The product offering is extended to build, buy, or renovate one's home, purchase a block of land, or a condominium apartment. DFCC Bank's housing loans have the unique selling proposition of service, flexibility, and attractive interest rates.

Performance in 2020

Despite the healthy start at the beginning of the year, the portfolio experienced a lag by the end of Q1 due to the COVID-19 pandemic. Many industries, including travel and leisure, were affected by the pandemic and many lost their livelihoods.

Although fixed income earners recovered quickly from the aftermath of the first wave of the pandemic, the challenges encountered by SME/ self-employed individuals continued. Moratoriums were extended to the customers who requested them in accordance with the Central Bank guidelines, while the Bank also accommodated moratoriums to those in need who did not meet the CBSL criteria.

The low interest regime came as a much-needed boost to the industry, thus making home ownership more affordable. The Bank took advantage of the low interest rates coupled with a host of attractive offerings and was able to attract many new customers looking at investment opportunities in residential real estate. The real estate industry witnessed a buyer's market and attracted cash-rich investors to invest in real estate. The Bank introduced pre-approved housing loans with credit approval in just three working days, thus offering customers incredible convenience.

Despite the many challenges brought on by the pandemic, the Bank successfully launched several tie-ups with property developers during the year with special packages for selected projects such as TRI-ZEN, Marina Square, Colombo City Centre, and Havelock City. The special packages included features such as grace periods, early settlement fee waivers, structured payment plans, and higher bank contribution on the investments. The Bank entered into MOUs with TRI-ZEN by John Keells Properties and Havelock City by Mireka Homes to offer customers better financial solutions when purchasing apartments from the respective condominium projects.

The Bank's team of experienced and trained staff throughout the branch network will ensure that the customer experience remains hassle free. Furthermore, understanding the busy schedules of its customers, the Bank is fully geared to serve them at their doorstep, thus saving them valuable time and money.

Outlook

Given that the real estate industry is currently experiencing a buyer's market and interest rates are at low levels, the Bank expects a boost in the housing loan portfolio in 2021.

Leasing

DFCC Bank provides leasing solutions for SMEs, professionals, and individuals. As a pioneer in the leasing industry, DFCC Leasing carries a strong brand presence throughout the country with relationships that have thrived over generations. DFCC Leasing has been the core source of funding for many SME success stories.

Leasing continues to be the core strength of the retail offering at DFCC Bank, with the largest contribution to the consumer asset book.

Performance in 2020

With the COVID-19 pandemic having a significant impact on the economic activities of the country and restrictions imposed by the Government on vehicle imports, the Bank's leasing portfolio grew by 14% during the year 2020.

The Bank was committed to financially assisting leasing clients by providing moratoriums in line with the instructions of Central Bank of Sri Lanka. Customers in many sectors were affected by the COVID-19 pandemic and benefited from the concessions provided by the Bank.

It was not all doom and gloom as the second-hand market proved to be highly active, thus paving the way for many financing opportunities. Overall, the product did well despite the lockdown periods. The portfolio growth stemmed from both fixed income as well as the SME sectors. The majority of the leasing business for the Bank comes from out of Colombo.

The Bank introduced an asset-based pricing model for the leasing product during the year, making its leasing offering more competitive in the market. The Bank launched many internal campaigns to motivate the Bank's branch and sales staff, which reeled in the desired results.

Outlook

In 2020, the Bank's focus was to maintain a healthy leasing portfolio while assisting its customers through the turbulent environment. The Bank will continue to maintain the growth momentum of the leasing portfolio by reaching to new market segments as well as working with its existing clientele in 2021.

Personal loans

Performance in 2020

The personal loans portfolio recorded a healthy growth of 34% in 2020.

The Bank offers a gamut of personal loan facilities for different individual segments catering to various needs. The circumstances during the year were challenging and customers faced many issues such as delays in receiving salaries, salary cuts, and loss of employment. Moratoriums were granted in accordance with the Central Bank guidelines as well as with increased flexibility to support the Bank's customers.

Technology played a key role in helping the Bank to continue its functions and serve its customers throughout the lockdown periods. While workarounds were found for many processes, some processes which require the manual execution of documents had to be held back.

A new personal loan product, the DFCC One Loan, was launched during the year to meet the need of the hour. The Bank had several individual customers, salaried and professionals, who found it difficult to service their liabilities due to the COVID-19 pandemic. The product provided these individuals an opportunity to consolidate their debt with an extended repayment period, while also being spared the hassle of settling multiple financial institutions on a monthly basis. The product was very well received, which is reflected in the growth numbers.

A loan scheme was launched for the Government pensioners to meet the needs of the segment with a comfortable monthly commitment coupled with an attractive rate of interest. The product had an extremely satisfactory response from the market.

A high-end loan product was also designed for DFCC Pinnacle customers with an extended loan tenure coupled with a host of offerings entitled to the Pinnacle segment. The Bank also continued to focus on professionals with special offerings to suit their requirements, as well as tailor-made salary offerings to employees in line with the Salary Plus and Prestige propositions. Education loans were also promoted with tie-ups with leading educational institutions.

Throughout the year, ATL, BTL, and digital campaigns were carried out as a communication platform for all personal loan segments.

Outlook

The Bank will continue its growth momentum in the personal loan segment with innovative offerings. Digital banking will play a vital role in offering customer convenience and service. The Bank will also continue to serve customers at their doorstep, while striving to further enhance customer satisfaction.

Gold-pledged lending

Performance in 2020

The "DFCC *Ranwarama*" pawning facility offered throughout the Bank's branch network allows customers to pawn their gold or gold jewellery to meet their urgent cash requirements. The global gold prices reached its all-time high in Q3, resulting in one of the best years in the history of pawning for the Bank. The product recorded an exceptional growth of 30% in 2020 with a record performance. The Bank's offering has been the best in terms of advance values and service.

Outlook

With DFCC Pawning, one does not only receive value for their gold but also safety for their most valued possessions. Despite an intensely competitive playing field, the Bank's customer service is a key differentiator. The Bank will continue in its endeavours to grow the Gold portfolio in 2021.

Liabilities and trade business

The Liabilities and Trade Business Development Unit drives the growth of deposits and trade business across the Bank. The Unit works closely with the branch network and sales team to develop and implement strategies and key initiatives to achieve its goals.

Liabilities

Performance in 2020

Overall branch banking liabilities grew to LKR 214,410.2 Mn as at 31 December 2020 from LKR 126,876.5 Mn as at 31 December 2019.

The Bank's promotional activities were focused heavily on building up CASA during the year to grow the deposit base. This was primarily done to reduce the Bank's cost of funds in order to improve the competitiveness of the lending products.

Several key business initiatives and marketing campaigns were conducted throughout the year to give high priority for deposit mobilisation. A special proposition was developed and rolled out during the first wave of the pandemic, offering relief through high interest rates on fixed deposits for customers above the age of 55 years. The campaign was a tremendous success and received a highly favourable response from customers.

DFCC Bank was one of the first banks to launch the Special Deposit Account immediately after the CBSL guidelines were issued to increase foreign currency inflows to the country. Awareness was created among overseas client segments using social media and digital marketing, and the Bank was able to attract a significant amount of deposits under this proposition in different currencies from customers across the world.

The DFCC Teen account was launched during the year by offering many attractive benefits to the teen segment. Several offline and online initiatives were implemented to increase financial literacy among children in partnership with many schools and educational institutions. Key business initiatives were carried out to coincide with World Children's Day and the Thrift Month, where the DFCC Junior account achieved high level of visibility and business benefits.

Outlook

The Bank will continue to introduce new deposit propositions to different customer segments after carefully studying and understanding their needs. Special focus will be given to integrate the latest technologies with these propositions and make them attractive and unique in the market.

Trade business

Performance in 2020

Branch banking import limits grew 10% during the year, while export limits experienced a 22% growth in 2020.

Key import and export client segments were identified and engaged through highly focused initiatives. Customised propositions were extended to different sectors based on their business cycles and requirements. A selected team of staff from the branch network were deployed to give special focus in growing the trade business under close central supervision. Utilisation of trade facilities continued to remain at high levels due to close follow-up and monitoring.

Outlook

Despite the pandemic situation and import restrictions having a negative impact on trade business, the Bank remains confident of achieving its targets through new customer acquisition on a continuous basis and through increasing trade volumes of existing customers.

Corporate Banking

The Corporate Banking Unit offers banking and financial solutions to corporate customers in Sri Lanka. The Unit's dedicated team of Relationship Managers serve large corporates and middle market enterprises, the public sector and non bank financial institutions. Corporate Banking solutions include working capital financing, trade financing, term funding, mergers and acquisition financing, cross border financing and transaction banking which includes payment and cash management solutions.

Performance in 2020

The Corporate Banking Unit grew the asset portfolio by 8% YoY compared to the 6% asset growth in 2019.

The overall deposit base of Corporate Banking Unit recorded a 10.5% growth from the previous year. The business unit continued to make noteworthy contribution to the Bank's CASA base reporting a YoY growth of 16.6% with the acquisition of several high-volume CASA clients during 2020.

The Non-Funded Income (NFI) remains a key focus area in line with the overall business growth strategy of the Bank.

To be in line with the Government's initiatives to support corporates impacted by COVID-19, the Unit offered working capital financing under the CBSL "*Saubhagya*" loan scheme for eligible sectors. The Unit also provided moratoriums to clients as per the instructions of CBSL and further relief measures outside of the CBSL scheme.

The Unit managed to achieve some landmark transactions during the year, including large ticket deals involving mergers and acquisitions and project financing.

Outlook

It is expected that the Unit will finance the expansion of businesses in the post-COVID era and continue to support corporate customers and business growth. The Unit views the financing of exporters as a crucial element of supporting the country's economic recovery. Government-driven infrastructure development will also have a direct and indirect impact on the Bank's construction sector clients and suppliers to construction companies. The Unit also sees opportunities in renewable energy and infrastructure projects, as well as mergers and acquisitions financing.

The Unit will aim to deepen existing relationships, increase wallet share by enhancing the income streams from customers, and seek reciprocity as an important requirement on all mandates. We will continue to leverage on our Payments and Cash Management proposition to drive CASA in 2021.

Treasury

DFCC Bank's Treasury function is built on three pillars: The Front, Middle and Back Office.

The Treasury Front Office (TFO) reports directly to the Head of Treasury and is the income generating unit. Proprietary trading in foreign exchange and fixed income securities, income through customer-related transactions, and interest income from investments are the major avenues through which the Treasury Unit generates revenue. Furthermore, the Unit is responsible for managing the Bank's liquidity ratios and several key regulatory ratios.

The Treasury Middle Office (TMO) is the pillar that engages 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 Treasury Back Office (TBO) is the pillar that prepares, verifies, and settles all transactions executed by the TFO. The TBO independently reports to the Head of Finance/Chief Financial Officer (CFO).

Performance in 2020

The COVID-19 global pandemic had an adverse market impact on an unprecedented scale in 2020. In this light, the Treasury's income generation through customer-related transactions were affected due to lower volumes, mainly brought about by import restrictions and island-wide lockdowns. This also led to lacklustre interbank markets. Fixed income securities trading activities however benefited by the steep drop in interest rates as the Government attempted to stimulate the credit growth through a lower interest rate regime.

At the height of the COVID-19 enforced lockdowns, through the use of digital technologies, the Treasury unit managed to perform its daily operations remotely without any disruptions, lapses, or complaints. Despite the many challenges 2020 brought, the Treasury Unit successfully concluded the year on a high note by overachieving the annual targets, contributing significantly to the Bank's bottom line.

Outlook

Threats from the macro environment will continue to contribute to the uncertainty in 2021 while the downgrade in the country's sovereign rating may also exacerbate challenges associated with external borrowing opportunities. However, the Treasury is optimistic that the markets will eventually bottom out and create new opportunities in 2021. The Treasury Unit consists of a team of experienced dealers and is well poised to provide its existing and newly onboarded clients with superior customer service.

Resource Mobilisation Unit

Falling under the direct purview of the Head of Treasury, the Resource Mobilisation Unit manages the Bank's term funding, *inter alia*, credit lines, syndicated loans, the Bank's equity portfolios related to strategic and non-strategic investments, investments in unit trusts, underwriting activities, and local and international debt issuances. The Unit coordinates with rating agencies in their reviews of the Bank's National and International Rating. The Unit also supports the Bank's budgeted growth by leveraging the relationships the Bank has built over time to secure funding at attractive terms.

The Unit raised over LKR 15,690 Mn in medium to long-term funds during the period under review.

Outlook

The Unit plans to expand its current scope of activities by taking over the existing margin trading activities and the proposed custodian banking service under its wings. The margin trading activity, which is currently limited to the Pinnacle Centre clients of the Bank, is to be expanded across the entire branch network.

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 (FVTOCI).

As at 31 December 2020, 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 1,911.36 Mn. Corresponding fair value of the same portfolio stood at LKR 2,344.47 Mn.

Composition of the equity portfolio as at 31 December 2020

	Cost LKR Mn	Fair value LKR Mn
Quoted share portfolio – FVTOCI (excluding CBC voting)	**1,364.09**	1,520.94
Quoted share portfolio – FVTPL*	**33.81**	44.88
Unit Trust portfolio*	**506.16**	564.84
Unquoted share portfolio	**7.30**	213.81
Total	**1,911.36**	2,344.47

** Reflects the original investment cost*

A part of the 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 204.25 Mn. Furthermore, the Bank recorded unrealised capital gains of LKR 11.07 Mn to the profit and loss statement through the portfolio categorised under FVTPL. The Bank also made new investments in quoted shares to the value of LKR 540.58 Mn and LKR 2.5 Bn in unit trust investment.

DFCC Management sought approval to reclassify the Commercial Bank of Ceylon (CBC) equity portfolio recorded under fair value through profit and loss into the portfolio of fair value through other comprehensive income. Approval was granted by the Central Bank of Sri Lanka and the Technical Committee of CA Sri Lanka. Accordingly, the portfolio was reclassified and recorded under the category of FVTOCI from the 1st quarter of 2020.

Subsequent to the reclassification, the corresponding value of the investment in CBC categorised under fair value through other comprehensive income stood at LKR 10,778.61 Mn, against a cost of LKR 8,133.66 Mn.

Outlook

Given the current and expected positive momentum in the equity market, the Unit is optimistic that the year 2021 will be a year of opportunities.

Branch Banking

The DFCC Bank branch network is a key outlet for the Bank's customers, playing a vital role in maintaining human interactions for financial advice and transactional banking. As DFCC expands its physical presence across the island, the Bank grows its different customer segments, including the retail, SME, and MSME categories.

Performance in 2020

The COVID-19 pandemic challenged how branch banking had to operate in the context of social distancing. Adhering to all health and safety guidelines, the branch banking team across the island was committed to offer a seamless banking experience to all its valued customers. The Bank took steps to make the lives of its customers easier by bringing a mobile ATM to their doorstep during the lockdown period and having Bank branches open from 9am to 12noon.

Despite all the challenges in 2020, Branch Banking grew 13% in loans and advances and the consumer segment grew 18%. Deposits grew by 38% in 2020 with a CASA ratio of 20% in the same period.

The branch network continued to expand with the opening of a flagship five-storey branch in Kurunegala and the state-of-the-art Pinnacle Centre in the heart of Colombo. DFCC Bank also relocated the Kiribathgoda, Malabe, and Moratuwa branches for the convenience of its customers. With the opening of the state-of-the-art DFCC Pinnacle Centre in Colombo 07, DFCC Bank elevated its exclusive service offerings aimed at affluent customers who maintain deposits over LKR 10 Mn. The Pinnacle proposition offers customers a range of products and services with bespoke financial services.

Outlook

The Bank took a more focused approach in segmenting the retail customers by way of catering to the needs and aspirations of each target group. The Salary Plus segment focused on engaging the mass salaried customers to assist in their financial requirements to uplift their living standards and enable them to reach their life goals. The Salary Partner proposition is aimed at the upper mass segment of customers, catering to the needs of the life builders and life creators. The next proposition is Prestige, where the Bank introduced tailor-made efficient banking solutions creating aspirational values. In creating a distinct brand identity and exclusivity to cater to the affluent segment, the Premier proposition was revamped and upgraded to the Pinnacle proposition with the aim of providing an unparalleled experience to the clientele.

Although the COVID-19 pandemic hampered promotional efforts around the refreshed Pinnacle proposition, it did not dampen the response to the new premium offering. Footfall has tripled since the new branch opened and raised the profile of the Bank.

The Pinnacle Banking Unit grew its client base by 30% in 2020 and registered a growth of 42% in deposits and 35% in advances.

MSME's

DFCC Bank remains true to its roots as a specialised development bank, being a growth partner for businesses of all sizes. The Bank recognises that the MSMEs of today could be the big businesses of tomorrow and acts as financier and growth partner to support their sustenance and expansion and catalyse outcomes. As part of the Bank's commitment to foster financial inclusion, the MSME Division was established in 2016 to support small entrepreneurs and self-employed citizens to operate and grow their businesses from the ground up.

As the MSME sector is generally considered a risky segment and underserved, DFCC Bank recognises that by focusing on meeting the financial requirements of smaller businesses, the outstation branches can build a pipeline of customers that will become a part of the retail base. The MSME Unit offers two key products to the MSME sector: small business loans, which are similar to the developmental loans that DFCC Bank historically provided as a development bank, and value chain financing, which is a novel approach to sustainably financing the value chain that enables the growth and increased competitiveness of stakeholders across the value chain. DFCC Bank also partners with the CBSL and various international agencies such as the International Fund for Agricultural Development (IFAD) through the Smallholder Agriculture Partnership Programme (SAPP) attached to the Ministry of Agriculture to provide farmers with additional funding through grants. This helps to increase productivity and savings, which can be used to improve the education of their children and build better sanitary facilities.

The MSME Unit's approach is to work closely with the partners of key value chains such as tea smallholders, tea factories, dairy farmers, milk collectors, and dairy processing companies. The Unit's staff are actively engaged in selling small business loans where they can create the most beneficial impacts. For agri financing, the Unit targets progressive farmers who use high quality inputs and sophisticated farming practices and employ smaller farmers and workers in the community. This helps to mitigate the risks that would normally be associated with such a business model, while ensuring that communities can also develop sustainably.

Performance in 2020

The MSME Unit works with tea smallholders and small scale dairy farmers and continues to look for opportunities in new segments. In 2020, the Unit launched a supplier financing scheme, breaking into a relatively untapped market. Furthermore, the Unit also introduces these customers to other products from the Bank such as deposits and cards, thus developing and contributing to the Bank's other lines of business.

The combined impact of the 2019 attacks and the global pandemic took its toll on some small businesses, leading some to shut down. However, the moratorium helped most businesses and many were able to recover. The Unit achieved its targets during the year, despite hindrances. Approximately half of the Unit's portfolio is split between agriculture and MSMEs, with approximately half of MSME loans being focused on agriculture. The Unit also focused on farmers who primarily cultivate food crops and sugar cane, which has proven to be a successful initiative.

The Bank approaches MSMEs differently to other NBFIs and banks that service the sector by offering larger loans averaging approximately LKR 350,000. The Unit deals with a large volume of small ticket loans and can process up to 400 loans per month. This renders the traditional one-on-one loan appraisal mechanism quite inefficient, hence the Unit developed a new efficient mechanism to better serve the 7,000-strong customer base that it has built over the past four years.

Outlook

The Unit currently deals with many administrative processes that are complex and handled manually. The launch of the new core banking system will help the Unit to transform and transition to more digital workflows and adopt a data-driven model to drive the business forward. There will be an increased focus on growing the portfolio by acquiring relatively big MSMEs. In this regard, the Unit aims to be more customer centric through propositions and to work more closely with the suppliers of agriculture exports, who deal with high volumes but are underbanked. Customers will be provided with increased convenience through cash collection at their doorstep. The Unit will introduce a banking proposition enabling women to fully benefit from financial services and promote female entrepreneurship development; currently, 35% of MSME customers are female. Besides liability products, the Unit will also be promoting leasing products in 2021.

Challenges persist and are particularly harmful to this segment. The ongoing pandemic, the threat posed by climate change, import restrictions, and the macro environment creates uncertainty. However, the segment is resilient and current government policies are consistent, which is important as the segment's strong health is vital to support the economy.

SMEs

The branch banking team committed to supporting SMEs affected by the COVID-19 pandemic by offering moratoriums and new facilities, including the "*Saubhagya* COVID-19" loan schemes to help revive their business ventures. "DFCC *Sahanaya*", a DFCC Bank-funded credit line, was also launched to provide financial assistance to grow SMEs and support the economy.

Outlook

The Bank will continue to provide financial and advisory services to SMEs in many sectors including agriculture, exports, manufacturing, health, education, construction contributing to economic growth. In addition, the bank will render its support to SMEs who are affected by the pandemic to revive and sustain their business ventures.

There will be an increased focus on promoting environmental, energy, and sustainability-related projects and advisory services inline with the Bank's sustainability goal of becoming a bank for Green Financing.

International Trade and Remittances

DFCC Trade and Remittances Unit is divided into five divisions namely Imports, Exports, International Remittances, Correspondent Banking, and Offshore banking to ensure the efficient and timely delivery of services to internal and external customers. Apart from the above, Lanka Money Transfer which handles worker remittance also operates as a separate business unit where operational functions are handled by Trade and Remittances.

Performance in 2020

The pandemic presented a more challenging business environment especially for the Import, export and remittance business due to the frequent changes introduced by the respective regulatory authorities to the existing import and export control regulations and foreign exchange regulations. Stringent import restrictions imposed by the regulatory body with a view of curtailing foreign exchange outflow of the country negatively impacted the main line of business including the Letter of Credit (LC) issuance for vehicle importation which account for substantial volume of the total business activities under normal circumstances. Apart from the regulatory aspects, strict isolation measures prevailed across the country mainly during the first quarter which severely impacted overall business activities. With the outbreak of the second wave in early October, restrictions imposed in most parts of Western Province caused slowdown in the recovery process. However, with the easing of these measures thereafter, near normal level business volumes were recorded during the latter part of fourth quarter.

Despite the import restrictions and other challenges, our team of experts were able to explore new avenues to facilitate the client's requirements while ensuring all regulatory requirements are adhered to. New trade products/solutions were introduced to customers enabling them to overcome many difficulties faced due to the pandemic related global lockdowns and restrictions. We ensured branch/business units/customers are provided timely information and further educated the concerned parties on the latest changes and developments. Our efforts resulted in recording an increase of 2.19% in fee and commission income generated from trade and remittances business in year 2020 over the corresponding year of 2019.

The staff of the Unit worked tirelessly throughout the lockdown period overcoming various challenges and ensured uninterpreted functionality of the Unit. Working from home option was not possible for majority of the staff due to most of the trade related transactions are executed based on physical original documents and timelines of processing the documents are critical to the clients who run the risk of incurring financial losses for delays. The Correspondent Banking division played a vital role in strengthening the existing relationships with international banks and timely execution of trade transactions despite the international rating downgrading of the country. Furthermore, new correspondent banking relationships were established during the period strengthening our global presence

Outlook

The market continues to be challenging and the Unit remains mindful of the environment it operates in and undergoes continuous improvements and stays abreast of the latest market developments. Digitalisation of workflows is just one of the continuous improvements that the Unit is undertaking.

The Trade team is committed and geared to offer customised trade solutions according to ever changing dimensions of client requirements and help clients to take their businesses to the international arena beyond market boundaries while adhering to the changing nature of local regulatory requirements. We are hopeful business activities will record a slow recovery through the 2nd and 3rd quarter of 2021 while strict import restrictions are in place throughout 2021.

Remittances

The Lanka Money Transfer (LMT) platform is used to facilitate worker remittances to the country. DFCC Bank has representation in 12 countries through 24 exchange companies. This network enables funds to be transferred in real time from these countries to any bank account in Sri Lanka.

Performance in 2020

The pandemic did not appear to slow down worker remittance inflow to the country. In 2020, the Unit processed approximately 40,000 transactions worth USD 30 Mn, up from 36,000 transactions worth USD 32.4 Mn in 2019. The business continues to grow and the presence of the LMT platform is expanding to more countries, including UK, Japan, South Korea, Australia, Singapore, Hong Kong, and Israel.

Outlook

In 2021, six exchange companies in Italy, Australia, Japan, and Israel will be added to the LMT platform. DFCC Remittance Services will be signing up with MMBL Money Transfer to accept money transfers through Western Union, MoneyGram, and Ria Money Transfer.

Card Operations

Card operations at DFCC Bank revolve around three verticals: credit card issuance, debit card issuance, and merchant acquisition.

Performance in 2020

In 2020, the team introduced different credit cards aimed at several tiered salaried segments, launched co-branded cards, and the Pinnacle card to affluent customers to add more diversity to the card portfolio mix. Several initiatives were undertaken to improve the issuance of cards through the implementation of a workflow system to electronically submit applications, thus improving the processing efficiency, and submitting the card application via the Bank's website which made it easier for customers to apply for a card online without having to visit a branch during the lockdown. To increase the convenience of transactions, the Automated Bill Settlements mode was launched for cardholders to make recurring payments, card payments were enabled 24x7 through CRMs and ATMs, the DFCC Pay app was launched to support digitally enabled electronic transactions, and credit card features were added to DFCC Virtual Wallet. To drive cardholder spend, several value-added discounts were offered at specific merchants and additional CashBack percentages were offered for the affluent card base on specific categories to drive the card's top of mind recall.

Debit cards were converted from magstripe to chip cards and new features such as tap and pay and online purchasing were introduced. Two new card designs were introduced, including a vertical design for Platinum cardholders. Similar to how the credit cards business was segmented for different propositions, the debit cards business also underwent a similar segmentation so that the cards better reflect each customer segment. There are over 100,000 debit cards in force.

Merchant acquisition is the newest focus of the card operations team. The Point-of-Sale machines to accept payments for goods and services were launched to the market alongside the option to facilitate instalment payment plans directly from the terminals. A sharing arrangement to accept AMEX cards was also implemented. The QR payment acceptance drive was also fully enabled with the Bank actively being involved in the CBSL-driven initiatives to popularise cashless payments. Currently, approximately 562 terminals are out in the market.

Recognition of DFCC Bank is shifting away from being viewed as a development bank and more towards being a fully fledged commercial bank. The card operations team has worked hard at boosting this recognition and looked at reaching out to new segments in offering the Bank's cards. The government sector was just one of the segments that the Bank focused on with great success. The corporate cards were also revamped after the team identified how customers ideally wanted to use them.

The CBSL implemented a series of measures for banks to ease pressures on Sri Lankans during the pandemic. As a relatively new entrant to the market, these measures were passed on diligently to cardholders, though it impacted the business' bottom line.

The cards in force steadily grew to 35,102 and the cardholder spend surpassed LKR 4.2 Bn, indicating that the cards are resonating in the cardholders' minds. The cards portfolio grew to LKR 2.2 Bn, which is also a significant indicator of the cardholder stickiness towards the brand.

Outlook

2020 was a year of looking at the market and the Bank's offerings in a new light; 2021 will be a year of scaling up the card issuance and merchant acquisition operations. The new core banking system will incorporate many aspects for the cards business which will greatly increase efficiency, visibility, and facilitate enhanced system functionalities. The card operations team will start card personalisation locally, complete the addition of MasterCard to its portfolio and card acceptance devices, implement further QR code functionalities, launch an Internet Payment Gateway service, and revamp the DFCC Pay app to add scalability and progress with launching co-branded cards. The team will continue to focus on popularising tailor-made products and services to unbanked and under banked segments in the country.

Bancassurance

Established in 2014 to diversify the Bank's operations to drive the "other income" segment while safeguarding its mortgage assets, customer wealth and their well-being, the Bancassurance business offers an extensive portfolio of insurance and assurance products to customers.

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

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

Performance in 2020

The Bancassurance Unit facilitated 18,067 non-life policies in 2020 and successfully negotiated claims amounting to LKR 98.4 Mn for both life and non-life policies. The Unit initiated 2,462 life cover policies during the year.

As the pandemic started to grip the nation, the Unit was still feeling the effects of the 2019 Easter Sunday attack. General insurance took a great hit as it is tied to loans and leases disbursed by the Bank, which did not meet expectations. However, the Unit was able to maintain income levels due to strong renewals, with approximately 80% of existing business being retained.

The shift to working from home brought its fair share of challenges but it also brought about innovation in the way the Unit handles business; Partner AIA Insurance developed an Adobe digital signature workflow so that contracts could be signed via email. This has helped to accelerate the processing of smaller policies tremendously.

The first ever virtual AIA-DFCC CEO's Club Awards Night was held on Microsoft Teams to recognise and celebrate the Bank's staff for their exceptional achievements in providing protection to the Bank's customers.

The Bank held 64 Bancassurance Month events, including customer forums, across the branch network. Approximately half of the events were conducted through virtual platforms due to the pandemic and contributed to the recovery and uptick of business in Q3 and Q4 2020.

Outlook

Although the Bancassurance Unit's efforts were hampered by the pandemic during 2020, much like other insurance companies, the Unit will target an LKR 1 Bn top line from General insurance in 2021. The market remains ripe for exploration and the Bank is exploring several innovative options to grow the business, including looking to Sri Lankans living and working abroad. Life insurance penetration in the country remains low but the pandemic has the potential to help those with disposable income to consider investing in insurance, and the Unit will continue to target such potential customers as well as increasing the appeal to a wider base through convenient facilities such as instalment schemes and credit card cashback offers.

Onboarding customers through digital channels such as the Bank's website, Virtual Wallet, and ATM machines is being developed to boost the sales of smaller policies. Leveraging technology will be key to enhancing the performance of the Unit going forward, such as using data analytics to better identify what kind of products are suited to specific customers. The Unit is also looking into using the Call Centre and SMS platform to raise awareness of insurance products and capture leads.

Institutional Capital

DFCC Bank's institutional capital comprises of largely intangible, non-financial components that, when managed systematically, can create value and enhance performance. Institutional capital can encompass, amongst various elements, the Bank's accumulated knowledge, systems and processes, corporate culture and values, brand, and business ethics and integrity.

Organisational knowledge

The Bank leverages the knowledge it has accumulated since its inception to achieve its strategic objectives. By constantly analysing how to maximise potential and increase the efficiency of staff and responding appropriately to employee feedback obtained through multiple mechanisms, the Bank stays true to its tagline, "Keep growing".

One of the ways in which the Bank seeks to propagate its accumulated knowledge is by appointing in-house industry experts to educate employees on loan appraisals and other technical areas. This reinforces the strong affinity for collective learning within DFCC in which senior employees are encouraged to mentor and pass on their knowledge to the next generation of officers.

The Bank's intranet, "WECONNECT" functions as a repository of policies, knowledge, procedures, regulatory guidelines, as well as a safehouse of the Bank's history.

Corporate culture and values

The corporate culture of DFCC is founded upon its core values of being ethical, customer centric, innovative, professional, accountable, team orientated, and socially responsible. Upon joining the Bank, new recruits participate in induction programmes that instil an awareness of the Bank's corporate values and behavioural expectations. The training unit regularly conducts programmes to reinforce these values and expectations, while rewards and recognition mechanisms are in place to further encourage bank employees to live and drive the values in their day-to-day interactions.

The Bank focuses on collective professional growth and in ensuring a work culture that is inclusive, open, and supportive. The culture is one that actively encourages diversity of opinion, facilitates an open-door policy that makes access to senior management freely available to all and enables bottom-up communication through mechanisms such as open days, townhall meetings, multiple grievance escalation mechanisms and more.

Business ethics and integrity

Ethical banking and integrity are a key part of the Bank's culture and ethos. DFCC adheres to the highest levels of ethics and integrity across all its business dealings. Being ethical means applying the principles of honesty and fairness to relationships across the Bank, be it with colleagues or customers. The values of honesty, integrity, accountability, trust, loyalty, fairness, and respect for others are promoted as core requirements within the Bank's operations.

The Bank has in place a Whistle-blowing Policy that outlines how employees can be reported to the HRD or the Audit Department in the event of a transgression of ethical behaviour. Several cross functional committees including the Grievance Committee and Reach Out Committee as well as other systemic mechanisms are also in place to address such issues.

Digital infrastructure

DFCC Bank's drive to become a leading digitally-enabled bank saw a critical boost during the lockdowns imposed due to the pandemic. The strategic investments the Bank had made and continues to make to improve its digital capabilities paid off as customers fully embraced the digital solutions and services during the lockdown. The Bank has swiftly adapted itself to the new normal and is geared to cater to its customers for the future.

Digital strategy

DFCC Bank has developed its digital strategy roadmap to be the most customer centric and digitally enabled bank by 2025. These strategies keep evolving with new trends and technologies. The Bank has categorised its digital strategy offerings into four pillars: digital channels, digital payments, digital operations, and digital services. A plethora of products have been and will continue to be launched under these four pillars.

Digital channels include a selection of unique products. The DFCC Bank website has been revamped and re-launched with novel features such as online applications to open savings accounts and special deposit accounts, credit cards, interactive calculators to provide on-site solutions, and location services. The site is integrated with DFCC Chatz (Chatbot, live chat, and Video Chatz). Furthermore, a prominent credit card comparison page makes it easier for customers to select their preferred credit card and apply online. A new feature which permits customers to add promotions to their Google calendar has been introduced recently to ensure customers do not miss out on relevant credit card offers. The most recent feature enhancement to the website is the income tax calculator that supports individuals to assess their personal income tax liability for the year 2020/21.

The Cash Recycle Machines (CRMs) of DFCC Bank permits customers to perform cardless/card-based cash deposits and withdrawals from a single unit. This CRM service has been expanded to 52 locations in 2020 and will be expanded to 72 by the end of 2021. The Bank collaborated with Lanka IOC and introduced eight off-site CRMs at their fuel stations, allowing 24/7 access to customers at these locations. Cheque deposit kiosks have been developed and launched in 17 locations and will be expanded to 30 locations by the end of 2021. The Bank also partnered with Megapay and introduced Pay-and-Go machines in 30 locations where customers can walk in and top-up their mobile phones and pay up to 55 different billers, which will be expanded to 40 locations by the year end.

The DFCC Virtual Wallet is currently a dynamic and novel product that facilitates multiple functionalities and facets. The channel is a wallet with built-in mobile banking features in a single product. A newly designed interface was introduced last year where the customer has the choice of using the product in either Sinhalese, English, or Tamil, providing an engaging and interactive experience. The Bank has added over 15 new features to add value to existing and new customers through the channel. The Virtual Wallet facilitates a range of useful features, such as checking the balances of customers' current/savings accounts, interest rates, maturity dates on fixed deposits, loan balances, and due dates. Customers can also add their DFCC Bank credit cards (primary and supplementary) and view credit card details, card number, credit limit, available balance, minimum payment due, payment due date, card status, cash back rewards value, and view credit card transaction details and credit card statements from the last three months. Transfers are enabled, allowing customers to transfer funds within their own accounts, to third party DFCC Bank accounts, or to other bank accounts via CEFTs and provides the option to add account transfers to favourites and pay other bank credit cards via CEFTs. Customers can also download or share the transfer confirmation receipt to beneficiaries. Additionally, customers have the option to top up their Virtual Wallet and make bill payments to mobile and telecommunication service providers, utility services, insurance providers, send money to mobiles, and request money transfers. A cardless withdrawal feature is also enabled where customers can withdraw cash from nearly 135 DFCC Bank ATMs and 52 CRMs island-wide with 24/7 access. More billers will be added in 2021.

DFCC Bank also relaunched the "Mobile Teller" doorstep banking service, offering customers the option of completing cash deposits at their preferred location. New features will be introduced to add more value to customers in the future through this channel.

Digital payment options have also been introduced recently and the Bank was the first to introduce DFCC Pay integrated with Lanka QR and JustPay to support QR-based payments, and merchants have been onboarded to accept such payments.

The digital services have been greatly enhanced in recent years. The SMS alert service has been upgraded to encompass a wider array of customers and the service now covers junior children's savings and teen account holders. Customers can interact with the DFCC chatbot in a language of their preference, either via Facebook Messenger, Viber, or through the corporate website. If the inquiries are too complex for the chatbot to handle, the customer will be directed to a live chat with a Contact Centre agent. The DFCC Video Chatz feature was introduced post lockdown wherein customers can interact via video with a Contact Centre agent for support with digital products and for customer onboarding.

Core banking system

The Bank embarked on implementing a new core banking system in 2019. The new system features a digital platform to facilitate the digital-adoption process and will replace the existing system. Several Application Programming Interfaces (APIs) are being integrated that will allow various systems to be centrally connected to the new core banking system, thus creating a more agile platform that will enable the Bank to respond faster to the changing business environment.

Customer experience

The Bank takes an integrated approach to customer service and experience. A centralised Customer Experience Unit handles all incoming customer enquiries and complaints from multiple channels, be it the corporate website, email, telephone, social media, or letters, allowing for increased quality of service and shorter response times. Customer centricity is a core tenet of DFCC Bank and is embedded in all employees from recruitment.

Customer services ambassadors have been appointed in branches and they are tasked with driving the importance of consistent and sustainable customer experience across the branch network. The unit continues to identify gaps in service utilising mystery shopper surveys as well as complaint management mechanisms, and addresses and conducts refresher trainings to ensure that staff can maintain high standards of service. Data analysis is increasingly being adopted by the Unit, enabling it to perform root cause analysis to identify and eliminate recurring issues.

Tea Integrated Payment System

DFCC Bank's Tea Integrated Payment System (TIPS) platform offers the tea industry a dedicated, streamlined, and scalable system that integrates tea smallholders, factories, and financial institutions, thus supporting a key industry in the country. The system automates a lot of manual processes that are employed by the industry in tracking the collection of tea leaves and issuing payments to various stakeholders through the integration of technologies such as Near Field Communication (NFC), Radio Frequency ID (RFID), and Bluetooth. Additionally, the system also helps to expand financial inclusion for approximately 10% of the country's population and increases transparency and efficiency of the industry.

Payments and Cash Management system

DFCC Bank's Payments and Cash Management system (PCM); DFCC iConnect handles the transactional and cash management needs of its corporate customers. In 2020, besides all the integrated payments and collections propositions, the Bank extended the system to facilitate the supply chain management of its customers through a fully automated distributor/supplier financing module. With this feature, the Bank's customers can now create a credit line and extend it to their distributors/suppliers and make payments to them, issue invoices, and obtain short-term loans through the system. This reaches out to the ecosystem of the Bank's corporate clients to operate on a common platform. This online portal is a fully integrated Payments and Cash Management platform that enables the Bank's customers to perform all their daily transactions through a secure channel. The DFCC iConnect mobile app was introduced to provide customers the flexibility of viewing and authorising payments on the go and with the intention of making transactional banking instantaneous.

Business processes and operational efficiencies

During the year, as the norm shifted to working from home due to the pandemic, the Bank fully embraced the Google Workspace suite. The Bank's staff was provided with more tools to gain increased visibility into their data and to efficiently work on their functional areas. Over 40 different workflows were created that helped to break down the silos between various departments and enabled better cross-functional collaboration.

The Bank is developing a data-driven culture internally. A Business Intelligence Unit was established in 2018 to provide the Bank's staff with a holistic overview of its customers. A Business Intelligence Steering Committee was also established to enhance the value, quality, security, and understanding of institutional data through the coordinated efforts of all stakeholders. The Bank's staff are provided with access to dashboards that offer predictive analysis that will enable them to better understand the needs of their customers and encourage them to proactively work with them to provide solutions and financial products.

As the Bank's operations effectively run 24x7, Robotic Process Automation (RPA) is increasingly seen as a critical and effective means of addressing internal process bottlenecks. RPA has been extensively incorporated into backend processes that can speed up how quickly customers receive feedback on their queries. A number of manual processes such as data entry have been automated, thus speeding up services dependent on those processes such as enabling online banking for customers. Furthermore, it has enabled the Bank to shift staff from task-oriented roles towards more productive, value adding roles.

RPA saw a boost in its usage with the sudden moratoriums introduced by the regulator during the pandemic. A significant amount of work brought on by the moratoriums was offloaded to RPAs, thus enabling the Bank to complete the work in days compared to weeks with manual processes. This effort was recognised by SLASSCOM and won the Best Post-COVID Innovation Award in the Business Continuity category at the RPA Awards 2020. In addition to RPA, the Bank also introduced a new workflow for credit card application processing to streamline and fast-track application processing and the approval process.

Security and infrastructure

The shift to work from home for most of the Bank's staff, posed certain security challenges that needed to be addressed for the Bank to carry on its operations smoothly without interruption. Additional layers of security were added to the Bank's internal systems to enable users to connect securely to the Bank's internal systems from home. The Google Workspace suite enabled over a thousand users to work from home, thus allowing them to access their files and emails and conduct meetings seamlessly.

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

Brand equity

The Bank was successful in adapting a marketing communication strategy using digital means to meet the brand objectives during the pandemic. This resulted in an ongoing process of customer engagement online, as well as through social media which facilitated continuous communication with all stakeholders.

The Bank's marketing strategy shifted towards digital which facilitated a continuous brand presence for top of mind awareness engaging the relevant products and services targeted at different segments using the varied social media networks and digital platforms such as Google.

The social media networks, Facebook, Instagram, YouTube, LinkedIn and Twitter were used aggressively to connect and engage during an era where there was a surge in the consumption of online activity across the country. This resulted in the DFCC brand succeeding in increasing the number of followers that engaged with the brand, a peak in video views on the Bank's products and services, and a higher degree of impressions on these digital platforms on brand related content.

A considerable number of campaigns were converted to "Digital only" campaigns but nevertheless brought in an over achievement on the results.

Despite the unprecedented events that took place in year 2019 and 2020, the DFCC brand has been ranked amongst the top 100 most valuable brands in Sri Lanka by Brand Finance in the year 2020, which is one of the best accolades a brand can achieve in Sri Lanka. Further, the Bank managed to be amongst the Business Today's Top 30 Corporates, which is a significant achievement in the banking industry.

2020 also saw the Bank celebrating a milestone with its 65th Anniversary. An integrated 360° campaign sought to highlight the journey the Bank has been on thus far as an unwavering pioneer in the Sri Lankan banking sector and the technologically advanced future that lies ahead of it. This was the Bank's main campaign of the year and was conducted on above-the-line(ATL) and below-the-line(BTL) mediums, including Digital marketing channels.

A new theme song for the Bank was also developed in collaboration with the Bank's staff, which will be used for the next five years in internal campaigns and initiatives. Several activities such as religious ceremonies, a CSR initiative where 65 rural schools were provided hand washing booths to reduce the spread of COVID-19, a cycling initiative in line with the Bank's sustainability goals of creating a healthy lifestyle, opening of the new state of the art Pinnacle Centre, relocation of the Kurunegala branch and a staff awards ceremony were carried out in line with the 65th anniversary celebrations.

Numerous campaigns were launched during the year which aided in driving brand top of mind along with various public relations initiatives that helped the brands messaging reach out to multiple segments across the country.

Key campaigns for the year saw the launch of DFCC Salary Partner and Salary Plus, DFCC Teen, Special Deposit Account, DFCC Pinnacle, the timely launch of a Fixed Deposit product that offered a preferential interest rate for senior citizens, DFCC One Loan debt consolidation product etc.

A new credit card brand campaign was also rolled out during the year to reinforce that DFCC is the only credit card in the market that offers a 1% Cash Back every time the card is swiped, along with a campaign for DFCC Pay, a payment App which enables QR payments and fund transfers facilitating contact-less transactions.

Another significant campaign during the year showcased the Bank's digital offering of DFCC Virtual Wallet, DFCC iConnect, Pay and Go, eStatements,

An Industry Pioneer

The corporate brand campaign launched to coincide with the 65th Anniversary was a key highlight during the year.

M-Teller, online banking, and SMS alerts. The campaign was timely one, educating customers of the solutions available for performing financial transactions with ease and limiting physical interaction as a result of COVID-19 precautions.

The Bank continued its efforts to improve the financial literacy in rural areas through the "DFCC *Sahaya Hamuwa*" series of workshops aimed at developing MSMEs. The Bank was able to conduct three workshops across the branch network prior to the lockdown, after which seven workshops were conducted as webinars. With the guidance of the CBSL, the Bank launched the "DFCC *Sahanaya*" special loan scheme aimed at small and medium-sized exporters affected by the pandemic.

The Bank also streamed an online entrepreneurial skills development programme titled "DFCC *Vayapara Athwela*" enlightening and inspiring entrepreneurs, SMEs and the general public to enhance their knowledge on topics such as "Seizing business opportunities through creativity and innovation", "How to start an entrepreneurial business with a novel business idea", "Improving financial literacy and financial management skills in entrepreneurs" and "Techno entrepreneurship and adopting technology". This educative program was streamed on the Bank's Facebook page and YouTube channel.

The "DFCC MySpace" self-service banking units were established across multiple locations which enhanced the brand's outdoor visibility. Other initiatives such as vehicle branding, pylon signage, outdoor hoardings etc; are ongoing to maintain top of mind awareness of the brand.

Notable recognition and awards

DFCC Bank's Brand Rating

	DFCC Bank's Brand Rating		
	Position	Rating	Value LKR Mn
2020	**28**	**A-**	**5,039**
2019	25	A+	6,334
2018	27	A+	4,706
2017	39	A	1,660
2016	38	A-	1,684

Source: Brand Finance Sri Lanka 100 – 2020

DFCC Bank received recognition from the following bodies in 2020:

- Ranked the number 1 Cash Management Service Provider in Sri Lanka by Euromoney
- Placed 28th in Brand Finance Top 100 Most Valuable Brands, 2020
- Ranked 20th among Business Today's Top 30 Corporates in Sri Lanka 2019/20
- Ranked 29th among LMD's Most Awarded 2019/20 and Hall of Fame (Top 50)
- Merit Award for Outstanding Development Project Awards – Human Capital Development by the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) for the #TogetherWeGrow initiative
- Merit Award for Outstanding Development Project Awards – Corporate Social Responsibility by the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) for the "*Samata* English" initiative
- Merit Award for Outstanding Sustainable Project Financing for financing micro, small, and medium dairy farms from the Global Sustainable Finance Conference in Karlsruhe, Germany
- RPA Awards 2020 Best Post-COVID Innovation Award in Business Continuity category for the Automated Debt Moratorium initiative by the Sri Lanka Association for Software Services Companies (SLASSCOM)
- Winner of Most Popular Banking and Finance Website in the LK Domain Registry bestweb.lk competition
- Bronze Award for Best Tamil Website in the LK Doman Registry bestweb.lk competition
- Merit Award for Best Sinhala Website in the LK Domain Registry bestweb.lk competition
- Merit Award for Best Banking and Finance Website in the LK Domain Registry bestweb.lk competition

Anti-bribery and corruption

The Bank adopts a zero-tolerance approach to bribery and corruption. An Anti-Bribery and Corruption Policy (ABC Policy) is in place and monitored by the Fraud Risk Management Committee (FRMC). The FRMC regularly reviews the policy content to ensure comprehensiveness and relevance, and carefully scrutinises operations. The Policy compels all staff members to follow and abide by all applicable 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.

Compliance

DFCC Bank conforms to all applicable environmental and other statutory laws and regulations. There were no incidents of non-compliance concerning the Bank's operations, marketing, labelling, loss of consumer data, and other processes recorded during the year. 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 the Bank's value creation process. One of the core objectives of the Bank is to maximise investor wealth by providing sustainable, long-term returns.

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

Shareholder profile

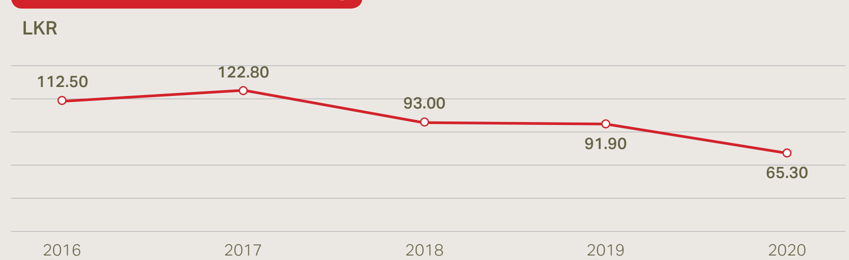
The Bank had 11,526 shareholders as at 31 December 2020 (corresponding to a figure of 9,011 as at 31 December 2019), with 305,997,250 shares in issue. Institutions make up approximately 74% of the Bank's share capital. 84% of the Bank's share capital is held by local shareholders, both institutional and individual.

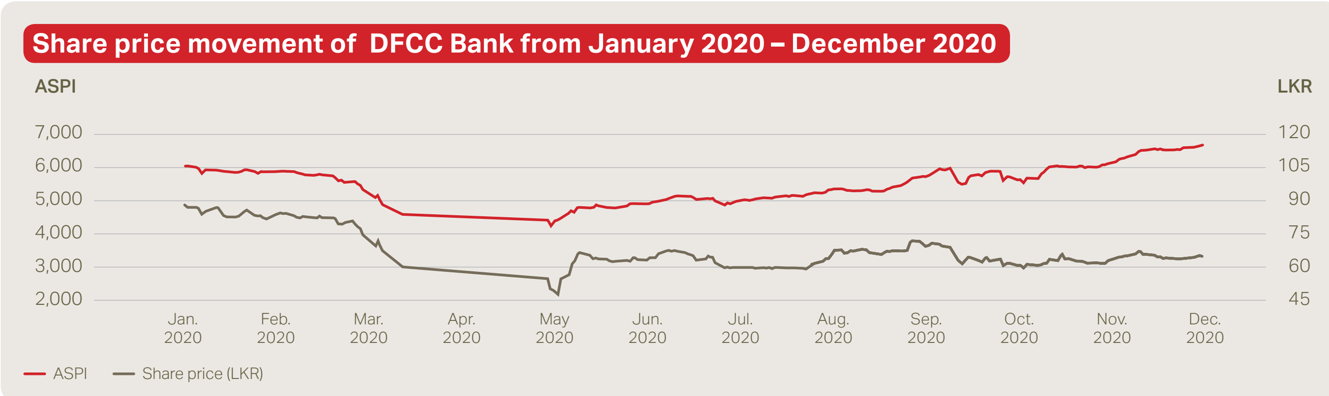
Share information

DFCC Bank share price information for the period 1 January 2020 – 31 December 2020

	1 January to 31 December 2020	1 January to 31 December 2019
Price indices		
ASPI	**6,774.22**	6,129.21
S&P SL20	**2,638.10**	2,936.96
Share price		
Lowest price (LKR)	**47.90**	67.00
Highest price (LKR)	**91.80**	99.30
Closing price (LKR)	**65.30**	91.90
Market capitalisation		
Value (LKR Mn)	**19,982**	27,955
Percentage of total market cap (%)	**0.67**	0.98
Rank	**37**	22
Value of shares traded		
Value (LKR Mn)	**6,379**	429
Percentage of total market turnover (%)	**1.61**	0.25
Rank	**13**	61
Days traded		
Number of days traded	**209**	240
Total number of market days	**209**	241
Percentage of market days traded (%)	**100**	99.58
Frequency of shares traded		
Number of transactions	**42,692**	7,675
Percentage of total frequency	**1.39**	0.64
Rank	**39**	41

Banks share price closing





Distribution of shareholding

Categories of shareholders

As at	31 December 2020			31 December 2019		
Shareholding, %	**Foreign**	**Local**	**Total**	Foreign	Local	Total
Individual	**10.11**	**15.56**	**25.67**	7.67	6.85	14.52
Institutional	**5.97**	**68.36**	**74.33**	20.42	65.06	85.48
	16.08	**83.92**	**100.00**	28.09	71.91	100.00

Distribution of shareholding by size

As at	31 December 2020			31 December 2019		
Share range	**Number of shareholders**	**Total holding**	**%**	Number of shareholders	Total holding	%
1 – 1,000	**6,826**	**2,071,399**	**0.68**	5,892	1,789,102	0.59
1,001 – 5,000	**3,342**	**7,104,636**	**2.32**	2,363	4,906,129	1.62
5,001 – 10,000	**550**	**3,944,760**	**1.29**	321	2,308,487	0.76
10,001 – 50,000	**628**	**13,246,914**	**4.33**	322	7,012,828	2.30
50,001 – 100,000	**73**	**5,152,680**	**1.69**	45	3,324,099	1.09
100,001 – 500,000	**77**	**15,003,200**	**4.90**	40	7,316,408	2.41
500,001 – 1,000,000	**8**	**5,854,098**	**1.91**	4	2,605,646	0.85
1,000,000 and above	**22**	**253,619,563**	**82.88**	24	274,926,057	90.38
	11,526	**305,997,250**	**100.00**	9,011	304,188,756	100.00

Public holding as at 31 December 2020

As at	**31 December 2020**	31 December 2019
Public holding percentage (%)	**62.6**	62.6
Number of public shareholders (Nos.)	**11,511**	8,996
Float adjusted market capitalisation (LKR Mn)	**12,500**	17,488
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 2020

As at	31 December 2020		31 December 2019*	
Name of Shareholder/Company	Number of shares	%	Number of shares	%
Hatton National Bank PLC A/c No.1	**45,624,242**	**14.91**	45,354,596	14.91
Bank of Ceylon No.2 A/c	**38,266,153**	**12.51**	38,039,994	12.51
Mr M A Yaseen	**30,599,724**	**10.00**	30,418,875	10.00
Sri Lanka Insurance Corporation Ltd-Life Fund	**27,741,118**	**9.07**	26,509,832	8.71
Employees' Provident Fund	**24,513,876**	**8.01**	24,368,995	8.01
Melstacorp PLC	**22,516,691**	**7.36**	22,383,614	7.36
Seafeld International Limited	**17,822,125**	**5.82**	17,716,794	5.82
Mr H H Abdulhusein	**9,000,000**	**2.94**	–	
Renuka City Hotels PLC	**6,968,052**	**2.28**	6,926,870	2.28
People's Leasing & Finance PLC/Don & Don Holdings (Pvt) Limited	**4,673,501**	**1.53**	210,008	0.07
Renuka Hotels PLC	**4,097,577**	**1.34**	4,073,360	1.34
Employees Trust Fund Board	**4,011,661**	**1.31**	3,987,952	1.31
Akbar Brothers (Pvt) Limited A/c No. 1	**2,599,019**	**0.85**	2,578,688	0.85
Cargo Boat Development Company PLC	**2,513,052**	**0.82**	2,498,200	0.82
Sri Lanka Insurance Corporation Limited – General Fund	**2,166,551**	**0.71**	–	
Anverally International (Pvt) Limited	**2,056,639**	**0.67**	1,682,148	0.55
Stassen Exports (Pvt) Limited	**1,908,067**	**0.62**	1,896,791	0.62
Mr K P R B De Silva	**1,574,516**	**0.51**	–	
Crescent Launderers and Dry Cleaners (Pvt) Limited	**1,491,362**	**0.49**	1,482,548	0.49
Seylan Bank PLC/Senthilverl Holdings (Pvt) Limited	**1,333,476**	**0.44**	–	
Total of the 20 major shareholders	**251,477,402**	**82.19**		
Other shareholders	**54,519,848**	**17.81**		
Total	**305,997,250**	**100.00**		

** Shareholding as at 31 December 2019 of the twenty largest shareholders as at 31 December 2020.*

Return to shareholders – Bank

Description	2020	2019
Profit for the year (LKR Mn)	**2,388**	2,074
Return on total assets (%) *	**0.78**	0.77
Net assets per share (LKR)	**161.30**	156.09
Earnings per share (LKR)	**7.83**	7.14
Dividend per share (LKR)	**3.00**	3.00

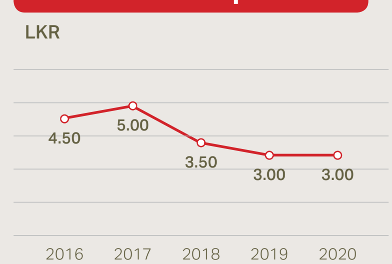
** After eliminating fair value reserve.*

Financial return

DFCC Bank strives to regularly provide high shareholder returns through profitable and sustainable performance. The Directors approved a first and final dividend of LKR 3.00 per share by way of a scrip dividend for the year ended 31 December 2020.

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

Bank's dividend per share



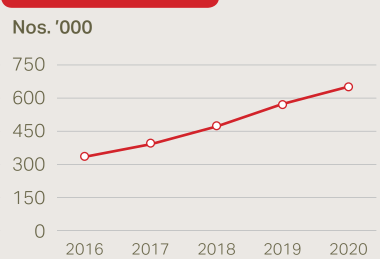
Customer Capital

Over the course of 65 years, DFCC Bank has built meaningful relationships with its customers. These relationships have had a profound impact on all segments of Sri Lankan society and the country itself. With over half a million accounts, DFCC Bank continues to inspire its customers to reach new heights and give them the tools they need for financial management.

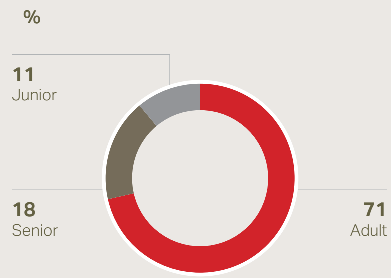
In the Bank's journey to reach two million customers, customer centricity is one of the key strategic pillars defined in the Vision 2025 plan that will help the Bank to achieve this goal. Focusing on building and enhancing the customer experience is the crucial component of the Bank's focus on customer centricity. Through various approaches and working closely together with its customers, DFCC Bank can continue to develop and offer innovative products and services to them while ensuring they remain satisfied with their experience.

Customer profile

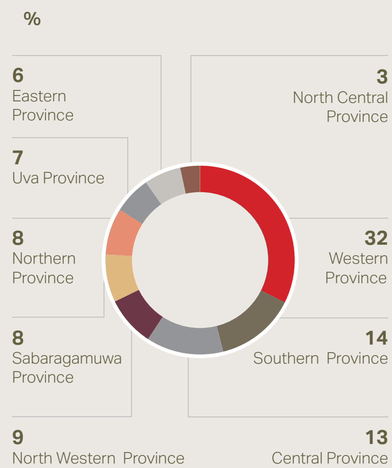
Customer base



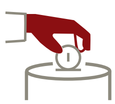
Customers by segment



Customers by province



Product portfolio



Savings accounts

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

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

DFCC Xtreme Money Market Account – 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 and above for individuals aged 18 years and above

DFCC Teen – Savings account for teenagers who are between 13 to 18 years of age

DFCC Junior – Children's savings account offering a range of gifts and preferential interest rate for children below 18 years of age

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

DFCC *Garusaru* – Offers an attractive interest rate with a range of other benefits for senior citizens above 60 years of age

Special Deposit Account

Offers highly attractive returns for funds received via inward remittances from abroad to Sri Lanka. Fixed Deposits can be placed under this account in multiple currencies including LKR.

Product propositions

Catering to different segments, distinct needs, wants, aspirations and life style to offer the best suited financial solutions such as savings accounts, current accounts, debit and credit cards, and personal loans.

DFCC Salary Plus
DFCC Salary Partner
DFCC Prestige
DFCC Pinnacle

Housing loans

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

Personal loans

An entire range of personal loans catering to the needs of all categories of salaried employees and professionals.

DFCC Education Loans – Flexible and convenient loan facilities to fund the higher education of all individuals pursuing higher studies.

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

Leasing facilities

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

DFCC Credit Cards

The only credit Card that offers 1% Cashback on every personal Card transaction 365 days of the year.

Bancassurance

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

Pawning services

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

Digital products and services

DFCC Virtual Wallet
DFCC iConnect
DFCC Pay App
DFCC Chatz/DFCC Video Chatz
M-teller
eStatements
SMS alerts
Internet banking
DFCC MySpace for corporates, SMEs, entrepreneurs, professionals, and individuals

Credit line/Subsidy scheme supported project loans

"*Saubhagya*" (Prosperity) Loan Scheme for Small and Medium Enterprises (SMEs)

Small and Micro Industries Leader and Entrepreneur Promotion Project III Revolving Fund ("SMILE III RF") for SMEs

Small and Medium-Sized Enterprises Line of Credit – ("SMELoC") for SMEs

Emergency Response Facility
Working capital loan scheme for SMEs

Tea Smallholder Credit Line
For tea smallholders to approve leaf production

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

Working capital financing

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

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

DFCC *Sahaya*

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

Hire purchase facilities

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

Guarantee facilities

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

Loan syndication

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

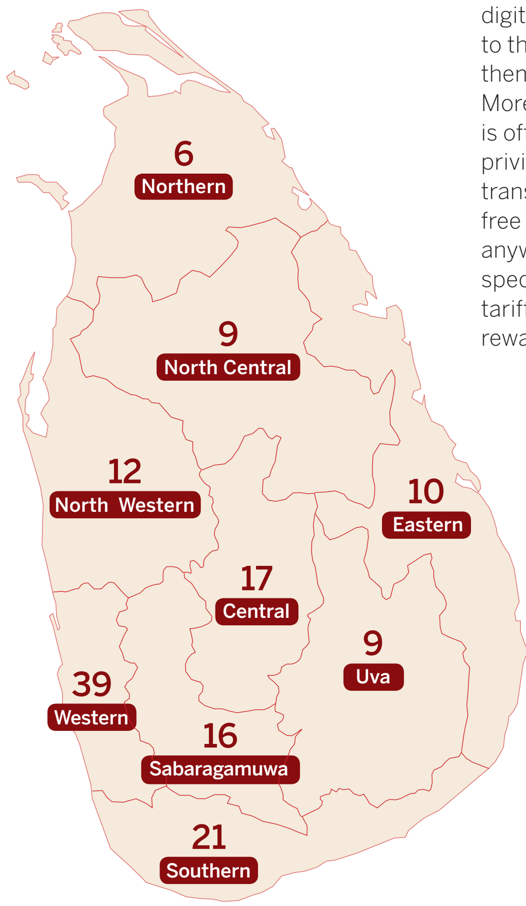
Consultancy and advisory services

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

Branch network and service delivery

The Bank relocated the state of the art pinnacle centre at Horton Place Colombo 7 and the Kurunegala branch to our very own newly built five story building to coincide with its 65th anniversary. Furthermore, the branches in Kiribathgoda and Moratuwa were relocated to offer increased convenience to customers.

Customers also have access to the Bank's Services through over 4,500 LankaPay ATMs across the island. Furthermore, as one of the most customer centric and digitally enabled banks in the country, the Bank's reach to customers goes beyond traditional brick and mortar via the online and mobile banking services. A 24/7 Contact Centre is also available to customers along with the corporate website, which is accessible in English, Sinhala, and Tamil.



New products and services in 2020

DFCC Bank launched three new propositions in line with being the "Bank for Everyone" based on a client centric strategy, taking a more focused approach in segmenting the retail customers.

A strategic analysis was performed to ensure the propositions to partner with the customers' life journey to fulfil their financial aspirations to reach their life goals at every stage.

All propositions allow customers to open any type of savings account of their choice. All proposition customers will receive a complementary branded international debit card with enhanced withdrawal and POS limits. They also have free access to all DFCC Bank ATMs and over 4,500 Lanka Pay ATMs. Through the Bank's seamless banking solutions, customers can enjoy free digital banking services and have access to the DFCC Virtual Wallet, enabling them to transact at their convenience. Moreover, a lifetime free credit card is offered on eligibility with a host of privileges, including cash back on transactions and six months interest-free instalment plans for any transaction anywhere. Each proposition also offers special pricing on banking products, tariffs with exclusive fee waivers, and rewards and benefits.

Scan to view the details of the Branch Network
http://dfcc2020.annualreports.lk/bn

Salary Partner and Salary Plus

The Salary Plus segment is focused on mass salaried customers with a view of assisting them with their financial requirements to uplift their living standards.

The Salary Partner proposition is aimed at young executives who constitute the upper mass segment of customers with the purpose of fulfilling the financial requirements to build and create their lifestyles.

Prestige and Pinnacle

The Prestige proposition offers customised efficient banking solutions creating aspirational value, a distinct brand identity, and exclusivity to cater to the mass affluent segment.

The Premier proposition was revamped and upgraded to the "Pinnacle" proposition to cater to high net worth individuals and their requirements on banking and dedicated relationship and portfolio management.

Pinnacle clientele will be served at the exclusive state-of-the-art Pinnacle Centre in Colombo 7 and at selected branches by dedicated Pinnacle Relationship Managers, supporting all financial requirements at a single point of contact and ensure exclusive services are experienced by Pinnacle clients with convenience. Additionally, dedicated Contact Centre Pinnacle agents are also available to assist Pinnacle clients 24x7, 365 days a year.

Pinnacle customers also get to enjoy the Pinnacle Infinite Credit Card which offers 3% cash back on fuel, utility payments, restaurant dining, and international transactions.

DFCC One Loan

A special personal loan was launched, and is designed to consolidate all existing commitments of customers in different financial institutions.

DFCC Teen account

Current generation of teenagers need security from many social forces, love and affection from who they associate with, independence from even their parents and feeling of achievement from what they do day in day out. As parents and guardians, we need to treat them with respect and look at them as adults, with some supervised controls. This is where DFCC Teen account comes in handy. It is our pleasure to introduce the latest addition to our product portfolio, DFCC Teen account.

This is a savings account introduced exclusively for the youth in the age group of 13 to 18 years. These are the next generation of banking clients who would go on to become loyal DFCC customers in the future. These youngsters will get their first ever banking experience through DFCC Teen account. This will be another step forward by DFCC Bank to serve all customers for their banking needs on the march to become the most customer centric commercial bank in Sri Lanka.

The DFCC Teen account comes with a suite of banking facilities such as access to the account from anywhere in the world through online banking, a branded debit card that allows them to withdraw up to LKR 5,000 per day, convenience of Tap and Pay up to LKR 5,000 per day, online purchases and POS transactions to the value of LKR 25,000 per day. There will be many exclusive discounts and offers at partner outlets. As a control mechanism parents will receive monthly transaction updates through eStatement and be alerted on each of their transactions via SMS. DFCC Bank is deeply committed to fostering the youth of Sri Lanka with a partnership that truly rewards and provide access to unforgettable experiences.

DFCC Pay app and merchant acquiring services

In line with the Bank's journey on becoming a digitally enabled bank and the country's Payment Systems Road Map, the Bank launched the DFCC Pay app to support the QR payment mode. Through the DFCC Pay app, customers can pay for goods and services through Visa QR, Lanka QR, and the local JustPay network. Similarly, the DFCC Pay Merchant App was introduced for merchants to accept and process these types of payments. The app helps to facilitate cashless payments, which have become increasingly important and convenient during the past year.

The Bank also introduced Android-based Point of Sales (POS) machines to process credit card transactions during the launch of the merchant acquiring services. The POS is a state-of-the-art portable machine that can process all major credit card transactions via tap-to-pay, CHIP reading, or swiping the magstripe. The cardholder's signature can be entered on the machine's display screen and the transaction receipt gets electronically saved. The machines are operated on a rental model basis.

Through these initiatives, the Bank will be reducing the stationery used in transactions by digitising payment slips and reducing the cost related to traditional transactions. DFCC Bank is also focused on enabling payment acceptance at all types of merchants, bringing its financial services to unbanked and under banked merchants and customers around the country in line with the national initiative.

Special Deposit Account

DFCC Bank was one of the first banks in the country to launch the Special Deposit Account (SDA). The Government and the CBSL introduced the SDA to increase foreign currency inflows to assist the country's efforts in recovering from the COVID-19 pandemic. The Bank launched a campaign across multiple platforms including online, digital, and social media to encourage non-resident Sri Lankans to invest their funds in the country.

Customers could deposit their funds into a fixed deposit over six and 12-month periods in LKR, USD, EUR, GBP, AUD, JPY, SGD, CAD, and CHF. The SDA offered customers interest 1% above the normal rate for six-month deposits and 2% above the normal interest rate for 12-month deposits. Customers could freely convert or repatriate the funds upon maturity.

DFCC *Sahanaya*

Due to the negative impact of the COVID-19 pandemic on the local business sector and SME exporters, DFCC Bank launched the DFCC Sahanaya concessionary loan scheme as a part of its efforts to provide relief to export-related businesses. Through this loan scheme, amounting to approximately LKR 2 Bn, the Bank aims to aid in the revival of the export sector and sustain small businesses long enough to take advantage of future opportunities. Eligible businesses can avail of loans between LKR 5 Mn to LKR 25 Mn at an interest rate of 9% p.a. and a maximum loan tenure of four years. This scheme was launched to support the government initiative to revive the export related businesses and is granted by the Bank in addition to the concessionary loan schemes offered by CBSL.

DFCC Bank website

The Bank focused on continuously improving the interactive website during the year. Features introduced included an online application feature for credit card customers to apply online, a pop-up to inform customers of service disruptions during the pandemic and important notices, and a new income tax calculator feature. The site had 1.2 million sessions during the year. All branch locations were listed on Google to support local search and was optimised for Google Maps. Total views on Google Search reached 6.4 million and total searches reached 4.3 million.

DFCC Chatz

The Bank introduced an interactive, multi-channel chatbot to provide assistance to its customers via the corporate website, Facebook, and Viber. The chatbot can converse naturally with customers in English, Sinhala, and Tamil and assists in answering queries swiftly based on built-in algorithms. The chatbot further assists by helping customers connect with a live agent from the Bank's 24-hour Contact Centre rather than making a physical call. 15,550 chat sessions were conducted during the year.

COVID-19: Supporting customers in unprecedented times

DFCC Bank took steps to provide relief to its valued customers affected by the COVID-19 pandemic, in line with the CBSL's relief guidelines. As the Government took steps to protect citizens by slowing down the spread of the virus through extended curfews, this had an impact on the incomes of people, thus leading to increased financial burdens.

As the pandemic led to lockdowns imposed across the country, the Bank launched the "Bank on Wheels" service to provide its customers, as well as other bank customers, with ATM services at their doorstep through their Visa, MasterCard, AMEX, and JCB debit cards. The service was available at selected locations in Colombo, Gampaha, and Kalutara Districts.

To help provide its customers with some relief, the Bank provided financial concessions in the form of extensions on short-term loans and permanent/ temporary overdraft facilities, and a temporary halt on returned cheque and stop payment charges.

The Bank also supported tourism, direct and indirect export-related businesses, information technology, plantations, and related businesses, SMEs in manufacturing, services, agriculture, trading, Self employed businesses and foreign currency earners with a six-month relief period up to 30 September.

The repayment period of leasing facilities for three-wheelers, transport vehicles for school children, motorcycles, and taxis was extended to 30 September.

Further concessions granted to above sectors from October 2020 up to March 2021 as per CBSL guidelines at concessionary rates.

DFCC Bank granted many financial concessions outside the CBSL debt moratorium schemes to facilitate clients affected by the COVID-19 first and second waves. The Bank has facilitated overall debt moratorium for appx. 30% of it's advance portfolio covering different industry sectors to assist it's clientele to revive their businesses owing to the out break of COVID-19. Further new working capital facilities of over LKR 10 Bn were granted at 4% p.a. concessionary rates under the *Saubhagya* Scheme to facilitate the clients who are affected by COVID-19 and interest concessions were offered to the existing facilities to reduce the debt burden. The Bank also granted new facilities under CBSL liquidity facility scheme to construction and other sectors.

Credit card customers also benefited from COVID-19 relief measures offered based on Central Banks directions. The payment due dates were extended, late payment fees were waived, the minimum payment percentage was reduced and local transactions up to a maximum of LKR 50,000 were subject to a reduced interest rate and during the latter part of the year interest rates were reduced to 18% p.a. These relief measures were provided in addition to the other measures that the Bank offered which were; 0% easy payment plans, a loan on card to obtain instant cash to 75% of the available credit limit and Card Balance Transfer scheme enabled cardholders to transfer the balance of other credit cards to a DFCC Credit Card and settle the amount in equal monthly instalments up to 36 months with low processing fees. These hassle-free and swift solutions were provided to cater for urgent financial requirements during the pandemic. To encourage cardholders to follow social distancing, the Bank popularised cashless and contactless transactions with its tap-to-pay Visa debit and credit cards for purchases below LKR 5,000 and the DFCC Pay app for cashless purchases via Lanka QR and Visa QR. Cardholders were also able to settle their credit card outstandings without visiting a branch through the Bank's array of digital facilities including online banking, DFCC Virtual Wallet, Setting up Standing Instructions and CEFTS transfers from other bank accounts.

Furthermore, the Bank identified a segment of the population that depended on the monthly interest income from their fixed deposits to meet their monthly living expenses. Accordingly, the Bank introduced a special fixed deposit product that offered high interest rates to individuals over the age of 55. The product was well received by the market.

Customer centricity

Enhancing customer centricity is one of the three strategic pillars of the Bank's Vision 2025 plan. It is how the Bank will achieve its long-term objectives of acquiring two million customers and becoming the most customer-centric bank in Sri Lanka.

Contact Centre

One of the key means through which the Bank is enhancing customer centricity is by building an enhanced customer experience that is prompt, responsive, and courteous. In 2020, the Bank opened a state-of-the-art Contact Centre in Malabe that can host over 50 customer service agents. The Contact Centre is fully equipped to assist customers with their financial inquiries and activation of products 24 hours a day, 365 days a year. In addition, dedicated agents are appointed to cater to the high net worth segments, ensuring the best quality of service around the clock.

The Contact Centre continued to be operated 24 hours a day during the pandemic. Contact Centre agents worked in extended shifts across two locations. Remote working facilities were made available where possible to comply with safety protocols while ensuring continuity of service. During the year, the Contact Centre introduced video chats for customer support with digital products and the ability to onboard customers for online banking and Virtual Wallet via a call.

The Contact Centre is exploring the possibility of integrating WhatsApp alongside the current Chatbot capabilities in 2021. Further enhancements to existing systems, enhancing agent skills and product knowledge, and churn management will also be looked into in the coming year.

The Contact Centre serves as the first contact point for customers who call the Bank and thus is a critical service at the Bank. The Centre operates 24 hours a day, 365 days a year, handling inbound and outbound functions and ensuring the smooth functioning of the Bank's operations.

404,780
Total number of inbound calls

72,797
Total number of outbound calls

3,519
Non-voice requests via Chat service

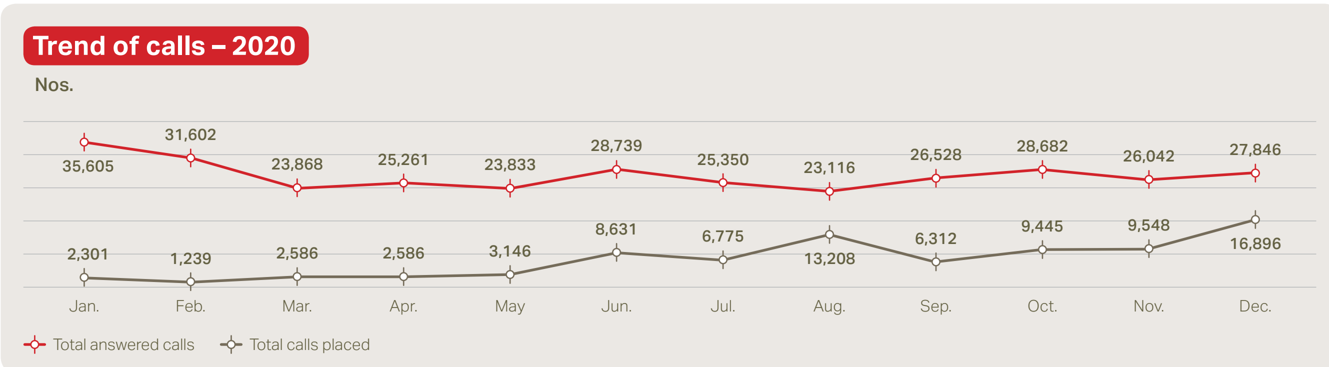
Inbound

	2020											
	January	February	March	April	May	June	July	August	September	October	November	December
Total queued calls	40,957	40,259	31,025	43,305	32,601	44,347	31,971	24,862	27,667	29,772	27,815	30,199
Total answered calls	35,605	31,602	23,868	25,261	23,833	28,739	25,350	23,116	26,528	28,682	26,042	27,846
Average answered call per day	1,150	1,090	770	815	770	930	920	745	855	925	840	898
Average talk time (MM.SS)	2.41	2.36	2.31	2.37	2.50	2.51	3.32	3.23	3.12	3.20	2.56	2.51
Average ACW time (MM.SS)	9.38	9.39	10.07	12.01	10.03	17.01	15.07	13.00	12.33	12.15	15.07	15.09
Average answer time (MM.SS)	0.47	0.41	0.43	1.00	0.58	0.59	0.34	0.31	0.25	0.22	0.17	0.18
ABN calls per month	5,352	8,657	7,157	18,044	8,768	15,608	6,621	1,746	1,139	1,090	1,773	1,802
ABN calls placed per month	4,043	6,739	4,787	14,435	6,301	11,837	4,225	1,397	688	689	941	1,077

ACW: After call work *ABN: Abandoned calls*

Outbound

	2020											
	January	February	March	April	May	June	July	August	September	October	November	December
Total calls placed	2,301	1,239	2,586	2,586	3,146	8,631	6,775	13,208	6,312	9,445	9,548	7,020
Average calls placed per day (weekdays)	115	62	130	130	160	430	340	660	315	475	477	650
Average talk time (mm.ss)	2.01	1.36	2.13	2.17	2.00	4.01	3.59	4.07	3.19	3.33	4.01	4.44



Customer Experience Unit

In addition to the Contact Centre, the Customer Experience Unit is a centralised unit that handles all customer complaints and inquiries that are directed to the Bank through multiple channels made available to customers.

The Unit is responsible for redirecting complaints and inquiries to the appropriate department or branch and ensuring the completion within the stipulated Service-Level Agreements (SLAs). In 2020, the Complaint Management System was launched to track complaints, inquiries, and service requests. Through this system, the Unit helps staff across the Bank to work towards achieving strict service levels.

The Customer Experience Unit conducts multiple programmes to evaluate and monitor the level of customer centricity of the Bank. One of these programmes was a Bank-wide Mystery Shopper programme that provided the Bank unique insights on customer's satisfaction levels with the services received against their perception and expectations. Key areas of importance to strengthening customer experiences were evaluated by scoring the areas of customer care, sales drive, professionalism, transparency, and the cleanliness of the branch.

Similarly, periodic Mystery Caller programmes assisted the Bank in understanding the customers' impressions and experience when they contact the Bank. The findings were used to improve the approach accordingly to deliver a better first impression and phone etiquette. To better understand the requirements of branches to serve customers effectively, the Unit conducted a Customer Centricity Survey. The survey evaluated the current state of customer centricity across the Bank's branches and the initiatives that were undertaken to achieve the Bank's goals. The findings of this survey will be analysed to design programmes to further the Bank's customer centricity drive in 2021.

The Unit is also responsible for embedding the value of customer centricity in the Bank's staff through training. In 2020, the Bank conducted 27 customer service training sessions for 1,185 staff members, which constitutes 57% of the overall staff. Additionally, monitoring the service levels within the Bank is integral to maintaining the customer experience at a high standard. The Unit identifies gaps in service across the Bank and conducts refresher trainings to help ensure that service level targets are met.

For 2021, the Unit will be looking into conducting root cause analysis of complaints and focusing on implementing preventive measures. The implementation of a "Voice of Customer" dashboard will provide insights into customer perception of the DFCC Bank brand and its products. A planned upgrade to the Complaint Management System will enable customers to receive complaint/inquiry/service request reference number via SMS.

The International Customer Service Week that is commemorated across the world was also celebrated at the Bank, with multiple programmes organised by the Customer Experience Unit. Service Ambassadors were appointed across the branch network to enhance customer service. Training programmes and Bank-wide communications were organised to inculcate and stress the importance of customer service. Branches were also visited for refresher trainings during this week.

Customer privacy

DFCC Bank considers the privacy of its customers to be of paramount importance and considers the protection of their privacy as integral to building trust and developing the relationship between itself and its customers. To aid in its efforts to safeguard customers' privacy, the Bank utilises the latest digital infrastructure to secure its systems and processes and banking transactions. In the development of the new core banking system that will power the Bank's new products and innovations, customer privacy is one of the foremost considerations in its design.

Customer privacy forms a core part of the Employee Code of Conduct. The Bank's employees understand the importance of protecting the privacy of their customers and fulfil their role in upholding the secure systems and procedures of the Bank.

Multi-channel customer touchpoints

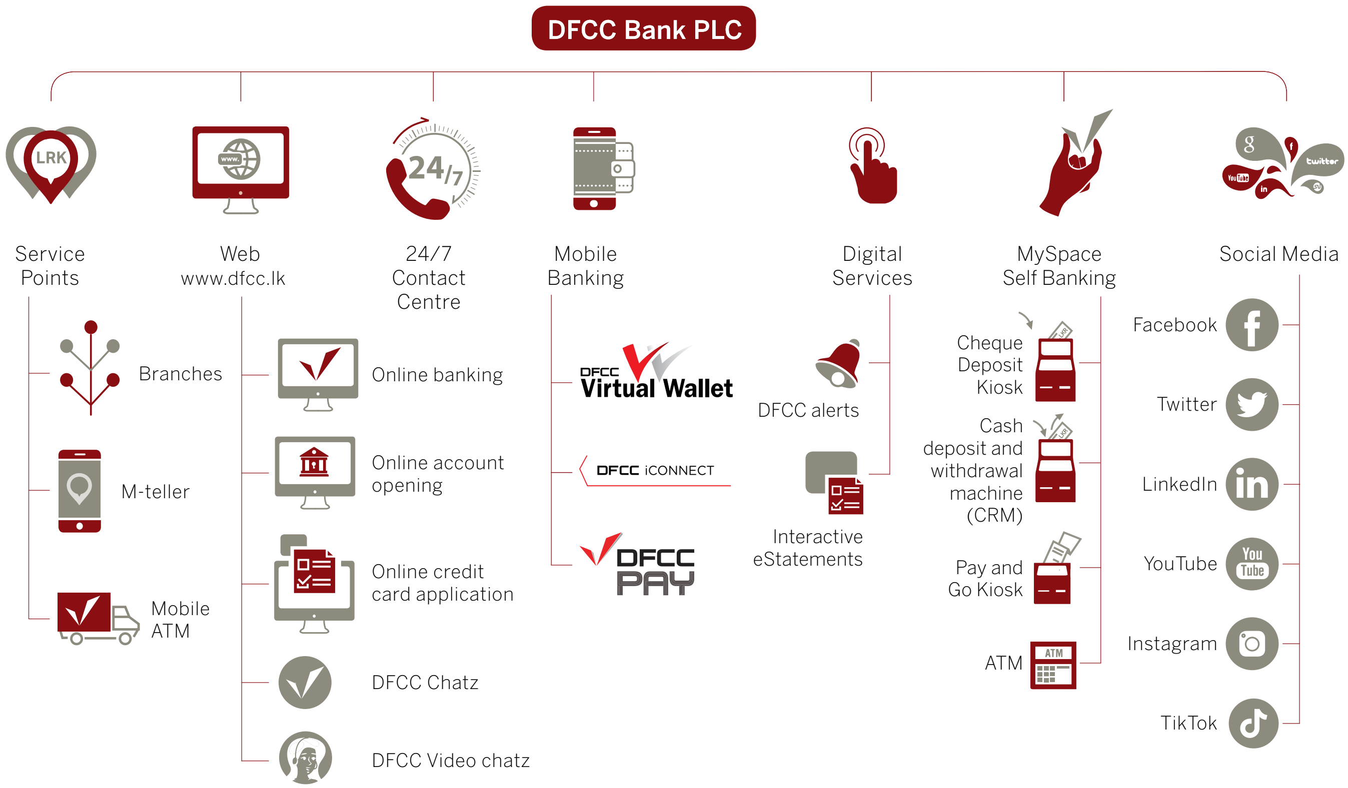
DFCC Bank reaches its customers through an extensive network of touchpoints ranging from its conventional branch network to its Internet and mobile-centric digital touchpoints which include DFCC MySpace, DFCC Virtual Wallet, DFCC Pay, and DFCC iConnect.

The Bank's digital-first approach saw a significant boost in 2020 as customers had to social distance and rely on the Bank's digital touchpoints for a virtual banking experience. Additionally, the Bank deployed a mobile ATM service to provide its customers with convenient access to ATM services during the Government-mandated periods of lockdown.

The Bank understands that each and every customer's needs and wants are different. Thus, the Bank extends its services to its customers via multiple channels and avenues, ranging from its conventional Island-wide branches to its range of digital channel solutions. The Bank emphasised the need of the hour with respect to COVID-19 and initiated the "*Salli Athing Allan One Nah*" campaign under the DFCC Virtual Wallet. Also in line with customer needs and the CBSL campaign "Cash *Wade*", the digital footprint and transactions of the Bank were significantly increased during the year with DFCC My Space, which includes ATM, CRMs, cheque deposit kiosks, and Pay & Go machines. Similar to individuals, large corporations were assisted through the acclaimed DFCC iConnect payments and cash management solution.

Banking to your doorstep

The Bank rolled out the Mobile ATM service to the Colombo, Kalutara, and Gampaha Districts to make it easier for customers to withdraw cash and pay bills conveniently during the pandemic.



Product responsibility

DFCC Bank's approach to product responsibility starts at the initial stages of product design. The Bank strives to be ethical in its product design, adhering to all necessary compliance requirements before introducing a new product to its customers.

DFCC Bank recognises that modern customers are not only concerned with quality and service but also wish to be well-informed before making a purchase or starting a business relationship with a corporate entity. The 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

DFCC Bank engages with customers and potential customers across multiple channels in English, Sinhala, and Tamil. A Board-approved Corporate Communications Policy and Social Media Policy define how the Bank engages with its customers. The Bank strives to ensure that information is accurate and complies with these policies, the Central Bank of Sri Lanka, and the Bank's Customer Charter. In 2020, the Bank carried out various brand-building initiatives on ATL, BTL and digital including marketing and seasonal campaigns, event sponsorships, and customer engagement activities.

Employee Capital

In DFCC Bank's quest to be the most customer centric bank in the country, having an engaged, empowered, agile workforce that is responsive to the requirements of customers is crucial.

The COVID-19 pandemic put to test the agility and responsiveness of the Bank's workforce. However, the infrastructure and protocols in place ensured that the Bank was able to swiftly shift its staff to working remotely and apply social distancing where the physical presence of the staff was required.

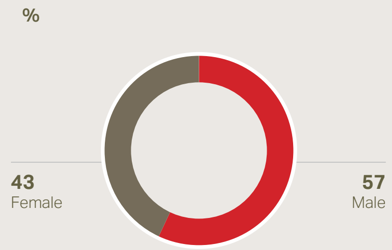
The Bank continued to invest in the development and well-being of its employees, embracing the use of online platforms to facilitate training and maintain communication between staff members even while working from home. The Bank adheres to the highest standards of ethical practices and respects human rights when dealing with its employees, providing them with a diverse, safe, healthy, and equal opportunity working environment.

Workforce statistics

The Bank had 2,072 employees at the end of 2020 with 87% constituting the permanent cadre. Overall there was a marginal decline in headcount in comparison to the previous year. In terms of gender diversity, the male: female representation amounted to 57:43. Approximately 66% of employees within the branch network are based outside the Western Province. Approximately 62% of the workforce are in the age category of 26-40.

Further information can be found in the following statistical representations of the Bank's workforce in 2020.

Workforce by gender



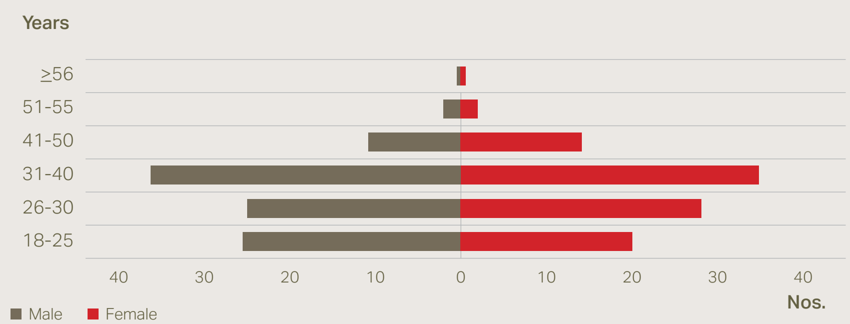
Workforce by grade and gender

Workforce by province and gender

Province	Number of branches	Male	Female	Total
Central	15	93	56	149
Eastern	10	55	21	76
Northern	6	33	21	54
North-Central	9	57	23	80
North-Western	11	60	45	105
Sabaragamuwa	15	69	38	107
Southern	23	104	76	180
Uva	9	54	23	77
Western	41	231	194	425
Total	139	756	497	1,253

	Number of units	Male	Female	Total
Departments and other business units	94	423	396	819

Age pyramid



Resourcing

The Bank regularly takes part in a variety of events such as career fairs held at schools, universities, and educational institutes to highlight its positioning as an employer of choice. Internal initiatives such as staff-incentivised referral schemes are introduced from time to time to encourage the Bank's employees to source applicants for the Bank's talent pool.

Recruitment

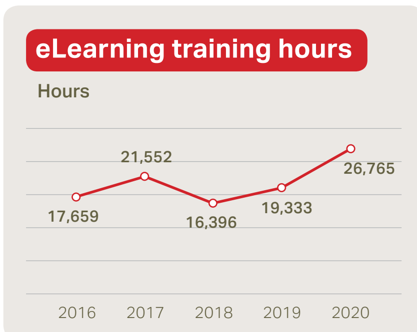
During the year under review, arising from the business impact of the pandemic, a conscious effort was made to restrict recruitment. Some planned expansions and new positions were kept on hold while replacements too were accommodated on a case by case basis. During the year, 175 new employees were recruited of which 63% were to junior positions and approximately 77% of new recruits were under the age of 30.

Learning and development

The development and building of staff competencies are an ongoing focus of the Bank. Supervisors are expected to engage one-on-one with their staff and develop an individual development plan for every employee. Ensuring that this plan is executed is the combined responsibility of the individual, the supervisor, and the HR Department. After the training requirements are identified, an annual training plan is formulated for the Bank. The plan is based on the individual development plans as well as the strategic imperatives of the Bank. As the year was fraught with unexpected challenges, most of the training was conducted through virtual platforms.

The Bank transitioned to a new eLearning platform, "eAcademy", having used the previous platform for the past decade. The new platform offers great flexibility for content design and data management and has also enabled employees to access e-learning modules through their smartphones. During the year over 7,000 participants attended 323 programmes conducted virtually. Through the eLearning platform, 62 technical and soft skills modules were made available and regularly accessed by the staff with about 26,800 learning hours accumulated during the year.

	Number of training courses	Training participants
Online training	323	7,057
On-site programmes	78	943
eLearning modules	62	19,228
Total number of trainings	463	27,228



Certification programmes and further education

Two certification programmes covering banking operations and credit are available to eligible staff. During the year under review, 101 employees participated in the operations certification programme, while 73 employees followed the credit certification course.

The Bank actively encourages its employees to pursue professional development by obtaining banking, professional, and postgraduate qualifications. The Bank assists employees through several grant and loan-based assistance schemes.

Career development

DFCC Bank operates multiple career development programmes that target individuals at different stages of career progression.

The "Ascension" programme aims to develop a high potential talent pool and groom employees to take on higher level roles through customised development plans, special assignments, enhanced job scopes, and specialised training.

The "Rise" programme is a voluntary programme aimed at individuals facing performance difficulties by assisting them in improving their capacity and productivity through a variety of mechanisms including one-on-one feedback sessions, role changes, and specialised training.

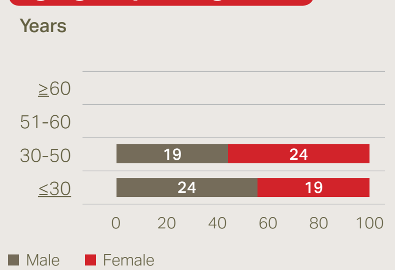
In line with the Bank's emphasis on building a robust leadership pipeline, a new programme, "Nurturing Leaders to Greatness", is currently being rolled out. Through this programme, 42 mid-level managers have been selected to undergo an intensive assessment and interview process. The top scoring employees will be recognised and awarded. All participants will be provided with a customised individual development plan which will identify strength areas for development, training requirements and other development initiatives to address the gaps.

Employee retention and turnover

The Bank places high importance on employee satisfaction and retention as part of its human capital strategy. Multiple communication and grievance redressal mechanisms are in place, alongside extensive employee engagement activities such as competitions, awards programmes, extracurricular events, and comprehensive training and advancement programmes. The Bank reviews its human resource policies annually and revises them to align with the Bank's strategic objectives, industry standards as well the needs of its employees, while ensuring transparency and equitability.

The Bank experienced limited turnover during the year, with a turnover rate of 4.9%. Despite the challenging business circumstances inflicted by the ongoing pandemic, the Bank was committed to ensure job security and reassure employees in this regard. The turnover can primarily be attributed to contract and sales staff, which generally tends to have a higher turnover rate. Exit interviews are conducted for departing staff members with feedback collated and provided to supervisors and remedial action taken, if necessary.

Employee turnover by age group and gender



Communication

2020 saw several significant changes made to the way the Bank manages and communicates with its employees. Many of these changes are a part of the Bank's Vision 2025 strategy to become a digital-first, customer centric bank. Due to the COVID-19 pandemic which saw a significant number of the Bank's employees working from home and on a roster basis, the Bank's plans were accelerated to accommodate the shift and ensure that employees could continue serving their customers uninterrupted.

The intranet allows employees to upload and react to photos, receive updated information on job vacancies within the Bank, view information on training programmes, and easily search for HR policies, regulatory and compliance guidelines, etc.

The "Listening Wall" is a digital platform which enables the Bank's employees to express their ideas on a variety of topics including suggestions for process improvements and new products, as well as raise their concerns and issues. A committee reviews the ideas and issues raised on this platform on a monthly basis and takes necessary actions.

In 2020, the Bank transitioned to a new cloud-based HR Information System, "People's HR", to better serve its employees. Employees can now use an app to mark their attendance, even if they are not present at a physical location. The second phase of the HRIS implementation will take place in 2021 and introduce modules for performance management and automating the entire recruitment process, from resourcing to onboarding. The Bank also adopted Google Workspace as the new communications and productivity enhancement platform. Zoom was used as an additional communications platform to facilitate larger virtual meetings, such as the annual townhall meeting where the Bank's CEO engages directly with the staff to address their queries and provides redressal to grievances raised.

Grievance management

The Bank has several grievance management methodologies in place that can be employed to address staff concerns. There is a Grievance Committee, comprising of a cross-functional team, which handles concerns raised by employees. The Reach Out Committee, also comprised of a cross-functional team, is dedicated to handling the concerns and grievances of the Bank's female employees. The Bank implemented a new grievance workflow during the year that further empowers its employees. Employees now have access to multiple grievance management mechanisms and can choose how they want their grievances to be escalated and also decide who they would like to declare concerns to.

Stronger staff engagement

The Bank's intranet, "WECONNECT", was revamped to facilitate and accommodate increased engagement from staff.

Happiness and well-being

Health and safety during COVID-19

As banking was considered a critical activity during the lockdown periods, the Bank embarked on a massive endeavour, under very stringent timelines, almost overnight, to continue its operations in a safe and controlled manner. The staff were provided with secure VPN access to the Bank's network, as well as laptops and other equipment as needed so they could work from home.

To allow for social distancing on the Bank's premises, a roster system was introduced that helped to reduce the footfall across the Bank's branches. Regular communications were made to the staff pertaining to protocols deployed, safety in the workplace, and best practices to be followed at home. Handwashing facilities and sanitisers were introduced across the branch network, along with mandatory facemask policies. The Bank also provided transport facilities for its staff to minimise the use of public transport.

Furthermore, the Bank focused on emphasising the importance of mental and physical wellness to employees through programmes on stress management and nutrition and wellness and various opportunities to participate in fitness classes conducted virtually were also made available during the lockdown periods. Employees were also provided with full or partial funding for gym memberships and social clubs. The Bank also offered multiple opportunities for socially distant engagement and interaction during the year.

Social event calendar in 2020

The Bank held a virtual interdepartmental talent contest wherein employees could form teams and showcase their talent and creativity. Over 50 teams across the Bank participated in the contest, which culminated in an awards ceremony. It was the first virtual event of its kind conducted by the Bank.

The Bank held its awards event in a mixed physical and virtual event, where the Bank's staff could participate in the event via Zoom from their Bank branches or from their residence. Some of the other social engagement activities organised during the year included the following:

Virtual Townhall meeting for all staff with CEO	July 2020
Virtual Poson Bakthi Gee	July 2020
Virtual interdepartmental contest	July 2020
International Youth Day – Webinar on stress management and mindfulness	August 2020
Virtual Zumba and fitness classes	August 2020 onwards
World Children's Day – Virtual kids programme	October 2020
65th Anniversary and Annual Awards Ceremony	October 2020
Monthly intranet quiz	November 2020 onwards
World Diabetes Day – Webinar	November 2020
Virtual kids Christmas party	December 2020
Virtual Christmas tree competition	December 2020

#TogetherWeGrow

The #TogetherWeGrow initiative was launched in 2019 and aims to build a one-team mindset among the Bank's employees by motivating them to make a shift in their thinking and action. The initiative is driven primarily by the Bank's millennial employees on a voluntary basis, seeking to create a positive, productive, and pleasant work culture that makes the Bank's employees feel that they are taken care of and appreciated. The #TogetherWeGrow initiative was recognised by the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) with a Merit Accolade under the Outstanding Development Project Awards for Human Capital Development at the 43rd ADFIAP Annual Meeting.

DFCC REDS

The DFCC REDS is a cross-functional team that has been active for the past decade. The team engages the Bank's new staff by helping them to assimilate more easily into the Bank and its culture and people. DFCC REDS also empowers the Bank's young staff by providing them with a platform where they can bring up ideas and issues and have a collective voice with which to present them.

During the year under review, the REDS organised a virtual quiz event, the first of its kind at the Bank. Despite the logistical and technological challenges of an undertaking of this nature, the team successfully executed the event.

DFCC Bank uplifts its communities

The DFCC Community Projects Team, Sustainability Unit, and HR Department, regularly organise events to contribute to the upliftment of our communities.

During the year, through staff contributions, donations were made to projects initiated for Children's Day and International Women's Day. The Bank continued its commemorative staff tree planting campaign for the fourth consecutive year and teamed up with Caritas Sri Lanka – SEDEC to launch a scholarship programme to provide financial assistance for the youth of vulnerable, low-income families. The five-year programme will help at least 100 recipients to continue their education uninterrupted with a focus on entrepreneurship.

The Bank also actively supports its employees through provision of extended paid leave and financial assistance for medical emergencies.

Equal opportunity, diversity, and inclusion

DFCC Bank continuously advocates and champions a diverse and inclusive environment. Recruitment processes are transparent and equitable with emphasis on selection of the best talent irrespective of gender, cast, creed or religion. Opportunities are offered to employees based on their performance and aptitude without discrimination. Equitable treatment for all employees is a constant priority of the Bank and is reflected in its promotion data and the remuneration comparator data in the following table.

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

The Bank also provides permanent and contractual employment opportunities to differently abled persons based on their capacities and competencies, in line with the Bank's stance on inclusivity.

Collective bargaining

DFCC Bank takes the concerns and grievances of its employees seriously. Employees can utilise multiple avenues of communication to present their concerns to the Bank. A new grievance escalation methodology and workflow was implemented during 2020, further empowering the Bank's employees. The Bank also maintains an open-door policy, allowing employees to raise their concerns directly with any member of the Senior Management, including the CEO and Chairman. Due to the open nature of communication between the Bank and its employees and the swift addressal of any issues, there has not been a need to establish any collective agreements.

Benefits

Benefits are reviewed from time to time and revised in line with industry practices and internal equities. The following table lists the benefits provided to full-time employees which are not provided to contract, temporary, or part-time employees.

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

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

** *Only for non-executive staff.*

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

Business Partner Capital

Multilateral and bilateral institutions

DFCC Bank maintains partnerships with various institutions, 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 enabling market development and capacity building. The institutions the Bank works with include:

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

The Bank remains among the 10 participating financial institutions selected by the Government of Sri Lanka (GoSL) and the Asian Development Bank (ADB) to on-lend ADB's funds to the SME sector and rooftop solar power generation projects. The partnership is aligned with the Bank's mission to nurture the country's burgeoning SME sector and contribute to the country's renewable energy generation efforts.

The Resource Mobilisation Unit is also focused on building on the relationships established by the Bank by actively engaging with partner institutions and expanding the Bank's reach to other territories and organisations to secure potential funding lines to support the Bank's rapid growth.

Correspondent banks

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

65 years of building relationships

Over the span of 65 years, DFCC Bank has established strong, long-term, interdependent relationships with multilateral and bilateral institutions that share similar goals and values.

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

Supply chain management and procurement policy

The Bank maintains a fair, transparent, and stringent procurement policy which clearly defines how goods and services are to be procured by authorised employees. The policy also stipulates that the selection of suppliers and acquisition of goods and services be carried out in a non-discriminatory and economically sound manner.

A Procurement Committee (PC) led by an Executive Vice-President acts as a control measure of the procurement function of the Bank. Significant IT-related procurements are submitted to an IT Steering Committee (ITSC). Other general procurements are either submitted to the PC for approval or to higher approving authorities. Large value and/or specialised procurements may be subject to review by independent parties if necessary.

Suppliers of goods and services are required to register themselves with the approval of the PC and are subject to review once every two years. Suppliers undergo a rigorous evaluation process to determine quality, delivery time, pricing, after sales support, technical proficiency, and references. The Bank aims to source its requirements from local suppliers wherever possible as part of its commitment to supporting local communities and businesses. 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 including:

- 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 under the DFCC Group. The 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

Established in 2004, DFCC Consulting (Pvt) Limited 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. DFCC Consulting supports DFCC Bank through its expertise in the fields of environment, engineering, renewable energy, and other fields that carries out international consultancy assignments, sometimes in partnership with overseas consulting firms.

Lanka Industrial Estates Limited

Lanka Industrial Estates Limited, referred to as LINDEL, a subsidiary Company of DFCC Bank PLC was incorporated in 1992 to set up, operate and manage industrial estates in Sri Lanka. Setting up the LINDEL Industrial Estate at Sapugaskanda, upgrading and making use of the remaining infrastructure facilities of the defunct State Fertilizer Manufacturing Corporation was the pioneering project the Company undertook. LINDEL takes pride in providing a superior set of infrastructure and allied services to all its clients through continuous improvement.

Synapsys Limited

Synapsys Limited was established in 2006 and is a fully-owned subsidiary of DFCC Bank that builds and operates software platforms for banking and financial services institutions 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.

National Asset Management Limited

National Asset Management Limited (NAMAL) is the pioneer Unit Trust management company in Sri Lanka established in 1991 with 30 years of experience and a successful track record of investing in equity and fixed income markets. NAMAL launched the first Unit Trust to be licensed in Sri Lanka (National Equity Fund) and the first listed Unit Trust (NAMAL Acuity Value Fund). NAMAL operates five Unit Trusts and offers private portfolio management services. A subsidiary of Union Bank of Colombo PLC, its shareholders include DFCC Bank PLC and Ennid Capital (Pvt) Limited. Its management team consists of highly experienced and professional individuals with widespread experience in domestic and international capital markets.

Acuity Partners (Pvt) Limited

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

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:

1. American Chamber of Commerce in Sri Lanka
2. Association of Compliance Officers of Banks Sri Lanka
3. Association of Development Financing Institutions in Asia and the Pacific
4. Banks' CIO Forum
5. BNI Lanka Enterprises (Pvt) Limited
6. Central Bank of Sri Lanka
7. Chamber of Commerce and Industry of Central Province
8. Character Precepts Training Institute (Pvt) Limited
9. Colombo Stock Exchange
10. Emit International (Pvt) Limited
11. Fitch Ratings Lanka Ltd.
12. Galle District Chamber of Commerce and Industry
13. Genesis Software (Pvt) Limited
14. ICRA Lanka Limited
15. International Chamber of Commerce Sri Lanka
16. Matara District Chamber of Commerce and Industry
17. Reed Business Information Limited
18. S&P Global Ratings Singapore Pte Limited
19. Securities and Exchange Commission of Sri Lanka
20. Sri Lanka Forex Association
21. The Association of Banking Sector Risk Professionals of Sri Lanka
22. The Ceylon Chamber of Commerce
23. The Employers' Federation of Ceylon
24. The Financial Ombudsman Sri Lanka (Guarantee) Limited
25. The Institute of Chartered Accountants of Sri Lanka
26. The National Chamber of Commerce of Sri Lanka
27. The Sri Lanka Banks' Association (Guarantee) Limited
28. Wayamba Chamber of Commerce and Industry

Social and Environmental Capital

Resilience
/rɪˈzɪliəns/
noun

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

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

Business coalitions highlight how companies can build resilience by taking actions that:

1. Improve risk management
2. Invest in human and social capital
3. Better integrate sustainability

This means strengthened risk management with strong processes and systems, improved metrics, topics (staff well-being, diversity and inclusion, safety, etc.), disclosure, materiality assessment with stakeholder inputs, longer timeframes, scenario thinking, and finally a balance of Environmental, Social, and Governance (ESG) elements being addressed within sustainability, especially the Social.

DFCC Bank's Sustainability Policy

It is recognised globally that the business case for sustainability has benefits that accrue to all stakeholders. As the expectations of stakeholders evolve, sustainability is no longer something that is considered optional or voluntary but is now a "must do" practice to future-proof the business against the demands of regulators and lenders. Sustainability is a key part of DFCC Bank's Vision 2025 strategy and will be crucial in the Bank's journey to becoming the most customer centric, digitally enabled bank that meets customers' future needs.

In 2020, the Bank boldly developed its first formal Sustainability Policy, Strategy, and Plan for the period 2020 to 2030, building on its historical achievements in this area. This stems from a belief the Bank holds that it must contribute towards strengthening resilience among its stakeholders and also towards resilience in Sri Lanka, given the greater likelihood of uncertainties and challenges across the globe during the next decade. The Bank aims to create long-term stakeholder value through sustainability.

Sustainability vision

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

Sustainability purpose

Contributing towards a resilient Sri Lanka

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

In applying the TBL framework to Vision 2025, the Bank has three key sustainability dimensions:

Resilient Business
Contributing to sustainable economic growth

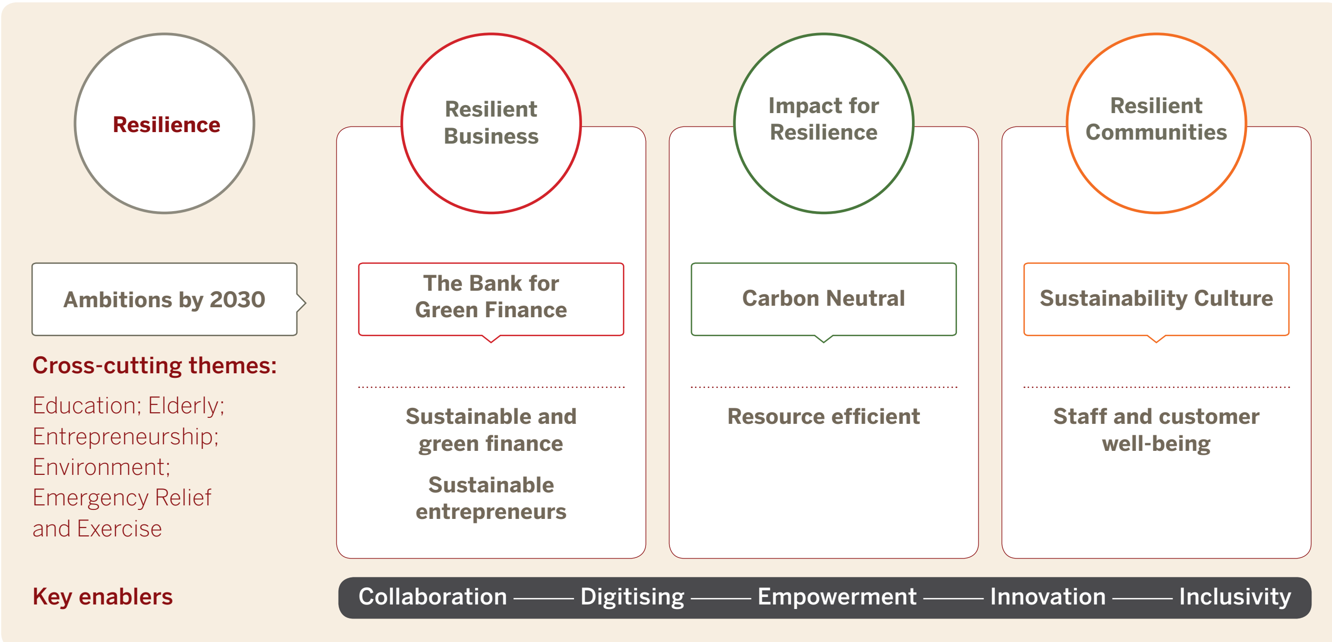
Impacts for Resilience
Promoting positive environmental and social impacts

Resilient Communities
Advancing sustainable workplaces and lifestyles
DFCC Bank has identified six cross-cutting themes (the six Es):

Education Elderly Entrepreneurship Environment Emergency Relief Exercise

The Bank will focus its sustainability efforts on these themes to maximise its impact. Sustainability will be powered through five key enablers: Collaboration, Digitising, Empowerment, Innovation, and Inclusivity. These enablers will help the Bank to realise its vision of sustainability and contribute towards a resilient Sri Lanka, while also actively contributing towards the UN Sustainable Development Goals (SDGs).

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



DFCC Bank's new Sustainability Strategy is linked to 12 SDGs:

The Bank's sustainability activities will actively contribute towards specific SDG related targets and indicators.

The big goals for DFCC Bank

Key goals have been developed for the Bank with consideration for the developments in the global and local banking sector and building on the Bank's past activities related to sustainability.

Goal 1 The Bank for Green Finance

DFCC Bank seeks to be the bank specialising in environmental, energy, and sustainability-related project and advisory services.

Goal 2 Carbon neutral bank by 2030

Carbon neutrality is achievable with a combination of energy conservation, renewable energy, and purchasing of carbon offsets over time. Technological advances and changing economic policies impact positively on feasibility.

The goal is congruent with global sectoral good practices and trends in the financial sector in Sri Lanka, as well as the Government of Sri Lanka's stated policy aim of 80% renewable energy by 2030 in Sri Lanka. The Bank will work in partnership with several organisations on renewable energy to achieve this goal. DFCC Bank also seeks to be a Clean Air Champion in Sri Lanka and will work with organisations on local air pollution mitigation actions.

Goal 3 Achieve sustainable work lifestyles by 2030

The Bank seeks to advance sustainable workplaces and lifestyles via governance, inculcating sustainable workplace practices as well as lifestyles for clients and staff in general. This includes a range of elements from promoting diversity and inclusivity, to productivity-oriented wellness and sustainable consumption and lifestyle practices

Sustainability and Digitisation

Sustainability and digitisation are two big global trends in business. The COVID-19 pandemic has provided an urgent impetus for digitisation with the significant increase in digital customer interactions. Continued growth is expected to be seen in digital collaboration tools.

Sustainable practices include the use of technologies including digitisation, but also more broadly corporate digital responsibility. This means promoting ethical and sustainable business practices throughout the Bank.

While technology is the enabler, digitisation requires a 180° change in approach and attitude that is part and parcel of the Sustainability Strategy and Plan. Technology, digitisation, and often the new forms of working all aid new and sustainable ways of working at DFCC Bank. This feeds into long term productivity that will yield positive returns for all the Bank's stakeholders. It also means lower use of resources such as paper, waste generation, staff and customer time, etc.

Digitisation allows the Bank to design for, measure, and manage resilience (or its capacity to absorb stress, recover critical functionality, and thrive in altered circumstances). This year has successfully tested the Bank's capacity.

Digital platforms are the Bank's business ecosystems that can increase its collective resilience via access to new capabilities, through increased flexibility, and by reducing the fixed cost of entry into businesses.

In moving forward, digitisation provides the Bank with an opportunity to contribute towards a post-pandemic Green Recovery where the costs of pollution and the benefits of environmental sustainability are increasingly recognised by the Bank's stakeholders.

Implementing DFCC Bank's Sustainability Vision

The Bank started implementing its new Sustainability Policy, Strategy, and Plan in 2020 along key areas of action, including:

1. Creating a baseline of information on key sustainability aspects
2. Setting up key structures and processes
3. Starting with identified projects with support for developing criteria for identification of projects, metrics for monitoring, impact assessment, and reporting, along with building skills and process documentation with teams.
4. Creating awareness of DFCC Bank's Sustainability Strategy and its business case for sustainability, with strong engagement with staff and other key stakeholders that will motivate their active participation in the Bank's activities.
5. Strengthening the integration and practice of the Social and Environmental Management System (SEMS) within the organisation.

More specifically, the Bank carried out several activities, including:

- → Communicating the new Sustainability Policy, Strategy, and Plan to staff through email flyers, weekly internal newsletter, CEO's bulletin, and during training sessions and management meetings.
- → All staff including the CEO taking the Sustainability Pledge
- → Strengthening of the existing Management Subcommittee, headed by the CEO, to a cross-functional Executive Sustainability Management Committee with several C-level staff. The Committee will set priorities, launch and oversee task forces and other teams, and make strategic decisions on the implementation of our sustainability initiatives.
- → Formation of several taskforces and committees to implement specific tasks, including wellness.
- → Conducting a Sustainability Quiz to increase the knowledge on sustainability among the staff.

Impacts for resilience: 5s for resource and operational efficiency

5S is a system to reduce waste and optimise productivity, creating order and operational workplace efficiency. DFCC Bank has included its 5S activities as part of its overall sustainability strategy, particularly related to increased resource efficiency and minimising waste.

At DFCC Bank, 5S implementation started with the Branch Operations Department. All staff were trained in the theoretical and practical aspects of 5S for the Bank as well as at the individual level. It was then successfully implemented across the Department and later, onto the PFS Processing Centre, the Contact Centre, and Lean Management departments. All staff of 5S-compliant departments were given glass bottles to encourage eco-friendly practices within the Bank.

The Bank looks forward to rolling out 5S across all its departments as part of its ongoing sustainability initiatives in 2021.

Sustainability initiatives

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

Sustainable Banking Initiative

Sri Lanka Banks' Association Sustainable Banking Initiative

DFCC Bank is a pioneering signatory to 11 Sustainable Banking Principles of the Sri Lanka Banks' Association (SLBA) under the Sustainable Banking Initiative (SBI) and an active participant in this sectoral initiative. This includes training the Bank's staff in environmental and social risk impact mitigation and management in credit transactions using the SBI's resources. A total of 84 selected staff successfully completed the six e-learning modules on the SBI and obtained certificates during the year. In addition, both the CEO and DCEO completed the CEO's module, providing a clear message to the Bank's staff on the importance of knowledge on environmental and social risk management in the Bank's lending portfolio.

Social and Environmental Management System

The Bank's Sustainability Unit has implemented a Social and Environmental Management System (SEMS) that ensures the projects funded by the Bank meet the required environmental and social regulations, while also enabling clients to be more profitable and responsible.

The following activities were commenced from 2020 for all term loans over LKR 25 Mn:

- → Conducting an environmental and social risk categorisation during the project appraisal for a total of 187 loans. This serves as a useful indicator for loan approving authorities and a decision tool on the level of environmental and social impact monitoring required for each transaction.
- → Commenting on the environmental and social aspects in appraisal reports by the Sustainability Unit for the benefit of approving authorities
- → Monitoring of the environmental and social aspects by the Sustainability Unit during the entire loan tenure.

Resilient Business: Supporting customers during the pandemic

During a particularly difficult year for the country and its citizens, the Bank assisted its customers through moratoriums within and beyond the scope of the guidelines issued by the CBSL. The Bank took further steps to provide its customers with added convenience during the year with the M-teller mobile service that was deployed in certain districts for cash collection at customers' doorstep.

Resilient Business: Supporting SMEs and MSMEs

The Bank supported SMEs and MSMEs affected by the COVID-19 pandemic through moratoriums, in line with the CBSL guidelines. The "DFCC *Sahanaya*" concessionary loan scheme amounting to approximately LKR 2 Bn was launched to help SME/MSME exporters and aid in the revival of the sector.

The Bank launched the "DFCC *Saubhagya*" loan scheme aimed at innovative projects, employment generating projects, export oriented projects, livestock and agricultural projects, and other development projects that can help to support the economy.

DFCC Bank will continue to support sectors affected by the pandemic and provide financial and advisory support to SMEs in many sectors including agriculture, export, manufacturing, health, education, construction, and others in 2021. The Bank will place an increased focus on promoting environmental, energy, and sustainability projects and provide advisory services in line with its sustainability goal of becoming a bank for Green Financing.

Resilient Communities: Home gardening

DFCC Bank promoted home gardening during the lockdown periods and continued to do so after it was lifted. The Bank provided home gardening kits comprised of compost, pots made of recycled plastic, and vegetable seeds to its customers and staff. The aim was to promote home gardening as a means of strengthening self-reliance and food security, and generate an appreciation of the benefits of a more sustainable lifestyle.

Resilient Communities: Strengthening the financial literacy of communities

The Bank continued its financial literacy programme, "*Sahaya Hamuwa*", to enhance the knowledge base of the communities it works with. The Bank has conducted over 50 workshops since the programme started in 2017 and engaged over 7,000 entrepreneurs across the country. Due to the pandemic, restrictions were placed on community gatherings and limited the workshops that were to be conducted during the year. Three workshops were conducted across the branch network before the lockdowns were implemented and seven workshops were conducted online. The Bank also streamed videos on entrepreneurship development through social media.

Education and Entrepreneurship: Caritas Sri Lanka-SEDEC programme

DFCC Bank teamed up with Caritas Sri Lanka-SEDEC to launch a scholarship programme as part of its CSR initiatives. The programme provides financial assistance targeted at the youth of vulnerable low-income families to continue their education without interruption, with a focus on entrepreneurship. The scholarship programme will have a duration of five years and have a minimum of 100 recipients at a given time.

Entrepreneurship: Supporting women entrepreneurs

The Bank has been developing a banking proposition that will enable women to fully benefit from financial services and promote women entrepreneurship development. This will be rolled out in 2021.

Environment: Tree planting campaign

The Sustainability Unit continued the tree planting campaign to commemorate staff birthdays for the fourth consecutive year with the participation of the Bank's staff and their families, including the CEO.

Environment and Exercise: Cycling at Pinnacle Centre

The Bank promoted cycling for a healthy work-life balance as part of its new Sustainability strategy and organised a cycling event in October to coincide with the opening of the new Pinnacle Centre in Colombo 07. The Pinnacle Centre has been designed to accommodate cycling enthusiasts and is equipped with changing rooms and shower facilities for customers.

Environment and Resource Efficiency: Waste management

A "Clean-up Day" was held throughout the Bank in September 2020 to coincide with the "World Clean-up Day" for the third consecutive year. Active participation by the staff on this day resulted in the removal of many unwanted items, leading to cleaner and spacious work areas. Arrangements were also made by the Sustainability Unit to collect e-waste and plastic from the Bank premises and from staff, which were then handed over to Central Environment Authority (CEA) approved recycling companies.

Environment and Resource Efficiency: Reducing resource consumption

The Bank has instituted taskforces to assess baseline consumption of several resources, including its usage of paper, electricity, water, and other resources during the year.

DFCC Bank's sustainable future

The Bank's commitment to sustainability is integrated into its business planning and operations by establishing and maintaining a transparent, time-sequenced Sustainability Strategy and Plan with further detailing of its goals and tracking the relevant metrics for the implementation of the Bank's corporate sustainability policy objectives.

The Bank embodies the change it wishes to see by raising its employees' awareness of sustainability and responsible behaviour through relevant training on sustainability and by instituting systems to assess the Bank's portfolio through SEMS. This will further strengthen them to play a pivotal role in implementing the Bank's Sustainability Policy.

DFCC Bank is deeply committed to comply, and to encourage its clients, to comply with all applicable environmental and social laws, rules, and regulations of Sri Lanka at all times and, when applicable, with international best practice standards.

Recognition for sustainability in 2020

Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) Awards 2020

ADFIAP DEVELOPMENT AWARDS

- Merit Award – Outstanding Development Project Awards for Human Capital Development for the #TogetherWeGrow HR initiative
- Merit Award – Outstanding Development Project Awards for Corporate Social Responsibility for the "*Samata* English" (English for All) initiative

Global Sustainable Finance Awards 2020 – Karlsruhe, Germany

The Karlsruhe Sustainable Finance Awards

- Certificate of Merit for Outstanding Sustainable Project Financing for success in granting loans to dairy farmers as a group loan

Partnerships for sustainability

The Bank aims to develop strategic alliances with sustainability minded individuals and organisations to partner in moving forward.

Awards and Accolades

Category	Award	Project	Institution	Month
Sri Lanka's Most Valuable Top 100 Brands	Position – 28	DFCC Bank, Corporate Brand	Brand Finance, Sri Lanka	May 2020
Outstanding Development Project Awards, Category 1, Human Capital Development	Merit	#TogetherWeGrow Initiative	Association of Development Financing Institutions in Asia and the Pacific (ADFIAP)	June 2020
Outstanding Development Project Awards, Category 10, Corporate Social Responsibility	Merit	*Samata* English	Association of Development Financing Institutions in Asia and the Pacific (ADFIAP)	June 2020
Outstanding Sustainable Project Financing	Merit	Financing Micro, Small and Medium Dairy Farms	Global Sustainable Finance Conference, City of Karlsruhe, Germany	September 2020
Most Popular Banking and Finance Website	Winner	DFCC Bank Corporate E/S/T Website	LK Domain Registry, best web.lk competition	September 2020
Best Tamil Website	Bronze			
Best Banking and Finance Website	Merit			
Best Sinhala Website	Merit			
Business Today Top – 30 (2019/20)	Position – 20	DFCC Bank, Corporate	Business Today Magazine	November 2020
Cash Management Service Provider in Sri Lanka	No. 01	Payments and Cash Management	Euromoney Awards, Euromoney Magazine	December 2020
Business Continuity Category	Best Post-COVID Innovation award	Automated Debt Moratorium initiative	Sri Lanka Association for Software Services Companies (SLASSCOM) RPA Awards 2020	December 2020
The Most Awarded 2019/20, Hall of Fame (The Top 50)	Position – 29	DFCC Bank, Corporate	LMD Magazine	December 2020
Cash Management in Sri Lanka	Market Leader in Cash Management – Sri Lanka	Payments and Cash Management	Asiamoney	December 2020
	Best for Services in Cash Management – Sri Lanka			

Key Events of the Year

Annual Awards Ceremony

Pinnacle Centre Colombo 07 opening

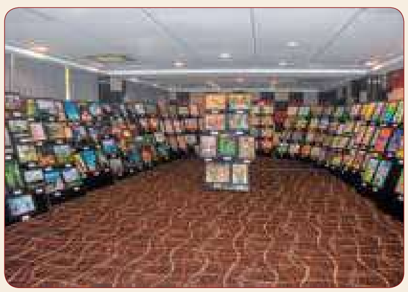
Flagship Kurunegala branch opening

Tree Planting Campaign

Women's Day Celebrations

Interdepartmental Virtual Contest

65th Anniversary Launch –
Press Conference



Art Exhibition

Town Hall Meetings

65th Anniversary Cycling Event

Refurbished Contact Centre
opening in Malabe

Integrated Risk Management

Risk culture and vision

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

The following broad risk categories are in focus:

Risks covered under Pillar I of Basel regulations

→ Credit risk

→ Market risk including foreign currency risk, equity prices risk, and interest rate risk in the trading book

→ Operational risk

Other risks covered under Pillar II of Basel regulations

→ Business risk and strategic risk

→ Liquidity risk

→ Settlement risk in treasury and international operations

→ Credit concentration risk

→ Cybersecurity risk

→ Interest rate risk in the banking book

→ Legal risk

→ Compliance risk

→ Reputational risk

→ Country risk

Credit risk amounts to the highest quantum of quantifiable risk faced by the Bank based on the quantification techniques currently in use. The Bank's credit risk accounted for 91% of the total risk-weighted assets. Additionally, the Bank takes necessary measures to proactively manage operational and market risks as very important risk categories considered as Pillar I risks under the Basel regulations. Operational risk incidents may be either high frequency but low impact or with low frequency but high impact, yet all of them warrant being closely monitored and managed prudently.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

n. Ensuring a prudent risk management culture within the Bank.
o. Periodic review of risk management policies and practices to be in line with the developments in regulations, business environment, internal environment and industry best practice.

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

Risk governance

Approach of "Three Lines of Defence"

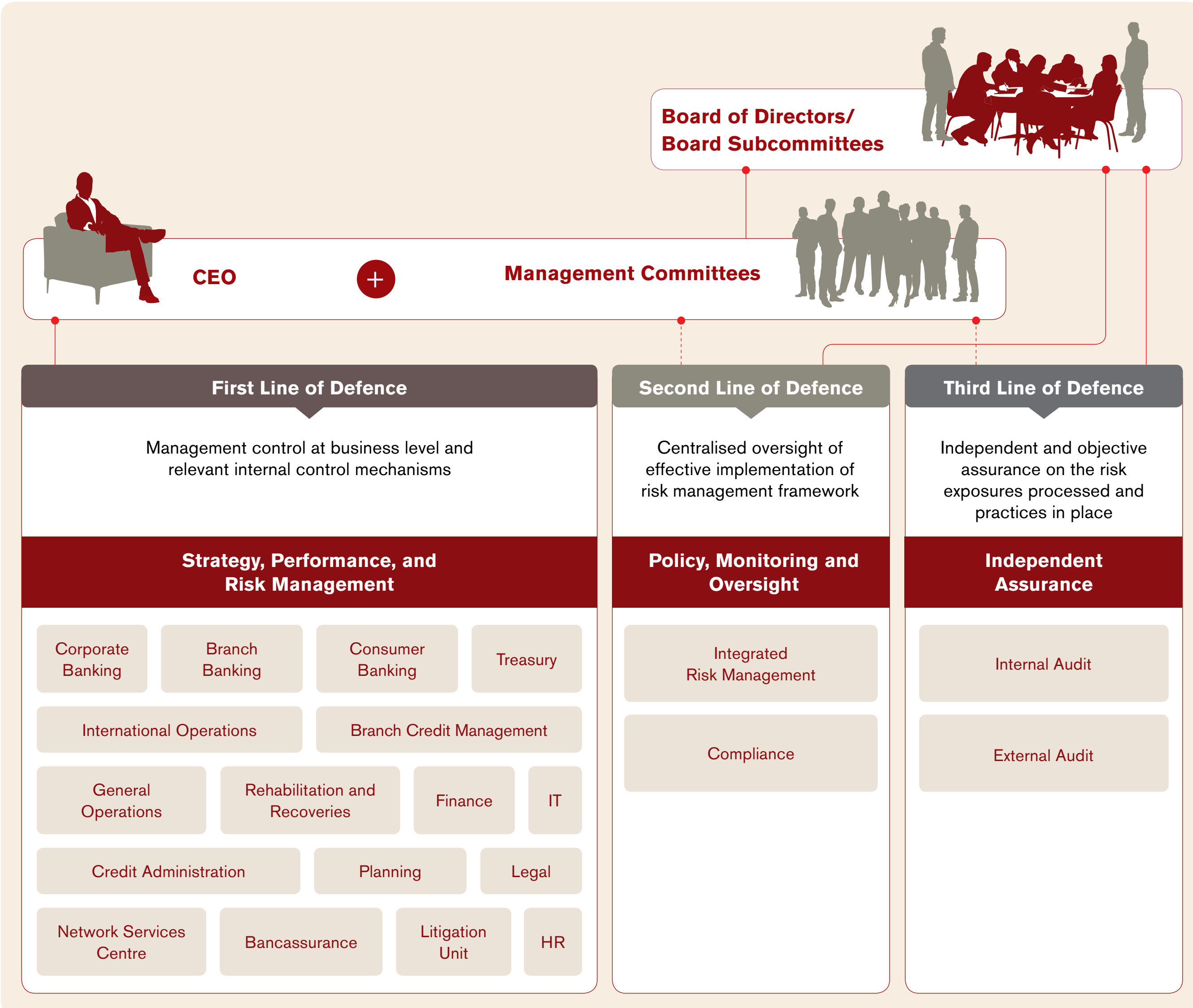
The Bank advocates strong risk governance applied pragmatically and consistently with a strong emphasis on the concept of "Three Lines of Defence". The governance structure encompasses accountability, responsibility, independence, reporting, communication and transparency, both internally and with our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

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

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

Governance structure for risk management

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



Risk policies and guidelines

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

Risk appetite

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

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

Tolerance limits for key types of risks

Risk area	Risk appetite criteria	Limit/Range
Integrated risk and capital management	Total Tier I Capital Adequacy Ratio (under Basel III) (Total Tier I capital as a percentage of total risk-weighted assets)	>8% (Regulatory) Internal limit is based on ICAAP
	Total Capital Adequacy Ratio (under Basel III) (Total capital as a percentage of total risk-weighted assets)	>12% (Regulatory) Internal limit is based on ICAAP
Credit quality and concentration	NP ratio	< Industry average as published by CBSL (Internal)
	Single borrower limit – Individual	< 30% (Regulatory) < 28% (Internal)
	Single borrower limit – Group	< 33% (Regulatory) < 30% (Internal)
	Aggregate large accommodation	< 55% (Regulatory) < 45% (Internal)
	Exposures to industry sectors	< 5% to 20% (Internal)
	Aggregate limit for related parties	< 25% (Internal)
Liquidity risk	Liquid asset ratio for DBU and FCBU	> 20% (Regulatory) > 21% (Internal)
	Liquidity coverage ratio (All currencies and rupee only)	> 90% (Regulatory) > 100% (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 Operational risks due to internal and external frauds, employee practices and workplace safety, client products, data leakages and business practices, damage to physical assets, business disruption and systems failures and failures in execution, delivery, and process management	Zero or very low risk appetite

Board Integrated Risk Management Committee (BIRMC)

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

In addition to the Board representatives, the BIRMC consists of the CEO and the CRO as members. Further, Heads representing Credit, Finance, Treasury, Information Technology, Operations, Internal Audit and Compliance attend the meeting as invitees. A summary of the responsibilities and functions of the BIRMC is given in the Report on the Board Integrated Risk Management Committee on page 136 of this Annual Report.

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

During 2020, the Committee paid more attention on reviewing risk in the increased operating environment due to COVID-19 pandemic. The Committee reviewed the adequacy of the risk mitigating actions taken and stress testing results under pandemic condition.

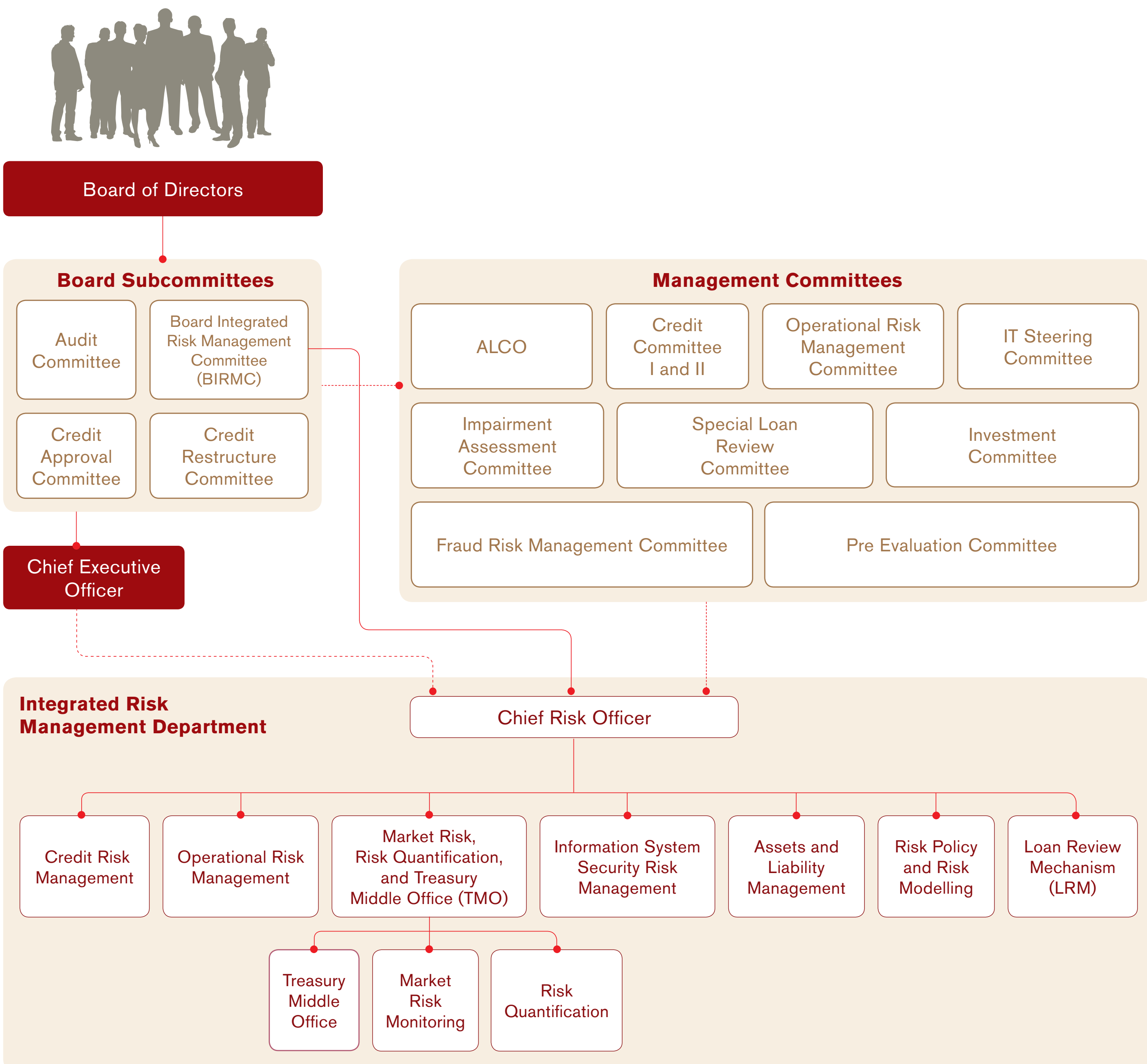
Scope and main content of risk reporting to Board Integrated Risk Management Committee

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

Involvement of Management Committees

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

Organisations structure for integrated risk management



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

Key developments in risk management function during the period under review

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

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

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

An independent validation for all the credit rating models and development of a new credit rating model were commenced during the year by external consultants. It is a best practice in risk management to validate the credit rating models by an external party in order to ensure unbiased assessment of model performance. The required calibrations/amendments to the rating models will be identified based on the results of the model validation process.

The new credit risk rating system which facilitates to host the internal credit rating models of the Bank was launched replacing the stand-alone credit rating models previously used. System users at all levels were provided training by selected staff members identified to conduct help desk services. Inhouse developed infographic video training modules were used as a training tool. 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 maintains 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.

With the onset of COVID-19 in Sri Lanka, the potential impact to the credit portfolio of the Bank was evaluated based on exposure to high to low impacted industries. Industry sectors were placed in four stress segments; minimal, short term, medium term and long term, based on magnitude of impact and expected timing of recovery.

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

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

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

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

Scenario analysis and simulations by the ALM unit to assess the expected behaviour of interest margins enabled ALCO to take proactive measures to manage the erosion of margins. Looking at the trends in the market rates, ALCO proactively changed the pricing methods, thus managing 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 and leases that do not require rating validation, is evaluated by an independent authority not connected to business lines, being the Credit Risk Management Unit of IRMD, The credit workflow of the Bank was further improved during the year, taking business requirements and changes in market conditions into consideration.

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

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

Server network, business application security reviews, technology risk assessments, network and other device security reviews are being conducted internally on regular basis to ensure required attention is given for rectifying known vulnerabilities and security weaknesses in 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.

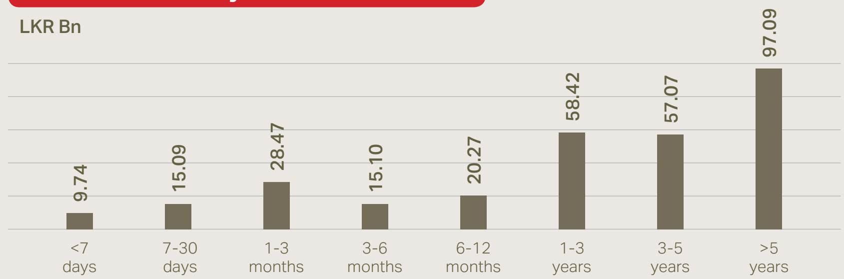
Staff awareness programmes on operational risk were held for staff at various levels, from new recruits to Branch Managers. The Bank has developed a model for Risk and Control Self-Assessment, and Key Risk Indicators for operational risks across all major functions and departments, and continues to monitor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

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 90.6% of the total risk-weighted assets of the Bank.

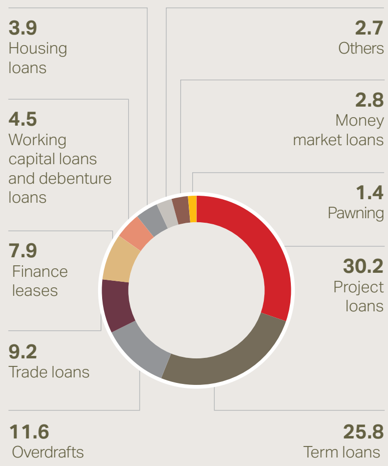
The challenge of credit risk management is to maximise the risk adjusted rate of return by maintaining the credit risk exposure within acceptable levels. With the implementation of IFRS 9, a proactive approach has been adopted by Credit Risk Management Unit in monitoring credit risk parameters and indicators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

Residual maturity of total advances



Product composition

%



Rating distribution of portfolio

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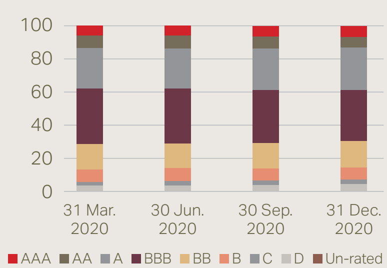

Note: Excludes concessionary staff loans, gold loans and credit card instalment loans

Geographical distribution of gross loans and advances

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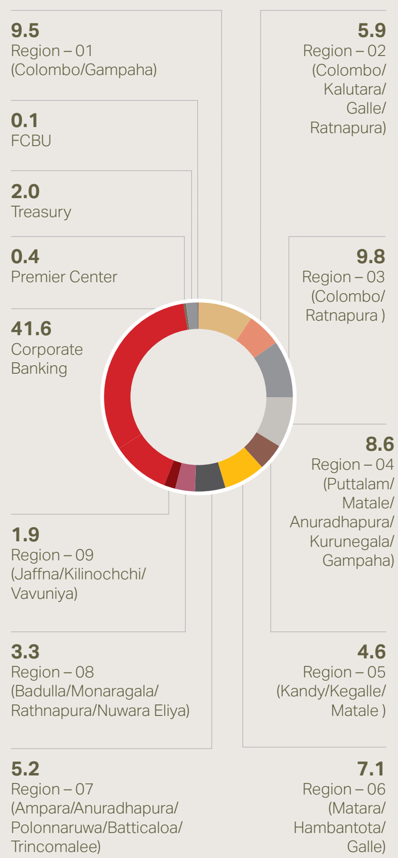

Collateral distribution of the loans and overdrafts portfolio

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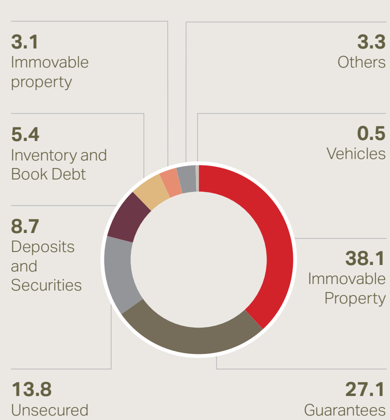

Sector-wise portfolio distribution

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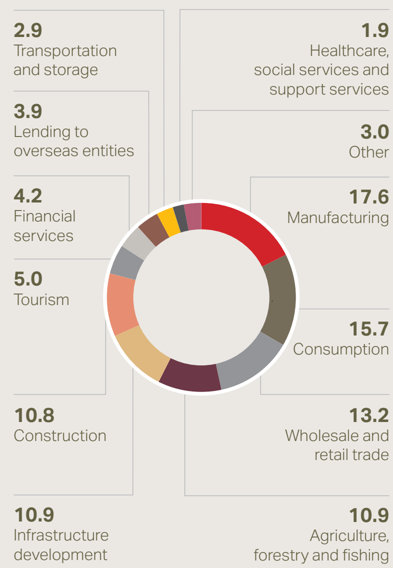
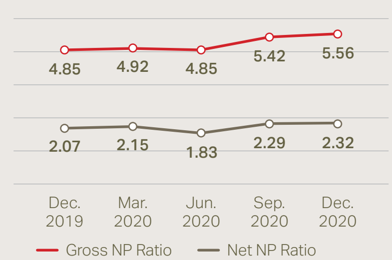


Note: *"Other" category includes "Education", "Information Technology and Communication Services", "Professional, Scientific and Technical Activities", "Arts, Entertainment and Recreation" and "Lending to Ministry of Finance".*

Movement of NPL

%



NPL Composition

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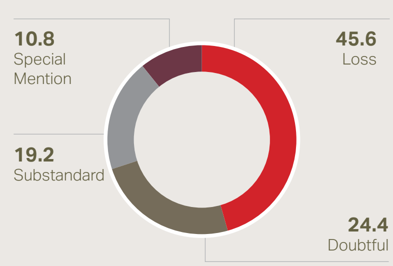


Credit risk management process

The Bank's credit policies approved by the Board of Directors define the credit objectives, outlining the credit strategy to be adopted at the Bank.

The policies are based on CBSL Directions on integrated risk management, Basel recommendations, business practices, and risk appetite of the Bank.

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

Credit risk culture	→ Credit risk management framework and credit policy → Governance structure and specific organisational structure for credit risk management → IRMD creates awareness of credit risk management through training programmes and experience sharing sessions, more recently via online channels and infographic E-Learning modules
Credit approval process	→ Structured and standardised credit approval process as documented in the credit manual. The entire gamut of activities involving credit appraisal, documentation, funds disbursement, monitoring performance, restructuring and recovery procedures are described in detail in the manual which is reviewed annually → Standardised appraisal formats have been designed for each product type and are being reviewed annually or as and when required to be in line with the business needs → Clearly defined credit workflow ensures segregation of duties among credit originators, independent review and approval authority → Delegation of Lending Authority sets out approval limits based on a combination of risk levels, as defined by risk rating and security type, loan size, proposed tenure, borrower, and group exposure → IRMD's involvement in independent rating review of every credit proposal with the exception of centrally processed retail loans and leases that do not require rating validations → CRO is an observer of the Credit Committee and evaluates credit proposals from a risk perspective → Risk-based pricing is practised at the Bank, any deviations being allowed only for funding through credit lines and where strong justification is made due to business development purposes
Control measures	→ 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 and industry sectors and credit products to which the Bank practices caution in lending → Exposure limits on single borrower, group exposure, and advisory limits on industry sectors and large group borrowers are set by the Board of Directors on recommendation of IRMD
Credit risk management	→ Timely identification of problem credits through product-wise and concentration analysis in relation to industries, specific products and geographical locations such as branches/regions/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 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 that demonstrate signs of increased credit risk and obtaining feedback from business units on recovery action taken to regularise arrears on a need basis. → Disseminating information to decision-makers on frequently watch-listed clients based on arrears exposures, frequent excess positions, frequent cheque returns, restructured and extended facilities, rating downgrades monitored over a period of time, and crossovers to NP of watch-listed borrowers. → A traffic light system to identify watch-listed clients with varying levels of impact to the portfolio was introduced in 2020. → 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 in accordance with SLFRS 9 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 Review 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.*

Loan review mechanism

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

LRM increased the quantity of the loan portfolio reviewed during the year 2020 ensuring more reviews are carried out covering Branch Banking segment as well as Corporate Banking segment.

The LRM function was enriched by analytical review to include studying the clients whose facilities were reviewed under LRM in depth to ascertain the facility utilisation levels, current account performance and trends in credit risk of such clients. Further it also analyses the LRM coverage including risk categories of the clients who were reviewed under LRM and composition of the LRM coverage. Continuous follow up sessions based on the findings carried out with the business units are reported to the credit committee and to the BIRMC to ensure that the remedial actions are taken to enhance the quality of the credit portfolio.

Market risk

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

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

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

Treasury Middle Office (TMO) is segregated from the Treasury Front Office (TFO) and Treasury Back Office (TBO) and reports to the CRO. The role of the TMO includes the day-to-day operational function of monitoring and controlling risks assumed in the TFO based on clearly defined limits and controls. Being independent of the dealers, the TMO provides an objective view on front office activities and monitors the limits. TMO has the authority to escalate limit excesses as per delegation of authority to the relevant hierarchy.

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.

As a new initiative for Market Risk Unit product profitability assessment was introduced in 2020. Banks are facing intense pressure to create products that are competitive and customer friendly, hence there is a growing need to analyse the factors that impact profitability and growth while comparing the same products with market competitors. Hence the Risk Unit has taken the effort to work with the Planning Department and equip the Bank with a product profitability methodology that allows the Bank to improve profitability through analysing the asset and liability products that are available.

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

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

Indirect exposures to commodity prices risk – Gold prices

The Bank's pawning portfolio amounted to LKR 4,565 Mn as at 31 December 2020, 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 to ALCO, BIRMC and the Board.

Equity prices risk

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

Liquidity risk

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

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

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

Liquidity risk management under flow approach

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

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

Liquidity ratios under stock approach

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

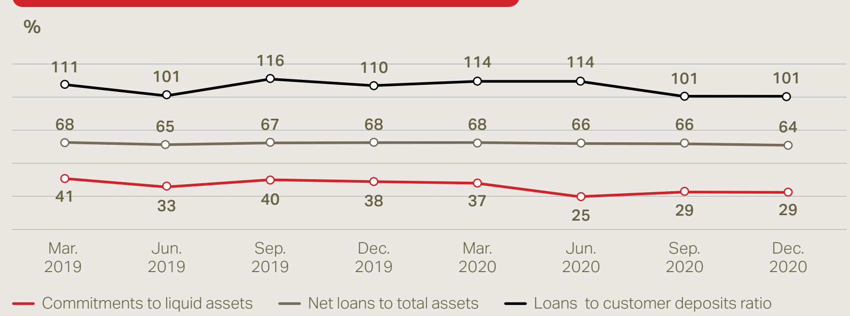
The minimum liquidity standards (Liquidity Coverage Ratio) under Basel III were implemented from April 2015 and amended in November 2018 and November 2019. Accordingly, banks are required to maintain an adequate level of unencumbered High Quality Liquid Assets (HQLAs) that can be easily and readily converted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

The Central Bank of Sri Lanka (CBSL) 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. However Due to COVID-19 concessions CBSL relaxed the requirement as 90% till June 2021 for both LCR and NSFR ratios. 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
Large liabilities to earnings assets excluding temporary investments	Quarterly
Purchased funds to total assets	Quarterly
Commitments to total assets	Quarterly
Trends in the statutory liquid assets ratio	Monthly
Trends in Liquidity Coverage Ratio (LCR) and forecasts	Monthly
Net Stable Funding Ratio (NSFR)	Quarterly
Flow approach	
Maturity gap report (on static basis)	Quarterly
Net funding requirement through dynamic cash flows	Quarterly
Scenario analysis and stress testing	Quarterly
Contingency funding plan	Annual Review

Liquidity ratios under stock approach



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

Operational risk

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

In the year 2020, despite the lockdowns due to COVID-19, there was no disruption to the Bank's operations and its Business. Keeping in adherence to the Health guidelines,Staff members were provided facilities to work from home on a roster basis. Further staff members were split to various other locations to ensure the continuity of the Business whilst managing the operational risk.

The Operational Risk Management Committee (ORMC) oversees and directs the management of operational risk of the Bank at an operational level with facilitation from the Operational Risk Management Unit (ORMU) of the IRMD. Active representation of the relevant departments and units of the Bank 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 188 incidents have been reported in 2020. 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 required to send a monthly report to the Operational Risk Management Unit regarding operational risk related incidents if any took place at their respective branches or departments. The operational risk incidents reported in 2020 based on the event type are given in the graph.

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 (RCSAs) and Key Risk Indicators (KRIs) process of the Bank

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

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

Regular KRI monitoring, assists business line managers by providing them with a quantitative, verifiable risk measurement which 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 the banking context due to the financial impact that any single event could trigger.

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

- Cash and cash equivalents
- Pawned articles
- Premises and other fixed assets
- Public liability
- Employee infidelity
- Negligence
- Personal accidents and workmen's compensation

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 report on outsourced activities is annually 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

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 and processes.

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

Main objectives of ISRM 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, the Bank has adopted international security standards such as ISO 27001:2013 and PCI-DSS while being compliant with Information Security related guidelines of the Central Bank of Sri Lanka such as Baseline Security Standard (BSS) and Payment related mobile application security guidelines.

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

- Establish and manage the Information Security Management System (ISMS) based on ISO 27001:2013 and PCI Data Security Standards.
- Improve information security policies, procedures and guidelines considering the regulatory requirements and dynamic threat landscape.
- Continuous assessment of security risks related to the Bank's information assets and processes to ensure technology-related residual risks are maintained at acceptable levels.
- Review and monitor information security KPIs and report the status of the indicators to the Operational Risk Management Committee.
- Conduct internal vulnerability assessment and penetration testing covering IT infrastructure on defined time intervals to ensure known vulnerabilities are properly managed.
- Perform trend analysis on the Bank cybersecurity posture and manage information security incidents to minimise the risk.

- Ensure adequate information security awareness is given to staff members to follow security best practices and detect and report information security events and incidents.

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

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

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

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

Our information Security Management Programme has been certified to the international ISO 27001 standard since 2016 and was re-certified in 2020 after completing a three year cycle.

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

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

- Replacing the traditional antivirus solution by a world-leading Endpoint Detection and Response (EDR) solution. A machine learning and AI-based solution designed to spot yet unknown and emerging cyberthreats and improve the network visibility in conjunction with existing security monitoring solutions.
- Improving the existing security event monitoring and security incident management process by Integrating cyberthreat intelligence feeds to improve the threat visibility and early detection capabilities.
- Initiating the implementation of SD-WAN solution for enhancing branch level information security and visibility while improving the performance and user experience.
- Performing technology and operational security gap assessments to the payment card related business functions and initiated control implementations to improve the security posture by aligning with the PCI-DSS security standard requirements.
- Initiating the implementation of Data Leakage Prevention (DLP) solution to ensure the protection of customer and business-sensitive data of the Bank as a part of the Bank's data governance process.
- Initiating the implementation of endpoint data encryption solution to better align with data protection governance requirements.
- Improving bank policy and procedure coverage to accommodate work from home requirements and strengthening the security controls and monitoring mechanisms to ensure the security continuation during a crisis situation.
- Improving information security training and awareness programme by introducing new modules to the existing computer-based training (CBT) platform.

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 roadmap for sustainable growth. Continuous competitor and customer analysis and monitoring of the macroeconomic environment enables the Bank to formulate its strategies for growth and business risk management. Processes such as Planning, ALM, IT and Product Development in collaboration with business functions facilitate the management of business risk through recognition, measurement, and implementation of tasks. Business risk relating to customers is assessed in the credit rating process and is priced accordingly.

Legal risk

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

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

Compliance risk

Compliance from a banking perspective can be defined as acting in accordance 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 2020 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

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

As at 31 December 2020, DFCC Bank PLC maintained a healthy risk capital position of 10.82% Tier I capital ratio and 15.76% total capital ratio based on the Basel III regulatory guidelines. This demonstrates a cushion of about 2.8% and 3.76%, respectively, for Tier I and total capital over the minimum regulatory requirements.

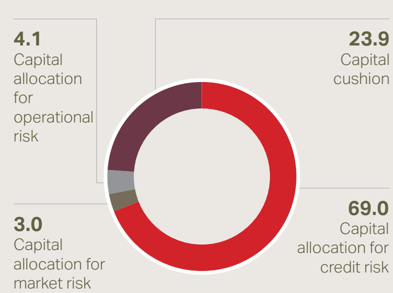
Capital adequacy measures the adequacy of the Bank's aggregate capital in relation to the risk it assumes. The capital adequacy of the Bank has been computed under the following approaches of the Basel regulations which are currently effective in the local banking industry:

- → 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 2020, 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 69% of the total capital while the available capital buffer is 23.9%.

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 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, 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 total capital, the Bank during 2020 issued LKR 4.523 Bn Basel compliant subordinated debenture.

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 2020**		31 December 2019	
	Bank	**Group**	Bank	Group
Credit risk-weighted assets (LKR Mn)	**293,506**	**293,920**	274,010	274,759
Market risk-weighted assets (LKR Mn)	**12,956**	**12,956**	16,956	16,956
Operational risk-weighted assets (LKR Mn)	**17,400**	**17,752**	16,074	16,479
Total risk-weighted assets (LKR Mn)	**323,862**	**324,628**	307,040	308,194
Total Tier I capital adequacy ratio – Basel III (%)	**10.820**	**10.816**	11.342	11.327
Total capital adequacy ratio – Basel III (%)	**15.764**	**15.749**	15.810	15.778

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.

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
		Aggregate large accommodation limit (Sum of the total outstanding amount of accommodation granted to customers whose accommodation exceeds 15% of the capital base/outstanding amount of accommodation granted by the Bank to total customers excluding the Government of Sri Lanka)	Regulatory Internal
		Aggregate limits for related parties (Accommodation to related parties as per the CBSL Direction/ Regulatory Capital)	Internal
		Exposure to agriculture sector as defined by CBSL Direction	Regulatory
		Exposure to each industry sector (Exposure to each industry as a percentage of total lending portfolio)	Internal
		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

Risk category	Impact	Key risk indicators	Limit type
		Non-Performing Ratio	Internal
		Industry HHI	Internal
		Loan and OD – Exposure in BB grade	Internal
		Loan and OD – Exposure in B and below grades	Internal
		Leasing – Exposure in BB and below grades	Internal
		Leasing – Exposure in B and below grades	Internal
		Limit on margin lending for individual borrowers	Regulatory
		Margin trading (Aggregate exposure of margin loans extended/total loans and advances)	Internal
Liquidity risk management	If adequate liquidity is not maintained, the Bank will be unable to fund the Bank's commitments and planned assets growth without incurring additional costs or losses.	Liquid 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
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

Risk category	Impact	Key risk indicators	Limit type
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. This report includes details of how governance underpins and supports our business and the decisions made to deliver our strategy and create long-term value for our shareholders.

The 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. The Board understands the benefits of annual performance evaluations, both for Directors on an individual basis as well as for the Board as a whole and looks for ways in which it can improve and develop.

I confirm to the best of my knowledge that there were no material violations of any of the provisions of the Directions of the Central Bank of Sri Lanka, other applicable laws and regulations, codes of conduct, and other related policies and procedures of the Bank.

J Durairatnam
Chairman

17 February 2021

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 are shown in the schematic below:

The Board

Responsible for strategy, risk management, succession planning, and Policy Issues. Sets the tone, values and culture of the Bank. Monitors Bank's progress against the set targets.

CEO

Develops strategy for approval of the Board. Directs, monitors, and maintains the operational performance of the Bank. Responsible for application of policies and implementation of strategy. Accountable for the Bank's performance

Non-Executive Directors

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

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

Company Secretary

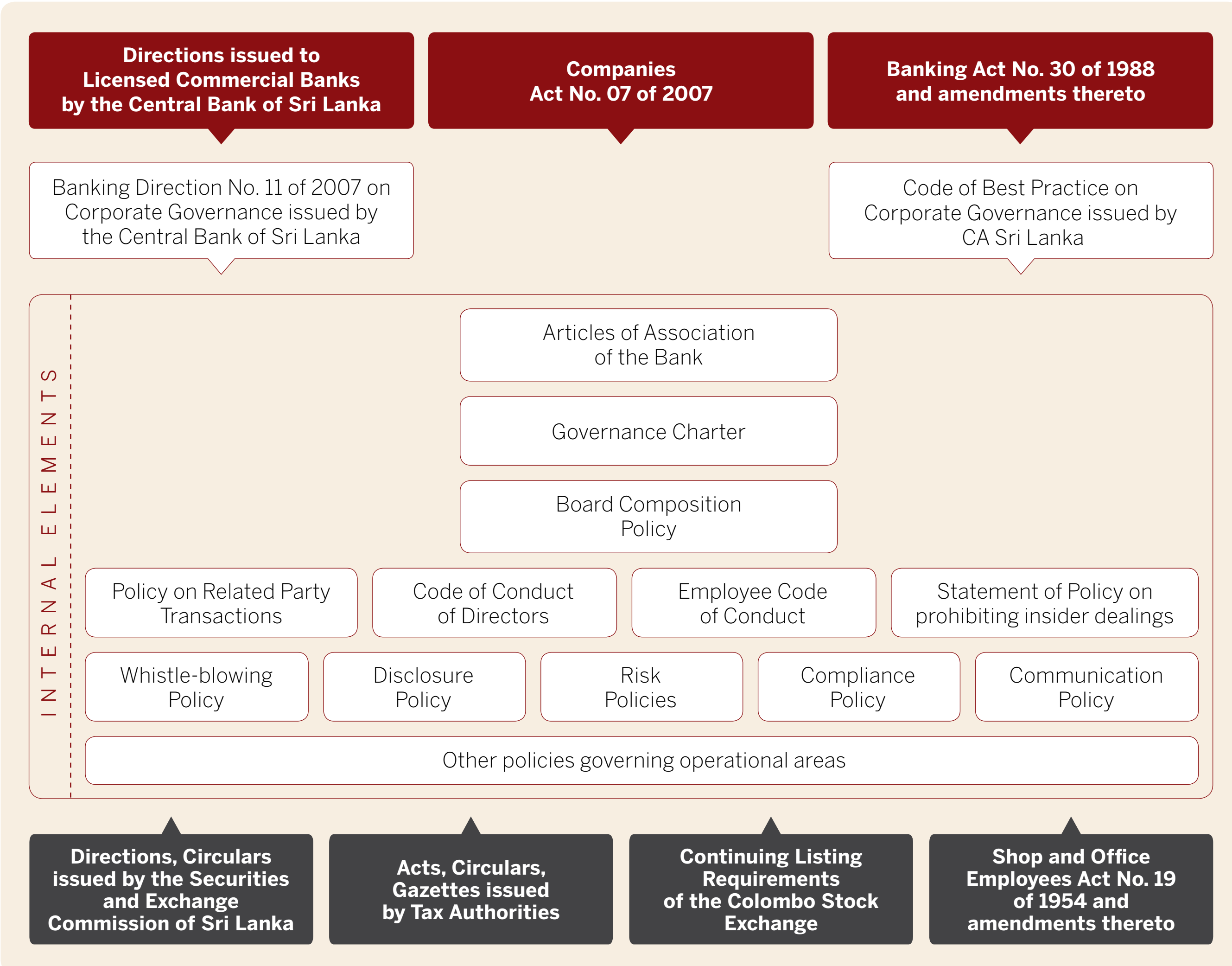
Advices the Chairman on Governance, together with updates on regulatory and compliance matters. Supports the Board agenda with clear information flow. Acts as link between Board and its committees and between Non-Executive Directors and senior management

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

Governance framework of the Bank

Main elements which encompasses the governance framework of the Bank.

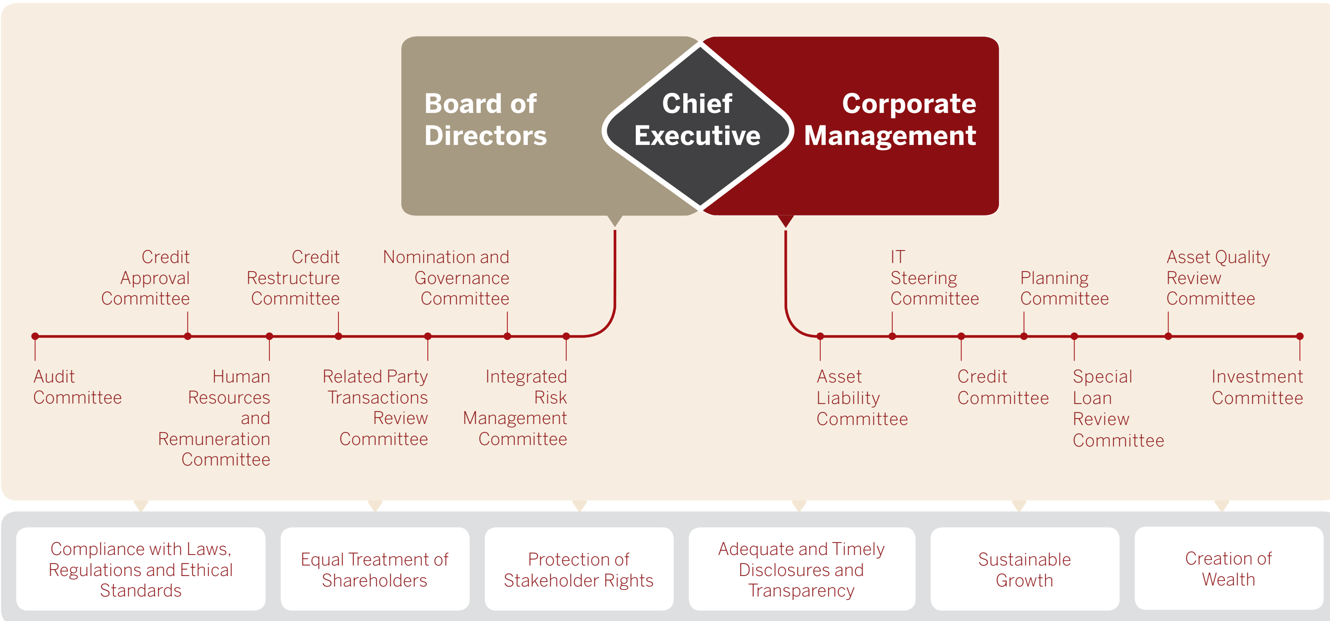


Good corporate governance is a mechanism that harmonises the interests of a wide range of stakeholders of an institution, while contributing to sustainable growth by attracting outside sources of capital. The Bank practices high standards of corporate governance based on the Organisation of Economic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

OECD principles of good governance are based on the following six guidelines:

- Promoting transparency, being consistent with laws, and clearly articulating division of responsibilities
- Protecting and facilitating the exercise of shareholder rights and ensuring equitable treatment of all shareholders
- Exercising due diligence and responsibility in capital market operations
- Recognising the rights of stakeholders and encouraging cooperation between stakeholders in creating wealth and sustainability
- Timely and accurate disclosure on all material matters regarding the Bank including financial situation, performance, ownership, and governance
- Ensuring the strategic guidance of the Bank, effective monitoring of management of the Board, and the Board's accountability to the Bank and its shareholders

DFCC Bank's goals of good corporate governance



Board culture

Directors are encouraged to be open and forthright in their approach, with active debate encouraged during Board meetings before any decisions are taken. We believe this helps to forge strong and open working relationships while enabling our Directors to engage fully with the Bank and allowing them to make their best possible contribution.

Conduct and ethical framework

The Code of Conduct for Directors adopted by the Bank 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.

Board Highlights – 2020

- Review of Corporate Banking and Branch Banking KPIs based on the approved budget for 2020
- Launch of DFCC Teen Account
- Approved sponsoring of Ceylon National Chamber of Industries Achiever Awards – 2020
- Approval of the issue of up to seventy million (70,000,000) Basel III compliant, Subordinated, Listed, Rated, Unsecured, Redeemable Debentures with a term of up to seven years
- Recommended the payment of a scrip dividend for the year ended 31 December 2019
- Approved the adoption of G Suite Enterprise offering for the Bank
- Approved a consultancy assignment to develop a sustainability strategy and plan for DFCC Bank
- Cost saving strategies titled "War Room Initiative" implemented
- Approval to implement a Complaint Management and Lead Management System
- Approved the implementation of Data Encryption Solution
- Approved the appointment of two new Directors
- Mr Thimal Perera, DCEO was identified as the successor to be appointed as the Chief Executive Officer with effect from 1 January 2022
- Creation of a DFCC Funded Credit Line of LKR 2 Bn for SME customers
- Discontinuance of the DFCC International rating carried out by Fitch Ratings
- Approved to engage the services of Aptivaa for the Development of a Risk Scorecard for Credit Card Portfolio
- Approved to engage the services of EY to carry out an independent validation of Risk Rating Models

- Decision to hold the AGM and EGM as Virtual Meetings with shareholders/proxy holders connecting via an online platform
- Approved the issue of up to fifty million Senior, Unlisted, Rated, Unsecured, Redeemable Debentures through a private placement, each at an issue price of LKR 100.00 with a term of up to five years
- Review of Board Committee Charters/Terms of Reference
- Review of all major policies
- Approval of activities to mark the 65th Anniversary of the Bank
- Approved to engage Celebrus Consultants to carry out a job evaluation and benchmarking of compensation levels
- Launch of the new Corporate Song

→ Approval to implement MasterCard connectivity and commence issuance and acquiring of MasterCard

→ Approval of the Sustainability Policy, Strategy and Plan for DFCC

→ Inclusion of ICRA Lanka Limited as a Rating agency for DFCC

→ Identification of a consultant to upgrade the Business Continuity Management System

→ Approval to set up of Capital Markets and Custodial Services Unit

→ Approved assistance by way of Debt Moratorium for COVID-19 affected Businesses and Individuals

Permanent Board Committees as at 31 December 2020

Board Committees

- Audit Committee
- Human Resources and Remuneration Committee
- Nomination and Governance Committee
- Integrated Risk Management Committee
- Credit Approval Committee
- Credit Restructure Committee*
- Related Party Transactions Review Committee

** The Credit Restructure Committee approves papers by circulation.*

Name of Director	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
	Attendance of Directors at meetings						
Total number of meetings	**12**	**12**	**3**	**6**	**5**	**9**	**11**
K P Cooray	7/7		2/2	4/4		4/4	7/7
T Dharmarajah	2/2	3/3			1/1		2/2
J Durairatnam	12/12		3/3	6/6		9/9	11/11
Ms L K A H Fernando	11/12	11/12			5/5		
P M B Fernando	12/12	12/12		6/6		9/9	11/11
Ms H M N S Guawardana	6/6		1/1		3/3		
N K G K Nemmawatta	12/12					8/9	
N H T I Perera	12/12						
Ms V J Senaratne	11/12			2/2	4/5		
L H A L Silva	12/12				5/5		10/11
Ms S R Thambiayah	12/12		3/3				
H A J De S Wijeyeratne	6/6	6/6					

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.

During the year the Board reviewed and updated the Corporate Communications Policy which 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. This year the Bank also distributed part of the dividend as a scrip dividend.

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

Shareholder meetings

The Annual General Meeting (AGM) of the Bank is normally held within a period of one year from the date of the previous Meeting after giving adequate notice to shareholders as required by the Articles of Association. Due to the COVID-19 pandemic, the Annual General Meeting initially scheduled for 30 March 2020 had to be postponed. In view of the Government's Directive on social distancing and limitations on gatherings the AGM was later held as a virtual meeting on 24 June 2020, assembled at the "Auditorium" of the Bank, with shareholders'/proxy holders connecting via an online platform.

The Annual Report and Notice of Meeting are sent to all shareholders in order to enable effective shareholder participation at the Meeting.

Shareholders have the opportunity to obtain the Annual Report as an electronic or printed document. Extraordinary General Meetings are held to obtain shareholder approval on matters that require such approval.

During the year an Extraordinary General Meeting was also held as a virtual meeting and the approval of the shareholders were obtained to issue listed, rated, unsecured, subordinated, redeemable debentures (BASEL III Compliant) with a term of up to a maximum of seven years.

Annual Corporate Governance Report for the year ended 31 December 2020 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 December 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.
	(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 Policy was revised during the year. 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.

Rule	Governance principle	Compliance	Remarks
	(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 140. The Independent Assurance Report by the External Auditor on the Directors Statement on Internal Control is given on page 143.
	(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 is reviewed by the Board and areas for improvement are discussed for necessary action. During this year too, in addition to the assessments carried out by the individual members, the Nomination and Governance Committee, based on a separate checklist, carried out an evaluation of the Board and the results were shared with the other members of the Board and an opportunity was provided to them to comment on the findings of the Committee.

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 Committee established to drive business area relating to media and branding, continued to function during the year and the members of this Committee met KMPs on a regular basis to review the status of implementation of identified strategies. During the year, the Board reviewed the performance in order to monitor progress against the business plan. These presentations provided an opportunity for the Board members to interact with the Senior Management to clarify reasons for variations against the budget and to suggest corrective action.
	(l) Regulatory environment	Compliant	The Board Secretary provides all regulatory information required to the Board members. The CEO briefs the Board on specific issues. Senior Management maintains continuous dialogue with the Regulator to ensure an effective relationship.
	(m) Due diligence in hiring and oversight of External Auditor	Compliant	The primary responsibility for making recommendations on the appointment of the External Auditor rests with the Audit Committee. A formal policy approved by the Board on engagement of External Auditor to perform non-audit services is in place.
3.1 (ii)	Appointment and segregation of the roles of the Chairman and CEO	Compliant	The Board elects the Chairman and appoints the CEO. While the Chairman provides leadership to the direction, oversight, and control process exercised by the Board, the CEO is responsible for management of the Bank.
3.1 (iii)	Board meetings	Compliant	The Board held 12 Board meetings during the year. The Directors actively participated in the Board's decision-making process as evident from the Board minutes. Seeking approval of the Board by circulation was done only in exceptional circumstances due to urgency.

Rule	Governance principle	Compliance	Remarks
3.1 (iv)	The Board to ensure that arrangements are in place for Directors to include items and proposals in the agenda of Board meetings	Compliant	Whenever the Directors suggest topics for consideration at the Board meetings, they are included in the agenda under "open discussion" which is an integral part of every Board meeting and other supporting data, reports, documents, etc. relevant for the subject matter are circulated among the Directors for information.
3.1 (v)	Notice of Board meetings – At least seven days notice of regular meetings and reasonable notice of other meetings to be given	Compliant	Dates for the regular monthly Board meetings are agreed by the Directors at the start of each year and any changes to dates of scheduled meetings are decided well in advance. The Board Circulars and other documents pertaining to meetings are made available well in advance to enable the Directors to participate in deliberations.
3.1 (vi)	Attendance at Board meetings	Compliant	All Directors attended more than two-thirds of Board meetings and no Director was absent for three or more consecutive meetings. Attendance details are given on page 110.
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.

Rule	Governance principle	Compliance	Remarks
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.
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 (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 are six Independent Directors on the Board. 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.

Rule	Governance principle	Compliance	Remarks
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/resignation of Directors from office during the year under review are given in the Directors' Report. No Director was removed during the year under review. There was no matter that need to be brought to the attention of shareholders as a consequence of the resignation of K P Cooray, since he resigned due to personal commitments.
3.2 (xii)	Appointment of a Director or an employee to another bank	Compliant	No Director or employee of the Bank is a Director of another bank.
3.3 (i)	Maximum age of Directors	Compliant	All Directors who reached the age of 70 have relinquished office.
3.3 (ii)	Holding of Director's position in more than 20 companies in all	Compliant	All Directors comply with this requirement.
3.4 (i)	Delegation arrangements	Compliant	The Board of Directors has delegated authority to the Management subject to specific criteria, limitations, safeguards, and monitoring mechanisms.
3.4 (ii)	Extent of delegation	Compliant	The delegation of authority made by the Board is designed to facilitate efficient management of the affairs of the Bank and to aid the oversight role exercised by the Board. It is not of an extent to hinder the ability of the Board to discharge its functions. The Board retains the authority to expand, curtail, limit, or revoke such delegated authority.

Rule	Governance principle	Compliance	Remarks
3.4 (iii)	Review of delegation process	Compliant	The delegation process is subject to periodic review by the Board in order to ensure that necessary amendments are approved to meet the requirements of the Bank. Material decisions made under delegated authority are reported to the Board for information.
3.5 (i)	Separation of the roles of the Chairman and CEO	Compliant	The Chairman and the CEO are two separate individuals.
3.5 (ii)	The Chairman to be a Non-Executive Director	Compliant	The Chairman is an Independent Non-Executive Director. P M B Fernando continues to function as the Senior Director. The Board has approved Terms of Reference (TOR) for the Senior Director.
3.5 (iii)	Disclosure of relationship between the Chairman, CEO, and other Directors	Compliant	No relationships exist between the current Chairman, the CEO, DCEO and the other Non-Executive Directors according to the declarations made by them except being Directors of companies in the DFCC Group.
3.5 (iv)	Role of the Chairman	Compliant	The Chairman provides leadership to the Board and ensures that the Board discharges its responsibilities effectively. The Chairman encourages members to actively participate and to raise their independent judgement on all key and appropriate issues in a timely manner.
3.5 (v)	Agenda of Board meetings	Compliant	The agenda of each Board meeting is drawn by the Company Secretary under the direction of CEO and Chairman, and any matters relevant to the policies and operations of the Bank proposed by other Directors are included in the agenda upon approval by the Chairman.
3.5 (vi)	Providing information to the Directors	Compliant	The Chairman ensures that all Directors are properly briefed on issues which arise at the Board meetings and ensures that they receive adequate information in a timely manner.
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 a Non-Executive Director 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. The Corporate Communication Policy approved by the Board includes a provision for communication with shareholders.

Rule	Governance principle	Compliance	Remarks
3.5 (xi)	CEO to be in charge of the management of operations and business	Compliant	The CEO is the Head of the Management team and is in charge of day-to-day management of the Bank's operations and business. At the beginning of each year, the Board discusses the business plan with the CEO and Senior Management, and agrees on the medium and short-term financial and non-financial targets to be achieved and action plans to be implemented by the Bank. Progress is monitored on an ongoing basis and the assessment of the performance of the Bank is carried out by the Board at the end of each year based on the initiatives laid down in the business plan.
3.6 (i)	Four Board appointed committees	Compliant	The Board has appointed the four committees required by the direction. The reports on their duties, performance, and roles are published in the Annual Report.
3.6 (ii)	Board Audit Committee		Please refer page 131.
	(a) Chairman of the Committee	Compliant	During the year under review, the Audit Committee was chaired by an Independent Non-Executive Director who is a qualified Chartered Accountant.
	(b) Composition of the members	Compliant	All members of the Committee are Non-Executive Directors.
	(c) External Auditor	Compliant	The Audit Committee assists the Board in implementing a transparent process in the engagement and remuneration of the External Auditor and assists in the general oversight of financial reporting, internal controls, and compliance with laws, regulations, and Codes of Conduct. The Committee ensures that the engagement of the audit partner does not exceed five years.
	(d) Independence and effectiveness of the audit process	Compliant	The Committee reviewed the statement issued by the External Auditor pursuant to Section 163 (3) of the Companies Act No. 07 of 2007. The Committee discussed with the External Auditors, the nature and scope of the audit, and the effectiveness of the audit process in respect of the financial year 2020.
	(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 2020.
	(h) Meetings with External Auditor	Compliant	The Committee met with the External Auditor on five occasions and at three of those meetings without the presence of the Management.

Rule	Governance principle		Compliance	Remarks
	(i)	Review of Management Letter	Compliant	The Committee considered the Management Letter issued by the External Auditor for the year ended 31 December 2019 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, CFO, other heads of units, and the External Auditors attend meetings on invitation. During the year, the Committee met with the External Auditor on three 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 2020, 12 meetings were held. Attendance of Committee members is given in the table on page 110.
	(o)	Audit Committee activities	Compliant	Please refer Committee Report on page 131.
	(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 Whistle-blowing Policy to encourage employees to communicate legitimate concerns on any illegal or unethical practices. Arrangements are in place to ensure that all employees are duly informed of the effective use of this process.
3.6 (iii)	Board Human Resources and Remuneration Committee			Please refer page 134.
	(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.

Rule	Governance principle	Compliance	Remarks
	(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 135.
	(a) Appointment of new Directors and KMPs	Compliant	During the year, the Committee considered and recommended to the Board, the appointment of two new Directors and candidates to fill Key Management Positions. The Committee has documented the procedure to select/appoint Directors and other KMPs.
	(b) Re-election of Directors	Compliant	During the year, the Committee considered and recommended to the Board, the re-election of the Directors retiring under Articles 44 and 46 (ii) while ensuring that they are fit and proper persons to hold such office.
	(c) Criteria relating to appointment of KMPs	Compliant	The Committee evaluates the qualifications, experience and key attributes required for eligibility for appointment of KMPs.
	(d) Fit and proper test	Compliant	The fitness and propriety of KMPs are monitored by the Committee.
	(e) Succession planning	Compliant	The Committee evaluates the need for additional/new expertise to the Board and succession for retiring KMPs.
	(f) Composition	Compliant	The Committee consists of three Non-Executive Directors and is chaired by an Independent Director.
3.6 (v)	Board Integrated Risk Management Committee (BIRMC)		Please refer page 136.
	(a) Composition	Compliant	Please refer page 136.
	(b) Assessment of risk	Compliant	The Committee has put in place a Board approved risk framework. The risk exposures of the Bank are assessed on a monthly basis through Key Risk Indicators. The risk assessment of subsidiaries, joint venture, and the associate is reviewed quarterly.
	(c) Review of Adequacy of Management Committees	Compliant	The Committee assesses the effectiveness of all Management Committees.
	(d) Controlling risks within prudent limits	Compliant	The Committee assesses possible risks, reviews, and takes appropriate action to mitigate such risks.
	(e) Frequency of meetings	Compliant	The Committee met on a quarterly basis and on one other occasion .
	(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.

Rule	Governance principle	Compliance	Remarks
	(g) Submission of Risk Assessment Reports to the Board	Compliant	The Board is kept informed of Committee proceedings by submitting the BIRMC minutes to the Board. The required approvals are obtained through specific submissions to the Board.
	(h) Compliance function	Compliant	The compliance function is headed by a dedicated officer identified as a KMP in terms of the Corporate Governance Direction. The Compliance Officer reports to the BIRMC. The Committee oversees the function and reviews the quarterly reports on compliance.
3.7 (i) to (iii)	Avoidance of conflicts of interest and favourable treatment in transactions with related parties	Compliant	The Bank has adhered to the law as specified in the Banking Act and the Directions issued thereunder with regard to transactions with related parties. The Board ensures that no related party benefits from any favourable treatment except as indicated in 3.7 (vi). A Related Party Transactions Review Committee has been established by the Board. The Committee Report is on page 139. 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:

	Requirement	Compliance
	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:

	Requirement	Compliance
(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 147.
(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 140.
(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 143.
(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 13 to 16, 126. 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 2020	
Category of related party	LKR '000	%
Directors	**1,399**	–
Other Key Management Personnel	**43,932**	**0.09**
Close Family Members of Directors and Key Management Personnel	**941**	
Total net accommodation	**46,272**	**0.09**
Regulatory capital – solo basis	**51,055,165**	

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 2020 by the other Key Management Personnel (officers performing executive functions referred to in Banking Act Determination No. 1 of 2019) amounted to LKR 106.29. Mn, LKR 259.78 Mn and LKR 100.66 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 the Group	Page 163 (Note 1.4 to the Financial Statements)
168 (1) (b)	Signed Financial Statements of the Bank in accordance with Section 152	Page 157 (Financial Statements)
168 (1) (c)	Auditor's Report on Financial Statements of the Bank and the Group	Page 149
168 (1) (d)	Changes in accounting policies made during the accounting period	Page 173 (Note 6 to the Financial Statements)
168 (1) (e)	Particulars of entries in the interest register made during the accounting period	Page 127 of this Report
168 (1) (f)	Remuneration and other benefits of Directors during the accounting period	Pages 126, 222 and 285 (Notes 20 and 58.2 to the Financial Statements and this Report)
168 (1) (g)	Total amount of donations made by the Bank during the accounting period	Page 127 of this Report
168 (1) (h)	Information on Directorate of the Bank during and end of the accounting period and persons who ceased to hold office as Directors during the accounting period.	Page 126 of this Report
168 (1) (i)	Amounts payable to the Auditor's as audit fees and fees for other services rendered during the accounting period as a separate disclosure	Page 222 (Note 20 to the Financial Statements)
168 (1) (j)	Auditor's relationship or any interest with the Bank and its subsidiaries	Page 126 of this Report
168 (1) (k)	Annual Report of the Board of Directors on the State of Affairs of the Bank signed on behalf of the Board of Directors	Page 130 (Signed with an acknowledgement by two Directors and the Company Secretary)

Constitution

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

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

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

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

Going concern

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

Financial statements

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

Review of business of the year

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

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

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

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

Profit and appropriations

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

Accounting policies

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

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

Auditors' Report

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

Reappointment of Auditors

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

The Directors are satisfied that based on the written representation made by the Auditors, they have no relationship or interest with the Bank or with any of its subsidiaries which would impair the Auditors independence. A resolution pertaining to their reappointment and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting for adoption.

The Board of Directors

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

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

Independent Non-Executive Directors

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

Non-Independent Non-Executive Directors

Ms H M N S Gunawardana
Ms V J Senaratne

Executive Directors

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

Appointment, retirement/resignation and re-election of Directors

H A J De S Wijeyeratne and Ms H M N S Gunawardana were appointed as Directors of the Bank on 1 July 2020. They will retire in terms of Article 46 (ii) of the Articles of Association and are offering themselves for re-election at the Annual General Meeting.

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

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

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

Retirement by rotation and re-election of Directors

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

Directors' remuneration

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

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

Directors' meetings

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

Directors' interests in shares

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

[1] *Not a Director as at 31 December 2020*
[2] *Not a Director as at 31 December 2019*

Directors' interests in debentures

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

No Director directly or indirectly holds options of the Bank.

Directors' interests register

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

Directors' interests in transactions with the Bank

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

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

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

Corporate donations

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

Board committees

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

Audit Committee

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

Credit Approval Committee

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

**Non-voting member*

Credit Restructure Committee

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

Human Resources and Remuneration Committee

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

Nomination and Governance Committee

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

Integrated Risk Management Committee

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

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

Related Party Transactions Review Committee

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

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

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

Dividend

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

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

Property, plant and equipment, and leasehold property

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

Reserves

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

Market value of freehold properties

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

Stated capital and subordinated debentures

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

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

Further information is given on pages 278 and 279.

Share information

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

Shareholders

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

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

Employment and remuneration policies

The policy of the Bank is to develop and maintain a dedicated and highly motivated group of employees who are committed to creating sustainable value through effective risk management and high quality service while supporting public and private sector in its development efforts within the ambit of the Articles of Association of the Bank. DFCC Bank PLC continuously invests in training and development of its staff to meet these objectives. The Bank is an equal opportunity employer. Remuneration of employees consists of fixed and variable payments. Annual increments and pay awards are based on the performance of the Bank and the individual. It is the Bank's policy to fix remuneration at a level which will attract, motivate, and retain high quality employees.

Statutory payments

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments due to the Government and in relation to the employees have been made on time.

Review of related party transactions

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

Compliance with laws, regulations, and prudential requirements

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

Events occurring after the reporting period

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

Corporate governance

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

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

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

The table below provides cross references to facilitate easy reference.

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

Acknowledgement of the content of the report

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

For and on behalf of the Board of Directors,

J Durairatnam
Chairman

L H A L Silva
Director and Chief Executive Officer

Ms A Withana
Company Secretary

17 February 2021

Report of the Audit Committee

Composition

The Board appointed Audit Committee comprises three Independent Non-Executive Directors. The Committee is chaired by Mr P M B Fernando who is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka and possesses considerable experience in the field of finance and auditing.

The members of the Board appointed Audit Committee are as follows:

Mr P M B Fernando – Chairman

Ms Hiroshini Fernando

Mr H A J De Silva Wijeyeratne

Mr T Dharmarajah, Independent Director, retired during the year and the Board appointed Mr H A J De Silva Wijeyeratne as an Independent Director representing the membership of the Audit Committee with effect from 1 July 2020

Brief profiles of the members are given on pages 13 to 16.

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 2020. 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 2020. 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 110 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 three meetings with the External Auditor; KPMG independently, without the presence of the Executive Management, to discuss the progress and conclusion of the audits.

Principal activities conducted during 2020

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 assessment of adequacy of provision for Expected Credit Loss (ECL) recognised in the financial statements based on the internal models, management overlay computed based on stress testing the exposures to risk elevated sectors,

to address the potential implications of COVID-19 Pandemic and the moratorium schemes introduced to support the recovery of the economy.

- All quarterly unaudited interim Financial Statements and Financial Statements for the year ended 31 December 2020, 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 2020 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 controls over financial reporting as at 31 December 2020 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 140 to 142.

Group internal audit

The Audit Committee ensures that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency, and due professional care. The Audit Charter authorises and guides the Head of Group Internal Audit (HGIA) in carrying out independent audit functions of the Bank and its subsidiaries. The HGIA enjoys operational independence in conducting duties and has the authority to initiate, carry out, and report on any action, which is considered necessary. For the performance of duties, the HGIA and audit staff shall have unrestricted, unlimited, direct and prompt access to all records of the Bank and subsidiaries, officials or personnel holding any contractual status of the Bank and subsidiaries, and to all the premises of the Bank and subsidiaries. The Committee had necessary interactions with the Head of Internal Audit throughout the year. The Audit Committee monitored and reviewed the scope, resources, extent, and effectiveness of the activities of the Bank's Internal Audit Department.

The Group Audit function is governed by the Group Audit Charter which defines the internal audit's purpose, authority, independence, reporting, responsibility and access in order to assist Group Audit to discharge its function independently. The Group Audit Charter and Audit Manual were revised and approved in September 2020 by the Board Audit Committee.

The Committee reviewed the progress of the risk based audits carried out in accordance with the Internal Audit Plan approved by the Committee for the year 2020. During the year, the Internal Audit Department has reviewed business lines, critical operational processes, risk and compliance functions, branches, and subsidiary operations. Further, the Department has conducted thematic audits focusing on particular audit objective across the audited units/branches. Process Audits were conducted on specific business processes to review the adequacy, efficiency and effectiveness of the procedures, processes, related controls and further to ensure that the intended objectives and benefits are derived from the related processes of the Bank. The Potential Fraud Monitoring Unit under Internal Audit carry out testing and data analytics related to potential fraud risk areas on a continuous basis.

The start of the COVID-19 pandemic earlier during the year increased the level of attention of Internal Auditors to re-evaluate the internal audit activities and audit methodologies. A centralised monitoring function was commenced on selected high risk areas during the travel restricted period to assess the emerging risks and reassessment of internal control environment by internal audit as directed by the Board Audit Committee.

In 2020, the Board Audit Committee reviewed 198 audit reports of branches and departments, Information System Audits, Thematic Audits, Process Audits, and Special Investigations of the Bank. The Committee reviewed the Internal Audit Reports of the Bank's subsidiaries as well.

The Board Audit Committee advised Corporate Management to take precautionary measures on significant audit findings and obtained required assurances through affirmative confirmations from business units on the remedial action in respect of the identified risks to maintain the effectiveness of the internal control system.

Independence of external audit

The Committee reviewed and monitored the External Auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements. The Committee approved the policy in place as reviewed on Non-Audit Services provided by the External Auditors in September 2020.

The Committee ensured that the lead audit partner was rotated every five years in accordance with the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka.
The Committee discussed with the Auditors their audit plan, scope and the methodology they propose to adopt in conducting the annual audit prior to its commencement. The Auditors were also provided with the opportunities to meet the Audit Committee separately, without the presence of Executive Management, to ensure that the Auditors had the independence to discuss and express their opinions on any matter. Further, additional meetings were held with the External Auditors from time to time to discuss the Bank's interim audit findings and financial reporting improvements and changes required as a result of the COVID-19 pandemic situation.

There was no limitation of scope and the Management has fully provided all information and explanations requested by the Auditors. The Committee also met the Auditors to review the Management Letter with the responses from the Management.

Reappointment of External Auditor

The Committee performed an evaluation of the Bank's External Auditor Messrs KPMG based on certain key areas and recommended to the Board of Directors that, KPMG Chartered Accountants, to be reappointed for the financial year ending 31 December 2021 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 revised policy decisions relating to adoption of new and revised Sri Lanka Accounting Standards applicable to the Bank and made recommendations to the Board. Accordingly the Committee continuously monitored the progress of implementation of SLFRS 9 as per the requirements of Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" that has been issued with effective from 1 January 2018.

The Committee reviewed the Bank's Impairment Policy Manual on principles, methodologies, and assumptions during the year 2020 with consideration of elevated risks from the recent pandemic situation and also to be in line with the governing requirements. Further related changes were reviewed and approved by the Board Audit Committee and the Board.

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. Special meetings were held to discuss many circulars issued by the regulator and accounting profession regarding debt moratoriums and related accounting implications in assessing impairment provisions.

Good governance and whistle-blowing policy

The Committee continuously emphasised on sustaining ethical conduct amongst staff members. In this regard, the whistle-blowing Policy of the Bank and its subsidiaries was reviewed during the year 2020 and all members of staff were educated and encouraged to practice Whistle-blowing if they suspect any wrong doing while further strengthening the Policy as a communication channel to raise any genuine concerns. The Policy is subject to annual review in order to further improve its effectiveness.

All appropriate procedures and techniques are in place to conduct independent investigations into incidents reported through Whistle-blowing or identified through other channels. The whistle-blowing Policy guarantees the maintenance of strict confidentiality of the identity of the whistle-blowers.

Evaluation of the Committee

The effectiveness of the Committee is self-evaluated annually by its members. An independent evaluation of the effectiveness of the Committee was carried out by the other members of the Board and the Committee has been found to be effective.

P M B Fernando
Chairman – Audit Committee

17 February 2021

Report of the Human Resources and Remuneration Committee

Composition

The Human Resources and Remuneration Committee appointed by the Board of Directors, presently consists of three Non-Executive Directors. J Durairatnam is the Chairman of the Committee. Ms S R Thambiayah and Ms H M N S Gunawardana are the other members. K P Cooray functioned as a member of the Committee until 19 August 2020.

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 three meetings during the financial year to carry out its task. The attendance by members is given on page 110 of the Annual Report.

J Durairatnam
Chairman – Human Resources and Remuneration Committee

17 February 2021

Report of the Nomination and Governance Committee

Composition

The Nomination and Governance Committee of the Board of Directors presently consists of three Non-Executive Directors. P M B Fernando an Independent Director is the Chairman with J Durairatnam, and Ms V J Senaratne serving as members. K P Cooray functioned as a member of the Committee until 19 August 2020.

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

Six meetings were held during the year. The Committee considered and recommended to the Board the appointment of two new Directors. The Committee also identified persons to fill other key management positions after reviewing many candidates from time to time to ascertain the best fit for the Bank in terms of qualifications, ability and character, reviewed succession planning including the CEO succession planned for by end 2021 and assessed the fitness and propriety of Directors, and Key Management Personnel, in terms of the requirements of the Banking Act. The Committee which was formed to improve the process for succession planning for KMPs comprising a member of the Audit Committee, CEO, and Head of HR met and reviewed the progress.

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 110 of the Annual Report. The Committee has recommended the re-election of the Directors offering themselves for re-election at the Annual General Meeting.

P M B Fernando
Chairman – Nomination and Governance Committee

17 February 2021

Report of the Board Integrated Risk Management Committee

Composition of Board Integrated Risk Management Committee (BIRMC)

During the financial year ended in December 2020, the composition of the Board Integrated Risk Management Committee (BIRMC) of DFCC Bank changed due to the retirement of the Chairman of BIRMC – T Dharmarajah (Non-Executive Director of DFCC Bank).

Ms L K A H Fernando (Non-Executive Director of DFCC Bank) was appointed as the new Chairman of BIRMC. Further Ms H M N S Gunawardana who was appointed to the Board as a Non-Executive Director was subsequently appointed to the BIRMC as a member.

There are three Non-Executive Directors and an Executive Director as at 31 December 2020 as members of the Committee. The Chief Risk Officer, who has the voting power, functions as the Secretary to the Committee. Heads of key functional areas such as Lending, Finance, Treasury, Operations, Information Technology, Internal Audit, and Compliance attend the meetings on invitation. The membership of the BIRMC as at 31 December 2020 was as follows:

Ms L K A H Fernando – Chairman of the Committee/ Non-Executive Director of DFCC Bank

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

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

Ms. H M N S Gunawardana – Non-Executive Director of DFCC Bank

A Goonesekere – Chief Risk Officer

Charter and the responsibilities of the BIRMC

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

A. Integrity and adequacy of the risk management function of the Bank

B. Adequacy of the Bank's capital and its allocation

C. Risk exposures and risk profiles of DFCC Bank are within acceptable parameters and to make recommendations to the Board of Directors on any action required

D. Review the adequacy and effectiveness of the Management Committees through a set of defined tools.

E. Availability of a comprehensive and updated set of risk policies and guidelines covering overall operations of the Bank.

F. The compliance of the Group's operations with relevant laws, regulations and standards including the adherence to the CBSL Direction on Corporate Governance.

The process through which the BIRMC discharges its responsibilities is detailed in the Risk Management section of this Annual Report.

BIRMC meetings

As per the Charter, BIRMC should meet on quarterly basis. During 2020, the DFCC Bank convened five BIRMC meetings where an additional meeting was organised to review risk policies. The attendance of members is listed on page 110 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 annual review of effectiveness and adequacy of the Management Committees was conducted by the BIRMC during the first quarter of 2020. The review results were shared with the respective committees for necessary improvements.

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

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

H. Having duly recognised the trends in increasing threats on systems and information security, the Committee paid increased attention by reviewing the adequacy of the security in information systems and closely monitoring the action plans and implementation of new projects for further improving information systems security in the Bank.

I. During 2020, the Committee paid more attention on reviewing risk in the increased operating environment due to COVID-19 pandemic. The Committee reviewed the adequacy of the risk mitigating actions taken and stress testing results under pandemic condition

Reporting

The proceedings of the BIRMC meetings are reported to the Board through submission of the meeting minutes. Monthly Top and Emerging Risks and other specific matters are submitted separately for the Board's information. The recommendations made by the BIRMC during the year under review were duly approved by the Board.

Ms L K A H Fernando
Chairman – Board Integrated Risk Management Committee

17 February 2021

Report of the Credit Approval Committee

Composition

The Credit Approval Committee of the Board of Directors presently consists of three Non-Executive Directors and the Chief Executive Officer. J Durairatnam is the Chairman with P M B Fernando, N K G K Nemmawatta and L H A L Silva serving as members. K P Cooray functioned as a member of the Committee until 19 August 2020.

The Company Secretary functions as the Secretary of the Committee.

Mandate

The Committee carried out the tasks set out in the Terms of Reference approved by the Board. The primary purpose of the Committee is to review and where appropriate recommend or approve credit facilities which require approval above the delegated limit of the Management Credit Committee of the Bank.

Procedure

The Committee normally meets at least once a month and as and when required. The Committee invites the relevant officers to these meetings to clarify issues and for discussion relating to proposals that are submitted for review and also guides the Management in improving the credit policies, procedures and on process improvements for monitoring and recovery action.

Meetings

The Committee held nine meetings during the financial year to carry out its task. The attendance by members is given on page 110 of the Annual Report. The proceedings of the Committee meetings have been regularly reported to the Board of Directors. Credit facilities recommended by the Committee were submitted to the monthly meeting of the Board for approval.

J Durairatnam
Chairman – Credit Approval Committee

17 February 2021

Report of the Related Party Transactions Review Committee

Composition

The Related Party Transactions Review Committee appointed by the Board of Directors, presently consists of two Non-Executive Directors and the Chief Executive Officer. P M B Fernando an Independent Director is the Chairman of the Committee. J Durairatnam and L H A L Silva are the other members. T Dharmarajah functioned as the Chairman of the Committee until his retirement in March 2020. K P Cooray functioned as a member of the Committee until 19 August 2020.

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 11 meetings during the financial year to carry out its task. The attendance by members is given on page 110 of the Annual Report. The Committee reviewed the related party transactions carried out during the year at its meetings and the proceedings of the Committee meetings were regularly reported to the Board of Directors.

P M B Fernando
Chairman – Related Party Transactions Review Committee

17 February 2021

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 Board 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 Board Audit Committee and the findings of the audits are submitted to the Board Audit Committee for review at their periodic meetings.

- The Board 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 Board Audit Committee meetings are tabled for the information of the Board on a periodic basis. Further details of the activities undertaken by the Board Audit Committee of the Bank are set out in the Report of the Board Audit Committee on page 131.
- 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 judgement 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.

During the year the existing models were further refined to incorporate the potential implications of COVID-19 pandemic and the moratorium schemes introduced to support the recovery of the economy, based on stress testing the exposures to risk elevated sectors and adjustments made to economic factors.

The Board Audit Committee reviewed the amendments made to the policies, methodologies and the underlying assumptions during the year 2020 taking into consideration of potential implications of the COVID-19 pandemic situation.

The Bank will continue to focus on strengthening the review and testing process of the said models and the Internal Audit Department will further review these refinements made to the models and the management overlay incorporated into the computation of ECL based on the estimates and judgement in next financial year.

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.

Management information

The comments made by the External Auditors in connection with internal control system for the financial year ended 31 December 2019 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 31 December 2020 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 of Internal Control for the year ended 31 December 2020 and their Independent Assurance Report is on page 143 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 Officer/Director

17 February 2021

Independent Assurance Report

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

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To the Board of Directors of
DFCC Bank PLC

We were engaged by the Board of Directors of DFCC Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control ("Statement") included in the Annual Report for the year ended 31 December 2020.

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 140 to 142 of this Annual Report is inconsistent with our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Bank.

Chartered Accountants
Colombo

17 February 2021

Financial Reports

Financial Calendar

2020

LKR 3.00 per share Final Dividend for 2019 paid on	3 July 2020
Audited Financial Statements signed on	17 February 2021
65th Annual General Meeting to be held on	30 March 2021
First and Final Dividend of LKR 3.00 per share by way of Scrip Dividend for 2020	10 March 2021
1st Quarter Interim Results released on	27 May 2020
2nd Quarter Interim Results released on	11 August 2020
3rd Quarter Interim Results released on	13 November 2020

Proposed Financial Calendar

2021

1st Quarter Interim Results to be released in	May 2021
2nd Quarter Interim Results to be released in	August 2021
3rd Quarter Interim Results to be released in	November 2021
66th Annual General Meeting to be held in	March 2022

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 the 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 2020 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 131 to 133.

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 148.

By Order of the Board,

Ms A Withana

Company Secretary
Colombo

17 February 2021

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 2020 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 2020, as required by the Banking Act Direction No. 11 of 2007, result of which is given on pages 140 to 142 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 143 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 131 to 133.

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

17 February 2021

Independent Auditors' Report

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
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TO THE SHAREHOLDERS OF DFCC BANK PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of DFCC Bank PLC ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group"), which comprise the statement of financial position as at 31 December 2020, and income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 154 to 296 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 2020, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka ("Code of Ethics") that are related to our audit of financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Bank's 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 receivables – "Financial Instruments"

Refer to Note 4 (Use of Judgements and Estimates), Note 17 (Impairment for loans and other losses), and Note 32 (Loans to and receivables from other customers), to these financial statements.

Risk description	Our responses
As disclosed in Note 32 to these financial statements, the Bank has recorded loans to and receivables from other customers of LKR 317,233 Mn as at 31st December 2020. High degree of complexity and judgement is involved in estimating individual and collective impairment of LKR 15,323 Mn as at that date. Allowance for expected credit losses is a key audit matter due to the significance of the loans and receivables balance to the financial statements and the inherent complexity of the Bank's Expected Credit Loss (ECL) models used to measure ECL allowances. These models are reliant on data and a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk (SICR). SLFRS 9 Financial Instruments requires the Bank to measure ECLs on a forward-looking basis reflecting a range of economic conditions. Post-model adjustments are made by the Bank to address known ECL model limitations or emerging trends in the loan portfolios. We exercise significant judgement in evaluating the economic scenarios used and the judgemental post model adjustments the Bank applies to the ECL results. The Bank's criteria selected to identify a SICR are key areas of judgement within the Bank's ECL methodology as these criteria determine if a forward-looking 12 months or lifetime allowance is recorded.	Our audit procedures to assess impairment of loans and advances to customers included the following: Testing key controls of the Bank in relation to: → Reconciliation of the data used in the ECL calculation process to gross balances recorded within the general ledger as well as source systems; → IT system controls which record loans days past due, and non-performing loan classification. **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 and assessed as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Bank as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions and in particular considering the impacts of COVID-19). 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:** → Assessing the recoverability of the forecasted cash flows by comparing them to the historical performance of the customers and the expected future performance where applicable; → Assessing external collateral valuer's credentials and comparing external valuations to values used in management's impairment assessments → Exercising our judgement, our procedures included using our understanding of relevant industries and the macroeconomic environment and comparing with the data and assumptions used by the Bank in recoverability assessment. Where relevant we assessed the forecast timing of future cash flows in the context of underlying valuations and business plans and evaluated key assumptions used in the valuations → Testing the implementation of the Bank's Significant Increase in Credit Risk (SICR) methodology by re-performing the staging calculation for a sample of loan → For a sample of customers loans which were not identified as displaying indicators or impairment by Management, we reassessed the conclusions made by the Management by reviewing the historical performance of the customers and formed our own view whether any impairment indicators were present.

Risk description	Our responses
The COVID-19 pandemic has meant that assumptions regarding the economic outlook are more uncertain which, combined with varying government responses, increases the level of judgement required by the Bank in calculating the ECL, and the associated audit risk. Additionally, allowances for individually significant loans exceeding specific thresholds are individually assessed by the Bank. We exercise significant judgement in challenging the assessment of specific allowances based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the Bank in respect of the loans. The disclosures regarding the Bank's application of SLFRS 9 are key to explaining the key judgements and material inputs to the SLFRS 9 ECL results.	**Assessing the adequacy of collectively assessed provisions** We tested key controls of the Bank in relation to: → The ECL model governance and validation processes which involved assessment of model performance; → The assessment and approval of the forward-looking macroeconomic assumptions and scenario weightings, trends in the credit risk concentration of specific portfolios and our understanding of economic conditions. As part of this work we assessed the reasonableness of the Bank's considerations of the economic uncertainty relating to COVID-19. **Our further audit procedures included;** → Assessing the ongoing effectiveness of the SICR criteria and independently calculated the loans' stage. In addition, we assessed the reasonableness of the Bank's treatment of COVID-19 payment relief customers (moratorium/ debt concessionary) from a SICR perspective. → Evaluating key assumptions in the components of the Bank's post-model adjustments to the ECL allowance balance. This included assessing the requirement for additional allowances considering the Bank's ECL model and data limitations identified by the Bank's ECL model validation processes, particularly in light of the extreme volatility in economic scenarios caused by the current COVID-19 pandemic and government responses; → Working with KPMG Financial Risk Management specialists, we assessed the reasonability of the adjustments made by the Bank to the forward looking macroeconomic factors and assumptions used in the ECL model. → Assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the loan portfolios against the Bank's assessment. → Assessing the appropriateness of the Bank's disclosures in the financial report using our understanding obtained from our testing and against the requirements of the Sri Lanka Accounting Standards.

IT systems and controls over financial reporting

Risk description	Our responses
The Bank utilises many complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. Controls over access and changes to IT systems are critical to the recording of financial information and the preparation of financial statements which provides a true and fair view of the Bank's financial position and performance. The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter as our audit approach could significantly differ depending on the effective operation of the Bank's IT controls.	We work with our KPMG IT specialists to perform audit procedures to test the technology control environment for key IT applications (systems) used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems which link the technology-enabled business processes. Our further audit procedures included: **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 → Data integrity of critical system reporting used by us in our audit to select samples and analyse data used by Management to generate financial statements. **Application controls** → On sample basis, re-performed selected automated computations and compared our results with those from the system and the general Ledger; **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 Is FCA 2294.

Chartered Accountants

Colombo, Sri Lanka

17 February 2021

Income Statement

For the year ended 31 December	Notes	Page No.	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Gross income	10	206	**43,299,800**	43,297,015	**43,604,447**	43,648,287
Interest income			**39,089,986**	42,060,055	**39,095,445**	42,062,054
Interest expenses			**28,083,159**	29,397,598	**28,052,259**	29,363,105
Net interest income	11	207	**11,006,827**	12,662,457	**11,043,186**	12,698,949
Fee and commission income			**2,193,474**	2,165,314	**2,192,557**	2,162,006
Fee and commission expenses			**132,157**	119,603	**132,157**	119,603
Net fee and commission income	12	209	**2,061,317**	2,045,711	**2,060,400**	2,042,403
Net gain/(loss) from trading	13	211	**479,153**	(87,116)	**479,153**	(87,116)
Net loss from financial instruments at fair value through profit or loss	14	211	**(497,931)**	(2,633,183)	**(497,931)**	(2,633,183)
Net gains from derecognition of financial assets	15	212	**510,386**	209,890	**510,386**	209,890
Net other operating income	16	212	**1,524,732**	1,582,055	**1,824,837**	1,934,636
Total operating income			**15,084,484**	13,779,814	**15,420,031**	14,165,579
Impairment for loans and other losses	17	213	**3,297,892**	1,668,913	**3,327,892**	1,689,313
Net operating income			**11,786,592**	12,110,901	**12,092,139**	12,476,266
Operating expenses						
Personnel expenses	18	220	**3,399,704**	3,724,407	**3,588,172**	3,894,734
Depreciation and amortisation	19	221	**919,657**	843,656	**970,958**	901,410
Other expenses	20	222	**3,067,229**	3,005,111	**2,995,346**	3,014,501
Operating profit before taxes on financial services			**4,400,002**	4,537,727	**4,537,663**	4,665,621
Taxes on financial services	21	222	**1,001,562**	1,548,462	**1,001,562**	1,548,462
Operating profit after taxes on financial services			**3,398,440**	2,989,265	**3,536,101**	3,117,159
Share of profits of associate and joint venture			**–**	–	**407,785**	191,281
Profit before income tax			**3,398,440**	2,989,265	**3,943,886**	3,308,440
Income tax expense	22	224	**1,010,405**	915,397	**1,097,101**	1,008,146
Profit for the year			**2,388,035**	2,073,868	**2,846,785**	2,300,294
Profit attributable to:						
Equity holders of the Bank			**2,388,035**	2,073,868	**2,744,961**	2,213,529
Non-controlling interests			**–**	–	**101,824**	86,765
Profit for the year			**2,388,035**	2,073,868	**2,846,785**	2,300,294
Earnings per share						
Basic/diluted earnings per ordinary share (LKR)	23	226	**7.83**	7.14	**9.00**	7.62

Notes to the financial statements from pages 163 to 296 form part of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Profit for the year	**2,388,035**	2,073,868	**2,846,785**	2,300,294
Other comprehensive income/(expenses) for the year, net of tax				
Items that are or may be reclassified subsequently to income statement				
Movement in fair value reserve [fair value through other comprehensive income (FVTOCI) debt instruments]:				
Net change in fair value	**2,563,943**	2,259,672	**2,563,943**	2,259,672
Reclassified to income statement	**52,918**	(134,095)	**52,918**	(134,095)
Share of other comprehensive income/(expenses) of equity accounted joint venture and associate	**–**	–	**26,284**	(2,222)
Movement in hedging reserve:				
Cash flow hedges – effective portion of changes in fair value	**(13,622)**	(410,906)	**(13,622)**	(410,906)
Cash flow hedges – reclassified to income statement	**15,420**	14,299	**15,420**	14,299
Related deferred tax	**(777,899)**	(480,708)	**(777,899)**	(480,708)
Total other comprehensive income that are or may be reclassified subsequently to income statement	**1,840,760**	1,248,262	**1,867,044**	1,246,040
Items that will not be reclassified to income statement				
Losses on remeasurements of defined benefit liability/(asset)	**(37,766)**	(32,672)	**(36,738)**	(32,017)
Equity investments at fair value through other comprehensive income – Net change in fair value	**(1,533,286)**	(1,563,978)	**(1,533,286)**	(1,563,978)
Share of other comprehensive income of equity accounted joint venture and associate	**–**	–	**483**	971
Related deferred tax	**(26,297)**	23,716	**(26,322)**	23,674
Total other comprehensive expenses on items that will not be reclassified to income statement	**(1,597,349)**	(1,572,934)	**(1,595,863)**	(1,571,350)
Other comprehensive income/(expenses) for the year, net of tax	**243,411**	(324,672)	**271,181**	(325,310)
Total comprehensive income for the year	**2,631,446**	1,749,196	**3,117,966**	1,974,984
Total comprehensive income attributable to:				
Equity holders of the Bank	**2,631,446**	1,749,196	**3,016,442**	1,888,343
Non-controlling interests	**–**	–	**101,524**	86,641
Total comprehensive income for the year	**2,631,446**	1,749,196	**3,117,966**	1,974,984

Notes to the financial statements from pages 163 to 296 form part of these financial statements.

Statement of Financial Position

As at 31 December	Notes	Page No.	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Assets						
Cash and cash equivalents	26	231	**7,724,364**	5,450,209	**7,728,969**	5,459,359
Balances with Central Bank of Sri Lanka	27	232	**4,901,753**	8,666,547	**4,901,753**	8,666,547
Placements with banks	28	233	**15,414,287**	165,030	**15,431,962**	200,441
Derivative financial assets	29	233	**835,464**	631,438	**835,464**	631,438
Financial assets measured at fair value through profit or loss	30	237	**609,717**	5,307,066	**609,717**	5,307,066
Financial assets at amortised cost – Loans to and receivables from banks	31	238	**4,152,717**	–	**4,152,717**	–
Financial assets at amortised cost – Loans to and receivables from other customers	32	239	**301,909,337**	272,818,311	**301,909,337**	272,818,311
Financial assets at amortised cost – Debt and other instruments	33	245	**31,604,175**	30,147,032	**31,604,175**	30,147,032
Financial assets measured at fair value through other comprehensive income	34	246	**88,718,002**	72,716,407	**88,718,002**	72,716,407
Investments in subsidiaries	35	251	**217,436**	187,436	**–**	–
Investments in associate	36	252	**35,270**	35,270	**31,699**	31,293
Investments in joint venture	37	253	**755,000**	755,000	**2,449,262**	2,065,116
Investment property	38	255	**9,879**	9,879	**345,857**	466,977
Property, plant and equipment	39	256	**3,406,600**	3,230,843	**3,587,019**	3,312,641
Intangible assets and goodwill	40	260	**1,713,052**	1,184,659	**1,884,806**	1,362,149
Deferred tax asset	41	262	**–**	308,853	**2,919**	314,029
Other assets	42	264	**3,070,234**	3,283,300	**3,153,277**	3,372,786
Asset held for sale	43	265	**–**	–	**19,600**	40,000
Total assets			**465,077,287**	404,897,280	**467,366,535**	406,911,592
Liabilities						
Due to banks	44	266	**14,909,937**	24,594,828	**14,909,937**	24,594,828
Derivative financial liabilities	29	233	**267,883**	518,731	**267,883**	518,731
Financial liabilities at amortised cost – Due to depositors	45	266	**310,026,892**	247,786,974	**309,566,423**	247,457,696
Financial liabilities at amortised cost – Due to other borrowers	46	268	**46,847,076**	47,307,556	**46,847,076**	47,307,556
Debt securities in issue	47	269	**16,291,279**	14,148,198	**16,291,279**	14,148,198
Employee retirement benefits	48	270	**643,118**	561,104	**671,041**	586,351
Current tax liabilities	49	277	**1,012,645**	581,269	**1,081,864**	648,178
Deferred tax liability	41	262	**243,949**	–	**341,691**	96,714
Other liabilities	50	277	**6,119,854**	5,059,187	**6,323,094**	5,266,934
Subordinated term debt	51	278	**19,357,497**	16,859,914	**19,357,497**	16,859,914
Total liabilities			**415,720,130**	357,417,761	**415,657,785**	357,485,100

Statement of Financial Position

As at 31 December	Notes	Page No.	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Equity						
Stated capital	52	279	**7,682,465**	7,530,371	**7,682,465**	7,530,371
Statutory reserve	53	280	**2,583,968**	2,461,968	**2,583,968**	2,461,968
Retained earnings	54	280	**19,652,169**	18,228,086	**23,061,084**	21,278,288
Other reserves	55	281	**19,438,555**	19,259,094	**18,098,644**	17,892,900
Total equity attributable to equity holders of the Bank			**49,357,157**	47,479,519	**51,426,161**	49,163,527
Non-controlling interests	56	282	**–**	–	**282,589**	262,965
Total equity			**49,357,157**	47,479,519	**51,708,750**	49,426,492
Total equity and liabilities			**465,077,287**	404,897,280	**467,366,535**	406,911,592
Contingent liabilities and commitments	57	283	**130,764,147**	130,590,400	**130,764,147**	130,590,400
Net asset value per share, LKR			**161.30**	156.09	**168.06**	161.62

The notes to the financial statements from pages 163 to 296 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 preparation of these financial statements.

For and on behalf of the Board of Directors,

J Durairatnam
Chairman
Colombo

Lakshman Silva
Director and Chief Executive

17 February 2021

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 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 retain 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 for 2018 – Cash	–	–	–	–	–	(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
Balance as at 1 January 2020	7,530,371	2,461,968	5,704,644	(225,389)	13,779,839	18,228,086	47,479,519
Profit for the year	–	–	–	–	–	2,388,035	2,388,035
Other comprehensive income/(expenses), net of tax	–	–	306,180	1,294	–	(64,063)	243,411
Total comprehensive income for the year	–	–	306,180	1,294	–	2,323,972	2,631,446
Transfers	–	122,000	–	–	–	(122,000)	–
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retain earnings	–	–	(128,013)	–	–	128,013	–
Transactions with equity holders of the Bank, recognised directly in equity							
Forfeiture of unclaimed dividends	–	–	–	–	–	6,664	6,664
Final dividend for 2019 – Scrip	152,094	–	–	–	–	(152,094)	–
Final dividend for 2019 – Cash	–	–	–	–	–	(760,472)	(760,472)
Total contributions from and distribution to equity holders	152,094	–	–	–	–	(905,902)	(753,808)
Balance as at 31 December 2020	7,682,465	2,583,968	5,882,811	(224,095)	13,779,839	19,652,169	49,357,157

The notes to the financial statements from pages 163 to 296 form part of these financial statements.

	Attributable to the equity holders of the Bank									
		Statutory reserves	Other reserves							
	Stated capital LKR '000	Reserve fund LKR '000	Fair value reserve LKR '000	Exchange equalisation reserve LKR '000	Hedging reserve LKR '000	General reserve LKR '000	Retained earnings LKR '000	Total LKR '000	Non-controlling interests LKR '000	Total LKR '000
Group										
Balance as at 1 January 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	–	–	–	–	–	–	(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 expense, net of tax	–	–	(27,922)	(4,458)	(285,557)	–	(7,249)	(325,186)	(124)	(325,310)
Total comprehensive (expense)/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 on disposal of equity investments at fair value through other comprehensive income to retain 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 2018 – Cash	–	–	–	–	–	–	(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
Balance as at 1 January 2020	7,530,371	2,461,968	4,260,073	78,377	(225,389)	13,779,839	21,278,288	49,163,527	262,965	49,426,492
Profit for the year	–	–	–	–	–	–	2,744,961	2,744,961	101,824	2,846,785
Other comprehensive income/(expense) net of tax	–	–	307,786	24,677	1,294	–	(62,276)	271,481	(300)	271,181
Total comprehensive (expense)/income for the year	–	–	307,786	24,677	1,294	–	2,682,685	3,016,442	101,524	3,117,966
Transfers	–	122,000	–	–	–	–	(122,000)	–	–	–
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retain earnings	–	–	(128,013)	–	–	–	128,013	–	–	–
Transactions with equity holders of the Bank, recognised directly in equity										
Forfeiture of unclaimed dividends	–	–	–	–	–	–	6,664	6,664	–	6,664
Final dividend for 2019 – Scrip	152,094	–	–	–	–	–	(152,094)	–	–	–
Final dividend for 2019 – Cash	–	–	–	–	–	–	(760,472)	(760,472)	–	(760,472)
Dividend distributed to non-controlling interest by subsidiaries	–	–	–	–	–	–	–	–	(81,900)	(81,900)
Total contributions from and distribution to equity holders	152,094	–	–	–	–	–	(905,902)	(753,808)	(81,900)	(835,708)
Balance as at 31 December 2020	7,682,465	2,583,968	4,439,846	103,054	(224,095)	13,779,839	23,061,084	51,426,161	282,589	51,708,750

The notes to the financial statements from pages 163 to 296 form part of these financial statements.

Statement of Cash Flows

For the year ended 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
Cash flows from operating activities				
Interest receipts	**30,020,544**	29,371,405	**30,016,182**	29,367,300
Interest payments	**(28,898,275)**	(29,442,467)	**(28,867,010)**	(29,410,377)
Net commission receipts	**2,194,100**	2,214,658	**2,194,100**	2,214,658
Net trading income	**33,140**	1,227,843	**33,140**	1,227,843
Recoveries from loans previously written-off	**42,021**	7,601	**42,021**	7,601
Receipts from other operating activities	**3,220,616**	1,989,230	**3,942,850**	2,587,700
Payments on other operating activities	**(3,235,643)**	(2,987,378)	**(3,539,577)**	(3,343,283)
Cash payments to employees	**(3,509,801)**	(3,688,837)	**(3,509,801)**	(3,688,837)
Taxes on financial services	**(1,028,489)**	(1,594,710)	**(1,028,489)**	(1,594,710)
Operating cash flows before changes in operating assets and liabilities	**(1,161,787)**	(2,902,655)	**(716,584)**	(2,632,105)
(Increase)/decrease in operating assets:				
Balances with Central Bank/deposits held for regulatory or monetary control purposes	**3,764,794**	3,175,265	**3,764,794**	3,175,265
Financial assets at amortised cost – Loans to and receivables from other customers	**(31,967,075)**	(23,535,476)	**(31,967,075)**	(23,535,476)
Others	**910,313**	60,113	**833,751**	71,913
Increase/(decrease) in operating liabilities:				
Financial liabilities at amortised cost – Due to depositors	**60,833,677**	6,061,028	**60,451,771**	5,799,500
Negotiable certificate of deposits	**1,576,253**	289,308	**1,576,253**	289,308
Others	**(1,492,634)**	2,807,301	**(1,334,358)**	3,103,016
Net cash flows from/(used in) operating activities before income tax	**32,463,541**	(14,045,116)	**32,608,552**	(13,728,579)
Income tax paid	**(615,096)**	(1,691,938)	**(671,516)**	(1,747,401)
Net cash flows from/(used in) operating activities	**31,848,445**	(15,737,054)	**31,937,036**	(15,475,980)

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 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Cash flows from investing activities				
Dividends received from investment in subsidiaries, joint venture, and associate	**139,276**	152,376	**50,000**	75,500
Dividends received from other investments	**419,077**	550,774	**419,076**	550,774
Interest received	**8,094,360**	7,502,423	**8,134,721**	7,530,566
Government Securities – net	**(16,828,764)**	(14,116,047)	**(16,828,764)**	(14,116,047)
Proceeds from sale and redemption of securities	**5,580,763**	1,803,369	**5,601,163**	1,828,466
Purchase of financial investments	**(3,040,582)**	(338,003)	**(3,040,582)**	(338,003)
Purchase of property, equipment, intangibles and investment property	**(1,761,511)**	(982,654)	**(1,761,967)**	(1,026,160)
Proceeds from sale of equipment and investment property	**–**	26,796	**–**	26,777
Net cash flows used in investing activities	**(7,397,381)**	(5,400,966)	**(7,426,353)**	(5,468,127)
Cash flows from financing activities				
Issue of new shares under Rights Issue	**–**	2,814,557	**–**	2,814,557
Issue of debentures	**9,523,000**	10,000,000	**9,523,000**	10,000,000
Redemption of debentures	**(5,000,000)**	(5,315,450)	**(5,000,000)**	(5,315,450)
Borrowing, medium and long-term	**16,212,712**	8,769,273	**16,212,712**	8,769,273
Other borrowings – net	**(14,571,228)**	13,314,573	**(14,571,228)**	13,314,573
Repayment of borrowing, medium and long-term	**(12,334,236)**	(7,365,360)	**(12,334,236)**	(7,365,360)
Dividends paid	**(757,900)**	(929,050)	**(839,800)**	(1,103,236)
Net cash flows (used in)/from financing activities	**(6,927,652)**	21,288,543	**(7,009,552)**	21,114,357
Net increase in cash and cash equivalents	**17,523,412**	150,523	**17,501,131**	170,250
Cash and cash equivalents at the beginning of year	**5,615,239**	5,464,716	**5,659,800**	5,489,550
Cash and cash equivalents at the end of year	**23,138,651**	5,615,239	**23,160,931**	5,659,800
Reconciliation of cash and cash equivalents with items reported in the statement of financial position				
Cash and cash equivalents (Note 26)	**7,724,364**	5,450,209	**7,728,969**	5,459,359
Placements with banks (Note 28)	**15,414,287**	165,030	**15,431,962**	200,441
	23,138,651	5,615,239	**23,160,931**	5,659,800

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 163 to 296 form part of these financial statements.

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

	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
Profit before income tax	**3,398,440**	2,989,265	**3,943,886**	3,308,440
Add/(deduct) items not using (providing) cash:	**4,846,088**	5,686,027	**4,525,559**	5,579,216
Depreciation				
– Property, plant and equipment, and investment property	**383,461**	341,764	**428,726**	392,948
– Right-of-use assets	**292,457**	**282,313**	**292,757**	**284,113**
Amortisation				
Intangible assets	**243,739**	219,579	**249,475**	224,349
Unrealised (gains)/loss on trading securities	**(90,525)**	890,630	**(90,525)**	890,630
Net loss from financial instruments at fair value				
Contracts with commercial banks	**543,169**	2,578,178	**543,169**	2,578,178
Interest rate swap fair value changes	**–**	6,963	**–**	6,963
Foreign exchange gain	**(23,292)**	(474,203)	**(23,292)**	(474,203)
Impairment for loans and other losses	**3,297,892**	1,668,913	**3,327,892**	1,689,313
Share of profits of associate and joint venture	**–**	–	**(407,785)**	(191,281)
Provision for defined benefit plans	**199,187**	171,890	**205,142**	178,206
Deduct items reported under investing activities	**(8,394,133)**	(7,971,518)	**(8,269,847)**	(7,821,494)
Dividend income	**(883,303)**	(943,453)	**(744,026)**	(791,077)
Gain on sale of Government Securities	**(505,284)**	(110,850)	**(505,284)**	(110,850)
Gain on sale of equity securities	**(5,102)**	(99,040)	**(5,102)**	(99,040)
Gain on sale of property, plant and equipment	**(13,708)**	(33,494)	**(23,240)**	(33,494)
Interest income from investments	**(6,986,736)**	(6,784,681)	**(6,992,195)**	(6,787,033)
Deduct changes in operating assets and liabilities:	**31,998,050**	(16,440,828)	**31,737,438**	(16,542,142)
Increase in account receivables	**(2,397,978)**	(4,426,387)	**(2,303,116)**	(4,737,813)
(Decrease)/increase in account payables	**(278,513)**	637,288	**(465,860)**	854,585
Increase/(decrease) in income tax payable	**496,406**	(1,691,938)	**525,558**	(1,747,401)
Increase in deferred tax	**552,807**	182,670	**655,720**	184,961
Increase in operating assets	**(27,291,968)**	(20,300,098)	**(27,368,530)**	(20,288,298)
Increase in operating liabilities	**60,917,296**	9,157,637	**60,693,666**	9,191,824
Net cash flows from/(used in) operating activities	**31,848,445**	(15,737,054)	**31,937,036**	(15,475,980)

The notes to the financial statements from pages 163 to 296 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.

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 with DFCC Vardhana Bank PLC 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 2020 was as follows:

Group	2,182 (31 December 2019 – 2,192)
Bank	2,072 (31 December 2019 – 2,076)

1.2 Consolidated Financial Statements

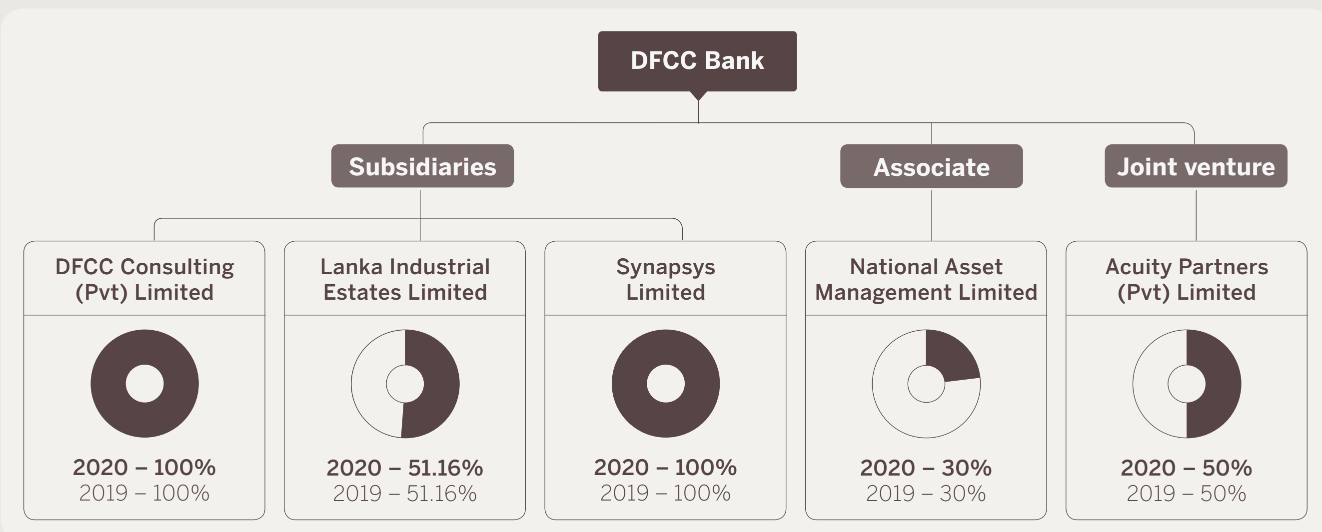
DFCC Bank PLC as the parent of subsidiaries under its control is required to present only the consolidated financial statements as per Sri Lanka Accounting Standard – SLFRS 10 on "Consolidated Financial Statements" and the proportionate share of the profit or loss and net assets of its associates and joint ventures in terms of the Sri Lanka Accounting Standard – LKAS 28 on "Investments in Associates and Joint Ventures". In addition to the consolidated financial statements, separate financial statements are also presented as per the Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988 and amendments thereto.

The Bank's financial statements comprise the amalgamation of the financial statements of the Domestic Banking Unit (DBU) and the Foreign Currency Banking Unit (FCBU).

1.3 Parent entity and ultimate parent entity

The Bank does not have an identifiable parent of its own. The Bank is the ultimate parent of the Group companies.

1.4 Principal business activities, nature of operations of the Group and ownership by the Bank in its subsidiaries, associate and joint venture.



A summary of principal activities of DFCC Bank PLC, its subsidiary companies, associate company and joint venture company is as follows:

Entity	Principal business activity
DFCC Bank PLC	Range of financial services such as accepting deposits, corporate credit and retail banking, personal financial services, project financing, investment banking, foreign currency operations, trade finance and dealing in Government Securities, and Treasury-related products.
Subsidiaries	
DFCC Consulting (Pvt) Limited	Technical, financial, and other professional consultancy services in Sri Lanka and abroad.
Lanka Industrial Estates Limited	Leasing of land and buildings to industrial enterprises.
Synapsys Limited	Information technology services and information technology enabled services.
Associate	
National Asset Management Limited	Management of Unit Trust and private portfolios.
Joint venture	
Acuity Partners (Pvt) Limited	Investment banking-related financial services.

There were no significant changes in the nature of the principal activities of the Group during the financial year under review.

1.5 Approval of financial statements

The financial statements for the year ended 31 December 2020 were authorised for issue by the Directors on 17 February 2021.

1.6 Responsibility for financial statements

The responsibility of the Board of Directors in relation to the financial statements is set out in the Statement of Directors' Responsibility report in the Annual Report.

2 Basis of accounting →

2.1 Statement of compliance

The consolidated financial statements of the Group and the separate financial statements of the Bank, which comprise the Statement of Financial Position, Income Statement, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes thereto, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act No. 07 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto, and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange (CSE).

These financial statements, except for information on cash flows have been prepared following the accrual basis of accounting.

Details of the Group's significant accounting policies followed during the year are given on Note 5 on pages 167 to 173.

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 154 and 155).
- → a statement of financial position providing information on the financial position of the Group and the Bank as at the year end; (Refer page 156).
- → a statement of changes in equity depicting all changes in shareholders' funds during the year under review of the Group and the Bank; (Refer pages 158 and 159).
- → a statement of cash flows providing information to the users, on the ability of the Group and the Bank to generate cash and cash equivalents and the needs of the entity to utilise those cash flows; (Refer pages 160 to 162).
- → Notes to the financial statements comprising accounting policies and other explanatory information. (Refer pages 163 to 296)

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	237
Derivative financial assets and derivative financial liabilities	Fair value	29	233
Financial assets measured at fair value through other comprehensive income (FVOCI)	Fair value	34	246

Non-financial assets/liabilities

Item	Basis of measurement	Note	Page
Employee retirement benefits	Present value of the defined benefit pension obligation less the net total of the pension assets maintained in DFCC Bank Pension Fund, a trust separate from the Bank.	48	270
	Present value of the defined benefit gratuity obligation.	48	270

No adjustments have been made for inflationary factors affecting the financial statements.

2.3 Materiality and aggregation

Each item which is similar in nature is presented separately if material. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard – LKAS 1 on "Presentation of Financial Statements".

2.4 Going concern

The Directors have made an assessment of the Group's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. The assessment took into consideration the existing and potential implications of COVID-19 pandemic on the business operations and performance of the Group and the measures adopted by the Government to mitigate the pandemic's spread and support recovery of the economy. The Board is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Group. Therefore, the financial statements continue to be prepared on the going concern basis.

2.5 Comparative information

Comparative information including quantitative, narrative, and descriptive information is disclosed in respect of the previous period in the financial statements in order to enhance the understanding of the current period's financial statements and to enhance the inter-period comparability.

The presentation and classification of the financial statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

3 Functional and presentation currency →

These consolidated financial statements are presented in Sri Lankan Rupees (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.

Coronavirus (COVID-19) pandemic

The COVID-19 pandemic and its effect on the global economy have impacted the customers, operations and Group performance. The outbreak necessitated the government to respond at unprecedented levels to protect the health of the population, local economy and livelihoods. Thus the pandemic has significantly increased the estimation uncertainty in the preparation of these financial statements including, the extent and duration of the disruption to businesses, expected economic downturn, and subsequent recovery.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant notes of these financial statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

4.1 Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements are included in the following Notes:

Item	Note	Page
Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Loss (ECL) and selection and approval models used to measure ECL.	17	213
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	169
Determination of control over investees.	36, 37	252, 253

4.2 Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments to the carrying amounts of assets and liabilities is included in the following Notes:

Item	Note	Page
Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information and key assumptions used in estimating recoverable cash flows.	17, 32	213, 239
Determination of the fair value of financial instruments with significant unobservable inputs.	9.3.1	201
Measurement of defined benefit obligations: key actuarial assumptions.	48.2.2	275
Recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be utilised.	41	262
Impairment testing for Cash Generating Units (CGU) containing goodwill: key assumptions underlying recoverable amounts.	5.4	172

5 Significant accounting policies →

The significant accounting policies set out below have been applied consistently to all periods presented in the financial statements of the Group.

These accounting policies have been applied consistently by Group 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 the acquired set of activities and assets meets the definition of a business and control is transferred to the Group.

From 1 January 2020, in determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Group has an option to apply a "concentration test" that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in income statement.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in Income Statement.

5.1.2 Subsidiaries

Details of the Bank's subsidiaries, how they are accounted for in the financial statements and their contingencies are set out in Note 35 on pages 251.

5.1.3 Non-controlling interests (NCI)

Details of non-controlling interests are given in Note 56 on page 282.

5.1.4 Loss of control

When the Group looses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

5.1.5 Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in an associate 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 252 to 253.

5.1.6 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

5.1.7 Financial statements of subsidiaries, associate company, and joint venture company included in the consolidated financial statements

The financial statements of DFCC Consulting (Pvt) Limited, Acuity Partners (Pvt) Limited, Synapsys Limited and National Asset Management Limited included in the consolidation have financial years ending on 31 December.

Financial statements of Lanka Industrial Estates Limited included in the consolidation has financial year ending on 31 March.

Audited financial statements are used for consolidation of companies which have a similar financial year end, as the Bank and for other a special review is performed.

5.2 Foreign currency

5.2.1 Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest, impairment and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in 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 Group Central Treasury in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Group considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows.

Certain other debt securities are held by the Group Central Treasury in separate portfolios to meet everyday liquidity needs. The Group's Central Treasury seeks to minimise the costs of managing these liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual cash flows as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Group considers that these financial assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

5.3.2.1.2 Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment,"principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

Equity instruments have contractual cash flows that do not meet the SPPI criterion. Accordingly, all such financial assets are measured at FVTPL unless the FVOCI option is selected.

5.3.2.2 Financial liabilities

On initial recognition, the Group 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 Group 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 profit or loss. Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

5.3.4.2 Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

5.3.5 Modifications of financial assets and financial liabilities

5.3.5.1 Financial assets

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial 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 profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial 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 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Income Statement, unless required or permitted by an Accounting Standard or Interpretation (issued by the SLFRS Interpretations Committee and Standard Interpretations Committee) and as specifically disclosed in the significant accounting policies of the Bank/Group.

5.3.7 Fair value measurement

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as "active" if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

5.3.8 Impairment

Details of impairment is given in Note 17 on page 213.

5.3.9 Designation at fair value through profit or loss

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 or at FVTPL, if doing so eliminated or significantly reduces an accounting mismatch that would otherwise arise.

The Group 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 adopted Definition of a Business (Amendments to SLFRS 3) from 1 January 2020. A number of other new standards are also effective from 1 January 2020 that do not have a material effect on the Group's financial statements.

A. Definition of a business

The Group applied Definition of a Business (Amendments to SLFRS 3) to business combinations whose dates of acquisition are on or after 1 January 2020 in assessing whether it had acquired a business or a group of assets. The amendments do not have a material effect on the Group's financial statements because the Group has not acquired any subsidiaries during the year.

However, the Group has not made any acquisitions on or after 1 January 2020.

7 Standards issued but not yet adopted →

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements.

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

Accounting standard	Summary of requirements	Possible impact on financial statements
Amendments to references to conceptual framework in SLFRS Standards	The revised framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. The new conceptual framework is effective for annual periods beginning on or after 1 January 2020.	Group is not expecting a significant impact arising from the new conceptual framework.
Interest rate benchmark reforms.(Amendments to SLFRS 9, LKAS 39, and SLFRS 7)	Interest rate benchmark reform is a global initiative to replace or reform interbank offered rates (IBORs) that are used to determine interest cash flows on financial instruments such as loans to customers, debt securities and derivatives. Historically IBORs such as USD LIBOR have been determined by panels of banks with a heavy reliance on expert judgement. The objective of the reforms is to replace IBORs with alternative nearly risk-free rates (RFRs) that are based on actual market transactions. The Financial Conduct Authority has stated that it will no longer compel panel banks to submit values for LIBORs after 31 December 2021 and it is expected that these benchmarks will cease to exist thereafter. Consequently, financial contracts referencing these benchmarks with a maturity beyond 2021 may need to be amended to reference the alternative RFR in the applicable currency. There remain many uncertainties associated with the IBOR transition, including the prospective.	Group is in the process of assessing the possible impact.
Other new accounting pronouncements	The following new and amended standards are also not expected to have a significant impact on the Group's consolidated financial statements; – Sri Lanka Accounting Standard – SLFRS 17 "Insurance Contracts" effective from 1 January 2023 – Onerous Contracts – Cost of Fulfilling a Contract (Amendments to LKAS 37). – COVID-19-Related Rent Concessions (Amendment to SLFRS 16). – Property, Plant and Equipment: Proceeds before Intended Use (Amendments to LKAS 16).	

8 Financial risk review

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

8.1 Introduction and overview

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

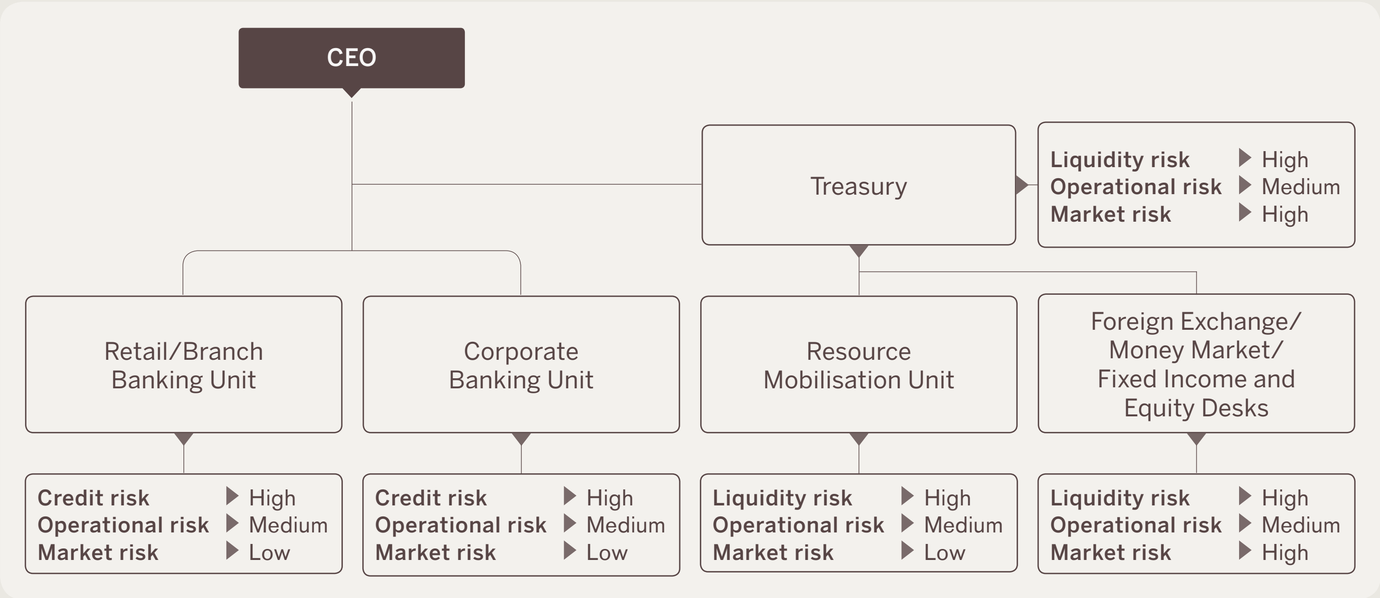
- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risks

The following chart provides a link between the Bank's main business units and the principal risks that they are exposed to. The significance of risk is assessed within the context of the Bank as a whole and is measured based on allocation of the regulatory capital within the Bank.

The Board Integrated Risk Management Committee (BIRMC) provides the Board, the assurance that risk management strategies, policies and processes are in place to manage events/outcomes that have the potential to impact significantly on earnings, performance, reputation and capital.

Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank activities. The Bank through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Bank Audit Committee.



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.

8.2 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Bank's loans and advances to customers and other banks and investment in debt securities.

8.2.1 Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. "Settlement risk" is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

8.2.2 Management of credit risk

The Board of Directors, BIRMC and the Credit Committee are responsible for the oversight of credit risk. Management of credit risk includes the following:

1. Formulating credit policies in consultation with business units covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
2. Authority for establishing the authorisation structure for the approval and renewal of credit facilities is vested with the Board of Directors. Authorisation limits are allocated to business unit Heads. Approval by Branch Managers, Regional Managers, Head of Branch Banking, Head of Corporate Banking, Credit Committee or the Board of Directors would be required based on loan quantum and risk levels as appropriate.
3. Reviewing and assessing credit risk: Bank credit assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
4. Limiting concentrations of exposure to counterparties, industries (for loans and advances, financial guarantees and similar exposures), credit ratings and countries.
5. Developing and maintaining the Bank's processes for measuring ECL: This includes processes for:
   - initial approval, regular validation and back-testing of the models used;
   - determining and monitoring significant increase in credit risk; and
   - incorporation of forward-looking information.
6. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk, and product types. Regular reports on the credit quality of local portfolios are provided to bank credit, which may require appropriate corrective action to be taken. These include reports containing estimates of Expected Credit Loss (ECL) allowances.
7. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to follow Bank credit policies and procedures, and each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and Bank Credit processes are undertaken by Internal Audit.

8.2.3 Credit quality analysis

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

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

As at 31 December	2020			
In LKR '000	Stage 1	Stage 2	Stage 3	Total
Current	183,303,084	8,446,879	2,200,563	193,950,526
Overdue < 30 days	65,112,665	9,292,992	2,618,816	77,024,473
Overdue > 30 days	2,302,688	24,412,315	19,542,611	46,257,614
Total	**250,718,437**	**42,152,186**	**24,361,990**	**317,232,613**

As at 31December	2019			
In LKR '000	Stage1	Stage2	Stage3	Total
Current	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

8.2.3.1 Gross carrying amount reports under Stage 2 above for the year 2020, include facilities amounting to LKR 5.4 Bn granted to Government Institutions, and are fully-guaranteed by Treasury. Accordingly no provision has been made in respect of these facilities. These facilities were classified under Stage 3 in 2019.

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 2020	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)	8,874,370	30,895	39,541,236	276,665	81,690	27	11,852,637	527,877	–	–	60,349,933	835,464
Derivative financial liabilities (Note 2)	8,881,730	(28,002)	39,512,159	(239,805)	81,739	(76)	–	–	–	–	48,475,628	(267,883)
Note1 Derivative financial assets by counterparty type												
With banks	6,128,972	22,862	39,541,236	276,665	81,690	27	11,852,637	527,877	–	–	57,604,535	827,431
With other customers	2,745,398	8,033	–	–	–	–	–	–	–	–	2,745,398	8,033
Total	8,874,370	30,895	39,541,236	276,665	81,690	27	11,852,637	527,877	–	–	60,349,933	835,464
Note2 Derivative financial liabilities by counterparty type												
With banks	6,125,797	(17,276)	39,512,159	(239,805)	81,739	(76)	–	–	–	–	45,719,695	(257,157)
With other customers	2,755,933	(10,726)	–	–	–	–	–	–	–	–	2,755,933	(10,726)
Total	8,881,730	(28,002)	39,512,159	(239,805)	81,739	(76)	–	–	–	–	48,475,628	(267,883)

As at 31 December 2019	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)	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)

8.2.4 Collateral held and other credit enhancements

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure:

As at 31 December	**2020**		2019	
	Gross loan balance LKR '000	**Security value LKR '000**	Gross loan balance LKR '000	Security value LKR '000
Stage 1				
Cash collateral	**13,448,486**	**21,939,627**	13,138,299	19,652,804
Property, plant and machinery	**88,492,471**	**234,118,285**	78,982,483	198,003,781
Treasury guarantee	**4,184,616**	**8,019,987**	3,614,059	7,328,863
Others	**85,911,585**	**12,780,184**	75,268,404	8,615,689
Unsecured	**39,410,513**	**–**	34,397,223	–
Total	**231,447,671**	**276,858,083**	205,400,468	233,601,137

As at 31 December	2020		2019	
	Gross loan balance LKR '000	**Security value LKR '000**	Gross loan balance LKR '000	Security value LKR '000
Stage 2				
Cash collateral	**1,186,142**	**1,453,731**	1,360,633	1,702,338
Property, plant and machinery	**16,774,823**	**36,954,269**	21,482,134	53,779,650
Treasury guarantee (Note 8.2.3.1)	**5,194,358**	**6,043,468**	–	–
Others	**11,042,254**	**43,659**	10,216,504	1,328,826
Unsecured	**3,489,676**	**–**	2,087,073	–
Total	**37,687,253**	**44,495,127**	35,146,344	56,810,814
Stage 3				
Cash collateral	**181,950**	**235,006**	76,026	89,403
Property, plant and machinery	**10,015,522**	**14,402,036**	7,679,725	17,449,496
Treasury guarantee (Note 8.2.3.1)	**–**	**–**	4,972,857	6,026,242
Others	**6,670,291**	**21,594**	4,313,852	22,272
Unsecured	**6,102,588**	**–**	5,461,571	–
Total	**22,970,351**	**14,658,636**	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 tables stratify credit exposures by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral is based on valuations made by independent professional valuers.

As at 31 December	BANK/GROUP 2020 LKR '000	2019 LKR '000
LTV ratio		
Stage 1		
Less than 50%	**717,329**	2,392,919
51%-70%	**1,233,058**	3,060,380
71%-90%	**2,918,917**	1,214,137
More than 90%	**4,869,463**	1,552,755
Total	**9,738,767**	8,220,191
Stage 2		
Less than 50%	**118,112**	690,096
51%-70%	**199,469**	1,206,097
71%-90%	**573,666**	503,044
More than 90%	**836,927**	536,146
Total	**1,728,174**	2,935,383
Stage 3		
Less than 50%	**69,099**	201,965
51%-70%	**155,804**	342,236
71%-90%	**388,553**	185,642
More than 90%	**410,596**	131,916
Total	**1,024,052**	861,759
Carrying amount – amortised cost	**12,490,993**	12,017,333

8.2.4.3 Assets obtained by taking possession of collateral

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank does not generally use the non-cash collateral for its own operations.

8.2.5 Amounts arising from ECL

8.2.5.1 Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. The basis for determining transfers due to changes in credit risk is set out in our accounting policy; see Note 17.

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

	2020				2019			
	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	901,871	1,563,877	9,940,734	12,406,482	786,161	2,355,958	8,423,457	11,565,576
Transfer to Stage 1	662,248	(563,585)	(98,663)	–	767,186	(706,463)	(60,723)	–
Transfer to Stage 2	(84,923)	172,478	(87,555)	–	(60,275)	109,101	(48,826)	–
Transfer to Stage 3	(27,796)	(173,925)	201,721	–	(17,410)	(210,075)	227,485	–
Net remeasurement of loss allowance	(577,698)	(161,992)	1,788,137	1,048,447	(1,050,167)	(422,215)	1,727,227	254,845
New financial assets originated or purchased	432,750	232,572	1,227,042	1,892,364	476,987	439,272	419,288	1,335,547
Write-off	(712)	(3,855)	(27,398)	(31,965)	(611)	(1,701)	(741,068)	(743,380)
Foreign exchange and other movement	–	–	7,948	7,948	–	–	(6,106)	(6,106)
Balance as at 31 December	1,305,740	1,065,570	12,951,966	15,323,276	901,871	1,563,877	9,940,734	12,406,482

Financial assets at amortised cost-debt and other instruments – ECL

	2020		2019	
	Stage 1 LKR '000	Total LKR '000	Stage 1 LKR '000	Total LKR '000
Balance at beginning	82,571	82,571	45,414	45,414
Transferred from FVOCI during the year	67,231	67,231	–	–
Net remeasurement of loss allowance	121,713	121,713	37,157	37,157
Balance as at 31 December	271,515	271,515	82,571	82,571

Loan Commitments and financial guarantee contracts

	2020			2019		
	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	164,144	16,487	180,631	162,686	34,895	197,581
Net remeasurement of loss allowance	179,454	(3,195)	176,259	1,458	(18,408)	(16,950)
Balance as at 31 December	343,598	13,292	356,890	164,144	16,487	180,631

8.2.5.2 Sensitivity of ECL to future economic conditions

The ECL are sensitive to judgements and assumptions made regarding formulation of forward looking scenarios and how such scenarios are incorporated into the calculations. Management performs a sensitivity analysis on the ECL recognised on material classes of its assets.

Sensitivity of factors used to determine impairment provisions

The uncertainty of the impact of COVID-19 introduces significant estimation uncertainty in relation to the measurement of the Bank's allowance for expected credit losses. The rapidly evolving consequences of COVID-19 and government, business and consumer responses could result in significant adjustments to the allowance in future financial years.

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Bank should be considered as a best estimate within a range of possible estimates.

The table below shows the sensitivity of the impairment provision of the Bank as at 31 December 2020 to a reasonably possible change in PDs, LGDs, and forward looking information.

	Sensitivity effect on Statement of Financial Position				Sensitivity effect on Income Statement
	Increase/(Decrease) in impairment provision				
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	LKR '000
PD 1% increase across all age buckets	997,988	225,291	–	1,223,279	(1,223,279)
PD 1% decrease across all age buckets*	(839,773)	(225,284)	–	(1,065,057)	1,065,057
LGD 5% increase	173,900	175,522	368,595	718,017	(718,017)
LGD 5% decrease*	(173,877)	(175,468)	(368,583)	(717,928)	717,928
Probability weighted economic scenarios					
– Worst case 4% decrease and base case 4% increase	(10,418)	(8,223)	–	(18,641)	18,641
– Worst case 4% increase and base case 4% decrease	10,418	8,214	–	18,632	(18,632)

** The PD/LGD decrease is capped to 0%, if applicable.*

8.2.6 Concentration of credit risk

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances, loan commitments, financial guarantees and investment securities is shown below:

In LKR '000	Loans to and receivable from banks		Loans to and receivable from customers		Investment in debt securities		Loan commitments and financial guarantees issued	
As at 31 December	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Gross carrying amount	**4,152,717**	–	**317,232,613**	285,224,793	**108,079,830**	93,932,452	**–**	–
Amount committed/guaranteed	**–**	–	**–**	–	**–**	–	**124,612,896**	108,145,071
Concentration by sector								
Agriculture, forestry, and fishing	**–**	–	**34,483,557**	28,282,969	**–**	–	**9,554,167**	11,139,531
Manufacturing	**–**	–	**55,769,741**	54,535,325	**–**	–	**29,282,013**	24,385,449
Tourism	**–**	–	**15,990,359**	13,393,587	**–**	–	**2,612,852**	7,977,653
Transportation and storage	**–**	–	**9,108,654**	9,434,389	**–**	–	**643,732**	1,105,107
Construction	**–**	–	**34,175,044**	32,559,866	**–**	252,953	**6,700,539**	7,074,504
Infrastructure development	**–**	–	**34,465,896**	30,024,078	**–**	–	**21,722,145**	14,869,134
Wholesale and retail trade	**–**	–	**41,871,503**	44,195,272	**–**	–	**31,324,334**	24,342,484
Information technology and communication services	**–**	–	**1,712,933**	1,531,401	**–**	–	**1,294,637**	660,586
Financial services	**4,152,717**	–	**13,286,037**	14,856,831	**661,941**	2,839,425	**4,793,138**	2,360,843
Professional, scientific, and technical activities	**–**	–	**3,203,777**	1,709,325	**–**	–	**318,401**	383,807
Arts, entertainment, and recreation	**–**	–	**756,676**	788,364	**–**	–	**36,875**	50,798
Education	**–**	–	**3,751,677**	1,471,284	**–**	–	**1,631,020**	283,802
Health care, social services, and support services	**–**	–	**6,077,955**	4,213,504	**–**	–	**1,089,879**	1,181,414
Consumption	**–**	–	**50,166,517**	36,783,616	**–**	–	**9,093,307**	7,229,734
Lending to ministry of finance	**–**	–	**33,923**	164,257	**–**	–	**–**	–
Lending to overseas entities	**–**	–	**12,378,364**	11,280,725	**–**	–	**4,515,858**	5,100,225
Government	**–**	–	**–**	–	**107,417,889**	90,840,074	**–**	–
Other	**–**	–	**–**	–	**–**	–	**–**	–
Total	**4,152,717**	–	**317,232,613**	285,224,793	**108,079,830**	93,932,452	**124,612,897**	108,145,071

8.2.7 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

8.3 Liquidity risk

"Liquidity risk" is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to the Bank's operations and investments.

8.3.1 Management of liquidity risk

The Bank's Board of Directors sets the Bank's strategy for managing liquidity risk and oversight of the implementation is administered by Assets and Liability Management Committee (ALCO). ALCO approves the Bank's liquidity policies and procedures. Treasury manages the Bank's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of both the Bank and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted to ALCO on a monthly basis or ad hoc when predefined thresholds are breached.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The key elements of the Bank's liquidity strategy are as follows:

→ Monitoring maturity mismatches, behavioural characteristics of the Bank's financial assets and financial liabilities, and the extent to which the Group's assets are encumbered and so not available as potential collateral for obtaining funding.

→ Monitoring the Bank's liquidity through the Liquid Assets Ratio (statutory minimum is currently 20%) and Liquidity Coverage Ratios using a stock approach.

→ Effecting threshold limits relevant for liquidity management as part of the overall risk limits system of the Bank.

→ Carrying a portfolio of highly liquid assets, diversified by currency and maturity.

8.3.2 Exposure to liquidity risk – Regulatory liquidity (Bank)

As at 31 December	**2020**	2019
Statutory liquid assets (LKR '000)	**137,237,163**	90,664,914
Statutory liquid assets ratio (minimum requirement 20%)		
Domestic banking unit (%)	**33.78**	23.55
Off-shore banking unit (%)	**35.45**	53.07
Liquidity coverage ratio (minimum requirement 90% in 2020 and 100% in 2019)		
All currencies (%)	**204.44**	140.53
Rupee only (%)	**288.27**	234.22

Details of the consolidated liquid assets ratio during the reporting period were as follows:

As at 31 December	**2020**	2019
Average for the period	**31.98**	25.70
Maximum for the period	**34.99**	26.91
Minimum for the period	**28.27**	24.15

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 2020 BANK	Carrying amount LKR '000	Up to 3 months LKR '000	3 to 12 months LKR '000	1 to 3 years LKR '000	3 to 5 years LKR '000	More than 5 years LKR '000	Total LKR '000
Financial liability by type							
Non-derivative liabilities							
Due to banks	14,909,937	3,631,087	3,765,692	7,513,158	–	–	14,909,937
Financial liabilities at amortised cost – Due to depositors	310,026,892	98,852,578	105,106,743	28,970,585	16,457,256	60,639,730	310,026,892
Financial liabilities at amortised cost – Due to other borrowers	46,847,076	12,641,905	10,124,287	12,393,268	3,553,834	8,133,782	46,847,076
Debt securities in issue	16,291,279	1,025,771	305,890	–	8,764,378	6,195,240	16,291,279
Other liabilities	4,783,877	2,298,859	724,698	383,163	421,465	955,692	4,783,877
Subordinated term debt	19,357,497	617,851	1,173,506	8,956,610	8,404,530	205,000	19,357,497
	412,216,558	119,068,051	121,200,816	58,216,784	37,601,463	76,129,444	412,216,558
Derivative liabilities							
Risk management:	267,883	267,883	–	–	–	–	267,883
	267,883	267,883	–	–	–	–	267,883
Financial assets by type							
Non-derivative assets							
Cash and cash equivalents	7,724,364	7,724,364	–	–	–	–	7,724,364
Balances with Central Bank	4,901,753	4,901,753	–	–	–	–	4,901,753
Placements with banks	15,414,287	15,414,287	–	–	–	–	15,414,287
Financial assets measured at fair value through profit or loss	609,717	564,837	–	–	–	44,880	609,717
Financial assets at amortised cost – Loans to and receivables from banks	4,152,717	4,152,717	–	–	–	–	4,152,717
Financial assets at amortised cost – Loans to and receivables from other customers	301,909,337	53,502,826	35,148,436	58,850,180	57,608,042	96,799,853	301,909,337
Financial assets at amortised cost – Debt and other instruments	31,604,175	5,374,610	13,359,011	10,929,576	1,940,978	–	31,604,175
Financial assets measured at fair value through other comprehensive income	88,718,002	15,805,674	25,872,632	17,342,423	7,691,826	22,005,447	88,718,002
Other assets	1,999,405	1,921,049	13,550	11,747	31,747	21,312	1,999,405
	457,033,757	109,362,117	74,393,629	87,133,926	67,272,593	118,871,492	457,033,757
Derivative assets							
Risk management:	835,464	835,464	–	–	–	–	835,464
	835,464	835,464	–	–	–	–	835,464

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
Financial liabilities at amortised cost – Due to depositors	247,786,974	86,203,676	85,695,022	17,085,344	12,864,437	45,938,495	247,786,974
Financial liabilities at amortised cost – 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	65,552,623	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	–	–	–	–	–	–	–
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	30,147,032	4,966,191	2,630,013	18,639,478	3,911,350	–	30,147,032
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

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

As at 31 December 2020 GROUP	Carrying Amount LKR '000	Up to 3 months LKR '000	3 to 12 months LKR '000	1 to 3 years LKR '000	3 to 5 years LKR '000	More than 5 years LKR '000	Total LKR '000
Financial liability by type							
Non-derivative liabilities							
Due to banks	14,909,937	3,631,087	3,765,692	7,513,158	–	–	14,909,937
Financial liabilities at amortised cost – Due to depositors	309,566,423	98,392,109	105,106,743	28,970,585	16,457,256	60,639,730	309,566,423
Financial liabilities at amortised cost – Due to other borrowers	46,847,076	12,641,905	10,124,287	12,393,268	3,553,834	8,133,782	46,847,076
Debt securities in issue	16,291,279	1,025,771	305,890	–	8,764,378	6,195,240	16,291,279
Other liabilities	4,900,958	2,298,860	724,698	500,243	421,465	955,692	4,900,958
Subordinated term debt	19,357,497	617,851	1,173,506	8,956,610	8,404,530	205,000	19,357,497
	411,873,170	118,607,583	121,200,816	58,333,864	37,601,463	76,129,444	411,873,170
Derivative liabilities							
Risk management:	267,883	267,883	–	–	–	–	267,883
	267,883	267,883	–	–	–	–	267,883
Financial assets by type							
Non-derivative assets							
Cash and cash equivalents	7,728,969	7,728,969	–	–	–	–	7,728,969
Balances with Central Bank	4,901,753	4,901,753	–	–	–	–	4,901,753
Placements with banks	15,431,962	15,431,962	–	–	–	–	15,431,962
Financial assets measured at fair value through profit or loss	609,717	564,837	–	–	–	44,880	609,717
Financial assets at amortised cost – Loans to and receivables from banks	4,152,717	4,152,717	–	–	–	–	4,152,717
Financial assets at amortised cost – Loans to and receivables from other customers	301,909,337	53,502,826	35,148,436	58,850,180	57,608,042	96,799,853	301,909,337
Financial assets at amortised cost – Debt and other instruments	31,604,175	5,374,610	13,359,011	10,929,576	1,940,978	–	31,604,175
Financial assets measured at fair value through other comprehensive income	88,718,002	15,805,674	25,872,632	17,342,423	7,691,826	22,005,447	88,718,002
Other assets	2,066,621	1,988,265	13,550	11,747	31,747	21,312	2,066,621
	457,123,253	109,451,613	74,393,629	87,133,926	67,272,593	118,871,492	457,123,253
Derivative assets							
Risk management:	835,464	835,464	–	–	–	–	835,464
	835,464	835,464	–	–	–	–	835,464

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 in issue	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							
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	–	–	–	–	–	–	–
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	30,147,032	4,966,191	2,630,013	18,639,478	3,911,350	–	30,147,032
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	2,238,053	1,514,911	278,065	130,296	21,491	293,290	2,238,053
	397,553,216	70,707,770	44,148,169	101,522,342	73,763,550	107,411,385	397,553,216
Derivative assets							
Risk management:	631,438	631,438	–	–	–	–	631,438
	631,438	631,438	–	–	–	–	631,438

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

As at 31December	**2020 Carrying amount LKR '000**	**2020 Fair value LKR '000**	2019 Carrying amount LKR '000	2019 Fair value LKR '000
Balances with Central Bank	**4,901,753**	**4,901,753**	8,666,547	8,666,547
Cash and cash equivalents	**7,724,364**	**7,724,364**	5,450,209	5,450,209
Placements with banks	**15,414,287**	**15,414,287**	165,030	165,030
Unencumbered debt securities issued by sovereigns	**98,472,348**	**98,472,348**	80,357,323	80,357,323
Total liquidity reserves	**126,512,752**	**126,512,752**	94,639,109	94,639,109

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 2020						
Cash and cash equivalents	26	–	–	**7,724,364**	–	**7,724,364**
Balances with Central Bank	27	–	**4,901,753**	–	–	**4,901,753**
Placements with banks	28	–	–	**15,414,287**	–	**15,414,287**
Derivatives financial assets	29	–	–	**835,464**	–	**835,464**
Financial assets measured at fair value through profit or loss	30	–	–	**609,717**	–	**609,717**
Financial assets at amortised cost – Loans to and advances to banks	31	–	–	**4,152,717**	–	**4,152,717**
Financial assets at amortised cost – Loans to and receivables from customers	32	–	–	**301,909,337**	–	**301,909,337**
Financial assets at amortised cost – Debt and other instruments	33	**308,951**	–	**31,295,224**	–	**31,604,175**
Financial assets measured at fair value through other comprehensive income	34	**8,674,356**	–	**80,043,646**	–	**88,718,002**
Other assets	42	–	–	–	**1,999,405**	**1,999,405**
Non-financial assets		–	–	–	**7,208,066**	**7,208,066**
Total assets		**8,983,307**	**4,901,753**	**441,984,756**	**9,207,471**	**465,077,287**
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
Derivatives 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	–	–	–	–	–
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	–	30,103,149	–	30,147,032
Financial assets measured at fair value through other comprehensive income	34	16,625,375	–	56,091,032	–	72,716,407
Other assets	42	–	–	–	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

** Represents assets that are not pledged but that the Group believes it is restricted from using to secure funding, for legal or other reasons.*

*** Represents assets that are not restricted for use as collateral, but that the Group would not consider readily available to secure funding in the normal course of business.*

8.4 Market risk

"Market risk" is the possibility of losses arising from changes in market variables such as interest rates, equity prices, foreign exchange rates, and credit spreads. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Bank's solvency while optimising the return on risk.

8.4.1 Management of market risk

The Bank separates its exposure to market risks between trading and non-trading portfolios. Trading portfolios 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 management is vested with the Board of Directors through the Board Integrated Risk Management Committee (BIRMC). The operational authority for managing market risk is vested with ALCO. Foreign exchange risk is managed within approved limits of the Bank.

The Bank employs a range of tools to monitor and limit market risk exposures. These are discussed below, separately for trading and non-trading portfolios.

The following table sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios.

In LKR '000	Note	Carrying amount LKR '000	Market risk measure Trading portfolio LKR '000	Non-trading portfolio LKR '000
31 December 2020				
Assets subject to market risk				
Cash and cash equivalents	26	**2,895,117**	–	**2,895,117**
Placements with banks	28	**15,414,287**	–	**15,414,287**
Derivative financial assets	29	**835,464**	**835,464**	–
Financial assets measured at fair value through profit or loss	30	**609,717**	**609,717**	–
Financial assets at amortised cost – Loans to and receivables from banks	31	**4,152,717**	–	**4,152,717**
Financial assets at amortised cost – Loans to and receivables from other customers	32	**301,909,337**	–	**301,909,337**
Financial assets at amortised cost – Debt and other instruments	33	**31,604,175**	–	**31,604,175**
Financial assets measured at fair value through other comprehensive income	34	**88,718,002**	–	**88,718,002**
Liabilities subject to market risk				
Due to banks	44	**14,909,937**	–	**14,909,937**
Derivative financial liabilities	29	**267,883**	**267,883**	–
Financial liabilities at amortised cost – Due to depositors	45	**310,026,892**	–	**310,026,892**
Financial liabilities at amortised cost – Due to other borrowers	46	**46,847,076**	–	**46,847,076**
Debt securities in issue	47	**16,291,279**	–	**16,291,279**
Subordinated term debt	51	**19,357,497**	–	**19,357,497**

In LKR '000	Note	Carrying amount LKR '000	Market risk measure	
			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 advances to banks	31	–	–	–
Financial assets at amortised cost – Loans to and receivables to customers	32	272,818,311	–	272,818,311
Financial assets at amortised cost – Debt and other instruments	33	30,147,032	–	30,147,032
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

8.4.2 Exposure to market risks – Trading portfolios

The principal tool used to measure and control market risk exposure within the Bank's trading portfolios is VaR. The VaR of a trading portfolio is the maximum estimated loss that can arise with a specified probability (confidence level) in the portfolio over a specified period of time (holding period) from an adverse market movement.

The VaR model used by the Bank is based on a 99% confidence level and assumes 1, 10 and 60-day holding periods (Depending on product type). The VaR model used is based mainly on historical simulation. Taking account of market data, and observed correlation between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

→ The holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for illiquid assets or in situations in which there is severe market 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 price risk is part of market risk which is defined as the risk of possible losses arising from the equity market investments due to changes in the market prices of the invested shares. The Bank is exposed to equity prices risk through its investments in the equity market which has been shown in the FVOCI portfolio and the trading portfolio.

Financial assets measured at fair value through profit or loss portfolio

Parameter	**Position as at 31 December 2020 LKR '000**	Position as at 31 December 2019 LKR '000
Marked-to-market value of the total quoted equity portfolio	**44,880**	4,777,423
Value-at-risk (under 99% probability for a quarterly time horizon)	**28.93%**	12.35%
Maximum possible loss of value in the marked-to-market value of the portfolio as indicated by the VaR over a quarterly period	**12,984**	590,012
Unrealised gains in the trading equity portfolio reported in the fair value reserve	**11,069**	2,612,462

Equity price risk is quantified using the Value at Risk (VAR) approach based on the Historical Loss Method. Historical three-year portfolio returns is adopted to compute VAR as a measure of the equity prices risk exposure by the Bank. This VAR computation for the equity trading portfolio considers a quarterly time horizon.

8.4.3 Exposure to market risks – Non-trading portfolios

Financial assets measured at fair value through other comprehensive income

Parameter	**Position as at 31 December 2020 LKR '000**	Position as at 31 December 2019 LKR '000
Marked-to-market value of the total quoted equity portfolio	**12,299,552**	8,812,702
Value-at-risk (under 99% probability for a quarterly time horizon)	**27.48%**	18.20%
Maximum possible loss of value in the marked-to-market value of the portfolio as indicated by the VaR over a quarterly period	**3,379,917**	1,603,912
Unrealised gains in the trading equity portfolio reported in the fair value reserve	**2,801,795**	4,476,529

Equity price risk is quantified using the Value at Risk (VaR) approach based on the Historical Loss Method. Historical three-year portfolio returns is adopted to compute VaR as a measure of the equity prices risk exposure by the Bank. This VAR computation for the equity Trading portfolio considers a quarterly time horizon.

8.4.4 Interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates.

Duration analysis as at 31 December 2020

Portfolio	**Face value LKR '000**	**Marked-to market value LKR '000**	**Duration**	**Interpretation of duration**
Treasury securities measured at FVOCI/LKR Bonds	**69,328,224**	**75,272,434**	**1.53**	**Portfolio value will decline approximately by 1.53% as a result of 1% increase in the interest rates**
Treasury securities measured at FVOCI/Sovereign Bonds	**1,311,660**	**931,706**	**1.66**	**Portfolio value will decline approximately by 1.66% 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 2020 is Nil. Market risk exposure for interest rate risk in the FVOCI Rupee portfolio as at 31 December 2020 is depicted by duration of 1.53%.

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 1,154 Mn, as at 31 December 2020.

Market risk exposure for interest rate risk in the FVOCI US Dollar portfolio as at 31 December 2020 is depicted by duration of 1.66%.

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 15.4 Mn, as at 31 December 2020.

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 2020 is quantified based on the assumed change in the interest rates for each time period and is given in table below:

	Over 0 up to 1 month LKR '000	Over 1 up to 3 months LKR '000	Over 3 up to 6 months LKR '000	Over 6 up to 12 months LKR '000	Over 12 months LKR '000
31 December 2020					
Cash and cash equivalents	317,034	–	–	–	–
Placements with banks	15,414,287	–	–	–	–
Loans to and receivables from banks	4,152,717	–	–	–	–
Loans to and receivables from other customers	151,094,075	24,374,012	12,864,586	16,170,593	89,643,442
Investment securities	4,861,228	16,635,784	5,113,290	34,151,804	47,046,209
	175,839,341	41,009,796	17,977,876	50,322,397	136,689,651
Due to banks	1,792,092	7,927,554	–	–	5,000,000
Deposits from customers	89,795,761	58,804,855	68,468,382	53,354,008	30,962,639
Due to other borrowers	7,492,850	12,453,461	10,591,793	1,239,278	15,069,694
Debt securities in issue	–	–	–	–	16,291,279
Subordinated liabilities	–	–	–	1,791,357	17,566,140
	99,080,703	79,185,870	79,060,175	56,384,643	84,889,752
Net rate sensitive assets/(liabilities)	76,758,638	(38,176,074)	(61,082,299)	(6,062,246)	51,799,899
Assumed change in interest rates (%)	0.50	1.00	1.50	2.00	–
Impact	383,793	(349,947)	(687,176)	(60,622)	–
Total net impact if interest rates increase	–	–	–	(713,952)	–
Total net impact if interest rates decline	–	–	–	713,952	–

	1 month to 0 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	–	–	–	–	–
Loans to and receivables from other customers	151,965,068	7,780,400	12,106,527	14,419,459	78,745,361
Investment securities	338,257	9,499,387	3,357,174	2,852,941	77,802,123
	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
Deposits from customers	75,196,582	54,615,104	49,236,046	55,107,361	8,177,872
Due to other borrowers	9,178,922	8,835,038	10,163,228	3,435,505	15,511,272
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	

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 2020, DFCC carried a USD equivalent net open/unhedged "Oversold" position of LKR 3.56 Mn. The impact of exchange rate risk is given below:

	Amount
Net exposure – USD equivalent	(1,901,534)
Value of position in LKR '000	(356,309)
Exchange rate (USD/LKR) as at 31 December 2020	187.38
Possible potential loss to Bank – LKR '000	
– If Exchange rate (USD/LKR) depreciates by 1%	(3,563)
– If exchange rate depreciates by 10%	(35,631)
– If exchange rate depreciates by 15%	(53,446)

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 2020 are as follows:

	Risk-weighted assets LKR '000	Quantified possible exposure LKR '000
Interest rate risk	12,554,742	1,506,569
Equity price risk	18,450	2,214
Foreign exchange and gold risk	383,258	45,991
Total	12,956,450	1,554,774

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. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, Bank's policy requires compliance with all applicable legal and regulatory requirements.

The following are included in the process of the operational risk management in the Bank:

a. Monitoring of the Key Risk Indicators (KRIs) for the departments/functions under the defined threshold limits using a traffic light system. Develop Risk and Control Self-Assessments to identify the risk exposure of all processes.
b. Operational risk incident reporting system and the independent analysis of the incidents by the IRMD, and recognise necessary improvements in the systems, processes and procedures.
c. Analyse downtime of the critical systems, attrition information, exit interview comments and complaints to identify operational risks and recommend mitigating controls. The key findings of the analysis are evaluated at the ORMC and the BIRMC meetings in an operational risk perspective.

The primary responsibility for the development and implementation of controls to address operational risk lies with IRMD whilst implementation is assigned to Senior Management within each business unit. Operational Risk Coordinating Officers are appointed 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.

Group operational risk assessments are conducted at the Board level.

8.5.1 Capital management

The Bank manages its capital at Bank and Group level considering both regulatory requirement and risk exposures. Its regulatory capital position is analysed by the BIRMC on a quarterly basis and recommendations and decisions are made accordingly. The capital management goals are as follows:

a. Ensure regulatory minimum capital adequacy requirements are not compromised.
b. Bank maintains its international and local credit ratings and ensures no downgrading occurs as a result of deterioration of risk capital of the Bank other than in an extreme change in external operating environment.
c. Capital impact of business decisions including strategic business plans are properly assessed and taken into consideration.
d. Ensure capital consumption by business actions are adequately priced.
e. Optimising ROE

Central Bank of Sri Lanka sets and monitors regulatory capital requirement on both consolidated and solo basis. The Bank is required to comply with the provisions of the Basel III requirements in respect of regulatory capital commencing from July 2017. The Bank currently uses the standardised approach for credit risk and market risk and basic indicator approach for operational risk.

The Basel III capital regulations, which are currently in force, will continue to be based on the three-mutually reinforcing Pillars introduced under Basel II, i.e., minimum capital requirement, supervisory review process and market discipline. Basel III focuses on increasing the quality and quantity of capital especially the Core Capital, through redefining the common equity capital and introducing new capital buffers such as the Capital Conservation Buffer and a Capital Surcharge on domestic systematically important banks. DFCC Bank started reporting capital computations under the Basel III requirements from mid 2017 as per the regulatory requirements.

Regulatory capital comprises Tier 1 capital and Tier 2 capital. The Bank's policy is to maintain a strong capital base so as to ensure investor, creditor, and market confidence to sustain future development of the business. DFCC Bank and its Group have complied with the minimum capital requirements imposed by the Central Bank of Sri Lanka throughout the year.

Extraordinary regulatory measures issued by Central Bank of Sri Lanka on 27 March 2020, to provide flexibility to Licensed Banks to support business and individuals affected by the ourtbreak of COVID-19, allowed the Bank to draw down 0.5% of the capital conservation buffer setting the regulatory minimum requirement as 8% for Tier 1 capital ratio and 12% for Total capital ratio.

8.5.1.1 Key regulatory ratios – Capital adequacy

Item	**31 December 2020**		31 December 2019	
	Bank	**Group**	Bank	Group
Regulatory capital (LKR '000)				
Common equity Tier 1	**35,041,771**	**35,113,117**	34,824,554	34,908,304
Tier 1 Capital	**35,041,771**	**35,113,117**	34,824,554	34,908,304
Total Capital	**51,055,165**	**51,126,511**	48,542,925	48,626,675
Regulatory capital ratios (%)				
Common equity Tier 1 Capital ratio	**10.820**	**10.816**	11.342	11.327
Minimum requirement 2020 – 6.5% (2019 – 7.00%)				
Tier 1 capital ratio	**10.820**	**10.816**	11.342	11.327
Minimum requirement 2020 – 8.0% (2019 – 8.5%)				
Total capital ratio	**15.764**	**15.749**	15.810	15.778
Minimum requirement 2020 – 12.0% (2019 – 12.5%)				

Basel III computation of capital ratios

Item	Amount (LKR '000)			
	31 December 2020		31 December 2019	
	Bank	Group	Bank	Group
Common Equity Tier 1 (CET1) Capital after Adjustments	**35,041,771**	**35,113,117**	34,824,554	34,908,304
Common Equity Tier 1 (CET1) Capital	**45,423,144**	**48,839,196**	42,000,264	45,050,466
Equity Capital (Stated Capital)/Assigned Capital	**7,682,465**	**7,682,465**	7,530,371	7,530,371
Reserve Fund	**2,583,968**	**2,583,968**	2,461,968	2,461,968
Published retained earnings/(Accumulated retained losses)	**19,652,168**	**23,061,080**	18,228,086	21,278,288
Published accumulated Other Comprehensive Income (OCI)	**1,724,704**	**1,731,844**	–	–
General and other disclosed reserves	**13,779,839**	**13,779,839**	13,779,839	13,779,839
Unpublished current year's profit/loss and Gains reflected in OCI	**–**	**–**	–	–
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	**–**	**–**	–	–
Total Adjustments to CET1 Capital	**10,381,374**	**13,726,078**	7,175,709	10,142,162
Goodwill (net)	**–**	**156,226**	–	156,226
Intangible assets (net)	**1,713,052**	**1,728,580**	1,184,659	1,205,923
Investment in capital of banks and financial institutions	**8,571,286**	**11,838,353**	5,762,829	8,648,828
Others	**97,036**	**2,919**	228,221	131,185
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 2020		31 December 2019	
	Bank	Group	Bank	Group
Investment in own shares	–	–	–	–
Others (specify)	–	–	–	–
Tier 2 Capital after adjustments	**16,013,394**	**16,013,394**	13,718,371	13,718,371
Tier 2 Capital	**16,013,394**	**16,013,394**	13,718,371	13,718,371
Qualifying Tier 2 Capital Instruments	**14,174,868**	**14,174,868**	12,034,562	12,034,562
Revaluation gains	–	–	–	–
Loan loss provisions	**1,838,526**	**1,838,526**	1,683,809	1,683,809
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	**35,041,771**	**35,113,117**	34,824,554	34,908,304
Total Tier 1 Capital	**35,041,771**	**35,113,117**	34,824,554	34,908,304
Total Capital	**51,055,165**	**51,126,511**	48,542,925	48,626,675
Total Risk Weighted Assets (RWA)				
RWAs for credit risk	**293,505,729**	**293,920,302**	274,009,885	274,759,093
RWAs for market risk	**12,956,450**	**12,956,450**	16,956,352	16,956,352
RWAs for operational risk	**17,400,093**	**17,751,642**	16,074,112	16,479,374
CET1 Capital Ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	**10.820**	**10.816**	11.342	11.327
of which: Capital Conservation Buffer (%)	**1.20**	**1.20**	1.25	1.25
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 (%)	**10.820**	**10.816**	11.342	11.327
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer and Surcharge on D-SIBs) (%)	**15.764**	**15.749**	15.810	15.778
of which: Capital Conservation Buffer (%)	**1.20**	**1.20**	1.25	1.25
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 5.3.7.

9.1 Valuation models

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like Government Securities, interest rate and currency swaps that use mostly observable market data and require little management 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.

A. Bank/Group

As at 31 December 2020	Notes	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial assets					
Derivative financial assets	29				
Forward foreign exchange contracts		–	835,464	–	835,464
Financial assets measured at fair value through profit or loss	30				
Equity securities – quoted		44,880	–	–	44,880
Units in unit trusts – quoted		3,740	–	–	3,740
Units in unit trusts – unquoted		–	561,097	–	561,097
Financial assets measured at fair value through other comprehensive income	34				
Government of Sri Lanka Treasury Bills and Bonds		75,272,434	–	–	75,272,434
Sri Lanka Sovereign Bonds		931,706	–	–	931,706
Equity shares – quoted		12,299,552	–	–	12,299,552
Equity shares – unquoted		–	–	213,810	213,810
Preference shares		–	–	500	500
		88,552,312	1,396,561	214,310	90,163,183
Financial liabilities					
Derivative financial liabilities	29				
Forward foreign exchange contracts		–	267,883	–	267,883
		–	267,883	–	267,883

As at 31 December 2019	Notes	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial assets					
Derivative financial assets	29				
Forward foreign exchange contracts		–	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 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 2020 and no transfers in either direction in 2019.

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	
	2020 LKR '000	2019 LKR '000
Balance at 1 January	**200,357**	188,789
Purchased during the year	**–**	1,000
Gain included in OCI		
– Net change in fair value (unrealised)	**13,453**	10,568
Balance at 31 December	**213,810**	200,357

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 2020.

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:

Equity securities As at 31 December 2020	**OCI, net of tax**	
	Increase LKR '000	**Decrease LKR '000**
Adjusted net assets value (5% movement)	**10,691**	**(10,691)**

Accounting judgements, estimates and assumptions

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, those are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement to establish fair values. The valuation of financial instruments is described in more detail in Note 4 to the financial statements.

COVID-19 Considereations

The Group evaluates the material accuracy of the valuations incorporated in the financial statements as they can involve a high degree of judgement and estimation in determining the carrying values of financial assets and financial liabilities at the reporting date.

The majority of valuation models the Group uses employ only observable market data as inputs. This has not changed as a result of COVID-19, However the Group has considered the impact of related economic and market disruptions on fair value measurement assumptions and the appropriateness of valuation inputs, notably valuation adjustments, as well as the impact of COVID-19 on the classification of exposures in the fair value hierarchy.

For certain financial instruments, the Group may use data that is not readily observable in current markets. If we use unobservable market data, then more judgement is exercised to determine fair value depending on the significance of the unobservable input to the overall valuation. Generally, unobservable inputs are derived from other relevant market data and compare them to observed transaction prices where available.

When establishing the fair value of a financial instrument using a valuation technique, the Group considers valuation adjustments in determining the fair value. The Group may apply adjustments (such as bid/offer spreads, credit valuation adjustments and funding valuation adjustments – refer Note 10 Derivative Financial Instruments) to reflect the Group's assessment of factors that market participants would consider in setting fair value.

9.4 Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised:

As at 31 December 2020	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	–	7,724,364	–	7,724,364	7,724,364
Balances with Central Bank of Sri Lanka	27	–	4,901,753	–	4,901,753	4,901,753
Placements with banks	28	–	15,414,287	–	15,414,287	15,414,287
Financial assets at amortised cost – Loans to and receivables from banks	31	–	4,152,717	–	4,152,717	4,152,717
Financial assets at amortised cost – Loans to and receivables from other customers	32	–	–	295,969,708	295,969,708	301,909,337
Financial assets at amortised cost – Debt and other instruments	33	18,412,228	13,221,152	–	31,633,380	31,604,175
Other assets	42	–	–	1,999,405	1,999,405	1,999,405
Total		18,412,228	45,414,273	297,969,113	361,795,614	367,706,038
Liabilities						
Due to banks	44	–	14,909,937	–	14,909,937	14,909,937
Financial assets at amortised cost – Due to depositors	45	–	–	304,408,686	304,408,686	310,026,892
Financial assets at amortised cost – Due to other borrowers	46	–	–	46,847,076	46,847,076	46,847,076
Debt securities in issue	47	–	17,124,659	–	17,124,659	16,291,279
Other liabilities	50	–	–	4,783,877	4,783,877	4,783,877
Subordinated term debt	51	–	20,476,257	–	20,476,257	19,357,497
Total		–	52,510,853	356,039,639	408,550,492	412,216,558

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
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	–	–	–	–	–
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	10,127,494	–	30,659,072	30,147,032
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 2020	**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**	**–**	**7,728,969**	**–**	**7,728,969**	**7,728,969**
Balances with Central Bank of Sri Lanka	**27**	**–**	**4,901,753**	**–**	**4,901,753**	**4,901,753**
Placements with banks	**28**	**–**	**15,431,962**	**–**	**15,431,962**	**15,431,962**
Financial assets at amortised cost – Loans to and receivables from banks	**31**	**–**	**4,152,717**	**–**	**4,152,717**	**4,152,717**
Financial assets at amortised cost – Loans to and receivables from other customers	**32**	**–**	**–**	**295,969,708**	**295,969,708**	**301,909,337**
Financial assets at amortised cost – Debt and other instruments	**33**	**18,412,228**	**13,221,152**	**–**	**31,633,380**	**31,604,175**
Other assets	**42**	**–**	**–**	**2,066,621**	**2,066,621**	**2,066,621**
Total		**18,412,228**	**45,436,553**	**298,036,329**	**361,885,110**	**367,795,534**
Liabilities						
Due to banks	**44**	**–**	**14,909,937**	**–**	**14,909,937**	**14,909,937**
Financial liabilities at amortised cost – Due to depositors	**45**	**–**	**–**	**303,948,217**	**303,948,217**	**309,566,423**
Financial liabilities at amortised cost – Due to other borrowers	**46**	**–**	**–**	**46,847,076**	**46,847,076**	**46,847,076**
Debt securities in issue	**47**	**–**	**17,124,659**	**–**	**17,124,659**	**16,291,279**
Other liabilities	**50**	**–**	**–**	**4,900,958**	**4,900,958**	**4,900,958**
Subordinated term debt	**51**	**–**	**20,476,257**	**–**	**20,476,257**	**19,357,497**
Total		**–**	**52,510,853**	**355,696,251**	**408,207,104**	**411,873,170**

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
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	–	–	–	–	–
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	10,127,494	–	30,659,072	30,147,032
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

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	77
Fixed rate loans	
– With remaining maturity less than one year	9
– Others	14

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 USD notes issue and LKR debentures. Fair value of the USD notes are determined by reference to the bid and ask price quoted in the Singapore Stock Exchange. 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	**2020 LKR '000**	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
Interest income (Note 11.1.1)	**39,089,986**	42,060,055	**39,095,445**	42,062,054
Fee and commission income (Note 12.1.1)	**2,193,474**	2,165,314	**2,192,557**	2,162,006
Net gain/(loss) from trading (Note 13)	**479,153**	(87,116)	**479,153**	(87,116)
Net loss from financial instruments at fair value through profit or loss (Note 14)	**(497,931)**	(2,633,183)	**(497,931)**	(2,633,183)
Net gains from derecognition of financial assets (Note 15)	**510,386**	209,890	**510,386**	209,890
Net other operating income (Note 16)	**1,524,732**	1,582,055	**1,824,837**	1,934,636
	43,299,800	43,297,015	**43,604,447**	43,648,287

11 Net interest income →

Accounting Policy →

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method.

The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The "gross carrying amount of a financial asset" is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date on which amortisation of the hedge adjustment begins.

As per the internal risk management policies of the Bank, the facilities are considered to be credit impaired when three or more instalments are in arrears and the Bank has estimated that the probability of recoverability of the interest income from such loan facilities are low. Accordingly the Bank discontinues recognition of interest income on such loan facilities and cash flows are assessed based on the amortised cost net of interest. If the asset is no longer credit impaired the calculation of interest income reverts to the gross basis.

11.1 Composition

	BANK		GROUP	
For the year ended 31 December	**2020 LKR '000**	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
Interest income (Note 11.1.1)	**39,089,986**	42,060,055	**39,095,445**	42,062,054
Interest expenses (Note 11.1.2)	**(28,083,159)**	(29,397,598)	**(28,052,259)**	(29,363,105)
Net interest income	**11,006,827**	12,662,457	**11,043,186**	12,698,949

11.1.1 Interest income

For the year ended 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Placements with banks	**273,321**	195,841	**278,780**	198,193
Financial assets measured at fair value through profit or loss	**2,969**	12,105	**2,969**	12,105
Financial assets at amortised cost – Loans to and receivables from banks	**43,183**	89,331	**43,183**	88,978
Financial assets at amortised cost – Loans to and receivables from other customers	**31,401,629**	34,626,817	**31,401,629**	34,626,817
Financial assets at amortised cost – Debt and other instruments	**2,455,017**	2,608,276	**2,455,017**	2,608,276
Financial assets measured at fair value through other comprehensive income	**4,913,867**	4,527,685	**4,913,867**	4,527,685
Total interest income	**39,089,986**	42,060,055	**39,095,445**	42,062,054

Interest Income from Loans to and receivables from other customers includes modifications made to loans due to moratorium/debt concessionary schemes implemented by the Government/Bank as a measure to support the recovery of businesses/customers affected by COVID-19 pandemic.

11.1.2 Interest expenses

For the year ended 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Due to banks	**1,962,008**	1,557,529	**1,962,008**	1,557,563
Financial liabilities at amortised cost – Due to depositors	**20,283,204**	21,900,545	**20,252,304**	21,863,289
Financial liabilities at amortised cost – Due to other borrowers	**2,063,873**	2,517,519	**2,063,873**	2,520,248
Debt securities in issued	**3,774,074**	3,422,005	**3,774,074**	3,422,005
Total interest expenses	**28,083,159**	29,397,598	**28,052,259**	29,363,105

The amounts reported above include interest income and expense, calculated using the effective interest method, that relate to the following financial assets and financial liabilities.

As at 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Financial assets measured at amortised cost (Note 25)	**367,706,038**	319,395,696	**367,795,534**	319,529,743
Financial assets measured at FVOCI (Note 25)	**88,718,002**	72,716,407	**88,718,002**	72,716,407
Total	**456,424,040**	392,112,103	**456,513,536**	392,246,150
Financial liabilities measured at amortised cost (Note 25)	**412,216,558**	354,483,915	**411,873,195**	354,276,169

11.1.3 Interest income from Government Securities – Bank/Group

For the year ended 31 December	2020 LKR '000	2019 LKR '000
Financial assets measured at fair value through profit or loss	**2,969**	12,105
Financial assets at amortised cost – Loans to and receivables from banks	**43,183**	89,331
Financial assets at amortised cost – Debt and other instruments	**2,302,655**	2,302,523
Financial assets measured at fair value through other comprehensive income	**4,913,867**	4,527,685
	7,262,674	6,931,644

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. Fees and commission expense relate mainly to transaction and service fees, which are expensed, as the services are received.

12.1 Composition

	BANK		GROUP	
For the year ended 31 December	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Fee and commission income (Note 12.1.1)	**2,193,474**	2,165,314	**2,192,557**	2,162,006
Fee and commission expenses	**(132,157)**	(119,603)	**(132,157)**	(119,603)
Net fee and commission income	**2,061,317**	2,045,711	**2,060,400**	2,042,403

12.1.1 Disaggregation of fee and commission income

In the following table, fee and commission income from contracts with customers in the scope of SLFRS 15 is disaggregated by major type of services.

Major service lines

	BANK		GROUP	
For the year ended 31 December	**2020 LKR '000**	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
Loans and advances	**887,024**	812,655	**887,024**	812,655
Credit cards	**192,228**	115,454	**192,228**	115,454
Trade and remittances	**551,999**	544,193	**551,999**	544,193
Customer accounts	**231,336**	412,037	**231,336**	412,037
Guarantees	**296,110**	268,312	**296,110**	268,312
Others (Management, consulting, and other fees)	**34,777**	12,663	**33,860**	9,355
Fee and commission income	**2,193,474**	2,165,314	**2,192,557**	2,162,006

Fee and commission income in 2020 was primarily driven by lower levels of consumer spending resulting from COVID-19, which crystallised in the form of lower interchange income, international payments, foreign exchange and ATM reciprocity.

12.1.2 Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under SLFRS 15
Retail and corporate banking service	The Group provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card, and servicing fees.	Revenue from account service and servicing fees is recognised over time as the services are provided.
	Fees for ongoing account management are charged to the customer's account on a monthly basis. The Group sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
	Transaction-based fees for interchange, foreign currency transactions, and overdrafts are charged to the customer's account when the transaction takes place.	
	Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Group.	

13 Net gain/(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 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Foreign exchange from banks	**387,113**	538,838	**387,113**	538,838
Government Securities				
Net capital gain	**8,303**	21,072	**8,303**	21,072
Equities				
Net marked to market gain/(loss)	**11,069**	(919,614)	**11,069**	(919,614)
Net capital gain	**71,153**	7,912	**71,153**	7,912
Dividend income	**1,515**	264,676	**1,515**	264,676
	479,153	(87,116)	**479,153**	(87,116)

14 Net loss from financial instruments at fair value through profit or loss →

Accounting Policy →

The Bank has non-trading derivatives held for risk management purposes (e.g. forward foreign exchange purchase or sale contracts) that do not form part of qualifying hedge relationship, that are mandatorily fair valued through profit or loss. In respect of such financial instruments, all unrealised fair value changes and foreign exchange differences are included.

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

For the year ended 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Forward exchange fair value changes				
Contracts with commercial banks	**(543,169)**	(2,578,178)	**(543,169)**	(2,578,178)
Gain/(loss) on financial assets fair value through profit or loss on equity securities	**45,238**	(48,042)	**45,238**	(48,042)
Interest rate swap fair value changes	**–**	(6,963)	**–**	(6,963)
	(497,931)	(2,633,183)	**(497,931)**	(2,633,183)

Forward exchange fair value changes on contracts with commercial banks includes the unrealised gain/(loss) on derivatives carried for risk management purposes, after netting off the spot movement arising from the long-term foreign currency liabilities designated as hedge item as per the fair value hedge applied by the Bank (Note 29.2). The Bank has applied the fair value hedge accounting for a part of its foreign currency liabilities using forward contracts.

15 Net 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	
	2020 LKR '000	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
Fair value through profit or loss				
Gain on sale of equity securities	**5,102**	99,040	**5,102**	99,040
Fair value through other comprehensive income				
Gain on sale of Government Securities	**505,284**	110,850	**505,284**	110,850
	510,386	209,890	**510,386**	209,890

16 Net other operating income

Accounting Policy

Net other operating income includes realised gain or loss on sale of fair value through other comprehensive income securities (e.g. Treasury Bills and Bonds, and dividend income from ordinary shares classified as fair value through other comprehensive income financial assets, dividend income from group entities, rental income, gains on disposal of property, plant and equipment and foreign exchange gains and losses.

Rental income

Rental income and expenses are accounted on a straight-line basis over the entire period of the tenancy incorporating predetermined rent escalation during the period of the tenancy.

Dividend income

Dividend income is recognised when the right to receive payment is established. Dividend income are presented in net gain/(loss) from trading and net other 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 venture and associate 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 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Financial assets measured at fair value through other comprehensive income				
Loss on sale of equity securities	**(17)**	–	**(17)**	–
Dividend income	**742,511**	526,276	**742,511**	526,276
Equities measured at fair value through profit or loss				
Dividend income	**–**	125	**–**	125
Dividend income from subsidiaries, joint venture, and associate	**139,277**	152,376	**–**	–
Net gain from repurchase transactions	**549,618**	351,895	**549,618**	351,895
Premises rental income	**–**	23,344	**293,668**	317,722
Gain on sale of property, plant and equipment	**13,708**	33,494	**23,240**	33,494
Foreign exchange gains	**23,292**	474,203	**23,292**	474,203
Recovery of loans written-off	**42,021**	7,601	**42,021**	9,052
Others	**14,322**	12,741	**150,504**	221,869
	1,524,732	1,582,055	**1,824,837**	1,934,636

17 Impairment for loans and other losses →

Accounting Policy →

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade". The Group does not apply the low credit risk exemption to any other financial instruments.

Individually assessed loans and advances and held-to-maturity 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, which a backstop of 60 days past due is applied.

COVID-19 initiatives

For facilities subject to the COVID-19 repayment deferral arrangements, an assessment of Significant Increase in Credit Risk (SICR) has been determined based on various measures of the customer's current financial position, future earnings capacity and the sectors in which the customers operate from which the facilities are categorised into risk categories. SICR is then determined based on the resulting risk categorisation. Based on the risk categorisation, facilities have been stress tested and required allowance overlays have been made.

Generating the term structure of PD

The Bank collects performance and default information about its credit risk exposures analysed by 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. 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 on "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 ("CBSL")

During the year the CBSL issued various circulars after the outbreak of COVID-19 relating to moratorium/debt relief/credit support to customers and industries schemes offered by the Government to support recovery of the economy. These circulars had/expected to hae impact on Recognition of Interest Income, stage-wise classification of facilities and computation of expected credit loss.

Composition

For the year ended 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Financial assets at amortised cost – Loans to and receivables from other customers	**2,940,811**	1,590,392	**2,940,811**	1,590,392
Financial assets at amortised cost – Debt and other instruments	**121,713**	37,157	**121,713**	37,157
Financial assets measured at fair value through other comprehensive income	**73,699**	14,384	**73,699**	14,384
Loan commitments	**176,259**	(16,950)	**176,259**	(16,950)
Other debts	**11,927**	63,483	**11,927**	63,483
Investment in subsidiaries	**(30,000)**	(20,400)	**–**	–
Write-offs – Loans to and receivables from other customers	**3,483**	847	**3,483**	847
	3,297,892	1,668,913	**3,327,892**	1,689,313

Impairment charge to the income statement

For the year ended 31 December 2020	Note	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Financial assets at amortised cost – Loans to and receivables from other customers	32.1.4	404,581	(494,452)	3,030,682	2,940,811
Financial assets at amortised cost – Debt and other instruments	33.3	121,713	–	–	121,713
Financial assets measured at fair value through other comprehensive income	34.7	73,699	–	–	73,699
Loan commitments	57.1.1	179,454	(3,195)	–	176,259
		779,447	(497,647)	3,030,682	3,312,482
Other debts					11,927
Investment in subsidiaries	35.1				(30,000)
Write-offs – Loans to and receivables from other customers					3,483
Total impairment charge – Bank					3,297,892
Adjustment for investment in subsidiaries					30,000
Total impairment charge – Group					3,327,892

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 other customers	32.1.4	116,321	(790,380)	2,264,451	1,590,392
Financial assets at amortised cost – Debt and other instruments	33.3	37,157	–	–	37,157
Financial assets measured at fair value through other comprehensive income	34.7	14,384	–	–	14,384
Contingent liabilities and 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	35.1				(20,400)
Write-offs – Loans to and receivables from other customers					847
Total impairment charge – Bank					1,668,913
Adjustment for investment in subsidiaries					20,400
Total impairment charge – Group					1,689,313

18 Personnel expenses

Accounting Policy

Accounting Polices in Note 48.

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

18.1 Composition

	Note	BANK		GROUP	
For the year ended 31 December		**2020 LKR '000**	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
Salaries and other benefits		**2,843,658**	3,210,136	**3,005,722**	3,352,556
Contributions to defined benefit plans	18.1.1	**199,187**	171,890	**205,142**	178,206
Contributions to defined contribution plans	18.1.2	**356,859**	342,381	**377,308**	363,972
		3,399,704	3,724,407	**3,588,172**	3,894,734

18.1.1 Contributions to defined benefit plans

For the year ended 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Funded pension liability				
Current service cost	**53,864**	54,839	**53,864**	54,839
Interest on obligation	**259,439**	250,331	**259,439**	250,331
Expected return on pension assets	**(248,700)**	(240,353)	**(248,700)**	(240,353)
	64,603	64,817	**64,603**	64,817
Unfunded pension liability				
Interest on obligation	**5,625**	5,678	**5,625**	5,678
	5,625	5,678	**5,625**	5,678
Unfunded end of service gratuity liability				
Current service cost	**78,850**	66,582	**82,804**	71,027
Interest on obligation	**50,109**	34,813	**52,110**	36,684
	128,959	101,395	**134,914**	107,711
Total defined benefit plans	**199,187**	171,890	**205,142**	178,206

18.1.2 Contributions to defined contribution plans

For the year ended 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Employer's contribution to Employees' Provident Fund	**297,383**	285,205	**313,846**	302,613
Employer's contribution to Employees' Trust Fund	**59,476**	57,176	**63,462**	61,359
Total defined contribution plans	**356,859**	342,381	**377,308**	363,972

19 Depreciation and amortisation →

See accounting policy in Note 39 and 40.

For the year ended 31 December	Note	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Depreciation					
Investment property	38	**–**	–	**21,057**	28,836
Property, plant and equipment	39	**383,461**	341,764	**407,669**	364,112
Right-of-use assets	39	**292,457**	282,313	**292,757**	284,113
Amortisation					
Intangible assets	40	**243,739**	219,579	**249,475**	224,349
		919,657	843,656	**970,958**	901,410

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 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Directors' emoluments	**17,445**	20,595	**18,001**	21,075
Auditors' remuneration				
Audit fees and expenses	**4,700**	5,424	**5,520**	6,231
Audit related fees and expenses	**2,737**	1,477	**2,940**	1,697
Fees for non-audit services	**520**	1,840	**612**	1,938
Professional and legal expenses	**21,455**	22,723	**21,455**	22,723
Premises, equipment and establishment expenses	**1,662,756**	1,521,317	**1,662,756**	1,521,317
Other overhead expenses	**1,357,616**	1,431,735	**1,284,062**	1,439,520
	3,067,229	3,005,111	**2,995,346**	3,014,501

Directors emoluments include fees paid to Non-Executive Directors Remuneration paid to Executive Directors are included under salaries and other benefits in Note 18.1.

21 Taxes on financial services

Accounting Policy

Value Added Tax on financial services (VAT)

VAT on financial services is calculated in accordance with Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto.

The value base for computation of VAT is the operating profit before taxes on financial services adjusted for emoluments of employees and depreciation computed as per prescribed rates.

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 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Value Added Tax on financial services (Note 21.1.1)	**1,015,574**	963,734	**1,015,574**	963,734
Nation Building Tax on financial services (Note 21.1.2)	**(11,611)**	131,607	**(11,611)**	131,607
Debt Repayment Levy (Note 21.1.3)	**(2,401)**	453,121	**(2,401)**	453,121
Total	**1,001,562**	1,548,462	**1,001,562**	1,548,462

21.1.1 Value Added Tax on financial services

For the year ended 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Current year	**997,315**	950,588	**997,315**	950,588
Under provision in respect of previous year	**18,259**	13,146	**18,259**	13,146
	1,015,574	963,734	**1,015,574**	963,734

21.1.2 Nation Building Tax on financial services

For the year ended 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Current year	**–**	129,854	**–**	129,854
Over provision in respect of previous year	**(11,611)**	1,753	**(11,611)**	1,753
	(11,611)	131,607	**(11,611)**	131,607

21.1.3 Debt Repayment Levy

For the year ended 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Current year	**–**	557,044	**–**	557,044
Over provision in respect of previous year	**(2,401)**	(103,923)	**(2,401)**	(103,923)
	(2,401)	453,121	**(2,401)**	453,121

22 Income tax expense →

Accounting Policy →

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under LKAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Current taxation

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Taxable profit is determined in accordance with the provisions of Inland Revenue Act No 24 of 2017.

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 excepts, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

22.1 Amount recognised in income statement

	BANK		GROUP	
For the year ended 31 December	**2020 LKR '000**	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
Current tax expense				
Current year	**1,389,508**	1,362,295	**1,476,304**	1,441,255
Change in estimates related to prior years	**(127,252)**	(173,014)	**(130,612)**	(174,133)
	1,262,256	1,189,281	**1,345,692**	1,267,122
Dividend tax deducted at source on dividends received from subsidiaries/equity accounted investments	**–**	–	**–**	12,402
Economics service charge write off	**–**	–	**–**	257
	1,262,256	1,189,281	**1,345,692**	1,279,781
Deferred tax expense				
Reversal of deferred tax liability (Note 41.1)	**(184,386)**	(118,076)	**(181,029)**	(111,824)
Origination of deferred tax asset (Note 41.2)	**(67,465)**	(155,808)	**(67,562)**	(159,811)
	(251,851)	(273,884)	**(248,591)**	(271,635)
Tax expense on continuing operations	**1,010,405**	915,397	**1,097,101**	1,008,146

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.

As per the announcement dated 12 February 2020, income tax rate applicable for the Banking sector has been reduced to 24% with effect from 1 January 2020. However, as the said amendment is yet to be enacted income tax was calculated at the rate of 28% for the year ended 31 December 2020. Had the Bank considered the revised rate of 24%, the income tax charge recognised in the income statement would have been decreased by 181 Mn.

22.2 Amount recognised in OCI

	BANK		GROUP	
For the year ended 31 December	**2020 LKR '000**	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
Items that are or may be reclassified subsequently to income statement				
Movement in fair value reserve [fair value through other comprehensive income (FVTOCI) debt instruments]	**(777,396)**	(591,758)	**(777,396)**	(591,758)
Cash flow hedges – Cross currency swap	**(503)**	111,050	**(503)**	111,050
	(777,899)	(480,708)	**(777,899)**	(480,708)
Items that will not be reclassified to income statement				
Gain on remeasurements of defined benefit liability	**(26,297)**	23,716	**(26,322)**	23,674
	(26,297)	23,716	**(26,322)**	23,674
Total deferred tax expense recognised in OCI	**(804,196)**	(456,992)	**(804,221)**	(457,034)

22.3 Reconciliation of effective tax rate with income tax rate

For the year ended 31 December	BANK				GROUP			
	2020		2019		2020		2019	
	%	LKR '000	%	LKR '000	%	LKR '000	%	LKR '000
Tax using 28% tax rate on profit before tax (PBT)	**28.00**	**951,563**	28.00	836,994	**28.00**	**1,104,288**	28.00	926,363
Adjustment in respect of current income tax of prior periods	**(3.74)**	**(127,252)**	(5.79)	(173,014)	**(3.31)**	**(130,612)**	(5.26)	(174,133)
Non-deductible expenses	**80.72**	**2,743,375**	50.57	1,511,553	**69.95**	**2,758,557**	45.95	1,520,103
Allowable deductions	**(69.04)**	**(2,346,260)**	(35.71)	(1,067,439)	**(59.75)**	**(2,356,333)**	(32.66)	(1,080,626)
Dividend income	**(7.27)**	**(247,187)**	(6.24)	(186,661)	**(6.27)**	**(247,187)**	(5.64)	(186,661)
Tax incentives	**(1.84)**	**(62,465)**	4.41	131,832	**(1.58)**	**(62,465)**	3.98	131,832
Taxable timing difference from capital allowances on assets	**6.77**	**229,956**	4.55	136,016	**5.83**	**229,956**	4.11	136,016
Tax losses from prior year	**–**	**–**	–	–	**(0.08)**	**(3,064)**	(0.17)	(5,772)
Taxed at different rates	**3.55**	**120,526**	–	–	**1.33**	**52,552**	–	–
Withholding tax on dividend received	**–**	**–**	–	–	**–**	**–**	0.37	12,402
Adjustments	**–**	**–**	–	–	**–**	**–**	0.01	257
Current tax expense	**37.15**	**1,262,256**	39.79	1,189,281	**34.12**	**1,345,692**	38.69	1,279,781

23 Earnings per share →

Accounting Policy →

The Group presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

23.1 Basic earnings per share

For the year ended 31 December	BANK		GROUP	
	2020	2019	2020	2019
Profit attributable to equity holders of the Bank (LKR '000)	**2,388,035**	2,073,868	**2,744,961**	2,213,529
Weighted average number of ordinary shares (Note 23.2)	**305,130,164**	290,373,009	**305,130,164**	290,373,009
Basic earnings per ordinary share – LKR	**7.83**	7.14	**9.00**	7.62

23.2 Weighted average number of ordinary shares for basic earnings per share

As at 31 December	Outstanding number of shares		Weighted average number of shares	
	2020	2019	**2020**	2019
Number of shares in issue at beginning	**304,188,756**	265,097,688	**304,188,756**	265,097,688
Number of shares exercised in the form of Rights Issue	**–**	39,091,068	**–**	25,275,321
Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2019	**1,808,494**	–	**941,408**	–
Weighted average number of ordinary share for basic earnings per ordinary share calculation	**305,997,250**	304,188,756	**305,130,164**	290,373,009

23.3 Diluted earnings per share

There was no dilution of ordinary shares outstanding. Therefore, diluted earnings per share is the same as basic earnings per share as shown in Note 23.1

24 Dividend per share →

The Board of Directors of the Bank has recommended the payment of a first and final dividend of LKR 3.00 per share which is to be satisfied in the form of allotment of new ordinary shares for the year ended 31 December 2020. (The Bank approved a final dividend of LKR 3.00 per share for the year ended 31 December 2019 and this was satisfied in the form of cash and allotment of new ordinary shares).

For the year ended 31 December	BANK	
	2020	2019
Dividend per share (LKR)	3.00	3.00

Compliance with Section 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 17 February 2021 have been audited by Messrs KPMG.

Dividend paid during the year

For the year ended 31 December	BANK	
	2020	2019
First and final dividend for 2019 – LKR 2.50 per share (2018 – LKR 3.50 per share)	**760,472**	927,841

25 Classification of financial assets and financial liabilities →

See accounting policies in Notes 5.3.

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

		Bank			
As at 31 December 2020	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	–	–	7,724,364	7,724,364
Balances with Central Bank of Sri Lanka	27	–	–	4,901,753	4,901,753
Placements with banks	28	–	–	15,414,287	15,414,287
Derivatives financial assets	29	835,464	–	–	835,464
Financial assets measured at fair value through profit or loss	30	609,717	–	–	609,717
Financial assets at amortised cost – Loans to and receivables from banks	31	–	–	4,152,717	4,152,717
Financial assets at amortised cost – Loans to and receivables from other customers	32	–	–	301,909,337	301,909,337
Financial assets at amortised cost – Debt and other instruments	33	–	–	31,604,175	31,604,175
Financial assets measured at fair value through other comprehensive income	34	–	88,718,002	–	88,718,002
Other assets	42	–	–	1,999,405	1,999,405
Total financial assets		1,445,181	88,718,002	367,706,038	457,869,221

		Bank			
As at 31 December 2020	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 liabilities					
Due to banks	44	–	–	14,909,937	14,909,937
Derivatives financial liabilities	29	267,883	–	–	267,883
Financial liabilities at amortised cost – Due to depositors	45	–	–	310,026,892	310,026,892
Financial liabilities at amortised cost – Due to other borrowers	46	–	–	46,847,076	46,847,076
Debt securities in issue	47	–	–	16,291,279	16,291,279
Other liabilities	50	–	–	4,783,877	4,783,877
Subordinated term debt	51	–	–	19,357,497	19,357,497
Total financial liabilities		267,883	–	412,216,558	412,484,441

As at 31 December 2019	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	–	–	5,450,209	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 other customers	32	–	–	272,818,311	272,818,311
Financial assets at amortised cost – Debt and other instruments	33	–	–	30,147,032	30,147,032
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 2020	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	–	–	7,728,969	7,728,969
Balances with Central Bank of Sri Lanka	27	–	–	4,901,753	4,901,753
Placements with banks	28	–	–	15,431,962	15,431,962
Derivative financial assets	29	835,464	–	–	835,464
Financial assets measured at fair value through profit or loss	30	609,717	–	–	609,717
Financial assets at amortised cost – Loans to and receivables from banks	31	–	–	4,152,717	4,152,717
Financial assets at amortised cost – Loans to and receivables from other customers	32	–	–	301,909,337	301,909,337
Financial assets at amortised cost – Debt and other instruments	33	–	–	31,604,175	31,604,175
Financial assets measured at fair value through other comprehensive income	34	–	88,718,002	–	88,718,002
Other assets	42	–	–	2,066,621	2,066,621
Total financial assets		1,445,181	88,718,002	367,795,534	457,958,717
Financial liabilities					
Due to banks	44	–	–	14,909,937	14,909,937
Derivative financial liabilities	29	267,883	–	–	267,883
Financial liabilities at amortised cost – Due to depositors	45	–	–	309,566,423	309,566,423
Financial liabilities at amortised cost – Due to other borrowers	46	–	–	46,847,076	46,847,076
Debt securities in issue	47	–	–	16,291,279	16,291,279
Other liabilities	50	–	–	4,900,983	4,900,983
Subordinated term debt	51	–	–	19,357,497	19,357,497
Total financial liabilities		267,883	–	411,873,195	412,141,078

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 other customers	32	–	–	272,818,311	272,818,311
Financial assets at amortised cost – Debt and other instruments	33	–	–	30,147,032	30,147,032
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

26 Cash and cash equivalents →

Accounting Policy →

Cash and cash equivalents include cash in hand, demand placements with banks and highly liquid financial assets with original maturities within three months or less from the date of acquisition that are subject to an insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments. These items are brought to financial statements at face values or the gross values, where appropriate.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Statement of cash flows

The Statement of Cash Flows has been prepared by using the “Direct Method” of preparing cash flows in accordance with the Sri Lanka Accounting Standard – LKAS 7 on “Statement of Cash Flows”. A reconciliation of the profit for the year to net cash flows used in operating activities is also presented for comparability.

As at 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Cash in hand	**4,865,815**	4,565,648	**4,866,081**	4,565,932
Balances with banks	**2,858,549**	884,561	**2,862,888**	893,427
	7,724,364	5,450,209	**7,728,969**	5,459,359

26.1 Analysis by currency

As at 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Cash in hand	**4,865,815**	4,565,648	**4,866,081**	4,565,932
Held in local currency	**4,829,247**	4,523,367	**4,829,513**	4,523,651
Held in foreign currency	**36,568**	42,281	**36,568**	42,281
Balances with Banks	**2,858,549**	884,561	**2,862,888**	893,427
Local Banks	**–**	35	**3,138**	8,901
Foreign Banks	**2,858,549**	884,526	**2,859,750**	884,526
	7,724,364	5,450,209	**7,728,969**	5,459,359

27 Balances with Central Bank of Sri Lanka →

Accounting Policy →

Balances with Central Banks are carried at amortised cost in the statement of financial position.

As at 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Statutory balances with Central Bank of Sri Lanka	**4,901,753**	8,666,547	**4,901,753**	8,666,547

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 4% with effect from 16 March 2020 and 2% with effect from 16 June 2020 (Minimum rate was 5% with effect from 1 March 2019). 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 →

See accounting policies in Notes 5.3.

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
Central Bank of Sri Lanka	**13,226,633**	165,030	**13,226,633**	165,030
Bank of Ceylon	**2,000,249**	–	**2,000,249**	–
Union Bank of Colombo	**187,405**	–	**187,405**	–
Commercial Bank of Ceylon PLC	**–**	–	**17,675**	35,411
Total	**15,414,287**	165,030	**15,431,962**	200,441

29 Derivative Financial assets/liabilities →

Accounting Policy →

Derivative assets held-for-risk management purposes include all derivative assets that are not classified as trading assets and are measured at fair value in the Statement of Financial Position.

Policy applicable generally to hedging relationships

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 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Instrument type				
Interest rate and foreign exchange				
Cross currency swaps	**527,877**	510,660	**527,877**	510,660
Foreign exchange				
Forward foreign exchange contracts – Currency swaps	**276,665**	108,069	**276,665**	108,069
– Other	**30,922**	12,709	**30,922**	12,709
	835,464	631,438	**835,464**	631,438

29.4.2 Liabilities

As at 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Instrument type				
Foreign exchange				
Forward foreign exchange contracts – Currency swaps	**239,805**	492,283	**239,805**	492,283
– Other	**28,078**	26,448	**28,078**	26,448
	267,883	518,731	**267,883**	518,731

29.4.3 Fair value hedge

The amount relating to items designated as hedging instruments and hedge effectiveness at 31 December 2020 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	17,789,536	Derivative assets (liabilities) held-for-risk management purposes	980,827

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 2020 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	**9,039,056**	**406,528**
Due to other borrowings	**8,750,480**	**574,299**
	17,789,536	**980,827**

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 2020	**Balance before the hedging adjustment LKR '000**	**Hedging adjustment LKR '000**	**Balance after the hedging adjustment LKR '000**
Foreign exchange gain/(loss) (Note 16)	**(957,535)**	**980,827**	**23,292**
Forward exchange fair value changes – Contracts with commercial banks (Note 14)	**437,658**	**(980,827)**	**(543,169)**

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 →

See accounting policies in Notes 5.3.

Financial assets measured at FVTPL are measured initially at fair value and subsequently recorded in the statement of financial position at fair value. Changes in fair value are recognised in income statement.

As at 31 December	Note	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Quoted equity securities	30.1	**44,880**	4,777,423	**44,880**	4,777,423
Quoted units in Unit Trust	30.2	**3,740**	3,740	**3,740**	3,740
Unquoted units in Unit Trust	30.3	**561,097**	525,903	**561,097**	525,903
		609,717	5,307,066	**609,717**	5,307,066

30.1 Quoted equity securities – Bank/Group

As at 31 December	**2020**			2019		
	Number of ordinary shares	**Cost* LKR '000**	**Fair value LKR '000**	Number of ordinary shares	Cost* LKR '000	Fair value LKR '000
John Keells Holdings PLC	**300,000**	**33,811**	**44,880**	–	–	–
Commercial Bank of Ceylon PLC – voting	–	–	–	47,628,006	1,931,775	4,524,661
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
		33,811	**44,880**		2,164,961	4,777,423

**Cost is reduced by write-off of diminution in value other than temporary in respect of investments.*

The "Guidance Notes on Accounting Consideration of the COVID-19 Outbreak" issued by The Institute of Chartered Accountants of Sri Lanka on 11 May 2020, permited entities to reclassify equity portfolio as an one off option, as a result of COVID-19 if an entity decides to change its business model as at 1 January 2020.

Accordingly, the Bank has reclassified the investment made in the quoted equity securities including the investment of Commercial Bank of Ceylon PLC from fair value through profit or loss to fair value through other comprehensive income with effect from 1 January 2020.

30.2 Quoted units in Unit Trust – Bank/Group

As at 31 December	2020			2019		
	Number of units	**Cost * LKR '000**	**Fair value LKR '000**	Number of units	Cost * LKR '000	Fair value LKR '000
NAMAL Acuity Value Fund	**39,102**	**1,963**	**3,740**	39,102	1,963	3,740
		1,963	**3,740**		1,963	3,740

30.3 Unquoted units in Unit Trust – Bank/Group

As at 31 December	2020			2019		
	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**	**270,292**	2,125,766	251,539	245,608
NAMAL Income Fund	**–**	**–**	**–**	983,621	10,042	15,031
National Equity Fund	**250,000**	**2,657**	**7,875**	250,000	2,657	6,858
Guardian Acuity Equity Fund	**9,052,505**	**150,000**	**164,069**	9,052,505	150,000	157,275
JB Vantage Value Equity Fund	**5,224,660**	**100,000**	**118,861**	5,224,660	100,000	101,131
		504,196	**561,097**	–	514,238	525,903

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 →

See accounting policies in Notes 5.3 and 17.

"Financial assets at amortised cost – Loans and advances to banks" include amounts due from banks.

As per SLFRS 9, Loans and advances to banks are assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows and the contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding.

After initial measurement, loans and receivables to banks are subsequently measured at gross carrying amount using the EIR, less provision for impairment, except when the Group designates at fair value through profit or loss. EIR is calculated by taking into account any discount or premium on acquisition and fees and costs. The amortisation is included in "Interest income" while the losses arising from impairment are recognised in "Impairment charges and other losses" in the income statement.

	BANK		GROUP	
As at 31 December	**2020 LKR '000**	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
Gross loans and receivables	**4,152,717**	–	**4,152,717**	–

31.1 Analysis

31.1.1 By product

As at 31 December	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
Securities purchased under resale agreements	**4,152,717**	–
Gross loans and receivables	**4,152,717**	–

31.1.2 By currency

As at 31 December	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
Sri Lankan rupee	**4,152,717**	–
Gross loans and receivables	**4,152,717**	–

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

Accounting Policy →

See accounting policies in Notes 5.3 and 17.

Loans to and receivables from other customers include loans and advances and lease receivables of the Group.

Principal amount of loans and advances (for example, over drawn balances in current account) are recognised when cash is advanced to a borrower. They are derecognised when either the borrower repays its obligations, or the loans are written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less any reduction for impairment or uncollectibility.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risk and rewards incidental to the ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

Loans and receivables from other customers are normally written off, either partially or in full, when there is no realistic prospect of recovery and all possible steps have been executed in recovering dues. Where loans are secured, this is generally after receipt of any proceeds from the realisation of the security. If the write-off is later recovered, the recovery is credited to "Net other operating income".

As at 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Gross loans and receivables	**317,232,613**	285,224,793	**317,232,613**	285,224,793
Allowance for impairment (Note 32.1.4)	**(15,323,276)**	(12,406,482)	**(15,323,276)**	(12,406,482)
Net loans and receivables	**301,909,337**	272,818,311	**301,909,337**	272,818,311
Gross loans and receivables				
Stage 1	**250,718,437**	224,020,849	**250,718,437**	224,020,849
Stage 2	**42,152,186**	37,368,923	**42,152,186**	37,368,923
Stage 3	**24,361,990**	23,835,021	**24,361,990**	23,835,021
	317,232,613	285,224,793	**317,232,613**	285,224,793

As at 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Allowance for impairment				
Stage 1	**1,305,740**	901,871	**1,305,740**	901,871
Stage 2	**1,065,570**	1,563,877	**1,065,570**	1,563,877
Stage 3	**12,951,966**	9,940,734	**12,951,966**	9,940,734
	15,323,276	12,406,482	**15,323,276**	12,406,482
Net loans and receivables	**301,909,337**	272,818,311	**301,909,337**	272,818,311

32.1 Analysis

32.1.1 By product

As at 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Overdrafts	**36,812,262**	41,691,542	**36,812,262**	41,691,542
Trade finance	**30,342,162**	35,637,646	**30,342,162**	35,637,646
Lease rentals receivable (Note 32.1.1.1)	**25,127,338**	22,173,952	**25,127,338**	22,173,952
Credit cards	**2,199,543**	1,448,853	**2,199,543**	1,448,853
Pawning	**4,565,645**	3,620,611	**4,565,645**	3,620,611
Staff loans	**2,491,323**	2,096,715	**2,491,323**	2,096,715
Term loans	**213,617,752**	176,290,391	**213,617,752**	176,290,391
Commercial papers and asset back notes	**2,076,588**	2,227,583	**2,076,588**	2,227,583
Preference shares unquoted	**–**	37,500	**–**	37,500
Gross loans and receivables	**317,232,613**	285,224,793	**317,232,613**	285,224,793

COVID-19 Repayment deferral packages offered to customers

The Bank has offered various forms of assistance to customers to counteract the impact of COVID-19 on the ability of customers to meet their loan obligations since March 2020, based on the guidelines given by Central Bank of Sri Lanka and Bank's own initiatives. Refer to Key Judgements and Estimates in this Note for details of the impact of deferrals when determining if there has been a Significant Increase in Credit Risk (SICR).

The loan repayment deferral package/moratorium is considered to be a loan modification under SLFRS 9. In addition the Bank offered working capital loan arrangements under concessionary rates as per the circulars issues by Central Bank of Sri Lanka (CBSL).

32.1.1.1 Lease rentals receivable

	BANK		GROUP	
As at 31 December	**2020 LKR '000**	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
Gross investment in leases:				
Lease rentals receivable				
– within one year	**12,215,465**	11,037,691	**12,215,465**	11,037,691
– within one to five years	**18,476,263**	16,323,550	**18,476,263**	16,323,550
	30,691,728	27,361,241	**30,691,728**	27,361,241
Less: Deposit of rentals	**11,676**	14,057	**11,676**	14,057
Unearned income on rentals receivable				
– within one year	**2,675,561**	2,579,963	**2,675,561**	2,579,963
– within one to five years	**2,877,153**	2,593,269	**2,877,153**	2,593,269
	25,127,338	22,173,952	**25,127,338**	22,173,952

32.1.2 By currency

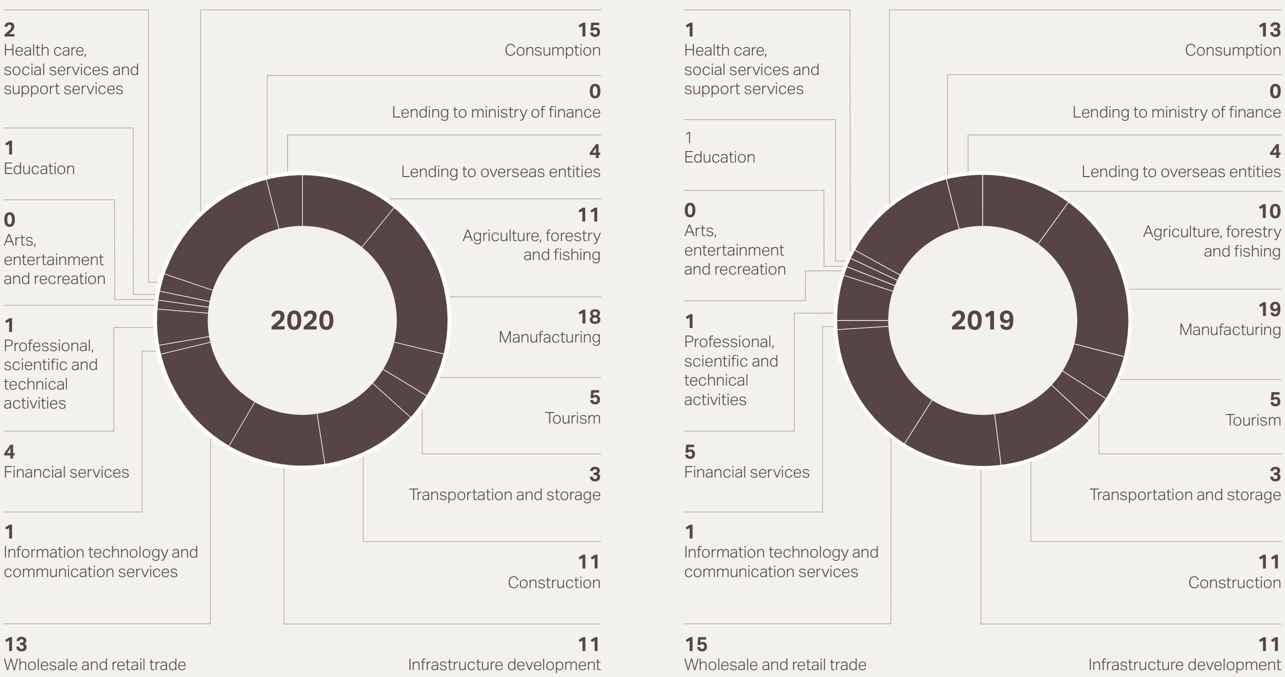
	BANK		GROUP	
As at 31 December	**2020 LKR '000**	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
Sri Lankan Rupee	**278,775,496**	250,669,907	**278,775,496**	250,669,907
United States Dollar	**37,443,007**	33,678,971	**37,443,007**	33,678,971
Great Britain Pound	**652,137**	662,214	**652,137**	662,214
Australian Dollar	**91,191**	36,797	**91,191**	36,797
Euro	**270,782**	176,904	**270,782**	176,904
Gross loans and receivables	**317,232,613**	285,224,793	**317,232,613**	285,224,793

32.1.3 By industry

As at 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Agriculture, forestry, and fishing	**34,483,557**	28,282,969	**34,483,557**	28,282,969
Manufacturing	**55,769,741**	54,535,325	**55,769,741**	54,535,325
Tourism	**15,990,359**	13,393,587	**15,990,359**	13,393,587
Transportation and storage	**9,108,654**	9,434,389	**9,108,654**	9,434,389
Construction	**34,175,044**	32,559,866	**34,175,044**	32,559,866
Infrastructure development	**34,465,896**	30,024,078	**34,465,896**	30,024,078
Wholesale and retail trade	**41,871,504**	44,195,272	**41,871,504**	44,195,272
Information technology and communication services	**1,712,933**	1,531,401	**1,712,933**	1,531,401
Financial services	**13,286,037**	14,856,831	**13,286,037**	14,856,831
Professional, scientific, and technical activities	**3,203,777**	1,709,325	**3,203,777**	1,709,325
Arts, entertainment, and recreation	**756,676**	788,364	**756,676**	788,364
Education	**3,751,677**	1,471,284	**3,751,677**	1,471,284
Healthcare, social services, and support services	**6,077,955**	4,213,504	**6,077,955**	4,213,504
Consumption	**50,166,516**	36,783,616	**50,166,516**	36,783,616
Lending to Ministry of Finance	**33,923**	164,257	**33,923**	164,257
Lending to overseas entities	**12,378,364**	11,280,725	**12,378,364**	11,280,725
Gross loans and receivables	**317,232,613**	285,224,793	**317,232,613**	285,224,793

Analysis by industry

%



32.1.4 Movements in impairment during the year

As at 31 December	BANK/GROUP 2020 LKR '000	2019 LKR '000
Stage 1		
Balance at beginning	**901,871**	786,161
Charge to income statement	**404,581**	116,321
Write-off during the year	**(712)**	(611)
Balance as at 31 December	**1,305,740**	901,871
Stage 2		
Balance at beginning	**1,563,877**	2,355,958
Write back to income statement	**(494,452)**	(790,380)
Write-off during the year	**(3,855)**	(1,701)
Balance as at 31 December	**1,065,570**	1,563,877
Stage 3		
Balance at beginning	**9,940,734**	8,423,457
Charge to income statement	**3,030,682**	2,264,451
Effect of foreign currency movement	**44,441**	9,475
Write-off during the year	**(27,398)**	(741,068)
Other movements	**(36,493)**	(15,581)
Balance as at 31 December	**12,951,966**	9,940,734
Total impairment	**15,323,276**	12,406,482

Key judgements and estimates

In estimating collectively assessed ECL, the Bank makes judgements and assumptions in relation to:

- the selection of an estimation technique or modelling methodology, noting that the modelling of the Group's ECL estimates are complex; and
- the selection of inputs for those models, and the interdependencies between those inputs.

The following table summarises the key judgements and assumptions used by the Bank in relation to the ECL model inputs, the interdependencies between those inputs, and highlights the significant changes during the current year.

The judgements and associated assumptions have been made within the context of the impact of COVID-19, and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the economy. Accordingly, the Bank's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Judgement/Assumption	Description	Considerations for the year ended 31 December 2020
Determining when a Significant Increase in Credit Risk (SICR) has occurred	In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from "Stage 1" to "Stage 2". This is a key area of judgement since transition from Stage 1 to Stage 2 increases the ECL from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses.	In response to the impacts of COVID-19, various moratorium/ debt concessionary schemes have been offered to eligible customers. The Bank does not consider that when a customer is first provided assistance it automatically results in a Significant Increase in Credit Risk (SICR) and a consequent impact on ECL when assessing provisions. Subsequent to take-up, assessments have been carried out based on the discussions with the customers on the future business cashflows, financial position, the sectors in which the businesses operate, and ability to recommence loan repayments at the end of the moratorium/debt concessionary period to conclude whether ther is a SICR.
Measuring both 12-month and lifetime credit losses	The probability of default (PD), loss given default (LGD) and exposure at default (EAD) credit risk parameters used in determining ECL are point-intime measures reflecting the relevant forward looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio's point-in-time sensitivity.	The PD, EAD and LGD models are subject to the Bank's policy on impairment model that stipulates periodic model monitoring, periodic revalidation and the approval procedures and authorities according to model materiality. There were no material changes to the policies during the year ended 31 December 2020. Due to the implications of moratorium/ debt concessionary schemes on PDs and LDGs (due to limited movements to Stage 2 & 3), adjustments have been made as overlays based on stress testing and historic patters to better reflect the adequacy of ECL.
	In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL.	There were no material changes to behavioural lifetime estimates during the year ended 31 December 2020.
Base case economic forecast	The Bank derives a forward-looking "base case" economic scenario which reflects the Bank's view of the most likely future macro-economic conditions.	There have been no changes to the types of forward-looking variables (key economic drivers) used as model inputs in the current year. As at 31 December 2020, the base case assumptions have been updated to reflect the rapidly evolving situation with respect to COVID-19 by using the economic forecast.
Probability weighting of each economic scenario (base case, best and worst scenarios)	Probability weighting of each economic scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario at each measurement date.	The key consideration for probability weightings in the current period is the continuing impact of COVID-19. In addition to the base case forecast which reflects the negative economic consequences of COVID-19, greater weighting has been applied to the worst scenario given the Bank's assessment of downside risks. The assigned probability weightings are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.
Management temporary adjustments	Management temporary adjustments to the ECL allowance are used in circumstances where it is judged that the existing inputs, assumptions and model techniques do not capture all the risk factors relevant to Group's lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into the current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management temporary adjustments may impact the amount of ECL recognised.	Management have applied a number of adjustments to the modelled ECL primarily due to the uncertainty associated with COVID-19.
	The uncertainty associated with the COVID-19 pandemic, and the extent to which the actions of governments, businesses and consumers mitigate against potentially adverse credit outcomes are not fully incorporated into existing ECL models. Accordingly, management overlays have been applied to ensure credit provisions are appropriate.	Management overlays (including COVID-19 overlays) which add to the modelled ECL provision have been made for risks particular for risk elevated sectors identified by the Bank.

33 Financial assets at amortised cost – Debt and other instruments

Accounting Policy

See accounting policies in Notes 5.3 and 17.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as 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/GROUP 2020 LKR '000	BANK/GROUP 2019 LKR '000
Sri Lanka Government Securities		
Treasury Bills – unencumbered	–	968,754
Treasury Bonds – unencumbered	**17,505,660**	17,683,437
Sri Lanka developments bonds	**7,596,484**	8,485,034
Sri Lanka sovereign bonds – unencumbered	**6,111,605**	–
Other Investments		
Quoted debentures (Note 33.1)	**661,941**	3,092,378
Accumulated impairment under Stage 1 (Note 33.3)	**(271,515)**	(82,571)
Total	**31,604,175**	30,147,032

33.1 Quoted debentures Bank/Group

As at 31 December	2020		2019	
	Number of debentures	**Amortised cost of investment LKR '000**	Number of debentures	Cost of investment LKR '000
Access Engineering PLC	–	–	2,500,000	252,953
Commercial Credit & Finance PLC	–	–	4,500,000	450,000
LB Finance PLC	**1,155,200**	**116,344**	1,155,200	116,342
People's Leasing & Finance PLC	**2,500,000**	**272,217**	12,500,000	1,285,231
Senkadagala Finance PLC	–	–	3,650,000	371,962
Singer Finance (Lanka) PLC	**2,500,000**	**273,380**	2,500,000	256,960
Vallibel Finance PLC	–	–	3,500,000	358,930
Total investments in quoted debentures – Bank/Group		**661,941**		3,092,378

33.2 Quoted debentures – By collateralisation

As at 31 December	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
Pledged as collateral	**308,951**	43,883
Unencumbered	**352,990**	3,048,495
	661,941	3,092,378

33.3 Movement in impairment during the year

As at 31 December	BANK/GROUP	
	2020 LKR '000	2019 LKR '000
Stage 1		
Balance at beginning	**82,571**	45,414
Transferred from FVOCI during the year (Note 34.7)	**67,231**	–
Charge to income statement	**121,713**	37,157
Balance as at 31 December	**271,515**	82,571

34 Financial assets measured at fair value through other comprehensive income →

Accounting Policy →

See accounting policies in Notes 5.3 and 17.

A financial asset is measured at fair value through other comprehensive income (FVOCI) only if it meets both of the following conditions and is not designated as FVTPL:

- → The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- → The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- → On initial recognition of an equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment by investment basis.

As at 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Government securities*				
Treasury Bills (Note 34.5)	**13,169,467**	4,813,939	**13,169,467**	4,813,939
Treasury Bonds (Note 34.6)	**62,102,967**	54,770,406	**62,102,967**	54,770,406
Sri Lanka development bonds – unencumbered**	**–**	1,857,951	**–**	1,857,951
Sri Lanka sovereign bonds – unencumbered**	**931,706**	2,260,552	**931,706**	2,260,552
	76,204,140	63,702,848	**76,204,140**	63,702,848
Equity securities				
Quoted (Note 34.1)	**12,299,552**	8,812,702	**12,299,552**	8,812,702
Unquoted (Note 34.2)	**213,810**	200,357	**213,810**	200,357
Preference shares (Note 34.3)	**500**	500	**500**	500
	12,513,862	9,013,559	**12,513,862**	9,013,559
Total	**88,718,002**	72,716,407	**88,718,002**	72,716,407

** Government securities include impairment allowance of LKR 20.85 Mn as at 31 December 2020 (LKR 14.39 Mn as at December 2019) Movement in impairment during the year is given in Note 34.7.*

*** As per the Guidance Notes on Accounting Consideration of the COVID-19 Outbreak" issued by The Institute of Chartered Accountants of Sri Lanka on 11 May 2020, the Bank has reclassified the investment made in Sovereign Bond and Sri Lanka Development Bond from fair value through other comprehensive income to amortized cost with effect from 1 April 2020.*

34.1 Quoted ordinary shares

As at 31 December	2020 Number of ordinary shares	2020 Cost* LKR '000	2020 Fair value LKR '000	2019 Number of ordinary shares	2019 Cost* LKR '000	2019 Fair value LKR '000
Banks, Finance and Insurance						
Commercial Bank of Ceylon PLC – Voting	**133,233,726**	**8,133,658**	**10,778,608**	82,560,377	3,348,620	7,843,236
Commercial Bank of Ceylon PLC – Non-voting	**274,108**	**22,239**	**19,215**	267,187	21,705	22,177
National Development Bank PLC	**3,168,904**	**480,711**	**247,491**	3,021,280	465,605	302,128
		8,636,608	**11,045,314**		3,835,930	8,167,541
Chemicals and pharmaceuticals						
Chemical Industries (Colombo) PLC – Voting	**247,900**	**14,131**	**45,192**	247,900	14,131	14,874
Chemical Industries (Colombo) PLC – Non-voting	**389,400**	**15,577**	**59,033**	389,400	15,577	18,535
		29,708	**104,225**		29,708	33,409
Construction and Engineering						
Access Engineering PLC	**1,500,000**	**37,616**	**36,900**	1,134,753	17,826	24,738
Colombo Dockyard PLC	**160,000**	**12,160**	**13,648**	160,000	12,160	9,920
		49,776	**50,548**		29,986	34,658
Diversified Holdings						
Carson Cumberbatch PLC	**–**	**–**	**–**	46,967	7,745	8,924
Hayleys PLC	**7,333**	**2,225**	**3,040**	7,333	2,225	1,283
Hemas Holdings PLC	**1,427,599**	**99,383**	**142,617**	927,599	59,946	74,208
John Keells Holdings PLC	**601,482**	**77,245**	**89,982**	521,482	66,947	87,400
Melstacorp PLC	**2,069,940**	**90,053**	**107,637**	2,069,940	90,053	90,042
Richard Pieris & Co. PLC	**–**	**–**	**–**	1,233,948	11,907	14,561
		268,906	**343,276**		238,823	276,418

As at 31 December	2020			2019		
	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**	**2,479**	93,900	906	2,301
Investment Trusts						
Ceylon Guardian Investment Trust PLC	**152,308**	**5,918**	**19,389**	152,308	5,918	13,906
Ceylon Investment PLC	**293,783**	**9,645**	**21,828**	288,309	9,428	14,848
		15,563	**41,217**		15,346	28,754
Telecommunications						
Dialog Axiata PLC	**4,000,000**	**37,482**	**49,600**	4,050,000	38,405	49,815
Manufacturing						
ACL Cables PLC	**790,000**	**45,270**	**60,514**	40,000	2,278	2,300
Ceylon Grain Elevators PLC	**148,997**	**9,197**	**16,539**	148,997	9,197	10,205
Chevron Lubricants Lanka PLC	**411,628**	**20,505**	**44,456**	761,628	27,907	57,046
Kelani Tyres PLC	**25,000**	**1,513**	**2,163**	75,000	4,538	3,720
Piramal Glass Ceylon PLC	–	–	–	5,000,000	14,024	22,500
Royal Ceramics Lanka PLC	**20,000**	**1,915**	**3,542**	139,800	16,996	12,372
Teejay Lanka PLC	**1,075,000**	**43,941**	**40,850**	75,000	3,141	3,060
Tokyo Cement Company (Lanka) PLC – Voting	**1,570,000**	**97,985**	**119,634**	120,000	5,734	5,760
Tokyo Cement Company (Lanka) PLC – Non-voting	**2,522,515**	**88,906**	**172,035**	1,472,515	25,759	57,723
Aitken Spence PLC	**500,000**	**23,250**	**28,900**	–	–	–
Hayleys Fabric PLC	**3,500,000**	**66,404**	**97,300**	–	–	–
Expolanka Holings PLC	**2,000,000**	**53,523**	**58,000**	–	–	–
		452,409	**643,933**		109,574	174,686
Power and Energy						
Vallibel Power Erathna PLC	**2,400,000**	**6,400**	**18,960**	2,400,000	6,400	15,120
Total quoted ordinary shares – Bank		**9,497,758**	**12,299,552**		4,336,172	8,812,702
Commercial Bank of Ceylon PLC – Equity adjustment**	–	**1,454,863**	–	–	1,454,863	–
Total quoted ordinary shares – Group		**10,952,621**	**12,299,552**		5,791,035	8,812,702

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 Bank/Group

As at 31 December	2020			2019		
	Number of ordinary shares	**Cost* LKR '000**	**Fair value LKR '000**	Number of ordinary shares	Cost* LKR '000	Fair value LKR '000
Credit Information Bureau of Sri Lanka	**9,184**	**918**	**192,708**	9,184	918	181,972
Lanka Clear (Private) Limited	**100,000**	**1,000**	**17,717**	100,000	1,000	15,000
Lanka Financial Services Bureau Limited	**200,000**	**2,000**	**–**	200,000	2,000	–
Samson Reclaim Rubber Limited	**116,700**	**–**	**–**	116,700	–	–
Society for Worldwide Interbank Financial Telecommunication	**6**	**3,385**	**3,385**	6	3,385	3,385
Sun Tan Beach Resorts Limited	**9,059,013**	**–**	**–**	9,059,013	–	–
The Video Team (Private) Limited	**30,000**	**–**	**–**	30,000	–	–
Total unquoted ordinary shares		**7,303**	**213,810**		7,303	200,357

** Cost is reduced by write-off of diminution in value other than temporary in respect of Investments .*

34.3 Unquoted irredeemable preference shares Bank/Group

As at 31 December	2020			2019		
	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		**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	**2020 LKR '000**	2019 LKR '000
Performing investments	12,299,552	210,425	–	**12,509,977**	9,013,059
Non-performing investments	–	3,385	500	**3,885**	500
	12,299,552	213,810	500	**12,513,862**	9,013,559

34.4.1.2 Group

As at 31 December	Ordinary Shares		Preference shares	Total	
	Quoted LKR '000	Unquoted LKR '000	Unquoted LKR '000	**2020 LKR '000**	2019 LKR '000
Performing investments	12,299,552	210,425	–	**12,509,977**	9,013,059
Non-performing investments	–	3,385	500	**3,885**	500
	12,299,552	213,810	500	**12,513,862**	9,013,559

** 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	
	2020 LKR '000	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
Pledged as collateral	**134,235**	530,523	**134,235**	530,523
Unencumbered	**13,035,232**	4,283,416	**13,035,232**	4,283,416
	13,169,467	4,813,939	**13,169,467**	4,813,939

34.6 Government of Sri Lanka Treasury Bonds – By collateralisation

As at 31 December	Bank		Group	
	2020 LKR '000	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
Pledged as collateral	**8,540,121**	16,094,852	**8,540,121**	16,094,852
Unencumbered	**53,562,846**	38,675,554	**53,562,846**	38,675,554
	62,102,967	54,770,406	**62,102,967**	54,770,406

34.7 Movement in impairment during the year

As at 31 December	Bank/Group	
	2020 LKR '000	2019 LKR '000
Balance at beginning	**14,384**	–
Charge for the year	**73,699**	14,384
Transferred to financial assets at amortised cost (Note 33.3)	**(67,231)**	–
Balance as at 31 December	**20,852**	14,384

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			**2020**		2019	
	Holdings %	Number of shares	**Cost LKR '000**	**Market value*/ Directors' valuation LKR '000**	Cost LKR '000	Market value/ Directors' valuation LKR '000
Unquoted						
DFCC Consulting (Pvt) Limited	100	500,000	**5,000**	**61,255**	5,000	52,731
Lanka Industrial Estates Limited	51.16	8,169,205	**97,036**	**578,549**	97,036	538,375
Synapsys Limited	100	31,216,649	**135,000**	**121,866**	135,000	113,735
			237,036	**761,670**	237,036	704,841
Less: Allowance for impairment (Note 35.1)			**19,600**	**19,600**	49,600	–
			217,436	**742,070**	187,436	704,841

35.1 Movements in impairment allowance

As at 31 December	**2020 LKR '000**	2019 LKR '000
Balance at beginning	**49,600**	70,000
Reversal to income statement	**(30,000)**	(20,400)
Balance as at 31 December**	**19,600**	49,600

**Market value is arrived by using the audited/reviewed financial statements as at the reporting date.*
***Based on the internal assessment carried out, the Board was of the view that the impairment as at 31 December 2020 is adequate..*

36 Investments in associate →

Accounting Policy →

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interest in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs and attributable goodwill. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence ceases.

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
National Asset Management Limited (ownership 30%)				
Balance at beginning	**35,270**	35,270	**31,293**	31,107
Share of profit after tax	**–**	–	**571**	1,262
Share of other comprehensive expenses	**–**	–	**(165)**	(330)
Impact on transition to SLFRS 16	**–**	–	**–**	(746)
Balance on 31 December	**35,270**	35,270	**31,699**	31,293

36.1 Summarised financial information of associate

As at 31 December	**2020 LKR '000**	2019 LKR '000
Percentage ownership interest (%)	**30**	30
Non-current assets	**49,504**	56,708
Current assets	**81,345**	67,472
Non-current liabilities	**(4,319)**	(10,458)
Current liabilities	**(20,917)**	(9,463)
Net assets (100%)	**105,613**	104,259
Group's share of net assets (30%)	**31,684**	31,278
Goodwill on acquisition	**15**	15
Adjusted Group's share of net assets (30%)	**31,699**	31,293

For the year ended 31 December	2020 LKR '000	2019 LKR '000
Revenue	**67,440**	74,631
Profit after tax (100%)	**1,902**	4,207
Other comprehensive expenses (100%)	**(548)**	(1,102)
Total comprehensive income/(100%)	**1,354**	3,105
Group's share in profit	**571**	1,262
Group's share in other comprehensive expenses	**(165)**	(330)
Group's share in total comprehensive income	**406**	932
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.

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	2020 Cost of investment LKR '000	2019 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	2020 LKR '000	2019 LKR '000
Share of identifiable asset and liabilities of joint venture as at the beginning of the year	**2,249,804**	2,142,143
Share of unrealised profit on disposal of investments	**(184,688)**	(184,688)
Balance at beginning	**2,065,116**	1,957,455
Adjustment on initial application of SLFRS 16 net of tax	**–**	(5,972)
Share of profit net of tax	**407,214**	190,019
Share of other comprehensive income/(expenses)	**26,932**	(920)
Change in holding – through subsidiary of joint venture	**–**	34
Dividend received during the year	**(50,000)**	(75,500)
Group's share of net assets – 50%	**2,449,262**	2,065,116

The following table summarises the financial information of Acuity Partners (Pvt) Limited 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	2020 LKR '000	2019 LKR '000
Percentage ownership interest (%)	**50**	50
Revenue	**1,091,335**	1,006,027
Expenses	**(775,257)**	(712,503)
Share of profit of equity-accounted investees	**794,186**	493,522
Income tax reversal/(expense)	**91,969**	(181,219)
Profit after tax (100%)	**1,202,233**	605,827
Other comprehensive income/(expenses) (100%)	**107,548**	(12,700)
Total comprehensive income (100%)	**1,309,781**	593,127
Profit attributable to equity holders	**814,428**	380,037
Other comprehensive income/(expenses) attributable to equity holders	**53,862**	(1,839)
Total comprehensive income attributable to equity holders	**868,290**	378,199
Group's share in profit (50%)	**407,214**	190,019
Group's share in other comprehensive income/(expenses) (50%)	**26,931**	(920)
Group's share in total comprehensive income (50%)	**434,145**	189,099
Current assets	**7,671,324**	6,225,285
Non-current assets	**19,132,447**	11,648,835
Current liabilities	**(15,881,343)**	(8,259,697)
Non-current liabilities	**(2,854,630)**	(2,606,618)
Net assets attributable to equity holders	**5,267,899**	4,499,608

As at 31 December	2020 LKR '000	2019 LKR '000
Group's share of net assets (50%) – before consolidation adjustment	**2,633,950**	2,249,804
Share of unrealised profit on disposal investment*	**(184,688)**	(184,688)
Groups share of net assets 50%	**2,449,262**	2,065,116
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 joint venture to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances.

The Bank has neither contingent liabilities nor capital and other commitments towards its joint venture company.

**This to elimination of 50% of the profits on disposal of subsidiary to joint venture company during the year 2010.*

38 Investment property →

Accounting Policy →

Investment property of the Bank/Group is held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business. The Bank/Group has chosen the cost model instead of fair value model and therefore investment property is measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the income statement.

Depreciation is provided on a straight-line basis over the estimated life of the class of asset from the date of purchase up to the date of disposal. The useful life for the current and comparative periods of significant items of investment property are as follow:

Building – 20-40 years

Land are not depreciated.

Rental income from investment property is recognised as other revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

	BANK		GROUP	
As at 31 December	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Cost				
Balance at beginning	**9,879**	9,879	**664,773**	665,519
Acquisition	**–**	–	**–**	4,489
Transferred to property, plant and equipment	**–**	–	**(109,543)**	–
Written off during the year	**–**	–	**–**	(5,235)
Cost as at 31 December	**9,879**	9,879	**555,230**	664,773
Less: Accumulated depreciation				
Balance at beginning	**–**	–	**197,796**	168,960
Charge for the year	**–**	–	**21,057**	28,836
Transferred to property, plant and equipment	**–**	–	**(9,480)**	–
Accumulated depreciation as at 31 December	**–**	–	**209,373**	197,796
Carrying amount as at 31 December	**9,879**	9,879	**345,857**	466,977

38.1 Details of investment properties

As at 31 December 2020	Buildings sq. ft.	Extent of land perches*	Number of buildings	Cost LKR '000	Accumulated depreciation/ impairment LKR '000	Net Book value LKR '000	Fair value LKR '000	Date of valuation
4 A,4th Cross Lane, Borupana, Ratmalana	–	20.0	–	2,600	–	2,600	25,000	31 December 2020
259/30, Kandy Road, Bambarakelle, Nuwara-Eliya	–	93.5	–	7,279	–	7,279	88,800	20 May 2018
Bank				9,879	–	9,879	113,800	
Pattiwila Road, Sapugaskanda, Makola	482,150	21,920	18	545,351	209,373	335,978	5,413,750	31 March 2019
Group				555,230	209,373	345,857	5,527,550	

**1 perch – 25.2929 m2;   1 Sq.ft = 0.0929 m2*

The fair value of investment property as at 31 December 2020 situated at Pattiwela Road, Sapugaskanda, Makola was based on market valuations carried out on 31 March 2019 by Mr Koralege Dayananda Tissera, Chartered Valuation Surveyor (UK) a professional valuer.

The fair value of investment properties situated at Borupana, Ratmalana and Bambarakelle, Nuwara-Eliya valued by Mr A A M Fathihu – Former Government Chief Valuer and Mr J S M I B Karunatilaka. Associate Member of the Institute of Valuers of Sri Lanka.

38.2 Amounts recognised in profit or loss

Rental income from investment property of Group for 2020, LKR 293 Mn (2019 – LKR 227 Mn).

Operating expenses on investment property of Group for 2020 – LKR 52 Mn (2019 – LKR 43 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 Group. Ongoing repairs and maintenance costs are expensed as incurred.

Capital work-in-progress

There are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the statement of financial position at cost. Capital work-in-progress would be transferred to the relevant asset when it is available for use i.e. When it is in the location and condition necessary for it to be capable of operating in the manner intended by the Management. Capital work-in-progress is stated at cost less any accumulated impairment losses.

Depreciation

Items of property, plant and equipment are depreciated from the month they are available for use up to the month of disposal. Depreciation is calculated to write-off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods of significant items of property, plant and equipment are as follows:

	Years
Buildings	20 – 40
Office equipment and motor vehicles	3 – 5
Fixtures and fittings	10

Derecognition

The carrying amount of property and equipment is 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 2020 LKR '000**	Total 31 December 2019 LKR '000
Cost at beginning	668,985	1,659,887	2,432,048	1,180,130	302,393	178,582	**6,422,025**	4,348,831
Recongnistion of right-of-use asset an initial application of SLFRS 16	–	–	–	–	–	–	**–**	1,248,463
Adjusted balance at beginning	668,985	1,659,887	2,432,048	1,180,130	302,393	178,582	**6,422,025**	5,597,294
Acquisitions	27,310	315,128	161,169	146,180	–	239,120	**888,907**	1,001,506
Transfer from work in progress	356,505	–	45,635	–	–	(402,140)	**–**	–
Less: Disposals	–	110,759	85	3,080	–	–	**113,924**	176,775
Cost as at 31 December	1,052,800	1,864,256	2,638,767	1,323,230	302,393	15,562	**7,197,008**	6,422,025
Accumulated depreciation at beginning	256,148	273,620	1,726,636	720,578	214,199	–	**3,191,182**	2,728,456
Depreciation for the year	8,316	292,457	266,601	82,988	25,556	–	**675,918**	624,077
Less: Accumulated depreciation on disposals	–	74,085	–	2,607	–	–	**76,692**	161,351
Accumulated depreciation as at 31 December	264,464	491,992	1,993,237	800,959	239,755	–	**3,790,408**	3,191,182
Carrying value as at 31 December	788,336	1,372,264	645,530	522,271	62,638	15,562	**3,406,600**	–
Carrying value as at 31 December	412,837	1,386,267	705,411	459,552	88,194	178,582	**–**	3,230,843

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	57,190	106.61	85,518	79,613	5,905
5, Deva Veediya, Kandy	1	4,600	12.54	16,195	7,933	8,262
73, W A D Ramanayake Mawatha, Colombo 2	1	37,538	45.00	197,268	139,351	57,917
No. 454, Main Street, Negombo	1	19,087	29.00	170,325	36,297	134,028
No. 77, Colombo Road, Kurunegala	1	31,459	30.00	583,494	1,270	582,224
				1,052,800	264,464	788,336

** 1 perch = 25.2929 m2; 1 Sq.ft = 0.0929 m2*

39.1.2 Market value of properties

	LKR Mn	Date of valuation
73/5, Galle Road, Colombo 3	1,905	31 December 2020
5, Deva Veediya, Kandy	140	31 December 2020
73, W A D Ramanayake Mawatha, Colombo 2	878	31 December 2020
No. 454, Main Street, Negombo	275	18 May 2019
No. 77, Colombo Road, Kurunegala	600	31 December 2020

Valued by Mr A A M Fathihu – Former Government Chief Valuer and Mr R W M S B Rajapakse. Fellow Member of the Institute of Valuers of Sri Lanka.

39.1.3 Fully depreciated property, plant and equipment – Bank

The initial cost of fully depreciated property, plant and equipment, which are still in use as at the reporting date is as follows:

As at 31 December	**2020 LKR '000**	2019 LKR '000
Land and buildings	**206,835**	199,702
Office equipment	**1,326,555**	1,195,006
Furniture and fittings	**462,616**	392,578
Motor vehicles	**156,447**	174,611
	2,152,453	1,961,897

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 2020 LKR '000**	Total 31 December 2019 LKR '000
Cost at beginning	922,386	1,661,987	2,479,420	1,194,828	353,720	178,582	**6,790,923**	4,716,745
Recongnistion of right-of-use asset an initial application of SLFRS 16								1,250,563
Adjusted balance at beginning	922,386	1,661,987	2,479,420	1,194,828	353,720	178,582	**6,790,923**	5,967,308
Acquisitions	29,408	315,128	163,726	146,308	–	258,480	**913,050**	1,006,824
Transfer from work in progress	356,505	–	45,635	–	–	(402,140)	**–**	–
Transfer from Investment property	109,543	–	–	–	–	–	**109,543**	–
Less: Disposals	4,314	110,759	599	3,328	12,447	–	**131,447**	183,209
Cost as at 31 December	1,413,528	1,866,356	2,688,182	1,337,808	341,273	34,922	**7,682,069**	6,790,923
Accumulated depreciation at beginning	433,420	275,420	1,766,276	739,538	263,628	–	**3,478,282**	2,997,841
Depreciation for the year	25,526	292,757	271,148	83,594	27,401	–	**700,426**	648,225
Less: Accumulated depreciation on disposals	4,085	74,085	536	2,607	11,825	–	**93,138**	167,784
Transfer from Investment property	9,480	–	–	–	–	–	**9,480**	–
Accumulated depreciation as at 31 December	464,341	494,092	2,036,888	820,525	279,204	–	**4,095,050**	3,478,282
Carrying amount as at 31 December	949,187	1,372,264	651,294	517,283	62,069	34,922	**3,587,019**	–
Carrying amount as at 31 December	488,966	1,386,567	713,144	455,290	90,092	178,582	**–**	3,312,641

39.3 Title restriction on property, plant and equipment

There are no restrictions that existed on the title of property, plant and equipment of the Bank/Group as at the reporting date.

39.4 Acquisition of property, plant and equipment during the year

During the financial year, the Bank and the Group acquired property, plant and equipment to the aggregate value of LKR 889 Mn and LKR 913 Mn respectively (2019 – LKR 1,002 Mn and LKR 1,007 Mn respectively). Cash payments amounting to LKR 843 Mn and LKR 867 Mn respectively (2019 – LKR 567 Mn and LKR 573 Mn respectively) were made during the year for purchase of property plant and equipment by the Bank and the Group.

39.5 Disposal of property, plant and equipment during the year

During the financial year, the Bank and the Group disposed property, plant and equipment to the aggregate value of LKR 114 Mn and LKR 131 Mn respectively (2019 – LKR 177 Mn and LKR 183 Mn respectively). Gain/(loss) on disposal of property, plant and equipment is disclosed in Note 16 to the financial statements.

39.6 Capitalisation of borrowing costs

There were no capitalised borrowing costs relating to the acquisition of property, plant and equipment during the year (2019 – Nil).

39.7 Amount of contractual commitments for the acquisition of property, plant and equipment

The contractual commitments for the acquisition of property, plant and equipment as at the reporting date is LKR 408 Mn.

39.8 Impairment of property, plant and equipment

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use (VIU). The fair value less costs to sell calculation is based on available data from an active market, in an arm's length transaction, of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash-generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

The Management has assessed the potential impairment loss of property, plant and equipment as at 31 December 2020. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of property, plant and equipment.

39.9 Property, plant and equipment pledged as security

None of the property, plant or equipment have been pledged as security as at the reporting date.

39.10 Permanent fall in value of property, plant and equipment

There has been no permanent fall in value of PPE which require an impairment provision in the financial statements.

39.11 Temporarily idle property, plant and equipment

There are no temporarily idle property, plant or equipment as at the reporting date.

39.12 Compensation from third parties for items of property, plant and equipment

There were no compensation received/receivable from third parties for items of property, plant or equipment that were impaired, lost or given up.

40 Intangible assets and goodwill →

Accounting Policy →

Recognition and measurement

Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Other intangible assets

Other intangible assets, including customer relationships, patents and trademarks, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation

Amortisation is calculated to write-off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill is not amortised.

The estimated useful lives for current and comparative periods are as follows:

Computer software	3 – 15 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Derecognition

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use and subsequent disposal.

As at 31 December	Note	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Computer software	40.1	**809,947**	838,472	**825,475**	859,736
Software under development	40.2	**903,105**	346,187	**903,105**	346,187
Goodwill on consolidation	40.3	**–**	–	**156,226**	156,226
Total		**1,713,052**	1,184,659	**1,884,806**	1,362,149

40.1 Computer software

As at 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Cost at beginning	**2,137,421**	1,722,199	**2,168,731**	1,730,041
Acquisitions	**315,082**	316,962	**315,082**	325,543
Disposals	**(112,478)**	–	**(112,478)**	–
Transfer from prepayments	**–**	98,260	**–**	113,147
Cost as at 31 December	**2,340,025**	2,137,421	**2,371,335**	2,168,731
Accumulated amortisation at beginning	**1,298,949**	1,079,370	**1,308,995**	1,084,646
Amortisation for the year	**243,739**	219,579	**249,475**	224,349
Less: Accumulated deprecation on disposal	**(12,610)**	–	**(12,610)**	–
Accumulated amortisation as at 31 December	**1,530,078**	1,298,949	**1,545,860**	1,308,995
Carrying amount as at 31 December	**809,947**	838,472	**825,475**	859,736

40.2 Software under development

As at 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
As at beginning	**346,187**	26,005	**346,187**	40,893
Addition to work in progress	**556,918**	418,442	**556,918**	418,442
Transfers/adjustments	**–**	(98,260)	**–**	(113,148)
Cost as at 31 December	**903,105**	346,187	**903,105**	346,187

40.3 Goodwill on consolidation

As at 31 December	GROUP 2020 LKR '000	GROUP 2019 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 statements.

There were no impairment losses recognised in goodwill as at 31 December 2020.

40.4 Assessment of impairment of intangible assets

The Board of Directors has assessed the potential impairment loss of intangible assets as at 31 December 2020. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date.

40.5 Title restriction on intangible assets

There are no restrictions that existed on the title of the intangible assets of the Group as at the reporting date.

40.6 Intangible assets pledged as security

None of the Intangible assets have been pledged as security as at the reporting date.

40.7 Acquisition of intangible assets during the year

During the financial year, the Bank and the Group acquired intangible assets to the aggregate value of LKR 872 Mn and LKR 872 Mn respectively (2019 – LKR 735 Mn and LKR 743 Mn respectively). Cash payments amounting to LKR 839 Mn and LKR 839 Mn respectively (2019 – LKR 700 Mn and LKR 705 Mn) were made for purchase intangible assets by the Bank and the Group respectively, during the year.

40.8 Amount of contractual commitments for the acquisition of intangible assets

The contractual commitments for the acquisition of intangible assets as at the reporting date is LKR 348 Mn.

41 Deferred taxation →

Accounting policy in Note 22.

As at 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Deferred tax asset/liability				
Deferred tax liability (Note 41.1)	**243,949**	–	**341,691**	96,714
Deferred tax asset (Note 41.2)	**–**	308,853	**2,919**	314,029
Net deferred tax liability/asset	**243,949**	308,853	**338,772**	217,315

41.1 Deferred tax liability

As at 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Balance at beginning	**1,183,340**	927,029	**1,282,125**	1,019,562
Recognised in income statement	**(184,386)**	(118,076)	**(181,029)**	(111,824)
Recognised in other comprehensive income	**777,396**	374,387	**777,396**	374,387
	1,776,350	1,183,340	**1,878,492**	1,282,125
Transferred from deferred tax asset	**(1,532,401)**	(1,183,340)	**(1,536,801)**	(1,185,411)
	243,949	–	**341,691**	96,714

41.2 Deferred tax asset

As at 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Balance at beginning	**1,492,193**	1,418,552	**1,499,440**	1,421,838
Effect of foreign currency movement	**(457)**	438	**(457)**	438
Recognised in income statement	**67,465**	155,808	**67,562**	159,811
Recognised in other comprehensive income	**(26,800)**	(82,605)	**(26,825)**	(82,647)
	1,532,401	1,492,193	**1,539,720**	1,499,440
Offset against deferred tax liability	**(1,532,401)**	(1,183,340)	**(1,536,801)**	(1,185,411)
	–	308,853	**2,919**	314,029

41.3 Recognised deferred tax assets and liabilities

As at 31 December	BANK 2020 Temporary difference LKR '000	BANK 2020 Tax effect LKR '000	BANK 2019 Temporary difference LKR '000	BANK 2019 Tax effect LKR '000	GROUP 2020 Temporary difference LKR '000	GROUP 2020 Tax effect LKR '000	GROUP 2019 Temporary difference LKR '000	GROUP 2019 Tax effect LKR '000
Assets								
Gratuity liability and actuarial losses on defined benefit plans	**519,314**	**145,408**	501,086	140,304	**536,437**	**150,202**	516,125	144,515
Unutilised tax losses	**–**	**–**	–	–	**262**	**73**	10,843	3,036
Cross currency SWAP	**311,242**	**87,148**	313,039	87,651	**311,242**	**87,148**	313,039	87,651
Expected credit loss – Loans to and receivables from banks and other customers	**4,642,304**	**1,299,845**	4,515,136	1,264,238	**4,651,060**	**1,302,297**	4,515,136	1,264,238
	5,472,860	**1,532,401**	5,329,261	1,492,193	**5,499,001**	**1,539,720**	5,355,143	1,499,440
Liabilities								
Property, equipment and software	**777,494**	**217,698**	718,068	201,059	**1,000,884**	**280,247**	953,626	267,015
Finance leases	**1,331,982**	**372,955**	2,004,804	561,345	**1,331,982**	**372,955**	2,004,804	561,345
Fair value through other comprehensive income financial assets	**4,197,085**	**1,175,184**	1,420,672	397,788	**4,197,085**	**1,175,184**	1,420,672	397,788
Right of use asset	**37,547**	**10,513**	82,672	23,148	**37,547**	**10,513**	82,672	23,148
Undistributed profits of the Group	**–**	**–**	–	–	**141,404**	**39,593**	117,247	32,829
	6,344,108	**1,776,350**	4,226,216	1,183,340	**6,708,902**	**1,878,492**	4,579,021	1,282,125

41.4 Impact due to corporate income tax rate change

The Government has announced a reduction of the income tax rate to 24% from 28% with effect from 1 January 2020 except for Synapsys Limited, where the tax will be abolished from 14%.

As provided in LKAS 12 on "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 the said amendment to tax rates is yet to be approved by the Parliament and cannot be considered to be legislated, the proposed changes to the tax rates have not been considered to be substantially enacted as at the reporting date. Accordingly, the prevailing income tax rate of 28% has been used for current tax and deferred tax computation as at 31 December 2020.

The Bank has a cumulative net deferred tax asset of LKR 252 Mn recognised through the income statement and net deferred tax liability of LKR 804 Mn recognised through OCI.

Had the Bank applied the reduced income tax rate of 24% to calculate deferred tax assets/liabilities as at 31 December 2020, the net deferred tax liability would have been decreased by LKR 35 Mn and the resulting charge to income statement and the reversal to other comprehensive income for the year would have been LKR 120 Mn and LKR 155 Mn respectively.

42 Other assets →

See accounting policy in Note 5.3.2.

As at 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Financial assets				
Refundable deposits	**16,104**	15,729	**22,384**	21,659
Other receivables (Note 42.1)	**818,087**	885,952	**879,152**	971,017
Clearing account balances	**1,165,085**	1,245,377	**1,165,085**	1,245,377
Due from subsidiaries (Note 42.2)	**129**	1,509	–	–
	1,999,405	2,148,567	**2,066,621**	2,238,053
Non-financial assets				
Advances and prepayments (Note 42.3)	**1,070,829**	1,003,548	**1,086,656**	1,003,548
Defined benefit asset (Note 48.1)	**–**	131,185	**–**	131,185
	1,070,829	1,134,733	**1,086,656**	1,134,733
	3,070,234	3,283,300	**3,153,277**	3,372,786

42.1 Includes receivable form Government of Sri Lanka in respect of reimbursement of additional interest paid on Special Deposit Accounts (SDA) interest differential on Special Senior Citizen fixed deposit and interest subsidy on credit lines amounting to LKR 686 Mn as at 31 December 2020. (LKR 275 Mn as at 31 December 2019).

42.2 Due from subsidiaries

As at 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000
DFCC Consulting (Pvt) Limited	**129**	1,509
	129	1,509

42.3 Advances and prepayments includes LKR 79 Mn incurred by the Bank to acquire computer software, and LKR 34 Mn related to Synapsys Limited.

The maturity analysis of other assets is given in Note 8.3.3 on pages 184 to 187.

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	**2020 LKR '000**	2019 LKR '000
Balance at beginning	**40,000**	–
Investment in subsidiary classified as held for sale during the year	**–**	40,000
Proceeds from disposal	**(20,400)**	–
Balance as at 31 December	**19,600**	40,000

The Company transferred it's internally developed intangible asset named, "Tea Integrated Payment System (TIPS)" to Company's subsidiary "Agrithmics (Pvt) Ltd." on 18 December 2019 for LKR 40 Mn.

Synapsys incorporated "Agrithmics Private Limited" a fully-owned subsidiary on 8 February 2018 with the expectation of transferring companies' Agribusiness section (TIPS) to this subsidiary. On 18 December 2019, Company has transferred Companie's internally developed intangible asset "(TIPS)" to Agrithmics (Pvt) Ltd. for fair value of LKR 40 Mn and in return Agrithmics (Pvt) Ltd. has issued four million equity shares for total consideration of LKR 40 Mn to the Company, granting it control of Agrithmics (Pvt) Ltd. The Company has recognised the gain on transferring the intangible asset under other income in the financials as explained in Note 7 to these financials.

Further, the Company entered into an agreement to transfer up to 90% of the equity interest of Agrithmics (Pvt) Ltd. to Dialog Axiata Digital Innovation Fund (Pvt) Ltd. ("DIF") on 31 December 2019. Accordingly, as the first phase, 51% equity interest was transferred and transaction has been completed on 26 March 2020. Second phase to sell the 39% for the consideration of LKR 15,600,000 by next year. As per the signed agreement, as the second phase, balance 1,560,000 shares (39% holding) will be transferred to DIF no later than 1 year from first completion date, which falls on 26 March 2021. Therefore the Company has classified the investment in Agrithmics (Pvt) Ltd. as a disposal group in the financial statements in accordance with SLFRS 5.

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 2020, in respect of the asset held for sale as its carrying value was based on the third party offer made for the software.

43.2 Cumulative income or expenses included in OCI

There are no cumulative income or expenses included in OCI relating to the asset held for sale.

43.3 Measurement of fair values

Fair value hierarchy

The non-recurring fair value measurement for the asset held for sale of LKR 19.6 Mn (after costs to sell) has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

44 Due to banks →

See accounting policy in Note 5.3.2.

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 are recognised in income statement.

	BANK		GROUP	
As at 31 December	**2020 LKR '000**	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
Borrowings – Foreign banks	**7,725,972**	6,343,513	**7,725,972**	6,343,513
– Local banks	**7,183,965**	14,648,882	**7,183,965**	14,648,882
Securities sold under repurchase (Repo) agreements	**–**	3,602,433	**–**	3,602,433
	14,909,937	24,594,828	**14,909,937**	24,594,828

The maturity analysis of due to banks is given in Note 8.3.3 on pages 184 to 187.

45 Financial liabilities at amortised cost – Due to depositors →

See accounting policy in Note 5.3.2.2.1.

	BANK		GROUP	
As at 31 December	**2020 LKR '000**	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
Total amount due to depositors	**310,026,892**	247,786,974	**309,566,423**	247,457,696

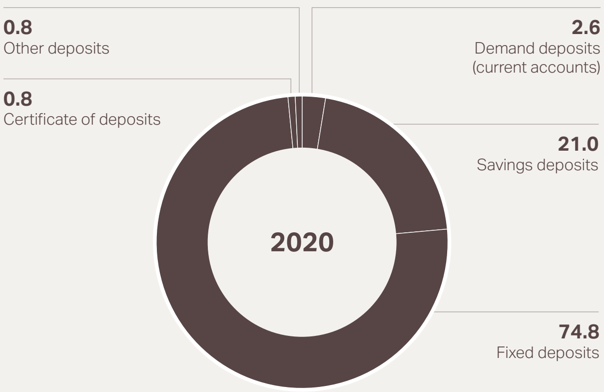
45.1 Analysis

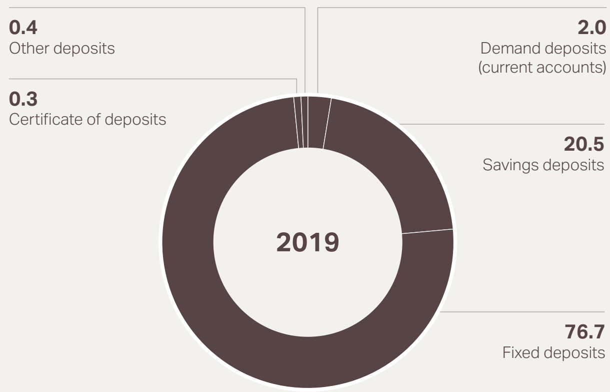
45.1.1 By product

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
Demand deposits (current accounts)	**8,016,789**	5,021,910	**8,016,724**	5,021,860
Savings deposits	**65,048,922**	50,847,818	**65,004,141**	50,816,178
Fixed deposits	**232,153,438**	190,178,094	**231,737,815**	189,880,506
Certificate of deposits	**2,473,374**	838,979	**2,473,374**	838,979
Other deposits	**2,334,369**	900,173	**2,334,369**	900,173
	310,026,892	247,786,974	**309,566,423**	247,457,696

Deposit mix – Bank

%





45.1.2 By currency

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
Sri Lanka Rupee	**266,794,993**	200,933,935	**266,352,671**	200,614,380
United States Dollar (USD)	**36,948,552**	44,140,636	**36,930,405**	44,130,913
Great Britain Pound (GBP)	**2,989,372**	1,023,696	**2,989,372**	1,023,696
Others	**3,293,975**	1,688,707	**3,293,975**	1,688,707
	310,026,892	247,786,974	**309,566,423**	247,457,696

45.1.3 By institution/customers

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
Deposits from banks	**1,959,565**	2,342,417	**1,959,565**	2,342,417
Deposits from finance companies	**2,383,009**	1,738,402	**2,383,009**	1,738,402
Deposits from other customers	**305,684,318**	243,706,155	**305,223,849**	243,376,877
	310,026,892	247,786,974	**309,566,423**	247,457,696

The maturity analysis of deposits from customers is given in Note 8.3.3 on pages 184 to 187.

46 Financial liabilities at amortised cost – Due to other borrowers →

See accounting policy in Note 5.3.2.2.1.

As at 31 December	BANK		GROUP	
	2020 LKR '000	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
Repayable in foreign currency				
Borrowing sourced from				
Multilateral institutions	**1,764,889**	2,281,613	**1,764,889**	2,281,613
Bilateral institutions	**11,200,561**	14,725,462	**11,200,561**	14,725,462
	12,965,450	17,007,075	**12,965,450**	17,007,075
Repayable in Rupees				
Borrowing sourced from				
Multilateral institutions	**16,977,899**	17,862,168	**16,977,899**	17,862,168
Bilateral institutions	**1,144,446**	1,465,330	**1,144,446**	1,465,330
Central Bank of Sri Lanka – Refinance loans (secured)	**8,601,350**	129,897	**8,601,350**	129,897
Securities sold under repurchase (Repo) agreements	**7,157,931**	10,843,086	**7,157,931**	10,843,086
	33,881,626	30,300,481	**33,881,626**	30,300,481
	46,847,076	47,307,556	**46,847,076**	47,307,556

46.1 Assets pledged as security

Nature	**31 December 2020 LKR '000**	31 December 2019 LKR '000
Assignment in terms of Section 88 A of the Monetary Law of Loans refinanced by Central Bank	**8,601,350**	129,897

47 Debt securities in issue →

See accounting policy in Note 5.3.2.2.1.

47.1 Debt securities at amortised cost issued by Bank

	Face value	Interest rate	Repayment terms	Issue date	Maturity date	BANK/GROUP	
						31 December 2020	31 December 2019
	LKR '000	%				**LKR '000**	LKR '000
Debenture issue – (LKR)							
- Listed							
	3,804,760	13.50	5 years	28 March 19	28 March 24	**4,182,678**	4,179,217
	1,784,070	13.75	7 years	28 March 19	28 March 26	**1,963,980**	1,962,734
	4,411,170	13.90	10 years	28 March 19	28 March 29	**4,859,525**	4,856,986
	3,000,000	9.10	5 years	10 June15	10 June 20	**–**	3,149,261
- Unlisted							
	5,000,000	11.00	5 years	12 June 20	12 June 25	**5,285,096**	–
	18,000,000					**16,291,279**	14,148,198
Due within one year						**–**	3,149,261
Due after one year						**16,291,279**	10,998,937
						16,291,279	14,148,198

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 respect to its debt securities during the years ended 31 December 2020.

47.5 Debt securities issued – Listed debentures

Debenture category	Interest payable frequency	Applicable interest rate %	Interest rate of comparative Government Securities p.a %	**Balance as at 31.12.2020 LKR '000**	Market price			Yield last traded %
					Highest	Lowest	Last traded	
Fixed rate								
Listed								
2019/2024	Annually	13.50	6.22	**4,182,678**	N/T	N/T	N/T	N/T
2019/2026	Annually	13.75	6.73	**1,963,980**	N/T	N/T	N/T	N/T
2019/2029	Annually	13.90	7.26	**4,859,525**	N/T	N/T	N/T	N/T
Unlisted								
2020/2025	Annually	11.00	6.62	**5,285,096**	N/T	N/T	N/T	N/T

N/T – Not traded

Other ratios	**31 December 2020**	31 December 2019
Debt to equity ratio	**2.06**	2.03
Interest cover	**1.52**	1.44
Liquid asset ratio (%)	**34.99**	26.89

47.6 Disclosures regarding the utilisation of funds as per the objectives stated in the debenture prospectus

Objective as per prospectus	Amount allocated as per prospectus (LKR)	Proposed date of allocation as per prospectus	Amount allocated from proceeds (LKR) (A)	% of total proceeds	Amount utilised as at 31 December 2020 (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/ieas etc.)
To support the Bank's balance sheet growth	Intial issue of LKR 5 Bn. and a maximum issue of LKR 7 Bn.	Upon the allotment of the Debentures	LKR 4.523 Bn	100%	LKR 4.523 Bn	100%	N/A
To improve the capital adequacy ratio		Over the period of twelve (12) months from the date of Allotment	LKR 4.523 Bn	100%	LKR 4.523 Bn	100%	N/A

48 Employee retirement benefits →

Accounting Policy →

A. Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expenses in profit or loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

This provides for a lump sum payment on termination of employment by resignation, retirement at the age of 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 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Liability				
Unfunded defined benefit plans (Note 48.1.1)	**582,869**	561,104	**610,792**	586,351
Funded defined benefit plan (Note 48.1.2)	**60,249**	–	**60,249**	–
	643,118	561,104	**671,041**	586,351
Assets				
Funded defined benefit plan (Note 48.1.2)	**–**	131,185	**–**	131,185

48.1.1 Unfunded defined benefit plans

As at 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Defined benefit – unfunded pension liability (Note 48.1.1.1)	**63,556**	60,013	**63,556**	60,013
– unfunded end of service gratuity (Note 48.1.1.2)	**519,313**	501,091	**547,236**	526,338
	582,869	561,104	**610,792**	586,351

48.1.1.1 Unfunded pension liability

As at 31 December	BANK/GROUP 2020 LKR '000	BANK/GROUP 2019 LKR '000
Balance at beginning	**60,013**	60,573
Interest on obligation	**5,625**	5,678
Benefits paid	**(6,935)**	(6,995)
Actuarial experience loss	**771**	757
Loss due to changes in assumptions	**4,082**	–
Present value of defined benefit pension obligations	**63,556**	60,013

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 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Balance at beginning	**501,091**	348,131	**526,338**	372,742
Current service cost	**78,850**	66,582	**82,804**	71,027
Interest on obligation	**50,109**	34,813	**52,110**	36,684
Benefits paid	**(16,819)**	(33,135)	**(19,070)**	(38,158)
Actuarial experience loss/(gain)	**(47,834)**	84,700	**(48,862)**	84,043
Gain due to changes in assumptions	**(46,084)**	–	**(46,084)**	–
Present value of unfunded end of service gratuity	**519,313**	501,091	**547,236**	526,338

48.1.2 Funded defined benefit plan – Pension liability

As at 31 December	BANK/GROUP 2020 LKR '000	BANK/GROUP 2019 LKR '000
Present value of defined benefit pension obligations (Note 48.1.2.1)	**2,827,321**	2,594,387
Fair value of pension assets (Note 48.1.2.2)	**(2,767,072)**	(2,725,572)
Defined benefit liability/(asset)	**60,249**	(131,185)

48.1.2.1 Movement in defined pension obligation

As at 31 December	BANK/GROUP 2020 LKR '000	BANK/GROUP 2019 LKR '000
Present value of defined benefit pension obligations at the beginning	**2,594,387**	2,503,310
Current service cost	**53,864**	54,839
Interest on obligation	**259,439**	250,331
Benefits paid	**(198,251)**	(184,183)
Actuarial experience gain	**(62,533)**	(29,910)
Loss due to changes in assumptions	**180,415**	–
Present value of defined benefit pension obligations	**2,827,321**	2,594,387

48.1.2.2 Movement in pension assets

As at 31 December	BANK/GROUP 2020 LKR '000	BANK/GROUP 2019 LKR '000
Fair value of pension assets at the beginning	**2,725,572**	2,646,527
Expected return on pension assets	**248,700**	240,353
Benefits paid	**(198,251)**	(184,183)
Actuarial experience (loss)/gain	**(8,949)**	22,875
Fair value of pension assets	**2,767,072**	2,725,572

48.1.2.3 Plan assets consist of the following

As at 31 December	BANK/GROUP 2020 LKR '000	BANK/GROUP 2019 LKR '000
Debentures	**195,563**	195,563
Fixed deposits	**2,594,632**	2,564,247
Others	**(23,123)**	(34,238)
	2,767,072	2,725,572

48.1.2.4 The expected benefit pay out in the future years to the employee retirement benefits – Bank

As at 31 December 2020	Unfunded pension liability* LKR '000	Unfunded end of service gratuity * LKR '000	Funded pension liability* LKR '000
Within next 12 months	**6,934**	**32,016**	**216,867**
Between 2 and 5 years	**27,736**	**224,787**	**1,023,639**
Beyond 5 years	**34,670**	**467,653**	**1,531,833**

** 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 2020.

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 2020		31 December 2019	
	Pension benefit (%)	**End of service gratuity (%)**	Pension benefit (%)	End of service gratuity (%)
Discount rate per annum				
Pre-retirement	**9**	**9**	10	10
Post-retirement	**9**	**Not applicable**	10	Not applicable
Future salary increases per annum	**8.5**	**8.5**	10.5	10.5
Expected rate of return on pension assets	**9**	**–**	10	–
Actual rate of return on pension assets	**9.2**	**–**	10.8	–
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 current year has changed from previous year as presented in the Note 48.2.2. The discount rate is the yield rate on 31 December 2020 with a term equaling the estimated period for which all benefit payments will continue. This period is approximately 19.83 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 of 9% and the salary increment rate ranging 3% – 8.5%.

The differences in the rate of future annual salary increases reflect the remaining working life of participants for each plan.

48.2.3 Sensitivity of assumptions used in the actuarial valuation

The Following table demonstrates the sensitivity to a reasonably possible change in the key assumptions used with all other variables held constant in the employment benefit liability measurement. The effect in the income statement and the statement of financial position with the assumed changes in the discount rates and salary increment rate is given below:

	Effect on other comprehensive income increase/(decrease) LKR '000	Effect on defined benefit obligation increase/(decrease) LKR '000
Funded pension liability		
Discount rate		
1%	243,256	(243,256)
-1%	(238,602)	238,602
Salary increment rate		
1%	(14,008)	14,008
-1%	53,895	(53,895)
Unfunded pension liability		
Discount rate		
1%	4,082	(4,082)
-1%	(4,615)	4,615
Unfunded end of service gratuity*		
Discount rate		
1%	42,159	(42,159)
-1%	(48,774)	48,774
Salary increment rate		
1%	(47,417)	47,417
-1%	41,820	(41,820)

** Salary increment not applicable for ex-employees.*

48.3 Historical information

As at	31 December 2019 LKR '000	31 December 2018 LKR '000	31 December 2017 LKR '000	31 March 2016 LKR '000	31 December 2015 LKR '000
Present value of the defined benefit obligation	2,594,387	2,503,310	2,372,248	2,280,943	2,296,454
Fair value of plan assets	(2,725,572)	(2,646,527)	(2,554,068)	(2,446,306)	(2,237,646)
(Surplus)/deficit in the plan	(131,185)	(143,217)	(181,820)	(165,363)	58,808

49 Current tax liabilities →

Accounting policy in Note 22.

As at 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Balance at beginning	**581,269**	1,221,117	**648,178**	1,294,540
Provision for the year (Note 22.1)	**1,389,508**	1,362,295	**1,476,304**	1,441,255
Reversal of over provision (Note 22.1)	**(127,252)**	(173,014)	**(130,612)**	(174,133)
Self-assessment payments	**(765,851)**	(1,559,324)	**(826,899)**	(1,615,790)
Withholding tax/other credits	**(65,029)**	(269,805)	**(85,107)**	(297,694)
Balance as at 31 December	**1,012,645**	581,269	**1,081,864**	648,178

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 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Financial liabilities				
Prior year's dividends	**44,409**	46,981	**44,409**	46,981
Security deposit for leases	**–**	–	**108,598**	101,849
Lease liability (Note 59.2)	**1,333,069**	1,302,528	**1,333,069**	1,302,701
Account payables	**3,394,350**	2,430,801	**3,414,882**	2,456,446
Due to subsidiaries (Note 50.2)	**12,049**	6,135	**–**	–
	4,783,877	3,786,445	**4,900,958**	3,907,977
Non-financial liabilities				
Accruals	**614,474**	552,874	**654,549**	571,153
Prepaid loan and lease rentals	**23,963**	44,298	**70,047**	112,234
Provision for undrawn commitments (Note 57.1.1)	**356,890**	180,631	**356,890**	180,631
Other provisions (Note 50.1)	**340,650**	494,939	**340,650**	494,939
	1,335,977	1,272,742	**1,422,136**	1,358,957
	6,119,854	5,059,187	**6,323,094**	5,266,934

50.1 Other provisions

Other provisions includes benefit payable to employees.

As at 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000	GROUP 2020 LKR '000	GROUP 2019 LKR '000
Balance at beginning	**494,939**	449,007	**494,939**	449,007
Provisions for the financial year	**340,650**	449,939	**340,650**	449,939
Provisions used during the year	**(214,690)**	(367,336)	**(214,690)**	(367,336)
Provisions reversed during the year	**(280,249)**	(36,671)	**(280,249)**	(36,671)
Balance as at 31 December	**340,650**	494,939	**340,650**	494,939

50.2 Due to subsidiaries

As at 31 December	BANK 2020 LKR '000	BANK 2019 LKR '000
Synapsys Limited	**12,049**	6,135
	12,049	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	Issued date	Maturity date	BANK/GROUP 31 December 2020 LKR '000	BANK/GROUP 31 December 2019 LKR '000
Listed debentures							
Issued by Bank	6,043,140	12.75	7 Years	9 November 16	9 November 23	**6,138,994**	6,134,277
	956,860	12.15	5 Years	9 November 16	9 November 21	**976,423**	971,190
	4,086,530	13.00	7 Years	29 March 18	29 March 25	**4,474,581**	4,471,362
	2,913,470	12.60	5 Years	29 March 18	29 March 23	**3,183,389**	3,180,325
	4,318,000	9.00	5 Years	23 October 20	23 October 25	**4,376,259**	–
	205,000	9.25	7 Years	23 October 20	25 October 27	**207,851**	–
Transferred on amalgamation	2,000,000	9.40	5 Years	10 June 15	10 June 20	**–**	2,102,760
	20,523,000					**19,357,497**	16,859,914

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 2020 LKR '000	Market price		
					Highest	Lowest	Last traded
Fixed rate							
2016-2021	Annually	12.15	5.05	**976,423**	N/T	N/T	N/T
2016-2023	Annually	12.75	6.03	**6,138,994**	N/T	N/T	N/T
2018-2025	Annually	13.00	6.55	**4,474,581**	N/T	N/T	N/T
2018-2023	Annually	12.60	5.82	**3,183,389**	N/T	N/T	N/T
2020-2025	Annually	9.00	6.64	**4,376,259**	N/T	N/T	N/T
2020-2027	Annually	9.25	7.02	**207,851**	N/T	N/T	N/T
				19,357,497			

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/GROUP	
	2020 LKR '000	2019 LKR '000
Payable within one year	**976,423**	2,102,760
Payable after one year	**18,381,074**	14,757,154
Total	**19,357,497**	16,859,914

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 2020.

The maturity analysis of subordinated liabilities is given in Note 8.3.3 on pages 184 to 187.

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		BANK/GROUP	
	2020	2019	**2020 LKR '000**	2019 LKR '000
Balance at beginning	**304,188,756**	265,097,688	**7,530,371**	4,715,814
Rights issue of ordinary voting shares	**–**	39,091,068	**–**	2,814,557
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment new shares	**1,808,494**	–	**152,094**	–
Balance as at 31 December	**305,997,250**	304,188,756	**7,682,465**	7,530,371

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 2019 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.

53 Statutory reserve →

Reserve fund

As at 31 December	BANK/GROUP 2020 LKR '000	BANK/GROUP 2019 LKR '000
Balance at beginning	**2,461,968**	2,358,275
Transfers	**122,000**	103,693
Balance as at 31 December	**2,583,968**	2,461,968

Five per cent 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	**2020 LKR '000**	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
Balance at beginning	**18,228,086**	17,187,262	**21,278,288**	20,107,150
Adjustment on initial application of SLFRS 16, net of tax	**–**	–	**–**	(6,717)
Restated balance	**18,228,086**	17,187,262	**21,278,288**	20,100,433
Profit for the year	**2,388,035**	2,073,868	**2,744,961**	2,213,529
Other comprehensive (expense) net of tax	**(64,063)**	(8,956)	**(62,276)**	(7,249)
Transfers to statutory reserves	**(122,000)**	(103,693)	**(122,000)**	(103,693)
Dividends	**(912,566)**	(927,841)	**(912,566)**	(927,841)
Forfeiture of unclaimed dividends	**6,664**	6,474	**6,664**	6,474
Disposal of equity investments	**128,013**	10,222	**128,013**	5,852
Rights issue expenses	**–**	(9,250)	**–**	(9,250)
Change in holding through joint venture	**–**	–	**–**	33
Balance as at 31 December	**19,652,169**	18,228,086	**23,061,084**	21,278,288

This represents cumulative net earnings, inclusive of final dividend approved amounting to LKR 918 Mn.

The balance is retained and reinvested in the business of the Bank.

55 Other reserves →

As at 31 December 2020	BANK			
	Fair value reserve LKR '000	**Hedging reserve LKR '000**	**General reserve LKR '000**	**Total LKR '000**
Balance at beginning	**5,704,644**	**(225,389)**	**13,779,839**	**19,259,094**
Movements/transfers	**178,167**	**1,294**	**–**	**179,461**
Balance as at 31 December	**5,882,811**	**(224,095)**	**13,779,839**	**19,438,555**

As at 31 December 2019	BANK			
	Fair value reserve LKR '000	Hedging reserve LKR '000	General reserve LKR '000	Total LKR '000
Balance at beginning	5,745,025	60,168	13,779,839	19,585,032
Movements/transfers	(40,381)	(285,557)	–	(325,938)
Balance as at 31 December	5,704,644	(225,389)	13,779,839	19,259,094

As at 31 December 2020	GROUP				
	Fair value reserve LKR '000	**Exchange equalisation reserve LKR '000**	**Hedging reserve LKR '000**	**General reserve LKR '000**	**Total LKR '000**
Balance at beginning	**4,260,073**	**78,377**	**(225,389)**	**13,779,839**	**17,892,900**
Movements/transfers	**179,773**	**24,677**	**1,294**	**–**	**205,744**
Balance as at 31 December	**4,439,846**	**103,054**	**(224,095)**	**13,779,839**	**18,098,644**

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 at beginning	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 31 December	4,260,073	78,377	(225,389)	13,779,839	17,892,900

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 2020 LKR '000	Lanka Industrial Estates Limited 2019 LKR '000
Non-current assets	**509,148**	527,777
Current assets	**397,075**	329,236
Non-current liabilities	**(98,956)**	(104,282)
Current liabilities	**(228,712)**	(214,358)
Net assets*	**578,555**	538,373
Net assets attributable to NCI – 48.84%	**282,589**	262,965
Revenue	**350,788**	343,200
Profit	**208,467**	177,640
Other comprehensive expense	**(615)**	(254)
Total comprehensive income	**207,852**	177,386
Profit allocated to NCI – 48.84%	**101,824**	86,765
Other comprehensive expense allocated to NCI – 48.84%	**(300)**	(124)
Cash flows from operating activities	**185,848**	193,394
Cash flows from investment activities	**36,096**	6,419
Cash flows from financing activities	**(167,677)**	(167,676)
Net increase in cash and cash equivalents	**54,267**	32,137

**See Note 35*

57 Contingent liabilities and commitments →

Accounting Policy →

Commitments and contingencies

Contingent liabilities, which include guarantees are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Even though these obligations may not be recognised on the Statement of Financial Position they do contain credit risk and are there for part of the overall risk of the Bank as disclosed in Note 57.1 below:

Financial guarantees

Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee received or receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

57.1 Commitments and contingencies

	BANK		GROUP	
As at 31 December	**2020 LKR '000**	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
Guarantees issued to –				
Banks in respect of indebtedness of customers of the Bank	**492,690**	422,500	**492,690**	422,500
Companies in respect of indebtedness of customers of the Bank	**8,344,637**	9,181,978	**8,344,637**	9,181,978
Principal collector of customs (duty guarantees)	**217,620**	344,629	**217,620**	344,629
Shipping guarantees	**2,409,711**	1,170,860	**2,409,711**	1,170,860
Documentary credit	**21,340,301**	12,958,343	**21,340,301**	12,958,343
Bills for collection	**3,922,026**	3,131,185	**3,922,026**	3,131,185
Performance bonds	**4,487,667**	5,122,213	**4,487,667**	5,122,213
Forward exchange contracts	**1,187,241**	17,089,574	**1,187,241**	17,089,574
Commitments in ordinary course of business – Commitments for unutilised credit facilities	**87,320,270**	78,944,548	**87,320,270**	78,944,548
Capital expenditure approved by the Board of Directors				
Contracted	**613,548**	567,644	**613,548**	567,644
Not contracted	**428,436**	1,656,926	**428,436**	1,656,926
	130,764,147	130,590,400	**130,764,147**	130,590,400

57.1.1 Movement in impairment during the year

As at 31 December	BANK/GROUP 2020 LKR '000	2019 LKR '000
Stage 1		
Balance at beginning	**164,144**	162,686
Charge to income statement	**179,454**	1,458
Balance as at 31 December	**343,598**	164,144
Stage 2		
Balance at beginning	**16,487**	34,895
Reversal to income statement	**(3,195)**	(18,408)
Balance as at 31 December	**13,292**	16,487
Total	**356,890**	180,631

Classified under other liabilities in Note 50 on page 277.

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 Court of Kandy and one case filed in the District Court of Negombo and another case in the 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 claiming damages from the Bank claiming that as the loan was not disbursed in a lump sum but in instalments 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 A Case is filed in the District Court of Galle claiming damages from the Bank and four others.

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 Personnel 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 on "Related Party Disclosures", other than, transactions that the Key Management Personnel (KMP) have availed under schemes uniformly applicable to all staff at concessionary rates.

58.1 Parent and ultimate controlling party

The Bank does not have an identifiable parent of its own.

58.2 Transaction with key Management Personnel

58.2.1 Key Management Personnel

Key Management Personnel are the Board of Directors of the Bank including Chief Executive, Deputy Chief Executive, Vice President – Strategic Planning and subsidiaries, Chief Risk Officer, Chief Financial Officer, Chief Operating Officer, and Senior Vice President – Treasury and Resource Mobilisation 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	**2020 LKR '000**	2019 LKR '000	**2020 LKR '000**	2019 LKR '000
Number of persons	**15**	15	**17**	17
Short-term employment benefits	**122,884**	131,371	**142,081**	149,315
Post-employment benefits – Pension	**2,208**	1,976	**2,208**	1,976
– Others	**19,413**	19,028	**19,930**	19,521
	144,505	152,375	**164,219**	170,812

58.2.3 Other transactions with Key Management Personnel and their close family members

Statement of financial position – Bank

As at 31 December	**2020**		2019	
	Number of KMPs	**LKR '000**	Number of KMPs	LKR '000
Assets				
Financial assets at amortised cost – Loans to and receivables from other customers	**14**	**27,939**	12	29,579
		27,939		29,579
Liabilities				
Financial liabilities at amortised cost – Due to depositors	**27**	**511,854**	26	382,601
Debt securities in issue	**1**	**7,293**	1	2,206
		519,147		384,807
Contingent liabilities and commitments		**18,915**		10,963

Income statement – Bank

For the year ended 31 December	2020 LKR '000	2019 LKR '000
Interest income	**2,236**	2,335
Interest expenses	**36,534**	38,042
Fee and commission income	**12**	19

58.3 Transaction with entities in which Directors of the Bank have significant influence

Statement of financial position – Bank

As at 31 December	2020 LKR '000	2019 LKR '000
Liabilities		
Financial liabilities at amortised cost – Due to depositors	**486,247**	326,428
Debt securities in issue	**–**	118,239
	486,247	444,667
Contingent liabilities and commitments	**1,429**	10,000

Income statement – Bank

For the year ended 31 December	2020 LKR '000	2019 LKR '000
Interest income	**6,554**	4,565
Interest expenses	**35,708**	16,139
Fee and commission income	**66**	497
Other operating expenses	**454**	1,134

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	**2020 LKR '000**	2019 LKR '000
Assets		
Other assets	**33,968**	33,404
	33,968	33,404
Liabilities		
Financial liabilities at amortised cost – Due to depositors	**461,855**	341,179
Other liabilities	**12,049**	6,135
	473,904	347,314
Contingent liabilities and commitments	**650**	450

Income Statement – Bank

For the year ended 31 December	**2020 LKR '000**	2019 LKR '000
Interest income	**–**	5
Interest expenses	**34,112**	36,117
Fee and commission income	**213**	38
Other income – Net	**89,566**	77,166
Other operating expenses net of reimbursements	**160,891**	116,024

Other transactions – Bank

For the year ended 31 December	**2020 LKR '000**	2019 LKR '000
Payments made for purchase of computer software	**23,436**	31,961

58.4.2 Transactions with joint venture

Statement of financial position – Bank

As at 31 December	2020 LKR '000	2019 LKR '000
Assets		
Financial assets at amortised cost – Loans to and receivables from other customers	**32,962**	41,861
	32,962	41,861
Liabilities		
Financial liabilities at amortised cost – Due to depositors	**493**	3,414
	493	3,414

Income statement – Bank

For the year ended 31 December	2020 LKR '000	2019 LKR '000
Interest income	**3,793**	12,631
Fee and commission income	**2**	1,005
Net other operating income	**50,000**	75,500
Other operating expenses	**7,065**	17,907

58.4.3 Transactions with associate

Statement of financial position – Bank

As at 31 December	2020 LKR '000	2019 LKR '000
Liabilities		
Financial liabilities at amortised cost – Due to depositors	**27**	26
	27	26

Income statement – Bank

For the year ended 31 December	2020 LKR '000	2019 LKR '000
Fee and commission income	**2**	18

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	2020 LKR '000	2019 LKR '000
Contribution prepaid as at beginning	**131,185**	143,217
Contribution due for the financial year recognised as expense in income statement	**(64,603)**	(64,817)
Recognition of actuarial (loss)/gains in the other comprehensive income	**(126,831)**	52,785
Contribution (payable)/prepaid (Note 48.1.2)	**(60,249)**	131,185

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	2020 LKR '000	2019 LKR '000
Assets		
Balances with Central Bank of Sri Lanka	**4,901,753**	8,666,547
Placements with banks	**15,226,885**	165,030
Financial assets at amortised cost – Loans to and receivables from banks	**1,000,125**	–
Financial assets at amortised cost – Loans to and receivables from other customers	**15,666,984**	15,517,585
Financial assets at amortised cost – Debt and other instruments	**31,096,296**	27,137,225
Financial assets measured at fair value through other comprehensive income	**76,204,140**	63,702,848
	144,096,183	115,189,235
Liabilities		
Due to Banks	**5,189,468**	9,284,419
Financial liabilities at amortised cost – Due to depositors	**999,248**	2,626,954
Financial liabilities at amortised cost – Due to other borrowers	**31,795,422**	21,768,994
Debt securities in issue	**7,326,159**	4,612,231
Subordinated term debt	**6,834,973**	6,154,314
	52,145,270	44,446,912
Commitments		
Undrawn credit facilities	**624,435**	7,438,628

Income statement – Bank

For the year ended 31 December	2020 LKR '000	2019 LKR '000
Interest income	**9,267,703**	8,936,036
Interest expenses	**4,069,080**	3,852,541
Fee and commission income	**511**	1,050
Net gain from trading	**162**	1,532
Net gains from derecognition of financial assets	**14,176**	7,185

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.

58.8 Pricing policy and terms for transactions with related parties

Bank enters into transactions with related parties in the ordinary course of business on terms similar to comparable transactions with an unrelated comparable counterparty with the exception of accommodation granted to Key Management Personnel under approved schemes uniformly applicable to all or specific categories of employees. The terms include pricing for loans, deposits, and services, collateral obtained for loans where appropriate.

59 Leases →

Accounting Policy →

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in SLFRS 16.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made or payable at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from the Bank's internal records (weighted average cost of funds) to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognise the 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 sublease separately. It assesses the lease classification of a sublease 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 sublease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies SLFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in SLFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

59.1 Leases as lessee (SLFRS 16)

The Bank leases a number of branch and office premises. The leases typically run for a period of 5-12 years, with an option to renew the lease after that date. For some leases, payments are renegotiated to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

There were no identifiable assets that were sublet 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).

	BANK	
	Branch and office premises 2020 LKR '000	Branch and office premises 2019 LKR '000
Balance at beginning	**1,386,267**	1,248,463
Depreciation charge for the year	**(292,457)**	(282,313)
Additions to right-of-use assets	**315,128**	434,075
Derecognition of right-of-use assets	**(36,674)**	(13,958)
Balance at 31 December	**1,372,264**	1,386,267

See Note 8.3.3 for maturity analysis of lease liabilities as at 31 December 2020.

The future minimum lease payments under non-cancellable operating leases were payable as follows:

	BANK	
At 31 December	**2020 LKR '000**	2019 LKR '000
Maturity analysis – Contractual undiscounted cash flows		
Less than one year	**274,550**	241,248
Between one and five years	**1,049,125**	1,007,904
More than five years	**560,720**	317,090
Total undiscounted lease liabilities at 31 December	**1,884,395**	1,566,242
Total discounted lease liabilities at 31 December	**1,333,069**	1,302,528

Refer Note 50.

59.3 Amounts recognised in income statement

For the year ended 31 December	**2020 LKR '000**	2019 LKR '000
Leases under SLFRS 16		
Interest on lease liabilities	**140,657**	130,694
Expenses relating to short-term leases	**1,500**	1,725
Depreciation charge for the year	**292,457**	282,313
	434,614	414,732

59.4 Amounts recognised in statement of cash flows

For the year ended 31 December	2020 LKR' 000	2019 LKR' 000
Total cash outflow for leases	**303,627**	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. Income taxes are managed on a group basis and are not allocated to operating segments.

The Group's Management Committee reviews internal management reports from each division at least monthly.

60.2 Information about reportable segments

Information related to each reportable segment is set out below. Segment profit before tax, as included in internal management reports reviewed by the Group's Management Committee, is used to measure performance because Management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate within the same industries. Intersegment 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 2020				
	Corporate banking LKR '000	Banking LKR '000	Treasury LKR '000	Other LKR '000	Total LKR '000
External revenue					
Interest income	11,148,133	19,023,235	7,689,521	40,790	37,901,679
Net fees and commission income	519,265	1,404,888	269,321	–	2,193,474
Net gain/(loss) from trading	–	–	479,152	–	479,152
Net loss from financial instruments at fair value through profit or loss	–	–	(497,931)	–	(497,931)
Net gain from derecognition of financial assets	–	–	510,386	–	510,386
Net other operating income	16,532	39,907	960,023	652,979	1,669,441
Income from external customers	11,683,930	20,468,030	9,410,472	693,769	42,256,201
Inter segment revenue	–	–	–	(389,122)	(389,122)
Total segment revenue	11,683,930	20,468,030	9,410,472	304,647	41,867,079
Other material non-cash items:					
– Impairment losses on financial assets	–	–	–	–	(3,327,892)
– Depreciation and amortisation	–	–	–	–	(970,958)
Other expenses	–	–	–	–	(33,624,343)
Segment profit before tax	–	–	–	–	3,943,886
Segment assets	126,752,290	170,095,200	153,778,921	815,960	451,442,371
Segment liabilities	83,083,022	214,097,277	110,059,796	398,124	407,638,219
Information on cash flows					
Cash flows from operating activities	–	–	–	–	31,937,036
Cash flows from investing activities	–	–	–	–	(7,426,353)
Cash flows from financing activities	–	–	–	–	(7,009,552)
Net cash flows generated during the year	–	–	–	–	17,501,131
Capital expenditure:	–	–	–	–	
Property, plant and equipment	–	763,977	133	–	764,110
Intangible assets	–	315,082	–	–	315,082

60.3 Reconciliations of information on reportable segments to the amounts reported in the financial statements

For the year ended	2020 LKR '000	2019 LKR '000
Revenues		
Total revenue for reportable segments	42,256,201	43,561,127
Unallocated amounts	1,737,368	478,214
Elimination of inter segment revenue	(389,122)	(391,054)
Consolidated revenue	43,604,447	43,648,287

	31 December 2019				
	Corporate banking LKR '000	Banking LKR '000	Treasury LKR '000	Other LKR '000	Total LKR '000
	13,281,469	21,896,086	6,709,512	39,255	41,926,322
	487,260	1,459,649	–	–	1,946,909
	–	–	(87,116)	–	(87,116)
	–	–	(2,633,183)	–	(2,633,183)
	–	–	209,890	–	209,890
	4,927	19,291	1,508,269	665,818	2,198,305
	13,773,656	23,375,026	5,707,372	705,073	43,561,127
	–	–	–	(391,054)	(391,054)
	13,773,656	23,375,026	5,707,372	314,019	43,170,073
	–	–	–	–	(1,689,313)
	–	–	–	–	(901,410)
	–	–	–	–	(37,270,910)
	–	–	–	–	3,308,440
	120,581,116	150,810,122	116,520,149	1,946,190	389,857,577
	69,159,387	155,296,677	103,429,227	50,803	327,936,094
	–	–	–	–	(15,475,980)
	–	–	–	–	(5,468,127)
	–	–	–	–	21,114,357
	–	–	–	–	170,250
	335	332,672	2,683	9,808	345,498
	–	401,407	–	8,578	409,985

As at 31 December	2020 LKR '000	2019 LKR '000
Assets		
Total assets for reportable segments	**451,442,371**	389,857,577
Other unallocated amounts	**15,924,164**	17,054,015
Consolidated total assets	**467,366,535**	406,911,592
Liabilities		
Total liabilities for reportable segments	**407,638,219**	327,936,094
Other unallocated amounts	**8,019,566**	29,549,006
Consolidated total liabilities	**415,657,785**	357,485,100

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 approved the payment of a first and final dividend of LKR 3.00 per share in the form of scrip dividend for the financial year ended 31 December 2020. 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.

62 Comparative figures →

The information has been reclassified with the current year's classification in order to provide a better presentation.

	Current presentation		As disclosed previously	
As at 31 December	BANK LKR '000	GROUP LKR '000	BANK LKR '000	GROUP LKR '000
Statement of Financial Position				
Financial assets at amortised cost – Loans to and receivables from banks	–	–	8,403,175	8,403,175
Financial assets at amortised cost – Debt and other instruments	30,147,032	30,147,032	21,743,857	21,743,857

63 Directors' responsibility →

The Board of Directors of the Bank is responsible for the preparation and presentation of these financial statements. Please refer page 147 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	228-231
1.1.2	Other Disclosures		
	i. Special disclosures about financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.	Not designated Principal accounting policies: Note 5.3.9 – Designation at fair value through profit or loss	172
		Notes to the financial statements: Note 08 – Financial risk review	174-196
	ii. Reclassifications of financial instruments from one category to another.	Principal accounting policies: Note 5.3.3 – Reclassification of financial assets	170
	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	268
	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	243
	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	206-227
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	207-209
	ii. Fee income and expense.	Notes to the financial statements: Note 12 – Net fee and commission income	209-210
	iii. Amount of impairment losses by class of financial assets.	Notes to the financial statements: Note 17 – Impairment for loans and other losses	213-220
	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	207-209
1.3	Other Disclosures	Principal accounting policies:	
1.3.1	Accounting policies for financial instruments.	Note 5.3 – Financial assets and Financial liabilities	169-172
1.3.2	Information on hedge accounting.	Notes to the financial statements: Note 29 – Derivate financial assets/liabilities	233-236
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	199-206

Disclosure Requirements	Description	Page No.
ii. Description of how fair value was determined.	Notes to the financial statements: Note 9 – Fair value of financial instruments	199-206
iii. The level of inputs used in determining fair value.	Notes to the financial statements: Notes 9 – Valuation models	199
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	205-206
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	174-196
2.1.2 Management's objectives, policies, and processes for managing those risks.	Notes to the financial statements: Note 8 – Financial risk review	174-196
2.1.3 Changes from the prior period.	Notes to the financial statements: Note 62 – Comparative figures	296
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	174-196
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	176-177 177-179
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	176-177 177-179 179-181
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	177-179
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)	175-182
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	184-188
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c. For other disclosures, please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Notes to the financial statement: Note 8.4 – Market risk (Financial risk review)	190-195
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)	195-198
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→ Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.	Notes to the financial statements: Note 30 – Financial assets measured at fair value through profit or loss Note 34 – Financial assets measured at fair value through other comprehensive income	237-238 246-250
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Disclosure Requirements	Description	Page No.
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3.1 Capital		
3.1.1 Capital Structure		
i. Qualitative Disclosures.	Notes to the financial statements:	
	Note 8.5.1.1 – Key regulatory ratios – capital adequacy	196-198
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Supplementary Information

Quantitative Disclosures as per Schedule III of Banking Act Direction No. 01 of 2016, Capital Requirements under Basel III

Basel III computation of liquidity coverage ratio – All currencies

BANK	Amount (LKR '000)			
Item	**31 December 2020**		31 December 2019	
	Total unweighted value	**Total weighted value**	Total unweighted value	Total weighted value
Total Stock of High-Quality Liquid Assets (HQLA)	**97,633,888**	**97,078,314**	69,787,641	69,287,520
Total Adjusted Level 1A Assets	**96,522,740**	**96,522,740**	68,787,399	68,787,399
Level 1 Assets	**96,522,740**	**96,522,740**	68,787,399	68,787,399
Total Adjusted Level 2A Assets	**–**	**–**	–	–
Level 2A Assets	**–**	**–**	–	–
Total Adjusted Level 2B Assets	**1,111,148**	**555,574**	1,000,242	500,121
Level 2B Assets	**1,111,148**	**555,574**	1,000,242	500,121
Total cash outflows	**444,130,094**	**85,180,176**	371,758,700	70,252,115
Deposits	**193,543,598**	**17,022,136**	147,120,309	12,580,009
Unsecured wholesale funding	**117,377,619**	**59,918,367**	103,187,321	49,175,375
Secured funding transactions	**4,208,587**	**–**	9,512,615	–
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	**125,612,895**	**4,852,278**	109,145,071	5,703,347
Additional requirements	**3,387,395**	**3,387,395**	2,793,384	2,793,384
Total cash inflows	**56,689,326**	**37,695,671**	32,247,053	20,948,383
Maturing secured lending transactions backed by collateral	**14,053,020**	**9,656,405**	11,019,081	10,864,930
Committed facilities	**1,000,000**		1,000,000	–
Other inflows by counterparty which are maturing within 30 days	**37,772,765**	**26,597,052**	17,265,465	8,722,163
Operational deposits	**1,679,982**		871,364	–
Other cash inflows	**2,183,559**	**1,442,214**	2,091,143	1,361,290
Liquidity Coverage Ratio (%) (Stock of High-Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days)* 100		**204.44**		140.53

Basel III computation of liquidity coverage ratio – LKR Only

BANK	Amount (LKR '000)			
Item	31 December 2020		31 December 2019	
	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value
Total Stock of High-Quality Liquid Assets (HQLA)	**90,105,873**	**89,550,299**	67,502,165	67,002,044
Total Adjusted Level 1A Assets	**88,994,725**	**88,994,725**	66,501,923	66,501,923
Level 1 Assets	**88,994,725**	**88,994,725**	66,501,923	66,501,923
Total Adjusted Level 2A Assets	**–**	**–**	–	–
Level 2A Assets	**–**	**–**	–	–
Total Adjusted Level 2B Assets	**1,111,148**	**555,574**	1,000,242	500,121
Level 2B Assets	**1,111,148**	**555,574**	1,000,242	500,121
Total cash outflows	**363,621,075**	**65,101,383**	290,363,031	47,293,395
Deposits	**180,352,595**	**15,742,884**	140,992,846	11,999,556
Unsecured wholesale funding	**85,507,685**	**44,501,115**	60,638,199	30,809,652
Secured funding transactions	**4,208,587**	**–**	9,512,615	–
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	**90,298,101**	**1,603,277**	76,944,718	2,209,534
Additional requirements	**3,254,107**	**3,254,107**	2,274,653	2,274,653
Total cash inflows	**48,982,281**	**34,036,829**	27,887,066	18,686,633
Maturing secured lending transactions backed by collateral	**13,657,504**	**9,260,888**	10,615,642	10,461,491
Committed facilities	**1,000,000**		1,000,000	–
Other inflows by counterparty which are maturing within 30 days	**32,842,087**	**24,034,596**	14,811,718	7,495,289
Operational deposits	**–**	**–**	–	–
Other cash inflows	**1,482,690**	**741,345**	1,459,706	729,853
Liquidity Coverage Ratio (%) (Stock of High-Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days)* 100		**288.27**		234.22

Maturity of financial assets and financial liabilities

BANK As at 31 December 2020	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	7,724,364	–	–	–	–	–	–	7,724,364
Balances with Central Bank of Sri Lanka	4,901,753	–	–	–	–	–	–	4,901,753
Placement with banks	15,414,287	–	–	–	–	–	–	15,414,287
Derivative financial assets	835,464	–	–	–	–	–	–	835,464
Financial assets measured at fair value through profit or loss	564,837	–	–	–	–	–	44,880	609,717
Financial assets at amortised cost – Loans to and receivables from banks	4,099,700	34,092	18,925	–	–	–	–	4,152,717
Financial assets at amortised cost – Loans to and receivables from other customers	24,618,107	28,884,720	15,260,639	19,887,798	58,850,180	57,608,042	96,799,851	301,909,337
Financial assets at amortised cost – Debt and other instruments	1,088,642	4,901,488	244,559	13,114,452	10,314,056	1,940,978	–	31,604,175
Financial assets measured at fair value through other comprehensive income	3,493,167	12,312,501	4,849,806	21,022,827	17,342,423	7,691,826	22,005,452	88,718,002
Other assets	1,920,666	383	843	12,707	11,747	31,747	21,312	1,999,405
Total financial assets	64,660,987	46,133,184	20,374,772	54,037,784	86,518,406	67,272,593	118,871,495	457,869,221

BANK As at 31 December 2020	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	2,090,584	1,540,503	1,255,012	2,510,680	7,513,158	–	–	14,909,937
Derivative financial liabilities	267,883	–	–	–	–	–	–	267,883
Financial liabilities at amortised cost – Due to depositors	37,003,073	61,849,504	70,816,977	34,289,767	28,970,585	16,457,256	60,639,730	310,026,892
Financial liabilities at amortised cost – Due to other borrowers	5,127,704	7,514,200	6,466,310	3,657,978	12,393,268	3,553,834	8,133,782	46,847,076
Debt securities in issue	–	1,025,771	305,890	–	–	8,764,378	6,195,240	16,291,279
Other liabilities	1,805,293	493,565	340,002	384,697	383,163	421,465	955,692	4,783,877
Subordinated term debt	–	617,850	–	1,173,507	8,956,610	8,404,530	205,000	19,357,497
Total financial liabilities	46,294,537	73,041,393	79,184,191	42,016,629	58,216,784	37,601,463	76,129,444	412,484,441
Total net financial assets/(liabilities)	18,366,450	(26,908,209)	(58,809,419)	12,021,155	28,301,622	29,671,130	42,742,051	45,384,780

BANK As at 31 December 2020	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
Contingencies								
Guarantees	15,952,324	–	–	–	–	–	–	15,952,324
Acceptance	–	5,783,242	756,207	4,869	4,906,411	–	–	11,450,729
Forward contracts	(3,471,492)	(825,822)	672,032	932,930	3,015,758	–	–	323,406
Cross CCY SWAP	–	586,913	4,692	262,847	9,384		–	863,836
Documentary credit	–	8,096,276	671,414	381,827	740,055	–	–	9,889,572
Bills for collection	3,922,026	–	–	–	–	–	–	3,922,026
Total contingencies	16,402,858	13,640,609	2,104,345	1,582,473	8,671,608	–	–	42,401,893
Commitments								
Undrawn overdrafts	22,087,069	–	–	–	–	–	–	22,087,069
Undrawn loans	29,603,852	–	–	–	–	–	–	29,603,852
Undrawn credit card limits	3,679,317	–	–	–	–	–	–	3,679,317
Undrawn indirect credit facilities	31,243,712	–	–	–	–	–	–	31,243,712
Capital commitments	–	142,386	613,549	286,051	–	–	–	1,041,986
Undrawn leases	706,318	–	–	–	–	–	–	706,318
Total commitments	87,320,268	142,386	613,549	286,051	–	–	–	88,362,254
Total commitments and contingencies	103,723,126	13,782,995	2,717,894	1,868,524	8,671,608	–	–	130,764,147

BANK 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	–	–	–	–	–	–	–	–
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	–	4,966,193	863,806	1,766,206	18,639,478	3,911,350	–	30,147,032
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

Quantitative Disclosures as per Schedule III of Banking Act Direction No. 01 of 2016, Capital Requirements under Basel III

BANK 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 finanical 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	41,401,986	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

BANK 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
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

Maturity gap analysis of foreign currency denominated financial assets and financial liabilities – USD

BANK As at 31 December 2020	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	100,754	24,435	8,868	31,926	47,159	36,630	90,170	339,942
Total liabilities	73,022	27,858	43,022	59,953	81,443	38,345	43,201	366,844
Total net financial assets/ (liabilities)	27,732	(3,423)	(34,154)	(28,027)	(34,284)	(1,715)	46,969	(26,902)

BANK 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)

Sensitivity of financial assets and financial liabilities

BANK As at 31 December 2020	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	317,034	–	–	–	–	–	–	7,407,330	7,724,364
Balances with Central Bank of Sri Lanka	–	–	–	–	–	–	–	4,901,753	4,901,753
Placements with banks	15,414,287	–	–	–	–	–	–	–	15,414,287
Derivative financial assets	–	–	–	–	–	–	–	835,464	835,464
Financial assets measured at fair value through profit or loss	–	–	–	–	–	–	–	609,717	609,717
Financial assets at amortised cost – Loans to and receivables from banks	4,152,717	–	–	–	–	–	–	–	4,152,717
Financial assets at amortised cost – Loans to and receivables from other customers	151,094,075	24,374,012	12,864,586	16,170,593	44,565,904	23,242,601	21,834,937	7,762,629	301,909,337
Financial assets at amortised cost – Debt and other Instruments	1,305,463	4,323,283	263,484	12,984,162	10,786,805	1,940,978	–	–	31,604,175
Financial assets measured at fair value through other comprehensive income	3,555,765	12,312,501	4,849,806	21,167,642	17,197,609	7,691,826	9,428,991	12,513,862	88,718,002
Other assets	–	–	–	–	–	–	–	1,999,405	1,999,405
Total financial assets	175,839,341	41,009,796	17,977,876	50,322,397	72,550,318	32,875,405	31,263,928	36,030,160	457,869,221

Quantitative Disclosures as per Schedule III of Banking Act Direction No. 01 of 2016, Capital Requirements under Basel III

BANK As at 31 December 2020	Up to 1 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	1,792,092	7,927,554	–	–	5,000,000	–	–	190,291	14,909,937
Derivative financial liabilities	–	–	–	–	–	–	–	267,883	267,883
Financial liabilities at amortised cost – Due to depositors	89,795,761	58,804,855	68,468,382	53,354,008	29,458,362	1,421,012	83,265	8,641,247	310,026,892
Due to other borrowers	7,492,850	12,453,461	10,591,793	1,239,278	4,739,431	2,189,723	8,140,540	–	46,847,076
Debt Securities in issue	–	–	–	–	–	10,096,039	6,195,240	–	16,291,279
Other liabilities	–	–	–	–	–	–	–	4,783,877	4,783,877
Subordinated term debt	–	–	–	1,791,357	8,956,610	8,404,530	205,000	–	19,357,497
Total financial liabilities	**99,080,703**	**79,185,870**	**79,060,175**	**56,384,643**	**48,154,403**	**22,111,304**	**14,624,045**	**13,883,298**	**412,484,441**
Interest rate sensitivity gap	**76,758,638**	**(38,176,074)**	**(61,082,299)**	**(6,062,246)**	**24,395,915**	**10,764,101**	**16,639,883**	**22,146,862**	

BANK 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	–	–	–		–	–	–	–	–
Financial assets at amortised cost – Loans to and receivables from others 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	58,431	4,990,584	1,113,395	1,909,319	18,639,478	3,435,825	–	–	30,147,032
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

BANK 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
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	

Key regulatory ratios

Item	**31 December 2020**		31 December 2019	
	Bank	**Group**	Bank	Group
Regulatory capital (LKR '000)				
Common equity Tier 1	**35,041,771**	**35,113,117**	34,824,554	34,908,304
Tier 1 capital	**35,041,771**	**35,113,117**	34,824,554	34,908,304
Total capital	**51,055,165**	**51,126,511**	48,542,925	48,626,675
Regulatory capital ratios (%)				
Common equity Tier 1 capital ratio [Minimum requirement: 2020 – 6.50% (2019 – 7.00%)]	**10.820**	**10.816**	11.342	11.327
Tier 1 capital ratio [Minimum requirement: 2020 – 8.00% (2019 – 8.50%)]	**10.820**	**10.816**	11.342	11.327
Total capital ratio [Minimum requirement: 2020 – 12.00% (2019 – 12.50%)]	**15.764**	**15.749**	15.810	15.778
Computation of leverage ratio				
Tier 1 Capital	**35,041,771**	**35,113,117**	34,824,554	34,908,304
Total Exposures	**515,899,771**	**514,844,311**	460,516,043	459,563,903
On-Balance Sheet Items (excluding Derivatives and securities financing transactions, but including Collateral)	**452,474,474**	**451,419,014**	395,302,362	394,350,222
Derivative Exposures	**35,494,568**	**35,494,568**	34,403,158	34,403,158
Securities Financing Transaction Exposures	**1,385,974**	**1,385,974**	2,419,209	2,419,209
Other Off-Balance Sheet Exposures	**26,544,755**	**26,544,755**	28,391,314	28,391,314
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)	**6.79**	**6.82**	7.56	7.60
Computation of Net stable funding ratio				
Total Available Stable Funding	**339,622,389**	**N/A**	290,698,778	N/A
Required Stable Funding – On Balance Sheet Assets	**273,846,147**	**N/A**	254,049,220	N/A
Required Stable Funding – Off Balance Sheet Items	**2,266,209**	**N/A**	2,271,779	N/A
Total Required Stable Funding	**276,112,356**	**N/A**	256,320,999	N/A
Net Stable Funding Ratio (%)	**123.00**	**N/A**	113.41	N/A

Quantitative Disclosures as per Schedule III of Banking Act Direction No. 01 of 2016, Capital Requirements under Basel III

Basel III computation of capital ratios

Item	31 December 2020		31 December 2019	
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
Common equity Tier 1 (CET 1) capital after adjustments	**35,041,771**	**35,113,117**	38,824,554	34,908,304
Common equity Tier 1 (CET 1) capital	**45,423,144**	**48,839,196**	42,000,264	45,050,466
Equity capital (stated capital)/assigned capital	**7,682,465**	**7,682,465**	7,530,371	7,530,371
Reserve fund	**2,583,968**	**2,583,968**	2,461,968	2,461,968
Published retained earnings/(accumulated retained losses)	**19,652,168**	**23,061,080**	18,228,086	21,278,288
Published accumulated Other Comprehensive Income (OCI)	**1,724,704**	**1,731,844**	–	–
General and other disclosed reserves	**13,779,839**	**13,779,839**	13,779,839	13,779,839
Unpublished current year's profit/loss and gains reflected in OCI	**–**	**–**	–	–
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	**–**	**–**	–	–
Total adjustments to CET 1 capital	**10,381,374**	**13,726,078**	7,175,709	10,142,162
Goodwill (net)	**–**	**156,226**	–	156,226
Intangible assets (net)	**1,713,052**	**1,728,580**	1,184,659	1,205,923
Investment in capital of banks and financial institutions	**8,571,286**	**11,838,353**	5,762,829	8,648,828
Others	**97,036**	**2,919**	228,221	131,185
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	**16,013,394**	**16,013,394**	13,718,371	13,718,371
Tier 2 capital	**16,013,394**	**16,013,394**	13,718,371	13,718,371
Qualifying Tier 2 capital instruments	**14,174,868**	**14,174,868**	12,034,562	12,034,562
Revaluation gains	**–**	**–**	–	–
Loan loss provisions	**1,838,526**	**1,838,526**	1,683,809	1,683,809
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	**35,041,771**	**35,113,117**	34,824,554	34,908,304
Total Tier 1 capital	**35,041,771**	**35,113,117**	34,824,554	34,908,304
Total capital	**51,055,165**	**51,126,511**	48,542,925	48,626,675

Quantitative Disclosures as per Schedule III of Banking Act Direction No. 01 of 2016, Capital Requirements under Basel III

Item	31 December 2020		31 December 2019	
	Bank	Group	Bank	Group
Total risk weighted assets (RWA) (LKR '000)				
RWAs for credit risk	**293,505,729**	**293,920,302**	274,009,885	274,759,093
RWAs for market risk	**12,956,450**	**12,956,450**	16,956,352	16,956,352
RWAs for operational risk	**17,400,093**	**17,751,642**	16,074,112	16,479,374
CET 1 capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on d-sibs) (%)	**10.82**	**10.82**	11.34	11.33
of which: capital conservation buffer (%)	**1.20**	**1.20**	1.25	1.25
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 (%)	**10.82**	**10.82**	11.34	11.33
Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on d-sibs) (%)	**15.76**	**15.75**	15.81	15.78
of which: capital conservation buffer (%)	**1.20**	**1.20**	1.25	1.25
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 2020 – 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 Central Bank of Sri Lanka	129,831,085	–	129,831,085	–	2,930,310	2
Claims on foreign sovereigns and their Central Banks	–	–	–	–	–	–
Claims on public sector entities	12,472,999	411,240	33,923	205,620	239,543	100
Claims on official entities and multilateral development banks	–	–	–	–	–	–
Claims on banks exposures	5,913,240	40,305,709	5,913,240	1,222,348	1,981,966	28
Claims on financial institutions	7,538,985	750,000	7,538,985	375,000	4,215,014	53
Claims on corporates	123,232,425	57,160,149	107,244,885	21,201,530	125,023,799	97
Retail claims	50,947,130	–	50,947,130	–	36,764,836	72
Claims secured by residential property	9,682,624	–	9,682,624	–	6,511,591	67
Claims secured by commercial real estate	90,967,884	1,774,062	90,967,884	1,774,062	92,741,946	100
Non-performing assets (NPAs) (i)	8,077,839	–	8,077,839	–	8,811,883	109
Higher-risk categories	435,524	–	435,524	–	1,088,810	250
Cash Items and other assets	14,077,029	76,465,348	14,077,029	3,990,090	13,196,031	73
Total	453,176,764	176,866,508	424,750,148	28,768,650	293,505,729	

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 2020 – 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 Central Bank of Sri Lanka	129,831,085	–	129,831,085	–	2,930,310	2
Claims on foreign sovereigns and their Central Banks	–	–	–	–	–	–
Claims on public sector entities	12,472,999	411,240	33,923	205,620	239,543	100
Claims on official entities and multilateral development banks	–	–	–	–	–	–
Claims on banks exposures	5,964,328	40,305,709	5,964,328	1,222,348	2,002,207	28
Claims on financial institutions	7,538,985	750,000	7,538,985	375,000	4,215,014	53
Claims on corporates	123,108,455	57,160,149	107,120,915	21,201,530	124,899,829	97
Retail claims	50,947,130	–	50,947,130	–	36,764,836	72
Claims secured by residential property	9,682,624	–	9,682,624	–	6,511,591	67
Claims secured by commercial real estate	90,967,884	1,774,062	90,967,884	1,774,062	92,741,946	100
Non-performing assets (NPAs) (i)	8,077,839	–	8,077,839	–	8,811,883	109
Higher-risk categories	469,272	–	469,272	–	1,173,179	250
Cash items and other assets	14,515,567	76,465,348	14,515,567	3,990,090	13,629,964	74
Total	**453,576,168**	**176,866,508**	**425,149,552**	**28,768,650**	**293,920,302**	

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 2020 (Post CCF and CRM) – Bank							
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	115,179,537	14,651,548	–	–	–	–	–	129,831,085
Claims on foreign sovereigns and their Central Banks	–	–	–	–	–	–	–	–
Claims on public sector entities	–	–	–	–	239,543	–	–	239,543
Claims on official entities and multilateral development banks	–	–	–	–	–	–	–	–
Claims on banks exposures	–	5,575,722	1,386,089	–	173,777		–	7,135,588
Claims on financial institutions	–	254,846	6,990,189	–	668,950	–	–	7,913,985
Claims on corporates	–	2,365,045	3,061,160	–	123,020,210		–	128,446,415
Retail claims	4,562,216	–	–	38,480,311	7,904,603	–	–	50,947,130
Claims secured by residential property	–	–	6,342,067	–	3,340,557	–	–	9,682,624
Claims secured by commercial real estate	–	–	–	–	92,741,946	–	–	92,741,946
Non-performing assets (NPAs)	–	–	280,154	–	6,049,441	1,748,244	–	8,077,839
Higher-risk categories	–	–	–	–	–	–	435,524	435,524
Cash items and other assets	4,865,291	7,247	–	–	13,194,581	–	–	18,067,119
Total	124,607,044	22,854,408	18,059,659	38,480,311	247,333,608	1,748,244	435,524	453,518,798

Quantitative Disclosures as per Schedule III of Banking Act Direction No. 01 of 2016, Capital Requirements under Basel III

Description	Amount (LKR '000) as at 31 December 2020 (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	115,179,537	14,651,548	–	–	–	–	–	129,831,085
Claims on foreign sovereigns and their Central Banks	–	–	–	–	–	–	–	–
Claims on public sector entities	–	–	–	–	239,543	–	–	239,543
Claims on official entities and multilateral development banks	–	–	–	–	–	–	–	–
Claims on banks exposures	–	5,593,397	1,419,502	–	173,777		–	7,186,676
Claims on financial institutions	–	254,846	6,990,189	–	668,950	–	–	7,913,985
Claims on corporates	–	2,365,045	3,061,160	–	122,896,240		–	128,322,445
Retail claims	4,562,216	–	–	38,480,311	7,904,603	–	–	50,947,130
Claims secured by residential property	–	–	6,342,067	–	3,340,557	–	–	9,682,624
Claims secured by commercial real estate	–	–	–	–	92,741,946	–	–	92,741,946
Non-performing assets (NPAs)	–	–	280,154	–	6,049,441	1,748,244	–	8,077,839
Higher-risk categories	–	–	–	–	–	–	469,272	469,272
Cash items and other assets	4,869,896	7,247	–	–	13,628,514	–	–	18,505,657
Total	124,611,649	22,872,083	18,093,072	38,480,311	247,643,571	1,748,244	469,272	453,918,202

Market Risk under Standardised Measurement Method

Item	31 December 2020 RWA amount	
	Bank LKR '000	Group LKR '000
(a) RWA for interest rate risk	1,554,774	1,554,774
General interest rate risk	1,506,569	1,506,569
(i) Net long or short position	1,506,569	1,506,569
(ii) Horizontal disallowance	–	–
(iii) Vertical disallowance	–	–
(iv) Options	–	–
Specific interest rate risk	–	–
(b) RWA for equity	2,214	2,214
(i) General equity risk	1,329	1,329
(ii) Specific equity risk	885	885
(c) RWA for Foreign exchange and gold	45,991	45,991
Capital charge for market risk [(a)+(b)+(c)]* CAR	12,956,450	12,956,450

Quantitative Disclosures as per Schedule III of Banking Act Direction No. 01 of 2016, Capital Requirements under Basel III

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		14,533,979	13,857,925	13,368,318
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	2,088,011				
The standardised approach					
The alternative standardised approach					
Risk weighted amount for operational risk (LKR '000)					
The basic indicator approach	17,400,093				
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 as at 31 December		
	%		1st year LKR '000	2nd year LKR '000	3rd year LKR '000
The basic indicator approach	15		14,869,527	14,032,378	13,702,036
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	2,130,197				
The standardised approach					
The alternative standardised approach					
Risk weighted amount for operational risk (LKR '000)					
The basic indicator approach	17,751,642				
The standardised approach					
The alternative standardised approach					

Main Features of Regulatory Capital Instruments – Bank/Group

Description of the capital instrument (Bank only)	Stated capital	Subordinated Term-debt (2016 – Type A)	Subordinated Term-debt (2016 – Type B)	Subordinated Term-debt (2018 – Type A)	Subordinated Term-debt (2018 – Type B)	Subordinated Term-debt (2020 – Type A)	Subordinated Term-debt (2020 – Type B)
Issuer	DFCC Bank PLC	DFCC Bank PLC	DFCC Bank PLC	DFCC Bank PLC	DFCC Bank PLC	DFCC Bank PLC	DFCC Bank PLC
Unique identifier (e.g. ISIN or Bloomberg identifier for private placement)	LK0055N00000	C 2366	C-2367	C-2393	C-2394	C-2458	C-2457
Governing law(s) of the instrument	Companies Act, No. 07 of 2007, Colombo Stock Exchange Regulations	Securities and Exchange Commission Act No. 36 of 1987 (as amended), Colombo Stock Exchange Regulations					
Original date of issuance	May 1956 to May 2019	9 November 2016	9 November 2016	26 March 2018	26 March 2018	23 October 2020	23 October 2020
Par value of instrument (LKR)		100	100	100	100	100	100
Perpetual or dated	Perpetual	Dated	Dated	Dated	Dated	Dated	Dated
Original maturity date, if applicable	N/A	9 November 2021	9 November 2023	29 March 2023	29 March 2025	23 October 2025	23 October 2027
Amount recognised in regulatory capital (in LKR '000 as at the reporting date)	7,682,465	191,372	3,625,884	1,748,082	4,086,530	4,318,000	205,000
Accounting classification (equity/liability)	Equity	Liability	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	N/A
Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Description of the capital instrument (Bank only)	Stated capital	Subordinated Term-debt (2016 – Type A)	Subordinated Term-debt (2016 – Type B)	Subordinated Term-debt (2018 – Type A)	Subordinated Term-debt (2018 – Type B)	Subordinated Term-debt (2020 – Type A)	Subordinated Term-debt (2020 – Type B)
Coupons/ dividends							
Fixed or floating dividend/coupon	Floating dividend	Fixed coupon	Fixed coupon	Fixed coupon	Fixed coupon	Fixed coupon	Fixed coupon
Coupon rate and any related index (%)	N/A	12.15	12.75	12.6	13	9	9.25
Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Convertible	Convertible	Convertible	Convertible
If convertible, conversion trigger (s)	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	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	Fully	Fully	Fully	Fully
If convertible, mandatory or optional	N/A	N/A	N/A	Mandatory	Mandatory	Mandatory	Mandatory
If convertible, conversion rate	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	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

Main Features of Regulatory Capital Instruments – Bank/Group

Item	Amount (LKR '000) as at 31 December 2020					
	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	**7,724,364**	**7,724,364**	**7,724,364**	–	–	
Balances with Central Bank of Sri Lanka	**4,901,753**	**4,901,753**	**4,901,753**	–	–	
Placements with banks	**15,414,287**	**15,414,287**	**15,414,287**	–	–	
Derivative financial assets	**835,464**	–	–	–	–	Included under other asset in regulatory reporting
Financial Assets measured at fair value through profit or loss	**609,717**	**74,752,722**	**74,752,722**	**11,069**	–	Classified into Held to Maturity and Held for Trading in the regulatory reporting based on the purpose and the intent of the investments. Accrued interest is classified under other assets.
Financial assets at amortised cost – Loans to and receivable from banks	**4,152,717**	**4,152,717**	**4,152,717**	–	–	
Financial assets at amortised cost – Loans to and receivables from other customers	**301,909,337**	**304,954,868**	**277,291,099**	–	–	As per the Banking Act Direction No. 03 of 2008 Classification of Loans and Advances, Income Recognition and Provisioning. The CBSL time based provisions were netted off in arriving loans and advances to customers in the regulatory reporting while in the published financial impairment allowance based on expected credit loss was netted off.
Financial assets at amortised cost – Debt and other instruments	**31,604,175**	**41,219,700**	**32,648,414**	–	–	Classified into Held to Maturity and Held for Trading in the regulatory reporting based on the purpose and the intent of the investments. Accrued interest is classified under other assets.
Financial assets measured at fair value through other comprehensive income	**88,718,002**	–	–	–	–	Classified into Held to Maturity and Held for Trading in the regulatory reporting based on the purpose and the intent of the investments. Accrued interest is classified under other assets.
Investments in subsidiaries	**217,435**	**1,007,705**	**910,670**	–	**97,035**	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 2020					
	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	3,406,600	3,408,897	3,408,897	–	–	
Intangible assets and goodwill	1,713,052	1,713,052	–	–	1,713,052	
Other assets	3,070,235	5,688,710	3,535,346		2,153,363	
Total assets	465,077,287	464,948,654	424,750,148	11,069	3,963,450	
Liabilities						
Due to banks	14,909,937	–	–	–	–	Included under other borrowings in regulatory reporting
Derivative financial liabilities	267,883	–	–	–	–	Included under other liabilities in regulatory reporting
Financial liabilities at amortised cost – Due to depositors	310,026,892	302,180,886	–	–	302,180,886	Due to depositors are at Effective Interest Rate (EIR) method in published financial statements and interest payable on deposits are classified under other liabilities in the regulatory reporting
Financial liabilities at amortised cost – Due to other borrowers	46,847,076	76,128,700	–	–	76,128,700	Due to banks and debt securities issued are included under other borrowing in regulatory reporting
Debt securities in issue	16,291,279	–	–	–	–	Included under other borrowings in regulatory reporting
Retirement benefit obligation	643,118	–	–	–		Included under other liabilities in regulatory reporting
Current tax liabilities	1,012,645	1,553,824	–	–	1,553,824	Taxes are computed based on accounting profits derived from each reporting method
Deferred tax liabilities	243,949	378,234	–	–	378,234	
Other liabilities	6,119,854	17,600,916	–	–	17,600,916	Interest payable on borrowing and deposits added to the other liabilities in regulatory reporting
Subordinated term debt	19,357,497	18,523,000	–	–	4,348,132	Regulatory reporting reports only the principal amount and accrued interest is classified under other liabilities
Total liabilities	415,720,130	416,365,560	–	–	402,190,692	

Main Features of Regulatory Capital Instruments – Bank/Group

Item	Amount (LKR '000) as at 31 December 2020					
	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	11,801,465	11,004,915	9,217,050	–	1,787,865	
Performance bonds	4,487,667	4,487,667	4,361,518	–	126,149	
Letters of credit and acceptances	21,003,494	21,340,301	21,152,966	–	187,335	
Other contingent items (Bills on collection and capital expenditure approved by the Board)	4,964,010	4,950,995	–	–	4,950,995	
Undrawn loan commitments	87,320,270	87,320,270	87,320,270	–	–	
Other commitments (FX commitments)	1,187,241	323,405	54,814,705	–	–	
Total Off-Balance Sheet Liabilities	130,764,147	129,427,553	176,866,509	–	7,052,344	
Shareholders' equity						
Equity Capital (Stated Capital)/Assigned Capital	7,682,465	7,682,465	–	–	–	
of which amount eligible for CET1						
of which amount eligible for AT1						
Retained earnings	19,652,169	24,769,727	–	–	–	Due to differences which arise in regulatory reporting and SLFRS accounting standards.
Accumulated other comprehensive income	5,882,811	–	–	–	4,158,106	Accumulated other comprehensive income is only applicable in Published Financial Statements
Other reserves	16,139,712	16,130,902	–	–	–	Due to differences which arise in regulatory reporting and SLFRS accounting standards.
Total Shareholders' Equity	49,357,157	48,583,094	–	–	4,158,106	

Ten Year Summary

LKR Mn	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				
	2012	2013	2014	2015	2015	2016	2017	2018	2019	**2020**
Bank										
Operating results										
Total income	7,652	10,433	10,481	10,394	10,036	26,754	35,942	39,154	43,297	**43,300**
Profit before income tax	2,883	3,492	3,211	3,771	1,589	4,414	5,792	4,233	2,989	**3,398**
Income tax expense	430	570	623	531	521	1,125	1,377	1,464	915	**1,010**
Profit after tax	2,453	2,921	2,587	3,240	1,068	3,289	4,415	2,768	2,074	**2,388**
Statement of Financial Position										
Assets										
Cash and short-term funds	3,646	7,103	4,245	2,296	9,859	13,745	21,355	17,307	14,282	**28,040**
Loans to and receivables from banks and other customers	54,982	60,665	62,575	73,933	160,548	185,872	213,704	249,691	272,818	**306,062**
Financial investments	16,277	19,298	25,609	29,909	71,233	84,675	91,330	97,165	108,170	**120,932**
Investment in associate, joint venture, and subsidiary companies	4,451	4,446	6,659	6,648	823	902	957	957	978	**1,008**
Other assets	1,841	1,645	1,853	1,826	3,688	4,919	5,761	9,788	8,649	**9,035**
Total assets	81,197	93,160	100,941	114,612	246,151	290,112	333,107	374,908	404,897	**465,077**
Liabilities										
Due to depositors	12,445	15,548	16,630	22,485	110,891	140,514	193,308	242,238	247,787	**310,027**
Due to other borrowers	36,489	41,605	45,262	46,346	87,379	97,291	84,607	82,614	102,910	**97,406**
Other liabilities	1,010	1,223	1,639	1,686	5,062	6,457	7,316	6,210	6,720	**8,287**
Equity	31,253	34,784	37,410	44,095	42,819	45,850	47,877	43,846	47,480	**49,357**
Total equity and liabilities	81,197	93,160	100,941	114,612	246,151	290,112	333,107	374,908	404,897	**465,077**
Return on equity (%)*	11.7	12.9	10.6	12.8	5.0	10.99	13.4	7.6	7.6	**5.6**
Return on total assets (%)*	3.7	3.8	3.0	3.5	1.0	1.30	1.48	0.80	0.78	**0.79**
Earnings per share (LKR)	9.25	11.02	9.76	12.22	4.03	12.41	16.65	10.44	7.14	**7.83**
Market value per share (LKR)	112.6	131.1	143.9	202.8	168.1	122.50	124.00	93.00	91.90	**65.30**
Price earnings ratio (times)	12.2	11.9	14.7	16.6	41.7	9.87	7.45	8.91	12.87	**8.34**
Earnings yield (%)	8.2	8.4	6.8	6.0	2.4	10.13	13.43	11.23	7.77	**11.99**
Dividend per share (LKR)	4.00	5.00	5.50	6.00	2.5	4.5	5.0	3.5	3.0	**3.0**
Dividend cover (times)	3.1	2.8	2.0	2.2	0.7	4.96	3.70	2.09	2.04	**2.62**
Gross dividend (LKR Mn)	795	1,060	1,325	1,458	1,591	663	1,193	1,325	928	**913**
Liquid assets to liabilities (as specified in the Banking Act No. 30 of 1998) (%)	52	53	77	48	22	27	27	24	27	**35**
Number of employees	466	461	477	495	1445	1,642	1,770	1,860	2,076	**2,072**

**After eliminating fair value reserve*

Corporate Information

Name of Company

DFCC Bank PLC

Legal form

A quoted public company with limited liability incorporated by DFCC Bank Act No. 35 of 1955 and with the enactment of the DFCC Bank (Repeal and Consequential Provisions) Act No. 39 of 2014, incorporated under the Companies Act No. 07 of 2007 with the name "DFCC Bank PLC" with effect from 6 January 2015. A licensed commercial bank under the Banking Act No. 30 of 1988.

Company registration number

PQ 233

Credit rating

(SL) AA- credit rating from ICRA Lanka Limited.
A+ (lka) credit rating from Fitch Ratings Lanka Limited.

Annual General Meeting (AGM)

The AGM will be held as a Virtual meeting assembled at the "Auditorium" of the Bank, No. 73/5, Galle Road, Colombo 3, on 30 March 2021.

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

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