ANNUAL REPORT 2022

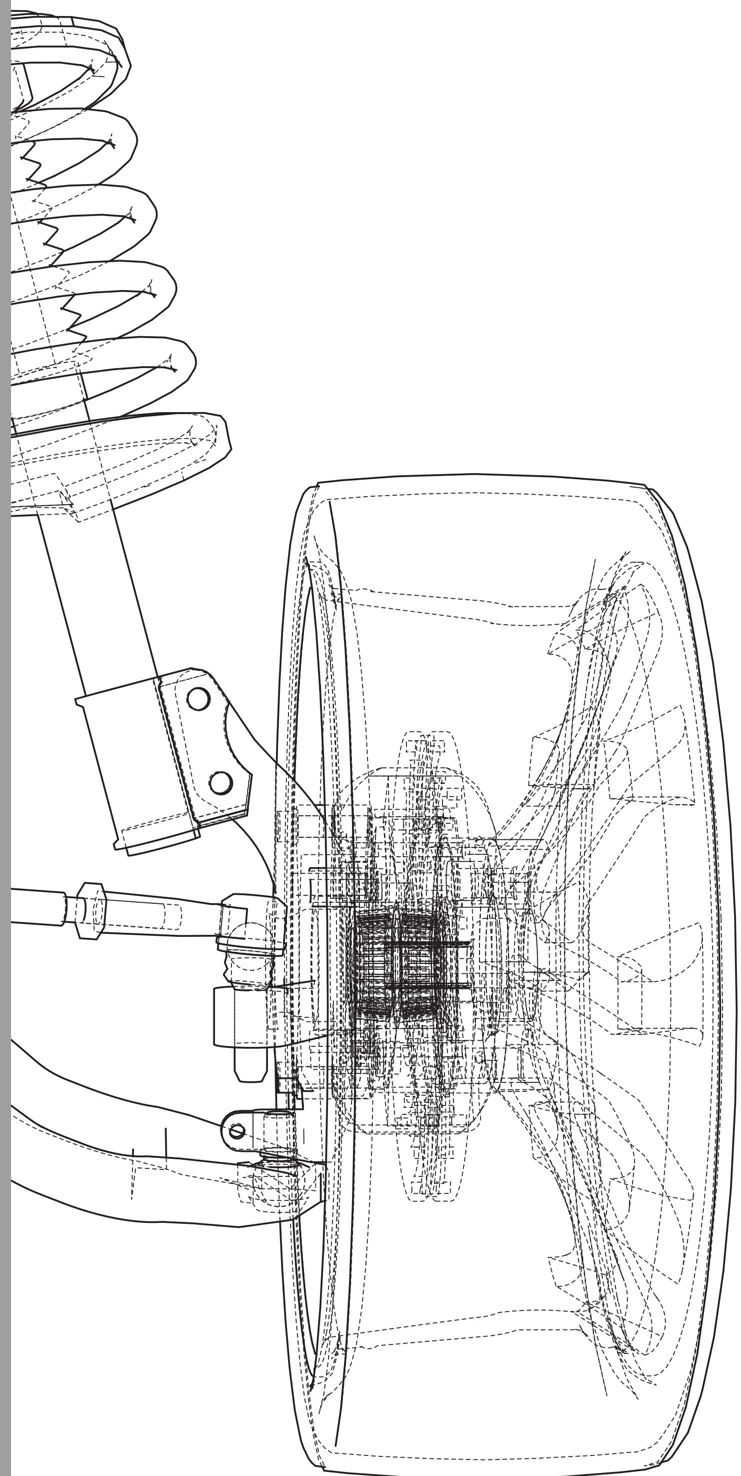
Resilient

DFCC BANK
Keep Growing

Resilient

Overcoming challenges in the economic environment, adapting to changing customer needs, and embracing rapid advances in technology, DFCC Bank continues to be resilient in the face of adversity, focusing on digital innovation, expanding its product portfolio, and enhancing the customer experience.

The Bank has also leveraged its legacy of trust and resources to provide customers with seamless experiences, staying true to its aim of being the most customer-centric and digitally enabled bank, with a strong foundation for sustainable success.



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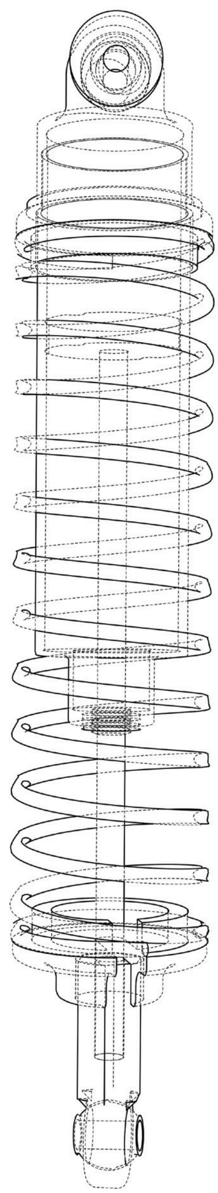


INTRODUCTION

ABOUT THIS REPORT

We are pleased to present our 10th Integrated Report in accordance with the International <IR> Framework of the IFRS Foundation. This Report has been prepared for the purpose of communicating DFCC Bank's strategy, governance, performance and prospects, in the context of its external environment, leading to the creation of sustainable value for its stakeholders in the short, medium and long-term.

This Annual Report is available as:

A concise Integrated Annual Report in limited printed copies

CD and PDF formats

Online HTML version

Reporting Period and Boundary

Scope and Boundary

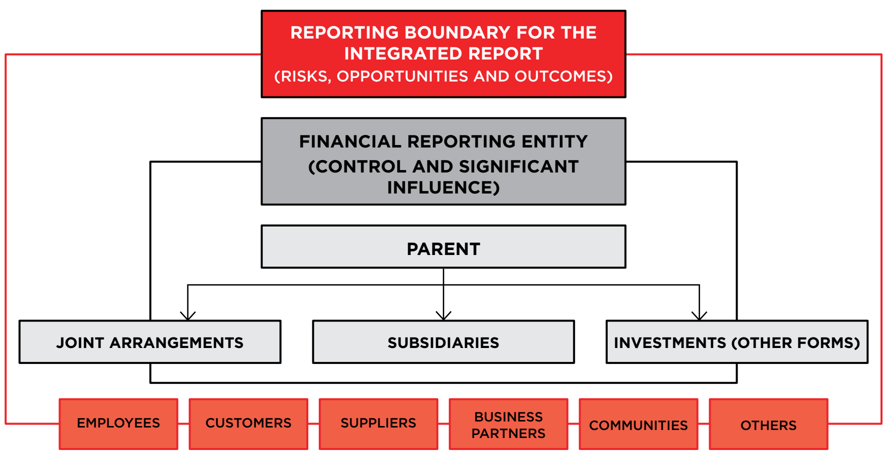
The DFCC Bank PLC Annual Report 2022 is a reflection of the Bank's integrated approach of management from 1 January 2022 to 31 December 2022. The scope of our reporting covers DFCC Bank PLC ("DFCC Bank" or "Bank") and the DFCC Bank Group ("Group") comprising the Bank and its subsidiaries, a joint venture company, and an associate company. The respective entities have been duly identified where applicable.

This Report also communicates the full range of factors that materially affect the Bank's ability to create value over time, with special emphasis on non-financial factors such as Social and Relationship, as well as Natural Capitals. This highlights the Bank's unwavering focus and commitment to people and the natural environment, which extends to all entities covered in this Report.

Financial Reporting Boundary

This is in alignment with our financial statements reporting boundary and includes DFCC Bank PLC and its subsidiaries. In the process of choosing the stakeholders and entities to be included in this Annual Report, we have based our decision on the <IR> Framework depicted below:

Entities/stakeholders considered in determining the reporting boundary



Integrated Reporting Boundary

The guiding principles in integrated reporting have been taken into consideration in the preparation and presentation of the report. These are based on the International <IR> Framework 2021 of the IFRS Foundation. This includes material risks, opportunities and outcomes attributable to or associated with; operating environment (pages 40 and 41), our value creation model (pages 38 and 39), and capitals (pages 56 to 113).

ABOUT THIS REPORT

Standards, Principles, Guidelines and Protocols

We have strived to deliver a comprehensive, balanced and relevant Report adhering to the accepted Key Standards, Principles, Guidelines and Protocols.

Compliance

The Board of Directors of DFCC Bank accepts responsibility for the veracity and accuracy of the entirety of this Annual Report 2022, in the spirit of good governance. The information contained herein has been prepared in compliance with all applicable laws, regulations, and standards, which are declared on pages 172 to 178 of the Annual Report. This 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

Financial Frameworks

- Sri Lanka Accounting Standards (LKASs/SLFRSs) issued by the Institute of Chartered Accountants of Sri Lanka
- Banking Act No. 30 of 1988 and amendments thereto
- Companies Act No. 07 of 2007

Reporting Frameworks

- GRI Standards
- The International <IR> Framework
- Smart Integrated Reporting Methodology™
- Sustainability frameworks
- GRI Standards issued by the Global Sustainability Standards Board (GSSB)
- Sustainable Banking Principles of Sustainable Banking Initiative by the Sri Lanka Banks' Association
- The United Nations Sustainable Development Goals and the United Nations Global Compact Principles
- The Sri Lanka Sustainable Banking Principles (SBP)
- Protocols – The Greenhouse Gas Protocol Corporate Standard published by the World Resource Institute (WRI) and the World Business Council for Sustainable Development (WBCSD) is used to measure and report on the Bank's carbon footprint.

Corporate Governance

Governance, Risk Management and Operations

- The Companies Act No. 07 of 2007
- The Listing Rules of the Colombo Stock Exchange (CSE)
- Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka
- Banking Act Direction No. 01 of 2016 on Capital Requirements under Basel III and amendments thereto
- Banking Act No. 30 of 1988 and amendments thereto
- Securities and Exchange Commission of Sri Lanka (SEC) Act No. 19 of 2021 including directives and circulars
- Banking Act Direction No. 11 of 2007 and subsequent amendments thereto
- Directions issued by the Central Bank of Sri Lanka and the Basel Capital Accord (III)
- Listing Rules of the Colombo Stock Exchange (CSE).

Assurance

The necessary assurance has been provided by KPMG Sri Lanka on the Financial Statements, including the notes to the accounts. As provided in paragraphs 2.17 and 2.18 of the <IR> Framework, organisations are not required to adopt the Framework's categorisation of capitals. Thus the capitals have been categorised in a manner that best describes the Bank's value creation process.

Precautionary Principle

The precautionary principle, proposed as a guideline in environmental decision making, has four central components: taking preventive action in the face of uncertainty; shifting the burden of proof to the proponents of an activity; exploring a wide range of alternatives to possibly harmful actions; and increasing public participation in decision making.

On the basis of this principle, we are aware of, and take responsibility for the social and environmental consequences of our actions, both direct and indirect. We acknowledge that the environmental consequences of our actions are of greater significance as a result of our lending operations, which we have taken care to address and mitigate through credit policies, post-disbursement supervision, and risk management processes.

ABOUT THIS REPORT

Determining Materiality

The interpretation of materiality varies across report forms due to differences in audience, purpose and scope. In Integrated Reporting, a matter is material if it could substantively affect the organisation's ability to create value in the short, medium and long term. The process of determining materiality is entity specific and based on industry and other factors, as well as multi-stakeholder perspectives.

DFCC Bank is able to successfully demonstrate its "Integrated thinking" by highlighting how material matters are connected with its strategy, governance, performance and future prospects. The Bank also considers financial and non-financial information, as well as their magnitude of effect and likelihood of occurrence, when determining materiality. Stakeholders with significant potential to influence the Bank, its activities, profitability and reputation are also considered.

The Six Capitals in Value Creation

The International Integrated Reporting Council (IIRC) recognises six distinct but interrelated capitals: Financial, Manufactured, Natural, Human, Intellectual, and Social and Relationship. Integrated Reporting is based on the understanding that future cash flows and other conceptions of value are dependent on a wider range of capitals, interactions, activities, causes and effects, and relationships than those directly associated with changes in financial capital. The concept of value includes: (a) value to the organisation, and (b) value to society/stakeholders, including the environment. At DFCC Bank, we regard these capitals as inputs to create value for stakeholders, which are considered an output.

Capitals Discussed in the DFCC Bank's Annual Report

Financial Capital

Institutional Capital

Investor Capital

Customer Capital

Employee Capital

Business Partner Capital

Social Capital

Natural Capital

This Report showcases Social and Relationship Capital, as being distinct from Natural or Environmental capital due to the following:

- In terms of the Triple Bottom Line concept, on which DFCC Bank bases its sustainability strategy, Social and Relationship Capital relates to People, while Natural Capital relates to the Planet
- Stakeholders for both these Capitals are mostly from different categories, though there is a certain level of overlap
- As a financial organisation, our impact on both is entirely different. While our actions have a direct impact on People, they tend to affect the Planet to a lesser degree, and indirectly through our lending activities

DFCC Bank has a stated goal of becoming carbon neutral by 2030. This is achievable with a combination of energy conservation, renewable energy, and purchasing of carbon offsets over time. Technological advances and changing economic policies could have a positive impact on achieving this goal.

For any clarification on this report please write to:

The Company Secretary
DFCC Bank PLC
73/5, Galle Road, Colombo 3, Sri Lanka
Email: info@dfccbank.com

Company Secretary

Ms N Ranaraja

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ABOUT DFCC BANK

VISION

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

MISSION

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

VALUES

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

DFCC BANK
Keep Growing

Having gained considerable expertise over a period of more than six decades, DFCC Bank expanded its footprint in the industry by venturing into commercial banking in 2015 with acknowledged leadership in project lending. In addition to its established credentials in development and commercial banking services, DFCC Bank has played a pioneering role in the growth of digitally-enabled products and services in the industry. The resultant widespread adoption of digital products and services has played a pivotal role in aiding the development of the digital economy in the country.

The Bank was established in 1955, based on the ideal of facilitating balanced regional and sectoral development, together with fostering the growth of marginalised industries, areas, and social segments. The Bank has consistently championed the growth of women entrepreneurs, whose role in the country's economic development needs further encouragement. It should be noted that women account for about 34% of the labour force in Sri Lanka, just below the Asia-Pacific average of 37%, contributing nearly 29% to the national economy; one of the lowest in the region. Women also own about 25% of the SMEs in the country.

As the first development bank in Sri Lanka, and one of the oldest in the region, DFCC Bank has stamped its class, and earned plaudits as the lender of choice for entrepreneurs, industrialists and agriculturists, with particular emphasis on SMEs. This sector has been a prime driver in moving the economy forward, and generating employment on a large scale. This is especially significant as SMEs account for more than 75% of the total number of businesses, providing employment for around 45% of the population, and contributing close to 52% of the Gross Domestic Production (GDP) of Sri Lanka.

The Bank has also emerged as the preferred lender for "Green" development projects such as waste-to-energy, hydro, wind, and solar energy projects, due to its unrelenting focus and commitment to environmental sustainability, which is ranked among its strategic objectives.

REACH

DFCC Bank has an islandwide footprint spanning 139 branches, in addition to enabling its customers to access their accounts through over 5,500 ATMs across the country via the LankaPay ATM network, online banking, mobile banking and "DFCC MySpace", the Bank's self-banking solution, which provide further access for customers on the move. More details on the Bank's branch network are provided on page 85.

MILESTONES

1955

DFCC is incorporated under an Act of Parliament and is one of the first development banks to be established 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 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 acquires ABN AMRO Securities (Pvt) Limited and renames the company to DFCC Stock Brokers (Pvt) Limited.

MILESTONES

2002

- Fitch Ratings Lanka Limited assigned the SLAA National Rating for Implied Long-term Unsecured Senior Debt of DFCC Bank.
- Managed the IPO of Sri Lanka Telecom – the largest offering on the Colombo Stock Exchange.
- Appointed as the Administrative Unit of the Renewable Energy for Rural Economic Development project funded by the World Bank.

2003

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

2004

DFCC Consulting is founded.

2008

Acuity Partners (Pvt) Limited commences commercial operations.

2011

Shareholding in DFCC Vardhana Bank increased to 99.1%.

2014

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

2015

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

2016

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

2017

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

2018

- DFCC Bank launches DFCC iConnect, a cutting-edge payments solution for businesses.
- DFCC Credit Cards relaunched with EMV-enabled chip and Visa PayWave contactless technology.
- DFCC Bank crowned as one of Sri Lanka's "Most Admired Companies" by Chartered Institute of Management Accountants (CIMA) and the International Chamber of Commerce Sri Lanka (ICCSL)

2020

- DFCC Bank is awarded the No. 1 Cash Management Service Provider in Sri Lanka by Euromoney.
- DFCC Bank is awarded Market Leader in Cash Management (Domestic Banks) and Best Services in Cash Management.

2021

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

2022

DFCC Bank awarded Market Leader and Best Service for Cash Management at Euromoney Market Leaders Awards 2022.

DFCC GROUP STRUCTURE

DFCC BANK
Keep Growing

SUBSIDIARIES

DFCC Consulting (Pvt) Limited

Address: 73/5, Galle Road, Colombo 3, Sri Lanka

Number: +94 11 244 2442

Countries operating in: Sri Lanka

Incorporation date: 9 September 2004

Principal activity: Consultancy

SYNAPSYS

Address: 540, Nawala Road, Rajagiriya, Sri Lanka

Number: +94 11 288 0770

Countries operating in: Sri Lanka

Incorporation date: 11 October 2006

Principal activity: Information technology services and IT-enabled services

Lanka Industrial Estates Limited

Address: Pattiwila Road, Sapugaskanda, Makola, Sri Lanka

Number: +94 11 240 0318

Countries operating in: Sri Lanka

Incorporation date: 12 March 1992

Principal activity: Operating an industrial estate

JOINT VENTURE

Acuity Partners (Pvt) Limited

Address: 53, Dharmapala Mawatha, Colombo 3, Sri Lanka

Number: +94 11 220 6206

Countries operating in: Sri Lanka

Incorporation date: 7 February 2008

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

ASSOCIATE COMPANY

National Asset Management Limited

Address: 7, Glen Aber Place, Colombo 3, Sri Lanka

Number: +94 11 244 5911/+94 11 244 5757

Countries operating in: Sri Lanka

Incorporation date: 28 September 1990

Principal activity: Licensed unit trust and investment management

HIGHLIGHTS

GROUP
LKR Mn

Year ended 31 December	2022	2021	2020	2019	2018
Operating Results					
Total income	73,520	43,029	43,604	43,648	39,448
Profit before tax	3,112	4,859	3,944	3,308	4,676
Tax expense	70	1,194	1,097	1,008	1,606
Profit attributable to equity holders of the bank	2,932	3,549	2,745	2,214	3,011
Statement of Financial Position					
Assets					
Cash and short term funds	40,400	26,383	28,063	14,326	17,331
Loans to and receivables from banks and other customers	369,072	365,901	306,062	272,818	249,690
Financial investments	115,695	81,226	120,932	108,171	100,580
Investments in associate and joint venture	3,613	2,840	2,481	2,096	1,989
Other assets	40,743	11,907	9,829	9,500	7,172
Total assets	569,523	488,257	467,367	406,911	376,762
Liabilities					
Due to depositors	369,747	319,362	309,566	247,458	241,915
Due to other borrowers	131,708	107,623	97,406	102,910	82,589
Other liabilities	13,747	9,507	8,686	7,117	6,602
Total liabilities	515,202	436,492	415,658	357,485	331,106
Equity					
Total equity attributable to equity holders of the bank	54,015	51,448	51,426	49,163	45,398
Non-controlling interests	306	317	283	263	258
Total equity and liabilities	569,523	488,257	467,367	406,911	376,762
Return on equity (Profit after tax) (%)*	5.60%	7.45%	6.16%	5.32%	7.70%
Return on total assets (Profit before tax) (%)*	0.59%	1.02%	0.91%	0.59%	0.88%
Earnings per share (LKR)	7.88	11.17	9.00	7.62	11.36
Net asset value per share (LKR)	134.14	160.51	168.06	161.62	171.25
Common equity tier I capital ratio (%) (Basel III)	9.94%	9.28%	10.82%	11.33%	10.89%
Tier I capital ratio (%) (Basel III)	9.94%	9.28%	10.82%	11.33%	10.89%
Total capital ratio (%) (Basel III)	12.99%	13.00%	15.75%	15.78%	16.17%

*After eliminating fair value reserve.

HIGHLIGHTS

Supporting and Empowering Customers

- Interest rate reductions, capital grace periods, tenure extensions, etc. for customers affected by the economic downturn.
- Periodic surveys conducted for credit card customers on Net Easy Scores (NES) and Net Promoter Scores (NPS).
- Annual survey of Pinnacle customers on NES score.
- Rewarding staff who received customer commendations.
- Appointments of Customer Service Ambassadors for the year 2022.
- Non face-to-face Digital Onboarding – a virtual account opening enabled via the contact centre.
- SLA monitoring commenced in multiple areas.
- Improvements to guidelines and processes of Retail Banking across Housing Loans, Personal Loans, Leasing and Gold Pledged Lending.
- Green Loan product introduced to SLASSCOM customers.
- Five new features and improvements introduced to the website.
- All pages optimised for SEO and keywords.
- Mobile Banking App launched for customers who use online banking.
- Introduced the iConnect electronic banking platform which delivers cutting edge Cash Management solutions.
- WhatsApp added to DFCC Chatz.
- More data fields added to the Loan Inquiry form.
- New landing pages created for five products in all three languages.
- Series of upgrades made to DFCC Online Banking.
- Revamp of the Sustainability and Remittance web page.

Strategic Focus on Sustainability

- To be a "Carbon Neutral Bank" and "Bank for Green Finance" by 2030.
- Series of initiatives on managing energy, paper, plastic, water and other waste.
- Eco Efficiency App to track energy, paper and fuel consumption.
- Established energy and paper reduction targets to be achieved by 2025.
- Continuing with the installation of rooftop solar panels.
- Series of actions initiated under the Social and Environmental Management System (SEMS).
- Training programmes for staff on environment-related issues.
- Adhering to the initiatives and directives issued by the Central Bank of Sri Lanka (CBSL) on Sustainable Finance, such as:
  - Road Map for Sustainable Finance in Sri Lanka (2019).
  - Sri Lanka Green Finance Taxonomy (2022).
  - Banking Act Direction No. 5 of 2022 on Sustainable Finance activities of Licensed Banks (2022).

HIGHLIGHTS

Recognition and Awards

- Best Digital Marketing Campaign – DFCC Virtual Wallet – SLIM Digi Awards.
- Market Leader in Cash Management Sri Lanka (Domestic Banks) – Payment and Cash Management – Asiamoney Publication.
- Best for Services in Cash Management – Sri Lanka (Domestic Banks) – Payment and Cash Management - Asiamoney Publication.
- Best Management Practices Company Awards 2022 – Corporate Brand – The institute of Chartered Professional Managers of Sri Lanka.
- Best Common ATM Enabler of the Year (Category B) – Merit – DFCC MySpace Self Banking – LankaPay, Techinnovation Awards 2022.
- Bank of the Year for Financial Inclusivity (Category C) – Merit – DFCC MySpace Self Banking – LankaPay, Techinnovation Awards 2022.
- Category 1, Human Capital Development – Merit – DFCC OMMM Project – Association of Development Financing Institutions in Asia and the Pacific (ADFIAP).
- Best Social Media Content Award (YouTube, Facebook) – Gold – 11th ACEF Asian Leaders Awards.
- Business Today Top – 30 (2021/22) – Position 36 – DFCC Corporate – Business Today Magazine.
- Cash Management Market Leader 2022 – Euromoney.
- Cash Management Best Service 2022 – Euromoney.
- Sri Lanka's most valuable and strongest brands Top 100 – Position – DFCC Corporate Brand – Brand Finance, Sri Lanka.

Digital Transformation

- Training for selected teams of staff on the Innovation Road Map.
- Wish engine campaign launched in October 2022.
- Several new additions to ATMs, CRMs, Check Deposit Kiosks, and Pay&Go Kiosks.
- 10 new billers and other upgrades added to DFCC Virtual Wallet.
- 5 new billers enabled in Pay&Go machines.
- Series of upgrades to website and retail banking platform.
- Security features enhanced for M-Teller service.

The Bank for Everyone

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

Marketing and Communication Achievements

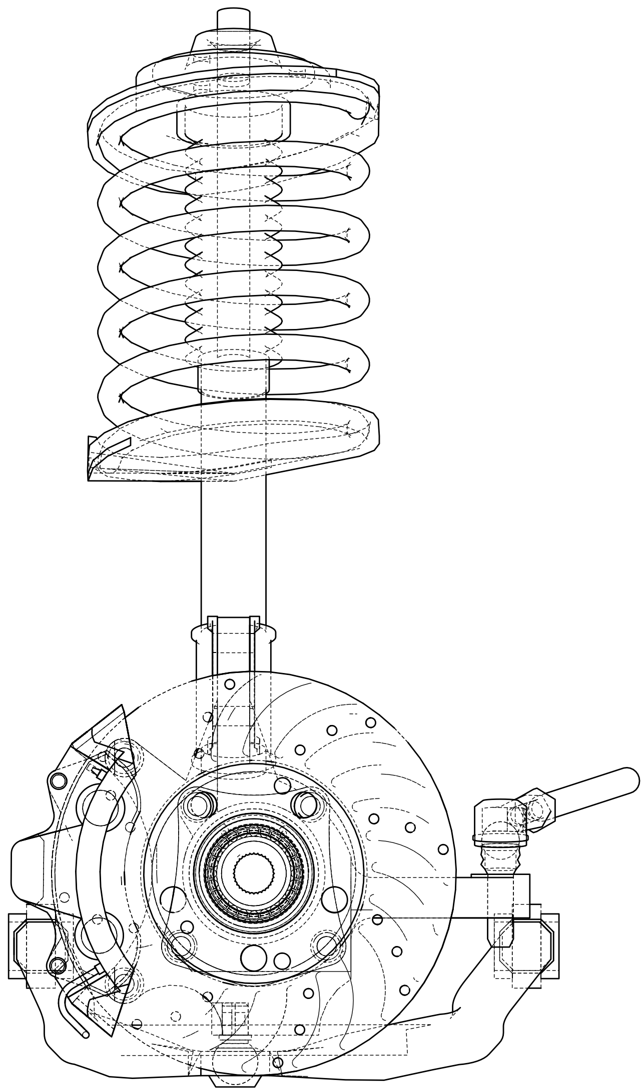
DFCC Brand achieved 4th Place in PR for 2022.

The goal for DFCC Brand was to be among the top 5 Banks in PR. DFCC Brand ranked 4th in 2022 achieving this goal.

DFCC Brand achieved the highest engagement on Facebook and Instagram within the banking industry

DFCC Brand Performance in Digital Marketing on Social Media in 2022

- The DFCC Brand has achieved the highest engagement on Facebook within the banking industry.
- The highest engagement on Instagram within the banking industry.
- Increased subscriber base and video views on YouTube.
  - 23 video uploads
  - 3,120 subscribers
- DFCC is the highest performer in terms of the follower base, number of videos and profile likes on TikTok within the banking industry.
- Total followers on LinkedIn have increased by 8,095 to 47,902 in 2022.



LEADERSHIP

MESSAGE FROM THE CHAIRMAN

We simply cannot sit back and wait for the bad times to tide over. We have to learn to adjust and find innovative ways of moving forward with the resources at our disposal. Our task is to be uncompromising with the Bank's mission and vision.

MESSAGE FROM THE CHAIRMAN

The year 2022 was one of maintaining a delicate balance in the Bank's approach: taking advantage of emerging opportunities to drive value creation in the short – to mid-term while also providing support to those negatively impacted by the difficult circumstances in the country. These two aspects are not in conflict. It is only by securing our viability and financial soundness as a bank that we can play a vital role in delivering value to our stakeholders and aiding in the country's economic growth. Striking this balance was the theme of our year, and it will shape how we proceed through the times ahead.

Having contended with numerous challenges during 2022, the factor that had the greatest impact on our performance was interest rates. Due to the prevailing high interest rate regime, the viability of businesses became hard to sustain. The capacities of businesses to service their debts were severely compromised, and we were faced with non-performing credit facilities on a wide scale with even previously reliable customers struggling to meet their deadlines. We restructured facilities of those who were in difficulties to bring monthly instalments within a reasonable range. But even with these concessionary terms, it was difficult for many businesses to meet their commitments as the interest alone took up a significant portion of their monthly instalments. In terms of our sources of funding, we were compelled to compete with the Government to mobilise deposits, with interest rates reaching 30%.

Along with interest rates, the other major issue that assailed the economy was the foreign exchange crisis. Thankfully, a measure of stability and normalcy has now been restored due to two reasons. Firstly, we have begun receiving a reasonable amount of foreign exchange inflows from remittances and exports. Secondly, the import of non-essentials has been curtailed, largely due to the high exchange rates. Though foreign exchange is not adequate to meet the country's total requirements, we have been able to rationalise the allocation of resources. Rationalisation, however, means difficult choices, and problems persist. For example, the high exchange rate has put tremendous pressure on parents who are funding their children's education overseas. The Bank's response this year has had to take into account this complex and unpredictable scenario.

Empowering Women

Nevertheless, we have continued to maintain our focus on our priority areas – especially because it is this clarity of purpose that will drive the Bank forward. We are continuing our emphasis on women's banking, and are extending our efforts to the periphery among our branches across the country. This is in alignment with the renewed focus on women all over the world, especially in developing countries, and the growing belief that women's empowerment and education of female children are an important pathway to economic development and stability. We are looking at continuous savings based on dedicated propositions and strategic lending as tools for women's empowerment. We encourage women entrepreneurship by providing access to loans, especially to start and establish small enterprises. Our approach is not concerned with scale at the outset. We feel that potential entrepreneurs can always start small and scale later as they gain confidence from access to the industry ecosystem and other players in the value chain. Our approach is to help create an ecosystem, with the right knowledge and know-how, so that more women will take up the challenge of heading their own businesses.

Focusing on SME Growth

The receipt of USD 150 Mn in funding from Development Finance Corporation, USA, makes DFCC Bank one of the last to receive such large funds into the country. A major portion of this funding has been disbursed for women's banking and low-end SMEs. At present, the prospects of receiving further concessional funding from overseas is limited until there is proper debt restructuring and debt sustainability at national level, which, in turn, depends on the anticipated assistance from the IMF. This assistance is a prerequisite for us to regain access to international capital markets and to inject energy and momentum into the country's economy.

Though digitalisation is regarded as the way forward for helping SMEs and bringing them into the fold, I am of the view that human relationships are equally important, especially in the local context. Smaller entrepreneurs

MESSAGE FROM THE CHAIRMAN

will certainly benefit from being able to deposit, withdraw, and make payments through digital banking. However, this is just one piece of the puzzle. Our approach to financial inclusivity also focuses on direct personal contact with SMEs and providing industry-specific knowledge and opportunities for networking with members of the value chain. It is the combination of all these elements and points of assistance that allow SMEs to thrive and reach the next level.

Towards Greater Financial Inclusion

The informal financial sector has been a perennial issue in the industry. People generally fall victim to unethical operators, who charge extortionate interest rates, because of a lack of access and limited financial literacy. They lack proper documentation or support from anyone who can guide them on how to approach the formal sector, structure their loan request in an appropriate manner, calculate their profit potential, repayment capacity, etc. What is required is widespread financial literacy, which is the best tool available to win the battle against informal lenders. We were quite successful in weaning away people from such operators until the pandemic intervened, and we had to curtail our branch-wide efforts in educating people and imparting financial literacy. However, we recognise that financial literacy is an essential aspect of the broader project of financial inclusion, and is needed now more than ever. Our efforts in this area are in keeping with the original DNA of DFCC as a development bank.

Transformative Technologies

Our digitalisation strategy has reached a stage of transformative change as we have successfully implemented a completely new, state-of-the-art core banking system. We are making the system more streamlined and customised to meet our specific objectives so as to reap the benefits of total digitalisation. Our approach is to anticipate emerging trends and build capabilities for services that have not yet become widespread – for example, integrating customers' businesses into our own systems, such as B2B systems and B2C systems. Our new core banking system not only provides us with the functionality we need today, but also with the structure to build towards the digital banking of tomorrow. Additionally, as we operate in a highly regulated industry, we have initiated the integration of established and proven emerging technologies in compliance with relevant regulatory frameworks.

We view digitalisation and sustainability as interrelated and mutually reinforcing. Our approach incorporates both aspects, including educating our employees on sustainable goals, implementing paperless initiatives and online training programmes.

Strategy for Sustainability

We have reached a point where our approach to sustainability is maturing into a proper actionable state. The past year was spent primarily on defining our sustainability strategy, defining our processes, defining responsibilities, and finalising our plans through enablers such as collaboration, digitalisation, empowerment, innovation and inclusion. Since we have completed that stage, we will be in a position to deliver sustainability on all fronts, including the contribution to a net zero environment in the future.
Our connection to various funding institutions requires the evaluation of sustainable business practices when lending to organisations, and we are starting to record and measure the potential for sustainability in the loans we give. As 2023 unfolds, we are positioning ourselves to be able to access low-cost funds from institutions who are interested in driving sustainability in this country.

What the Future Holds

We are focused on organic growth for the Bank, as our inherent strengths, resilient nature, and overall structure favour such a route. Considering the overwhelming challenges we are likely to encounter during the coming year, we certainly expect a certain amount of prudence and caution, even conservatism, to be embedded within our processes. However, we simply cannot sit back and wait for the bad times to tide over. We have to learn to adjust and find innovative ways of moving forward with the resources at our disposal. Our task is to be uncompromising with the Bank's mission and vision. While the context may create delays in achieving our long-term goals, most of them are now within the realm of possibility, and we draw confidence from our progress so far.

MESSAGE FROM THE CHAIRMAN

In terms of resources, we have a highly competent and diverse Board that supports the management in formulating the most suitable strategy after considering all available factors and options. We also have a dynamic new CEO, who is eminently capable of taking the Bank forward towards a great future.

Expressing My Gratitude

My sincere thanks to our staff members who worked diligently and tirelessly during the year; our Board members who gave the best of their experience and expertise; and the Governor and staff of the Central Bank of Sri Lanka for their oversight and guidance during such difficult times. Our customers continue to inspire us with their loyalty and confidence in us, for which a special word of thanks is due. I look forward with confidence as we possess the necessary skills and resources, and the best people and the right strategy, to overcome all obstacles and achieve all the goals we have in mind for the coming year and beyond.

J DURAIRATNAM
CHAIRMAN
17 February 2023

CHIEF EXECUTIVE'S REVIEW

We have ensured that our customers kept their heads above water during the economic downturn, by understanding their challenges, working within their cash flows, restructuring their loans, offering tenure extensions, moratoriums, grace periods, and providing additional funding despite the distressed situation.

CHIEF EXECUTIVE'S REVIEW

The year under review began on a positive note as the nation had successfully overcome the ravages of Covid-19, and there were promising signs of economic revival. As the year unfolded, the continuing impact of the pandemic on tourism and the economy was compounded by the foreign exchange crisis, persistent inflation, and unprecedented political upheavals. Normality was restored, to a considerable extent, towards the end of the year.

Successfully prevailing over such obstacles, including an overall economic downturn and significantly higher impairments, DFCC Bank registered a modest level of profitability. We were successful in meeting all our customer commitments and requests, as well as LC commitments. Substantial settlements to overseas lenders were also met on time. This is something that we are extremely proud of. During this period, the management and staff of the Bank displayed resoluteness of purpose and remarkable resilience in achieving our goals.

Digital to the Core

Our digital strategy has been focused on improving customer interactions and experience, enhancing staff productivity, and making their lives easier. This two-fold strategy neatly coincides into our overarching goal of being among the most customer-centric banks through digitisation. The pandemic was a time of momentous change, as our digital channels reached their highest level of adoption, with customers switching to online channels due to mobility restrictions. Closure of branches also led to the increased use of ATMs and CRMs, in addition to the DFCC Virtual Wallet for utility bill payments, and fund transfers for B2B and B2C transactions. Credit card usage has been somewhat subdued as travel was restricted, but local spends have been quite healthy, and recovery rates have been well managed.

Strengthening Relationships

We have ensured that our customers remained solvent during the economic downturn, by understanding their challenges, working out their cash flows, restructuring their loans, offering tenure extensions, moratoriums, grace periods, numerous extensions, and providing additional funding despite the distressed situation. I believe that DFCC has played an exemplary role in terms of what a bank should be during challenging times.

We have been helping micro entrepreneurs and SME clients, providing advice and guidance on proper corporate governance, know-how on improving their businesses, and taking their businesses to the next level. This sector has fared relatively well, especially those engaged in the export of essential food items and pharmaceuticals. Manufacturing was curtailed due to restrictions on the import of raw materials and machinery. Agriculture was heavily impacted by the fertilizer ban, though we are now seeing signs of gradual recovery. SME importers have also been badly hit, obviously, due to the shortage of foreign exchange and import restrictions. The upsurge in interest rates has been another serious pain point, as those who borrowed at 10%-12% interest were compelled to pay 25%-30% per annum. On the other hand, the Bank's deposit book showed sizable growth as a result of higher interest rates.

Our retail customer base is relatively low, and more skewed towards larger corporates. We are currently focused on broadening our retail customer base, which gives us more stable funding, and also local funds, which is important for a bank. We are placing more emphasis on women customers and women entrepreneurs, through clearly positioned propositions. At this time, our major focus is not on the asset side of the balance sheet, but on the liability side, which is deposits and savings balances, along with cost management discipline and a keen focus on containing our impairments. These will remain our primary focus during the coming year as well.

Compliance and Control

Our financial crime compliance regime consists of a combination of systems and manual controls. We have systems, financial control modules, numerous anti-money laundering protocols, KYC activities, and transaction monitoring, which have been carried out with renewed focus.

The corporate governance, risk management, internal controls, and operational controls have been tightened, with added emphasis on the credit side and credit controls. Identifying risk segments, avoiding lending to these high-risk segments, and the recovery side of the business are being rigidly monitored and adhered to. We have also updated all our credit underwriting scorecards for products, introduced new scorecards

CHIEF EXECUTIVE'S REVIEW

with statistical modelling, and behavioural scorecards, in addition to evaluating predictive models to be introduced as we move forward.

Sustainability Taking Centre-Stage

DFCC Bank has made a conscious effort to bring structure and focus into sustainability initiatives with external guidance which helped the Bank formulate a sustainability agenda and sustainability charter, which are in compliance with the UN's Sustainable Development Goals (SDGs). The strategy for sustainability was initially applied within the Bank, before being extended to the external environment. We currently contribute to 13 of the 17 SDGs. Aligned with these objectives, we have introduced "Bike to Work", where we encourage our staff to bike to their respective workplaces, or use bicycles instead of cars whenever possible, which is currently being followed by other banks and corporates as well. Our sustainability framework is based on a cross-cutting theme known as the 6 Es: Education, Elderly, Emergency Relief, Entrepreneurship, Environment, and Exercise. Under these pillars, we have carried out several initiatives for our staff during the work from home period, including yoga, meditation and pilates, as well as a number of discussions on health and wellness.

Other initiatives in pursuit of our sustainability goals include: "Community Kitchen", providing food for underprivileged families and children; Samata English program, which is now in its fifth year, where a group of discerning individuals are selected from the locality of our branches, and we prepare them to adapt their attitude and mindset, as well as inculcate the necessary skills required to find employment and to work in an office environment, teaching them how to face an interview, and how to construct a CV. Basic English is being taught in association with Gateway International, in addition to the children's scholarship programme that we have continued over a period of time.

Renewing our Focus on Human Resources

The business landscape, along with technological advances, are changing at a rapid pace, which requires consistent and focused training and development of our staff to meet the challenges of the future. We have placed considerable emphasis on up-skilling and bringing our staff up to speed on new technologies, product management, and process improvements. Training budgets are quite robust, along with the adoption of the latest training methodologies.

With over 90% of the training being done online, staff members can follow the training and development programmes during weekends from the comfort of their homes. This provides greater geographical reach for our training, as we can extend our programmes across the provinces and outlying areas. It has also helped us deliver more training packages to our staff in a more cost-efficient and productive manner.

We strongly believe prioritising innovation and agility is fundamental in driving transformation and change across the Bank. The DFCC Agile Innovation Centre was set up to institutionalise these priorities and propel the Bank's transformation journey by formulating strategies to build internal capacity in divergent thinking and enterprise creativity. As a first step, in 2022, the DFCC Agile Design Thinking and Transformation workshop series was launched for 45 handpicked participants. The programme focused on furthering the understanding of design thinking methodologies and tools to help develop value propositions and solutions to effectively manage the challenges of the modern marketplace caused by automation, adoption of artificial intelligence, big data, the emergence of new entrants and rapid changes in consumer behaviour. This intensive programme structured around a "learning by doing" framework was conducted through offline and online clinics and encompassed aspects such as customer research, identifying and testing value propositions, building prototypes and business case preparation and pitching the story for investment and business integration.

Facing the Future

I am of the view that 2023 will be a year of consolidation. There cannot be any aggressive lending. Managing our impairments will be crucial along with managing our costs in an environment where revenues are challenged.

The Bank has multiple systems and processes in place that have helped it weather these past challenges and will continue to provide us with that strong backing in 2023 and beyond. We are constantly on the lookout for innovative ways to move forward with the resources in hand. DFCC Bank will continue to leverage its financial and

CHIEF EXECUTIVE'S REVIEW

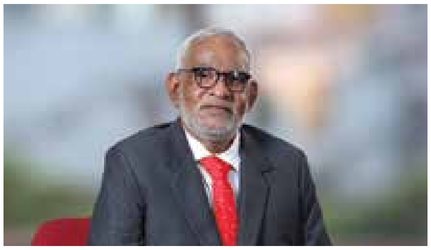
managerial strengths, proven track record of resilience, the unwavering commitment of its staff members, as well as the trust of our loyal customer base over the past 68+ years. We are confident that all these factors will contribute to achieving organic growth in the upcoming years.

My Sincere Appreciation

I take this opportunity to thank our staff who have performed with admirable commitment, dedication, and unwavering loyalty. I also extend my sincere gratitude to the Board of Directors for their guidance and advice, our customers for their loyalty, and the Governor and staff of the Central Bank of Sri Lanka, who have been a source of strength to us, in overcoming the daunting challenges of the year.

N H T I PERERA
CHIEF EXECUTIVE OFFICER
17 February 2023

BOARD OF DIRECTORS



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

Skills and Experience

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

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

Other Current Appointments

Listed companies: Director of Asian Hotels and Properties PLC.

Others: Director of Ceylinco Life Insurance Limited and Assetline Finance Ltd.

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

Skills and Experience

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

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

Other Current Appointments

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

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

MS V J SENARATNE
Non-Executive Director
(Member of the Board since July 2015)

Skills and Experience

Ms Senaratne has over 45 years of professional experience and is well versed in the fields of litigation, commercial law, conveyancing, and company secretarial practices. She held the position of Company Secretary at Sri Lanka Insurance Corporation PLC from May 2003 to 2009 and has served as a Legal Officer at the Central Bank of Sri Lanka.

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

Other Current Appointments

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

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

BOARD OF DIRECTORS

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 member of the Institute of Chartered Accountants of Sri Lanka and a Fellow member of the Institute of Certified Management Accountants of Sri Lanka.

Other Current Appointments

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

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

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, Acting Director General, Sri Lanka Customs, 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 served as Chair of the Committee appointed to review the Auditor General's report on coal procurement by Lanka Coal Company for generation of power by Lakvijaya coal power plant at Norochchole.
He also served as a member of the Committee to report on the Project Office/Project Management Units of Mega Projects implemented by the Government of Sri Lanka.

He holds a B.Com. (Sp.) from the University of Colombo, a Postgraduate Diploma in Devolution and Local Government Studies from the University of Colombo and an MSc in Management from the University of Sri Jayewardenepura.

Other Current Appointments

Listed companies: None

Others: Member of Board of Management of the Sri Lanka Foundation Institute.

BOARD OF DIRECTORS

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

Skills and Experience

Ms Gunawardana has over 35 years of diverse experience. She started her career at Julius & Creasy and proceeded to the Legal Division, Central Bank of Sri Lanka. She has held several senior public service positions including Legal Advisor – Department of Fiscal Policy and Economic Affairs, Senior Assistant Secretary (Legal) – Ministry of Finance, and Director General – Legal Affairs Department of the General Treasury. As Project Director, she led the Fiscal Reforms Project and the Fiscal Management Reform Programme of the ADB/ Ministry of Finance, and the Legal and Judicial Reforms Project of the World Bank/Ministry of Justice. She has previously served as a Director of Renuka City Hotels PLC and Information and Communication Technology Agency of Sri Lanka (ICTA), as the Government Nominee Director of DFCC Bank PLC and as Consultant, CHEC Port City (Colombo) (Pvt) Limited. 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:
Director of Haycarb PLC

Others: In-House Legal Counsel – Capital City Law, Colombo, Group Legal Consultant – International Distillers Limited and Senior Policy Consultant – UNDP. Also, a member of the Company Law Advisory Commission of Sri Lanka and a member of the Executive Committee of Sri Sathya Sai Karuna Nilayam Foundation.

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

Skills and Experience

Mr Wijeyeratne counts over 30 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). He was an Independent Director of Union Assurance PLC and was also the Chairman of the Board Audit and Compliance Committee and retired after completing 9 years in September 2020.

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

Other Current Appointments

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

Others: Audit Committee Chairman of MAS Holdings and is also a Director 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.

BOARD OF DIRECTORS

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

Skills and Experience

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

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

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

Other Current Appointments

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

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

MS A L THAMBIAYAH
Independent Non-Executive Director
(Member of the Board since October 2021)

Skills and Experience

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

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

Other Current Appointments

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

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

W D BATAGODA
Non-Executive Director
(Member of the Board since September 2022)

Skills and Experience

Mr Batagoda has nearly two decades of experience as a lawyer, having started his career attached to the then Additional Solicitor General's Chamber in the Attorney General's Department and then moving on to the private Bar. He is well versed in corporate and criminal law. Having joined the LOLC Group in 2014, he has held the positions of both Assistant General Manager and Deputy General Manager of Legal and Strategic Business of LOLC Holdings PLC and currently serves as the Head of Legal of the Group.

He is an Attorney-at-Law and holds a Bachelor of Law (LLB) and a Master of Law (LLM) from the University of Colombo and currently reading for his Doctor of Philosophy (Ph.D.) in Law at the University of Colombo.

Other Current Appointments

Listed companies: Head of Legal of LOLC Holdings PLC

Others: Director of Gal Oya Plantation Limited, Fortigrains Private Limited (Singapore), Fortigrains Lanka Private Limited, Ceylon Nano – Diagnostic (Pvt) Ltd., LOLC Asset Holdings Limited, Sierra Development Limited, Leapstitch Apparel (Pvt) Ltd., LOLC Geo Technologies (Pvt) Ltd., Browns Agri Solutions (Private) Limited, Browns Properties (Private) Limited and LOLC Philippines Corporation.

BOARD OF DIRECTORS

W R H FERNANDO

Independent Non-Executive Director
(Member of the Board since September 2022)

Skills and Experience

Mr Fernando has over 40 years of experience serving clients across both audit and advisory platforms and has served as audit partner for various publicly listed clients and senior advisory partner on many of Ernst & Young Sri Lanka's largest clients. He served as Ernst & Young (EY) Partner from 1988 to 2016 and as Country Managing Partner from 2016 until he retired in 2021. He has also served as a council member of the National Chamber of Commerce – Sri Lanka and National Chamber of Exporters of Sri Lanka and has previously served as Chairman Lanka Securities (Pvt) Ltd., as a Director of Sri Lanka Telecom PLC, Harischandra Mills PLC and Central Industries PLC.

He holds a Master's in Business Administration from the University of Sri Jayewardenepura, a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, a Fellow Member of the Chartered Institute Management Accountants (CIMA) UK., and a Member of Association of Certified Chartered Accountants (ACCA)-UK.

Other Current Appointments

Listed companies: None

Others: Director of Dedunu Property Developments (Pvt) Ltd., Dampe Resorts (Pvt) Ltd., Dedunu Eco Holidays (Pvt) Ltd., Dedunu Housing and Real Estate (Pvt) Ltd., Dedunu Lands (Pvt) Ltd., Dedunu Leisure Projects (Pvt) Ltd., Dedunu Properties (Pvt) Ltd., Dedunu Properties Digana (Pvt) Ltd., The Ruhuna Rainbow Trust (Gte) Ltd., Matara Entrepreneur Services (Pvt) Ltd., Lanka Tours and Travels (Pvt) Ltd. and Dedunu Properties Ruhunu (Pvt) Ltd.

MS N RANARAJA

Secretary to the Board
(Since August 2022)

Skills and Experience

Ms Ranaraja started her career as a Legal Trainee at Nithya Partners. She joined the Bank in December 1997 and counts over 25 years of experience covering project financing and commercial banking.

She is an Attorney-at-Law, holds a Bachelor of Laws (Hons.) from the University of Colombo and is an Associate of the Chartered Institute of Management Accountants, UK.

Other Current Appointments

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

Others: None

CORPORATE MANAGEMENT

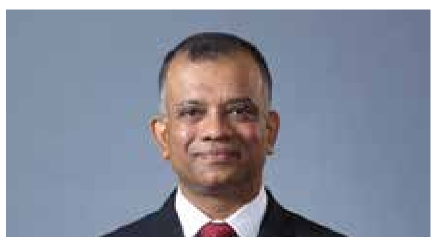
THIMAL PERERA
Chief Executive Officer

AASIRI IDDAMALGODA
Senior Vice President
Retail Banking and SME

ANTON ARUMUGAM
Senior Vice President
Offshore Banking,
Remittances and Business Development

ASANGA UDUWELA
Senior Vice President
Chief Operating Officer

CHINTHIKA AMARASEKARA
Senior Vice President
Chief Financial Officer



KUSHAN JAYASURIYA
Senior Vice President
Integrated Risk Management/Chief Risk Officer

CORPORATE MANAGEMENT

PRINS PERERA
Senior Vice President
Treasury and Investment Banking

RENUKA AMARASINGHE
Chief Recoveries Officer
Head of Recoveries

SOHANTHA WIJESINGHA
Senior Vice President
Corporate Banking

SONALI JAYASINGHE
Senior Vice President
Human Resources

MANAGEMENT TEAM

CHAMINDA GUNAWARDANA
Vice President
Regional Manager

CHANDRIN WIMALADHARMA
Vice President
Rehabilitation and Recoveries

DENVER LEWIS
Vice President
Head of Card Centre

DUMINDA SILVA
Vice President
Retail Asset and Liability Sales

DUSHAN WEERAKOON
Vice President
PFS Central Processing

GAMINDA FERNANDO
Vice President
Services and Procurement

JAYAN FERNANDO
Vice President
Head of Internal Audit

JAYANGANI PERERA
Vice President
Branch Credit Management

KELUM PERERA
Vice President
Regional Manager

MANAGEMENT TEAM

MANGALA SENARATNA
Vice President
Corporate Banking

NILMINI GUNARATNE
Vice President
Marketing and Sustainability

NIMALI RANARAJA
Vice President
Company Secretary
Secretary to the Board

NIROSHINI WETTASINHA
Vice President
Head of Legal

NISHAN WEERASOORIYA
Vice President
Head of Information Technology

PRADEEP ARIYARATNE
Vice President
Restructuring and Close Monitoring

PRADEEPA DE ALWIS
Vice President
Regional Manager

PRASANNA PREMARATNE
Vice President
Trade Services and International Remittances

SAJITH SILVA
Vice President
Bancassurance

MANAGEMENT TEAM

SHERA HASSEN
Vice President
Head of Pinnacle, Branch Banking Planning and Implementation

WAJIRA PUNCHIHEWA
Vice President
Regional Manager

AMANTHI BALASOORIYA DAHANAYAKE
Vice President
Credit Administration

ANURADHA DE SILVA
Vice President
Branch Manager

BHATIKA ILLANGARATHNE
Vice President
Unit Head – Credit Hub Kurunegala

CANDIAH JEGARAJAH
Vice President
Regional Manager

CHANDANA WANIGASENA
Vice President
MSME

CHANDANA GARUSINGHE
Vice President
Regional Manager

CHANNA DAYARATNE
Vice President
Treasury and Investment Banking

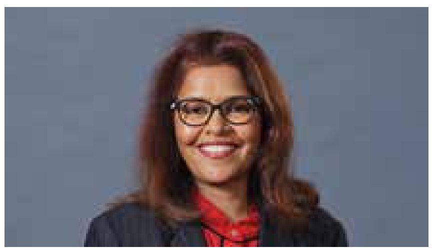
MANAGEMENT TEAM

DHANANJAYA NANDASIRI
Vice President
Branch Manager

DINESH JEBAMANI
Vice President
Digital Strategy

IRESHA KUMBUKAGE
Vice President
Credit Risk Management

JAYANATH LIYANAGE
Vice President
Acquired Asset and Recoveries



MANOURI LIYANAGE
Vice President
Legal – Business Operations

LAKMAL RAJASEKARA
Vice President
Branch Manager

NALIN KARUNATILEKA
Vice President
Consulting and BCP

NEIL DE ROSE
Vice President
Regional Manager

PAVITHRA DIAS
Vice President
Branch Operations

MANAGEMENT TEAM

PRASAD FONSEKA
Vice President
System Implementation Group

RAVI DASSANAYAKE
Vice President
Strategic Investments and Subsidiaries

SAMATHRI KARIYAWASAM
Vice President
General Legal

SHAN HEENKENDA
Vice President
Employee Relations and Subsidiaries

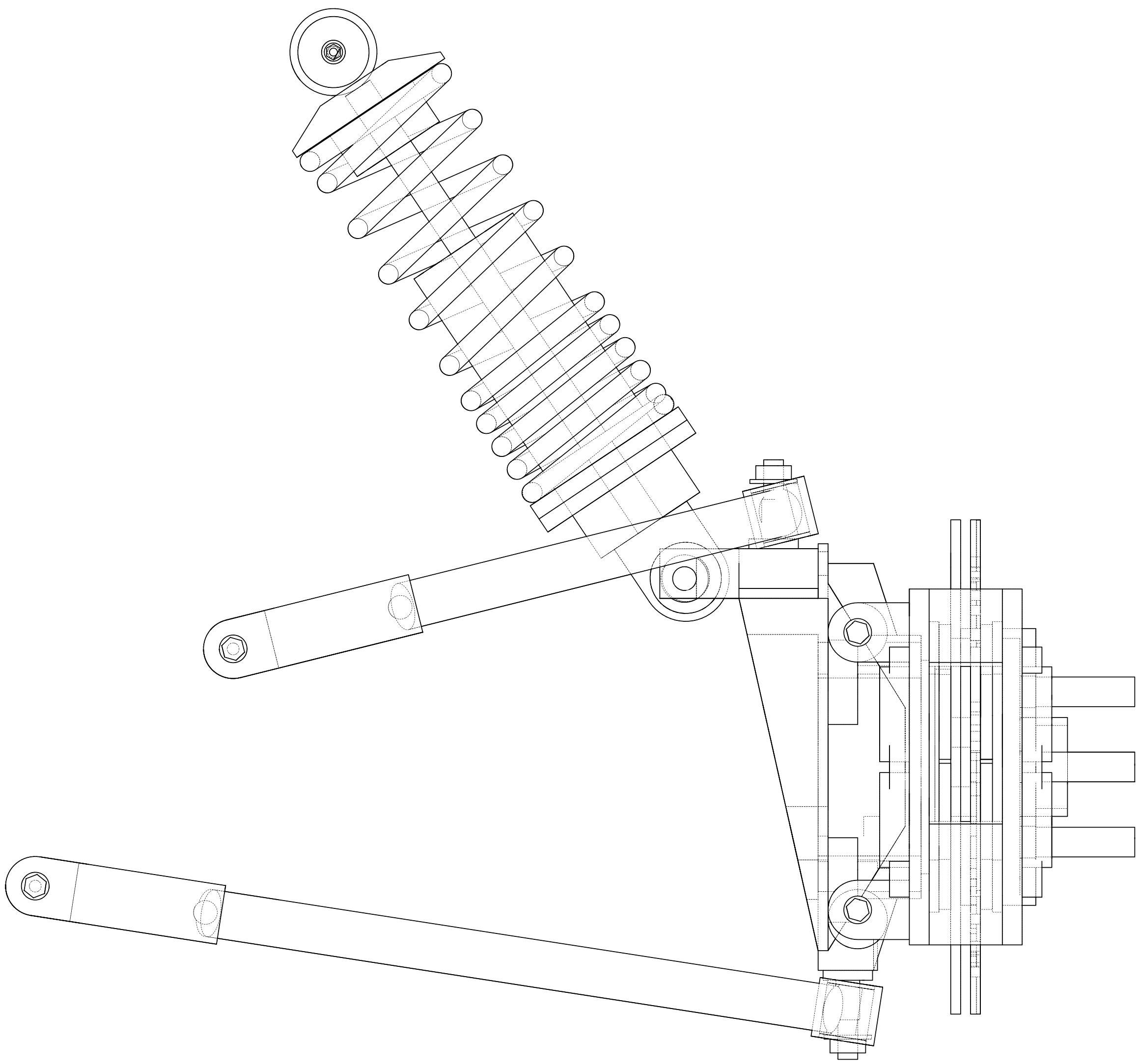
SIDANTHA GOONESEKARA
Vice President
Payments and Cash Management

SUBHASHI COORAY
Vice President
Refinance Payments and Settlements

TERRENCE ETUGALA
Vice President
Regional Manager

THEJAKA PERERA
Vice President
Litigation and Legal Recoveries

VIDARSHA DHARMASENA
Vice President
Strategic Planning



BUSINESS MODEL

OUR VALUE CREATION MODEL

DFCC Bank operates within a broad ecosystem that includes a number of stakeholders namely its customers, shareholders, employees, regulators, communities, and the environment. The Bank's activities have a direct and wide-ranging impact on these stakeholders, depending on how the Bank manages its operations.

To create value for its stakeholders, DFCC Bank uses a range of capitals, such as financial, employee, intellectual, social, and natural capitals. These capitals are continually transformed and enhanced by the Bank's activities, resulting in outputs and outcomes that generate value for all stakeholders.

The Bank's on-balance sheet activities, such as loans and investments, generate financial value for its shareholders and customers. These activities also contribute to the growth and development of the economy, which benefits society as a whole.

VISION, MISSION, VALUES

OPERATING ENVIRONMENT

STAKEHOLDERS AND MATERIALITY

STRATEGY

INPUTS

FINANCIAL CAPITAL
The Bank's strong book value, which demonstrates profitability and high asset quality.

Pages 56 to 70.

INSTITUTIONAL CAPITAL
Cutting-edge, knowledge-based assets both tangible and intangible, which are owned and controlled by the Bank.

Pages 71 to 77.

INVESTOR CAPITAL
The Bank has built a loyal investor base by adhering to sound governance and ethical business practices.

Pages 78 to 80.

CUSTOMER CAPITAL
The Bank has earned trust and loyalty by placing the customer at the core of all its operations.

Pages 81 to 87.

EMPLOYEE CAPITAL
A multidisciplinary team of highly experienced professionals with a passion to serve.

Pages 88 to 94.

BUSINESS PARTNER CAPITAL
Strong relationships with multilateral and bilateral institutions, correspondent banks and suppliers, built up and nurtured over the years.

Pages 95 to 99.

SOCIAL CAPITAL
Positive contribution towards the community through a number of CSR initiatives.

Pages 100 to 106.

NATURAL CAPITAL
Preserving and enhancing the natural resources of the communities and the country.

Pages 107 to 113.

ACTIVITIES

DIGITALISATION AND INNOVATION
Increase convenience to customers through digitalisation of systems and processes, delivery and communication channels, and product offering rollout of the T24 Core Banking System.

IMPROVING CUSTOMER-CENTRICITY
Through training and development of staff, improving the level of customer service, and providing customised solutions to different customer segments.

PROMOTING BRAND AWARENESS
Promoting brand awareness through special offers, events, marketing campaigns and communicating through digital channels such as the internet, email and social media platforms.

SECURING AND MAINTAINING RELATIONSHIPS
Securing and maintaining strategic partnerships with local and international business partners.

ENSURING SUSTAINABILITY
Carrying out programmes aimed at social development, environmental preservation, and community upliftment under the directives of the UN SDGs. Community kitchens were organised in affected regions as part of our social commitments.

INCREASING STAFF ENGAGEMENT
Staff cycling events are promoted and held regularly as a health, lifestyle and social activity.

OUR VALUE CREATION MODEL

Off-balance sheet activities, such as Corporate Social Responsibility (CSR) programmes and environmental initiatives, also create value for the Bank and its stakeholders. By investing in social and environmental causes, the Bank enhances its reputation and brand value, which can lead to increased customer loyalty and trust.

Viewed from a broad perspective, DFCC Bank's activities have a cascading effect on its stakeholders and the ecosystem in which it operates. By managing its operations and activities in a sustainable and responsible manner, the Bank can grow and enhance its stock of capitals, generating long-term value for all stakeholders.

Influences on these factors include trends in the operational environment (page 40), effective governance (page 152), and risk management practices (page 122), engagement with and expectations of stakeholders (page 45), materiality (page 50), strategic goals (page 42), and the continuous monitoring and assessment of performance across the Bank.

STEWARDSHIP

MONITORING AND EVALUATION

OUTPUTS

- Growth in loans for 2022 – 1%
- Growth in deposits for 2022 – 16%
- Proposed scrip dividend of LKR 2.00 per share
- Reduction of avoidable expenditure
- Responsive to the needs of customers across various segments through a sophisticated Contact Centre and relevant products
- Improved brand recognition
- 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 digitalisation
- Voice of customer platforms
- Building a socially responsible brand
- Faster and efficient processes
- Shifting employees towards more rewarding, value-adding work and away from manual and iterative tasks
- Increased awareness and responsibility towards communities and the environment
- Improved employee well-being

OUTCOMES

VALUE DERIVED BY THE BANK

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

VALUE DELIVERED TO STAKEHOLDERS

- 68+ 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
- Financing projects adhering to stipulated environmental standards and creating economic value

IMPACT

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

OPERATING ENVIRONMENT

Global Economy

The global economy, which had shown remarkable resilience during its post-pandemic recovery, went into a tailspin once again following Russia's invasion of Ukraine, and its widespread fallout on many fronts. The International Monetary Fund (IMF) projects global growth to slow down from 6.0% in 2021 to 3.4% in 2022, and plunging further to 2.9% in 2023. It also forecasts global inflation to rise from 4.7% in 2021 to 8.8% in 2022, declining to 6.6% in 2023, and 4.3% by 2024.

Mirroring the views of its Bretton Woods twin, the World Bank (WB) states, "As central banks across the world simultaneously hike interest rates in response to inflation, the world may be edging toward a global recession in 2023 and a string of financial crises in emerging markets and developing economies".

Morgan Stanley expects global GDP growth to reach a modest 2.2%, narrowly defying recession, while offering growth predictions for the following regions for 2023:

Country	GDP (%)
US	0.5
Euro Area	-0.2
UK	-1.5
Japan	1.2
Emerging Markets	3.7
China	5.0
India	6.2
Brazil	1.2

Similarly, Standard & Poor (S&P) expects the Asia-Pacific region to achieve real growth of about 4.3% in 2023, while Europe and the U.S. could face recession. Economic growth in the Asia-Pacific region, which produces 35% of world GDP, will be supported by regional free-trade agreements, efficient supply chains, and competitive costs.

Sri Lankan Economy

According to the World Bank's latest South Asia Economic Focus and the Sri Lanka Development Update, real GDP is expected to fall by 9.2% in 2022 and a further 4.2% in 2023. "The fluid political situation and heightened fiscal, external, and financial sector imbalances pose significant uncertainty for Sri Lanka's economic outlook", the report further states.

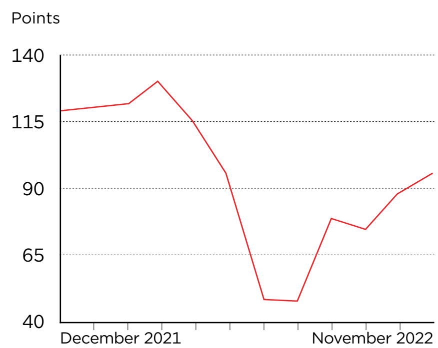
However, the Asian Development Bank (ADB) remains upbeat over Sri Lanka's progress towards economic recovery, as the Government has been working on a stabilisation plan, which it described as being "very comprehensive".

In fact, the Government has also discussed a policy loan amounting to USD 700 Mn with the World Bank, along with a further USD 1.2 Bn from the ADB. Once the IMF programme amounting to USD 2.9 Bn is finalised, the Government could work towards achieving debt sustainability.

Going a step further, the World Bank has approved Sri Lanka's request to access concessional financing from the International Development Association (IDA). This will help implement reform programmes aimed at stabilising the economy and protecting millions of people facing poverty and hunger.

As a reflection of all these positive developments, including implications of the Budget that has just been presented, the LMD-NielsenIQ Business Confidence Index (BCI) has climbed nine basis points from 89 in October to 98 a month later, which is only 11 basis points shy of where it stood last year, at 109.

BUSINESS CONFIDENCE INDEX (BCI)



OPERATING ENVIRONMENT

Banking Industry

Sri Lanka's default of its foreign debt in April 2022 after two years of money printing triggered the worst currency crisis in the history of the country. This was worsened by the SLR falling from 182 to 360 to the US dollar within two years and inflation hitting 70%.

International Banker, the respected industry publication, commenting on the Sri Lankan banking sector states, "the dearth of foreign-exchange reserves that banks now hold has become so acute that supporting the necessary import purchases is severely straining their cash flows", and therefore undermining their ability to perform their supporting role in stabilising the economy.

Commenting on Non-Performing Loans (NPLs), the Central Bank of Sri Lanka (CBSL) has stated, "Asset quality of the sector deteriorated in terms of stage 3 loans to total loans ratio. Stage 3 loans increased by LKR 475.1 Bn, recording a growth of 56.9 % and reached LKR 1.3 Tn as at end August 2022".

On a positive note, the banking industry is expected to improve, as there are several factors favouring a drop in market interest rates, despite fears of domestic debt restructuring. This includes a fall in inflation, improvements in liquidity in the dollar market, and reduction in inter-bank liquidity shortage. The government has also raised taxes and private credit has fallen.

Looking Forward

The Sri Lanka Government's budget for 2023 aims for an ambitious economic growth of 7–8%, increasing international trade as a percentage of GDP by more than 100%, annual growth of USD 3 Bn from new exports from 2023 to 2032, FDIs of more than USD 3 Bn in the next 10 years, and creating a highly skilled internationally competitive workforce during the same period. The budget also plans to bring inflation down in the medium term.

The government proposes to increase personal and corporate income tax from 24% to 30%, which could see an improvement in revenue. However, reducing expenditure could be difficult as total spending by the Government for the coming year could be in the region of LKR 5.9 Tn, with capital expenditure making up 20.9% of that amount.

The budget is further intended to increase tax revenue by 69%, which could bring in SLR 3,130 Bn, which could lead to a budget deficit of 7.9% in 2023 as compared to 9.85% this year. Restructuring of some of the largest loss-making State-Owned Enterprises (SOEs) is also on the cards, which could rein in state expenses further.

While these are positive developments in terms of boosting the state's coffers, earning more foreign exchange is the need of the hour, with several new developments anticipated by the Government in this regard.

Though workers' remittances have fallen 31% to USD 3.8 Bn in 2023, the Government hopes to earn USD 1 Bn per month by the end of 2023, as the number of individuals seeking overseas employment has risen considerably.

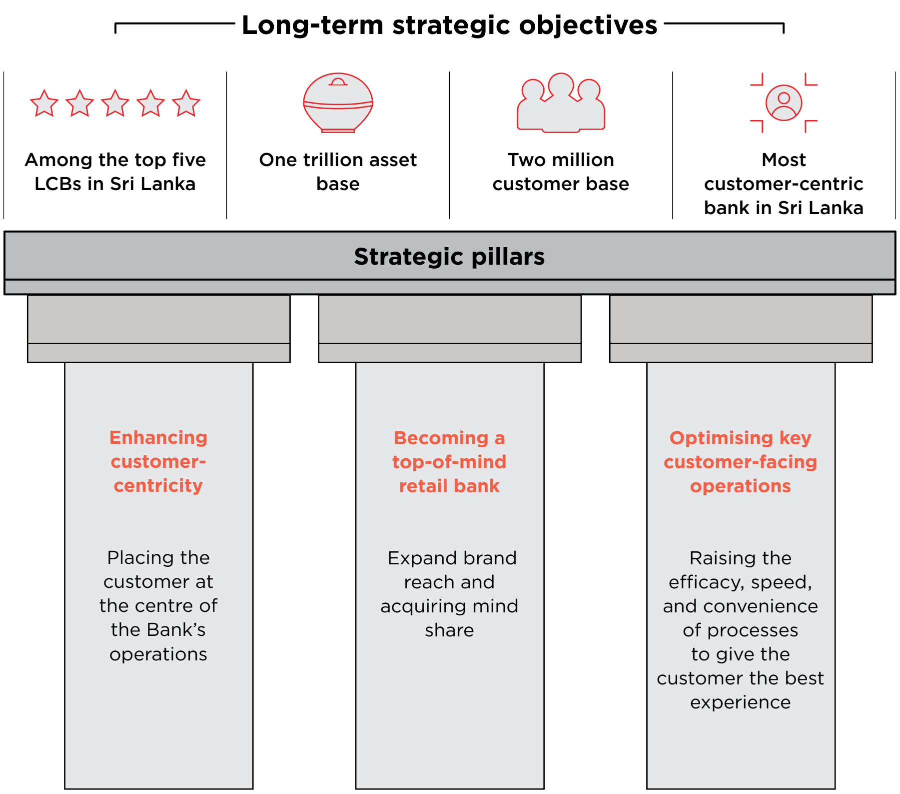
Despite a sizable drop in tourist arrivals this year, Sri Lanka tourism has set an ambitious target of 1.5 Mn for next year and 3 Mn for 2024. A revenue target of USD 5 Bn is expected from high-end travellers, and a 10-year tourism plan is to be unveiled next year. Moratoriums extended to the tourism sector, while causing complications in the banking sector, are expected to help SMEs in tourism to make a successful comeback in the coming year.

While these are positive developments, the final word on the nation's economic outlook should be left to the CBSL. To quote: "The IMF-EFF programme will provide an opportunity to embark on much needed and long neglected structural adjustments in a more structured and timely manner, which will be instrumental in shaping the economy to progress on a trajectory of greater stability and sustained growth". CBSL further adds: "Considering the progress that has been made thus far in relation to the IMF-EFF programme and debt restructuring negotiations, and the reforms that have already been undertaken, and those that are to be implemented in the period ahead, the economy is expected to transition on to the path to recovery from the latter part of 2023".

STRATEGIC DIRECTION AND OUTLOOK

Strategic Direction and Outlook

Formulating a viable and sustainable strategic direction in the financial sector in Sri Lanka has become increasingly difficult, due to the current state of the economy, as well as the constantly changing and unpredictable external environment. Scenario planning has emerged as an onerous task, given the volatile situation, and the continually evolving consumer preferences. Fast-advancing technological frontiers, in addition to the profusion of hi-tech financial solutions, which can satisfy latent or even emergent consumer needs, add to the complexity. It is this altered environment, and DFCC Bank's response, that is being analysed in this section.



Adapting to a Transformed Landscape

DFCC Bank, in common with the banking industry in general, has been operating under a fundamentally transformed landscape during the year under review. The sheer magnitude of economic turbulence has been unprecedented, mainly caused by the knock-on effects of the COVID-19 Pandemic such as default on foreign debt, and the resultant disruptions to the financial sector and the economy. The banking industry was particularly hit, due to its pivotal role in the country's economy, leading to a cascading effect upon other sectors. Consequent to the prevailing instability, banks had to face the issue of deteriorating credit quality, and distressed customers who were struggling to overcome the scarcity of essentials and unrelenting inflation.

The resultant funding pressures and tighter liquidity conditions have inevitably affected lenders. The industry is currently faced with the looming threat of a haircut on domestic debt, as a result of the Government's negotiations with overseas institutional creditors, and the envisaged structural reforms. In such a scenario, investments in local sovereign debt instruments are likely to be impacted. Prevailing interest rates will also limit the inflow of funds into the banking sector, as customers may seek higher returns on their investments through government securities offering more attractive rates.

STRATEGIC DIRECTION AND OUTLOOK

Given the need to accumulate a large scale of capital required to support long term asset growth, and exorbitant risks inherent in considerably expanding the loan book in such trying circumstances in the coming years, DFCC has had to revisit previously relied upon assumptions. As the country is still in the early stages of its economic recovery, a number of important underlying factors in the economy and the banking industry could remain unchanged in the foreseeable future. In this highly demanding and risk-prone environment, DFCC has been compelled to take stock of its previous medium-term vision, using it as a blueprint to review the limits of its feasibility in realising growth-oriented goals. The Bank is in the process of formulating a new medium-term plan in 2023, once the economy and financial market show signs of stabilising. The specifics of the plan will depend on the outcome of the government's negotiations with the IMF and other creditors.

Negotiations with overseas creditors, under the aegis of the Paris Club, are progressing smoothly, with France playing a pivotal role in ensuring their successful conclusion. Over and above the USD 2.9 Bn pledged by the IMF, a final agreement could go a long way in restoring the credibility of Sri Lanka in the eyes of the international investors and business community, paving the way for additional financing from countries and institutions.

Currently, the primary focus of DFCC Bank is to fortify and strengthen the balance sheet, preserve and enhance capital and liquidity, and grow profitability. Following the hike in SDFR and SLFR policy interest rates and spike in yields of government securities, the Bank's liability mobilisation would be a costly exercise, due to the high costs associated with deposits and borrowings. In addition, the industry has to face the reality of competing for funds which show an increasing tendency towards moving into more attractive government securities offering higher rates, the risk of a possible domestic debt restructuring is a further threat faced by the banking sector.

Borrowers are in a distressed situation due to the overall slump in economic growth, inflation which is still at a high level, and considerable increases in lending rates. Targeted lending to selected sectors will be possible only if such sectors show signs of healthy growth prospects, which appears unlikely in the current scenario. The entire banking sector is grappling with deteriorating credit quality, making it crucial to manage the lending book and asset quality.

The shortage of US Dollars and the resultant drop in imports has impacted the earning of net fees and commission incomes through trade. The forex crisis has also effectively halted imports of motor vehicles and other capital goods, which were a lucrative source of income for the Bank.

Due to the curtailment of banking limits arising from the sovereign credit rating downgrade, engaging in correspondent banking has been restricted. Facing such economic realities require DFCC to approach the coming quarters with caution. Possible key focus areas for the coming year include: mitigating and minimising impairments, expanding the deposit base at rates that are as competitive as possible, conscientiously and prudently lending to selected segments such as the export sector, generating transaction volumes to grow fee and commission income, reversal of impairments and proactively managing operating costs.

While a new medium-term plan for the organisation is to be developed afresh in 2023 given the new realities, a key long term strategic objective will still remain unchanged – the pursuit of becoming the most customer-centric bank by being data driven and digitally enabled.

War Rooms

This concept enabled the Bank to overcome the travails of the pandemic with relative ease, and speed up the digitisation process across the board. In the present context, War Rooms have been revived as part of the preparations to navigate the prevailing tough realities, and introduce a series of actionable initiatives in the near term. These shall form the launching pad for sustained efforts to realise strategic priorities in the medium to long term. Dedicated War Rooms have been operationalised across Deposit Mobilisation, Cost Management, Fee Income and Impairment Management.

STRATEGIC DIRECTION AND OUTLOOK

Deposit Mobilisation

Securing low-cost funding is one of the most attractive options to enhance the Bank's financial stability and augment its funding operations, although the prevailing high interest regime is a constraining factor. Strengthening the liability base will be a source of considerable support to the balance sheet position, improved liquidity and lending capacity. Strong retail funding will keep the balance sheet on a sound footing in the near-term and beyond.

Cost Management

Managing costs is being implemented through a holistic effort which encompasses reducing waste, improving processes, and raising productivity. This has become an organisation-wide priority in efforts to limit costs, relative to income growth. While improving efficiency contributes more towards increasing profitability, when combined with reducing waste, it also complements DFCC's sustainability initiatives. For instance, trackers are used to monitor progress in terms of rationalising the usage of paper and energy, which provides an actionable metric which can be used to monitor usage.

Fee Income

As this particular source of income has been adversely impacted by the economic conditions, the Bank has adopted a focused approach to driving product lines that generate higher fee and commission income, such as trade products, exchange conversions, digital platforms and promotion of cross-selling.

Impairment Management

During an economic downturn, managing impairment can become a serious issue with dire consequences. The Bank has adopted a system of centralised monitoring and follow-up through the Head Office and recovery hubs across the regions. Non-performing clients are dealt with proactively in order to arrive at mutually beneficial compromises in a timely and efficient manner.

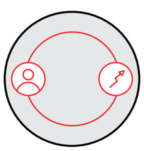
Outlook

Despite overwhelming odds, DFCC Bank is confident of achieving its objectives during the coming year. This confidence stems from its financial and managerial strengths, proven record of resilience in adversity, commitment of its talented team of staff members, as well as the trust and loyalty of the customer base over the past 67 years.

STAKEHOLDERS

A stakeholder is a person, group or entity that has an interest in an organisation, and can either affect or be affected by its activities. A key stakeholder is one who is among the most important stakeholders for DFCC. Key stakeholders are highly interested in DFCC's strategies, operations, and performance, as they are the most affected by its business. Hence, DFCC's success and growth often depend upon its key stakeholders.

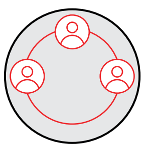
Maintaining an open and constructive dialogue with stakeholders is imperative for the continued development of a business, especially in the financial industry, where robust, long-term relationships are of critical importance. This also helps DFCC Bank understand the expectations of all stakeholders, identify issues, and discover opportunities to serve customers better. In addition, it plays the role of aiding the overall development of communities where the Bank serves, as well as the national economy. The Bank proactively identifies the needs and expectations of stakeholders in order to integrate their concerns into the decision-making process, and the resultant value-creating activities.



Shareholders and Investors

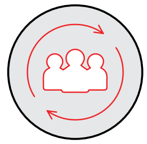
Due to the vital role played by investors in the success and growth of a business, it is of utmost importance to maintain strong and transparent relationships with them. This requires effective communication and marketing to control the flow of information between the Bank, its investors, and shareholders.

DFCC Bank's Corporate Communications Policy and Investor Forums enable the Bank to convey its future strategies and sustainability goals which help them to make informed decisions about their investments. The Bank has consistently maintained the practice of publishing information about its financial performance and progress through the Colombo Stock Exchange (CSE), Annual Reports, media releases, as well as its corporate website to convey insights on its value creation process.



Customers

The rapidly changing business and technological landscape has resulted in constantly evolving customers' needs, as well as their perceptions on the portfolio of products, services, and processes needed to optimise their benefits. This has led to the creation of a customer-centric strategy at DFCC that is focused on the delivery of a great customer experience based on innovative products and a responsive service. The Bank's digital-first approach is a step forward in ensuring a richer customer experience and better customer relations, which could reap rich dividends in the years ahead. The introduction of emerging technologies such as Artificial Intelligence, Machine Learning and Data Analytics hold the key to creating a competitive advantage in customer acquisitions and satisfaction.



Employees

The Bank's employees embody its core values, and remain committed to achieving its strategic objectives through their diligence and perseverance. The Bank invests in its team at all levels, through continuous training, in addition to fostering the application of innovative technologies, and spurring collaboration. The Bank's Internal Code of Conduct can be accessed by employees through the intranet. This clearly spells out the Bank's policies on the avoidance of conflict of interest, insider dealings, unfair business practices, and the importance of confidentiality, especially in terms of sensitive information.
A Whistleblowing Policy is in place to enable employees to report any observations of illegal or unethical practices, under strict confidence. A Board-approved Grievance Handling Policy ensures a fair and equitable work environment, without discrimination on grounds of race, religion, political affiliation, or any other grounds.

STAKEHOLDERS

Business Partners

The Bank works continuously on strengthening its relations with business partners such as institutions that provide lines of credit (to manage or to on-lend), as well as vendors who supply goods and services which are required to carry out business operations successfully. Business partners comprise an important component of a Bank's value chain, and play a critical role in its value creation process. A Procurement Policy has been established to ensure cost-efficient and equitable processes in obtaining necessary goods and services. Dealings with suppliers mainly involves securing competitive pricing for goods and services of sound quality within expected time-frames while building mutually beneficial, long-term relationships.

Communities

Communities are people, groups, organisations, or businesses that have an interest or concern in the activities of the Bank, which could be affected by their actions, objectives, and policies. Conversely, such communities can also be directly or indirectly affected by the Bank. Such stakeholders include local residents, community groups, government agencies and workers, business owners, neighbourhood leaders, religious leaders, professionals, members of various commissions, and other groups who enjoy a reciprocal relationship with the community. DFCC Bank supports its local communities, collectively and individually, through its sustainability efforts, which include a range of CSR activities linked to its sustainability goals, and other projects carried out under various themes.

Advocacy Groups

Advocacy groups come together around common issues such as political or social causes, recommending certain changes in government, public policy, society, and/or law. These include groups such as the media, community/welfare groups, and international and local Non-Governmental Organisations (NGOs), which aim to influence public opinion and government policy towards the betterment of political and social systems. Such groups espouse various political, social, religious, moral, or commercial positions, and engage in lobbying, media campaigns, publicity activities, polls, research, and policy briefings. Certain advocacy groups are supported by powerful business or political interests, and are in a position to exert considerable power on policy making and Government decisions. Therefore, the Bank should have a clear view of their relative power, perceptions and expectations. Carrying out operations and CSR initiatives which are aligned with, or not antagonistic towards such groups, helps foster mutually beneficial partnerships.

STAKEHOLDERS

Stakeholder Engagement

DFCC Bank takes a holistic view of its stakeholder groups, engaging individually and collectively with them according to each given situation or need. The Bank continuously seeks to better understand its various stakeholders and their expectations, using their feedback to constantly improve its operations. The following table details the methodology the Bank uses in engaging with each stakeholder group.

Stakeholder group	Reason for engagement	Key topics discussed during reporting period	How the Bank responded
Shareholders and investors	To provide them with information on the progress achievements of the Bank	• Issues that impacted the stakeholder group – Currency depreciation affecting value of shareholdings and earnings – Downgrading of sovereign ratings – Downturn in overall economic activities – Forex restrictions, and their impact, for example; on imports – Political and economic instability – Impact of delays in receiving IMF bailout package • Needs and priorities identified – Updating on the Bank's performance and measures taken by the Bank to overcome the above issues	• Provision of information required by them on a timely basis
Customers	To inform them of the Bank's products and services and also to obtain their feedback To monitor the facilities granted and to provide assistance, as well as obtain/ provide information required with regard to facilities (including regulatory requirements)	• Issues that impacted the stakeholder group – Import restrictions affecting leasing products – Political instability – Economic crisis – Inflation – Less disposable income to invest in savings/FDs – Introduction of digital platforms – Shortage of fuel/transport – Power disruptions • Needs and priorities identified – Need for rescheduling/ provision of concessions	• Rescheduling/restructuring loans • Promoting low-cost lending • Introducing high-yield deposit products • Enhancement of mobile/ digital banking • Providing advisory services, esp. to MSMEs

STAKEHOLDERS

Stakeholder group	Reason for engagement	Key topics discussed during reporting period	How the Bank responded
Employees	To inform them of policies and procedures, Bank's progress, welfare activities, etc., and also to get their feedback To ensure their welfare, attend to problems/issues faced by them, to provide training, and career progression	• Issues that impacted the stakeholder group – Political and economic instability – Shortage of fuel/transport – Power disruptions – Rise in cost of living – Introduction of digital platforms and improved workflows • Needs and priorities identified – Assistance/advice to overcome the above issues (e.g. financial assistance & webinars), WFH options, reporting to nearest branch	• Implementing a separate project to provide assistance for employees to face the current economic crisis • WFH facilities • Permission to work from the nearest branch
Business Partners	To provide the information they require on the Bank's performance and to obtain information on their activities which will be useful to the Bank	• Issues that impacted the stakeholder group – Import restrictions – Political instability – Economic crisis–Reduced profits due to currency devaluation – Shortage of fuel/transport • Needs and priorities identified – Need for compliance/meeting reporting requirements	• Providing required information on a timely basis • Regular communication on each others' activities
Regulators	Reporting, i.e. to provide information required by them and for them to inform us on new regulations, etc.	• Issues that impacted the stakeholder group – Currency depreciation – Downgrading of sovereign ratings – Need for sustainability reporting • Needs and priorities identified – To implement procedures to comply with new regulatory requirements and to generate new information required	• Complying with CBSL reporting requirements on sustainable financing

STAKEHOLDERS

Stakeholder group	Reason for engagement	Key topics discussed during reporting period	How the Bank responded
Communities	To make them aware of what benefits the Bank is providing to communities and to obtain their support and involvement in the Bank's activities targeted at community development	• Issues that impacted the stakeholder group – Political instability – Economic crisis–Inflation and reduction of purchasing power – Shortage of essentials–food, fuel and medicine – Power disruptions – Possible curtailment of CSR initiatives • Needs and priorities identified – To provide relief/assistance for the above issues	• Implementing several CSR initiatives to assist communities to face the economic crisis
Advocacy Group	To understand their perceptions and expectations	• Issues that impacted the stakeholder group – Import restrictions – Political instability – Economic crisis – Inflation – Shortage of fuel/transport – Power cuts • Needs and priorities identified – To look at meeting their needs through Bank's initiatives	• Accommodating/considering requirements of Advocacy Groups in activities/initiatives of the Bank
Industry Associations	To obtain/provide information for mutual benefit as they represent multiple members	• Issues that impacted the stakeholder group – Political instability – Economic crisis–Inflation – Import restrictions – Shortage of fuel/transport – Power disruptions • Needs and priorities identified – Need for concessionary loan facilities/other assistance	• Providing support for their activities • Having regular communication/maintaining a relationship with them

MATERIALITY

A subject is considered material if it could substantially affect the organisation's ability to create value in the short, medium and long-term. DFCC Bank is able to successfully demonstrate its integrated thinking, which is a primary aim of integrated reporting, by highlighting how material matters are connected with its strategy, governance, performance and future prospects. While identifying material matters, the Bank considers financial and non-financial information, as well as their magnitude of effect and likelihood of occurrence. This can be explained as follows:

Materiality =	Relevance	+	Magnitude of impact	+	Probability of occurrence

The Bank has been reaching out to its stakeholders on a continuous basis over the years, to better understand their concerns and the relevance of such issues to their priorities. This covers the economic, environmental, governance, and social issues, in addition to inclusivity. The Bank is of the firm view that stakeholders have the right to be heard, in terms of the impact of various issues on them, and vice versa.

As part of its sustainability practices, DFCC Bank continuously engages with stakeholders with a view to identifying and addressing the following:

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

The Bank has identified eight distinct groups as comprising its major stakeholders. These include:

1. Investors/Shareholders
2. Customers
3. Employees
4. Business Partners
5. Regulators
6. Communities
7. Advocacy Groups (Media and NGOs), and
8. Industry Associations

The external environment includes economic, environment, governance, and social-related trends. The Bank's Sustainability Strategy and Plan also considers all relevant trends in the external environment, which it considers as being material.

By conducting materiality analysis on a regular basis, DFCC Bank is able to identify and determine aspects that are of importance to the Bank's stakeholders and to the Bank. This is analysed in terms of its economic, social, and environmental agenda for sustainable value creation.

DFCC Bank has identified the following issues which are of material interest:

1. Increased demand for Green Financing (environmentally friendly projects and investments) with sector-specific expertise and has a less harmful impact on the environment, such as renewable energy. This is in alignment with the Government's policy on conserving the environment, as well as the Bank's own commitment to environmental stewardship.
2. Health and wellness-enhanced productivity, with an emphasis on work-life balance.
3. Empowered staff, including special focus on female staff and other vulnerable categories.
4. Collaboration and teamwork across functionalities and levels of seniority.
5. Enhanced productivity and process efficiencies through investment in staff knowledge and skills (training and knowledge development).
6. Increased resource efficiency by decreasing energy and paper usage, minimising wastage, and use of appropriate processes and technologies.
7. Healthy and attractive workplace culture that attracts and retains diverse categories of staff, who are able to perform to the best of their ability.
8. Clarity on career progression, including mentoring and remedial assistance for those who are slow in their progress.
9. Customer-centric services and engagement across all geographic and functional areas.
10. Increasingly differentiated and evolving customer needs on financial services, including wealth management advisory services in keeping with international best practices, while considering local requirements.
11. New technologies for customer investment and use, e.g. smart/precision agriculture, pollution control, energy efficient technologies, smart buildings, renewable energy, etc.

MATERIALITY

12. Increased demand for convenient, remote, streamlined, and flexible services.
13. Increasing demand for new and innovative services which maximise customer convenience and benefits.
14. Trend towards purposeful and responsible businesses, which are committed to making a positive impact on society and solving challenges that affect society while also making profits.
15. Need to improve financial literacy, especially among vulnerable individuals and communities.
16. Specialised MSME services, including non-financial services for capacity and performance enhancement.
17. Partnerships and collaborations with professional apex bodies.
18. Increasing the involvement of entrepreneurs and MSMEs in creating positive social and environmental impacts.
19. Increased use and influence of social media to maximise efficiency of our communications.
20. Increased investment in sustainability initiatives, including using less resources, addressing environmental and social impacts, CSR, disaster relief, etc.
21. Economic performance in alignment with national policies and priorities.
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. Implementing suitable initiatives to counter the negative outlook in the banking sector.
26. Being adaptable to an increasingly competitive business environment.
27. Building resilient business strategies, including sustainability.
28. Sustainable sourcing and supply chains.
29. Decent work and fair remuneration for all categories of workers.
30. Entrepreneurial skills training for the self-employed.
31. Education and skills building opportunities, with reskilling and upskilling where required.
32. Taking measures to respond to the increased frequency and scale of natural disasters, poor preparedness, and response times.
33. Reducing environmental and negative social impacts from economic activities, and raising awareness of same among all stakeholders.
34. Increasing the importance of organisational reputation as a competitive advantage.
35. Taking suitable measures regarding the declining trends in exports.
36. Need to improve business resilience.
37. Use of new technologies, e.g. Digitisation, Artificial Intelligence, Machine Learning, Robotic Process Automation, etc.
38. Growth of MSMEs.

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

The Bank's Sustainability Strategy and Plan is based on the Materiality Matrix with stakeholder priorities duly considered during their implementation.

Management Approach

The Bank makes every effort to engage with each group of stakeholders in order to map out its portfolio of activities. By aligning its activities with the needs of each group of stakeholders, the Bank is able to generate and deliver value to its stakeholders and derive value from them in return, thereby maximising the benefits accruing to all. This will result in achieving the Bank's two-fold objectives, namely:

1. Strategic goal:
   - ensuring the credibility of the Bank's sustainability plans and its operations.
2. Relationship goal:
   - understanding and building close relationships with customers.
   - empowering employees with rewarding careers.
   - generating steady returns for investors.
   - establishing mutually beneficial and profitable partnerships.
   - acting responsibly towards society and the environment.

MATERIALITY

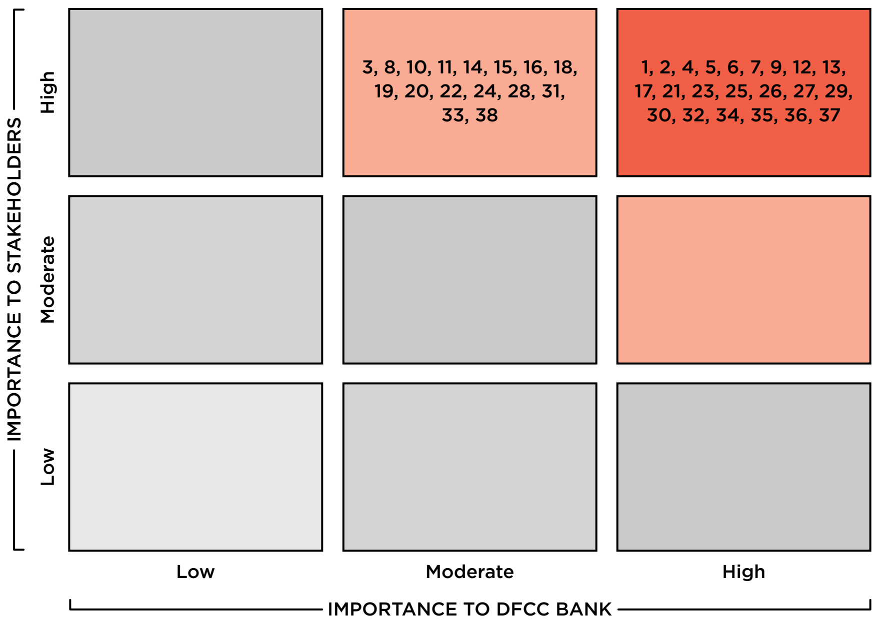
The Bank determines materiality issues through the process of a materiality analysis, whereby the relevance of each issue or trend is apportioned to different stakeholder groups. This is explained by means of the following table, which describes the relevance and applicability of trends from 2021 to the Annual Report of 2022:

Materiality Trends from 2021	Relevant for 2022 Annual Report	Key Stakeholder Group
1. Increased demand for Green Financing	Yes	Customers
2. Health and wellness-enhanced productivity	Yes	Employees
3. Empowered staff, with special focus on female empowerment	Yes	Employees
4. Collaboration and teamwork	Yes	Employees
5. Enhanced productivity, process efficiencies and investments in training and development	Yes	Employees
6. Increased resource efficiencies	Yes	Investors and shareholders
7. Healthy and attractive workplace culture	Yes	Employees
8. Clarity on career progression	Yes	Employees
9. Customer-centric services and engagement	Yes	Customers
10. Increasingly differentiated and evolving customer needs on financial services, including wealth management and advisory services	Yes	Customers
11. New technologies for customer investment and use	Yes	Investors and shareholders
12. Increased demand for convenient, remote and streamlined services	Yes	Customers
13. Increased demand for innovative services	Yes	Customers
14. Trend towards purposeful and responsible business	Yes	Communities
15. Need to improve financial literacy	Yes	Communities
16. Specialised MSME services, including non-financial services	Yes	Communities
17. Partnerships and collaborations with professional apex bodies	Yes	Industry Associations
18. Increasing entrepreneurs and MSMEs involvement in creating positive social and environmental impacts	Yes	Communities
19. Increased use and influence of social media	Yes	Investors and shareholders
20. Increased investment in sustainability initiatives	Yes	Communities
21. Economic performance	Yes	Investors and shareholders
22. Increased demand for transparent reporting	Yes	Regulators
23. Compliance with Sri Lanka Bank's Associations and Sustainable Banking Initiative Principles	Yes	Regulators
24. Need to contribute towards UN SDGs	Yes	Communities
25. Negative outlook for the banking sector	Yes	Investors and shareholders
26. Increasingly competitive business environment	Yes	Investors and shareholders
27. Building resilient business strategies	Yes	Investors and shareholders
28. Sustainable sourcing and supply chains	Yes	Business Partners
29. Decent work or fair waged jobs	Yes	Employees
30. Entrepreneurial skills training for self-employed	Yes	Communities

MATERIALITY

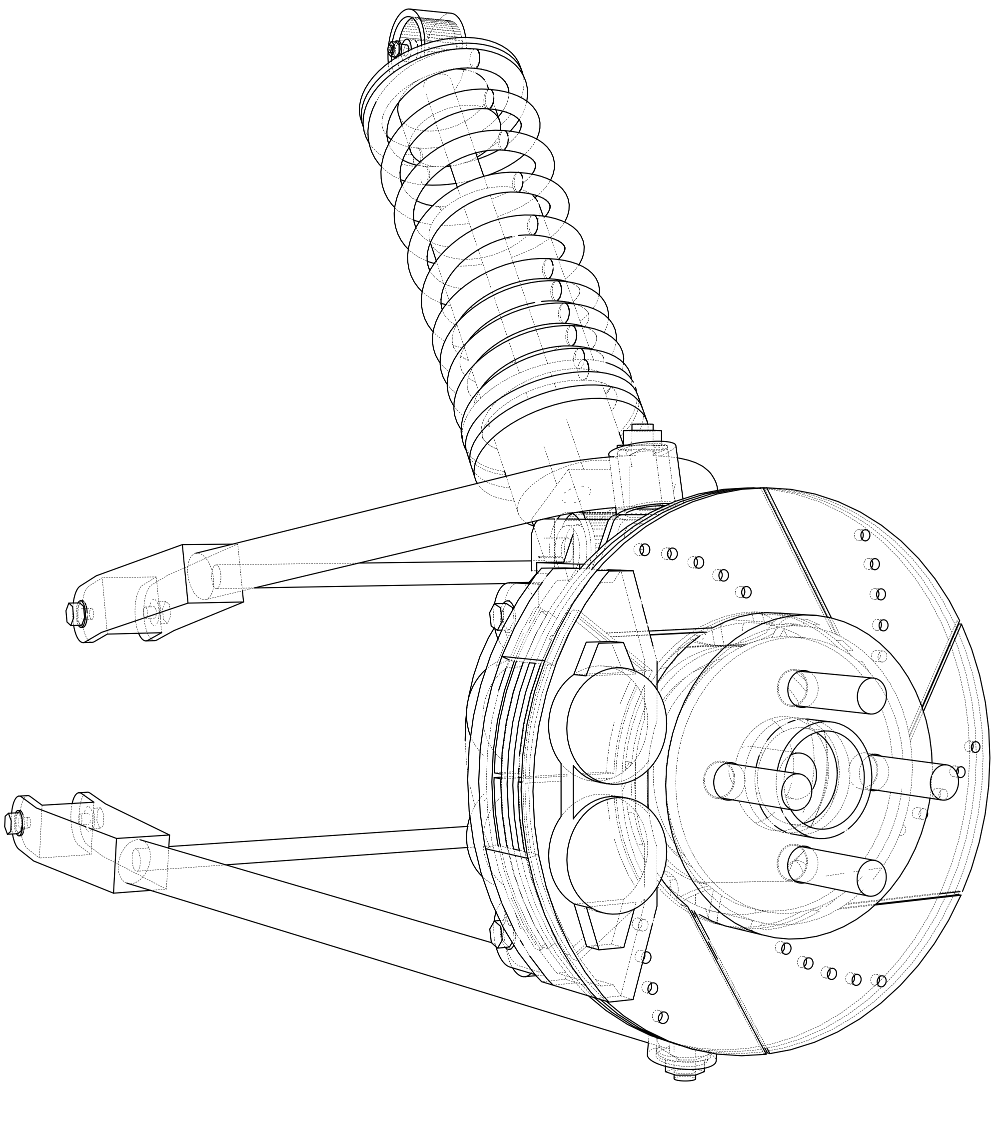
Materiality Trends from 2021	Relevant for 2022 Annual Report	Key Stakeholder Group
31. Education and skills building opportunities	Yes	Communities
32. Increased frequency and scale of natural disasters and poor preparedness	Yes	Communities
33. Environmental and social impacts from economic activities	Yes	Communities
34. Increasing importance of organisational reputation	Yes	Investors and shareholders
35. Declining trends in exports	Yes	Investors and Shareholders
36. Need to improve business resilience	Yes	Investors and Shareholders
37. Use of new technologies i.e. digitisation	Yes	Customers
38. Growth of MSMEs	Yes	Customers

Materiality Matrix



A few key stakeholder groups have no material matters mapped on to them. It is because the Bank first identifies its key stakeholders, and their stakeholder concerns by filling the Stakeholder information table above in the Stakeholder section.

The Management Discussion and Analysis section in this Annual Report will include details and analyses of the initiatives undertaken by the Bank during the period under review, in terms of various materiality issues.



MANAGEMENT DISCUSSION AND ANALYSIS

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Financial Performance Overview

During the year under review, DFCC Bank remained committed to providing high-quality, customer-centric banking services across the country, despite facing unprecedented challenges and a volatile economic environment. As a result of this dedication, the Bank's performance remained strong and resilient, though relatively modest compared to previous years.

This can be attributed to three contributory factors that had a combined cascading effect across the economy. Firstly, the foreign exchange crisis caused by the lingering effects of the pandemic, as tourism had come to a standstill, export earnings dwindled, and inward remittances reduced to a trickle. The second was the devaluation of the Sri Lanka Rupee (SLR) which led to runaway inflation and widespread economic hardship. The third and most important factor was the high interest regime, which impacted the entire economy while the banking sector was particularly hard hit.

In line with the Bank's corporate strategy and its stated goal of becoming one of Sri Lanka's most customer-centric, digitally enabled bank by 2025, a new T24 Temenos Core Banking System was implemented on 21 October 2021, along with a feature-rich online banking platform. This transition has resulted in an improved, digitally enabled banking service that is highly flexible, agile, and highly beneficial to customers.

The year saw an adverse impact on profitability due to increased impairment costs and provisioning. However, this situation should improve as impairment mitigation measures take further effect over the upcoming quarters. The fiscal policies of the Central Bank of Sri Lanka (CBSL) will support the impacts of already implemented tight monetary policy measures, preventing the buildup of aggregate demand pressures and anchoring inflation expectations, which will help to bring down headline inflation and support the economy in achieving its potential. The domestic banking system's foreign exchange liquidity has also shown some improvement due to increased inflows of export proceeds and workers' remittances. Collectively, these measures and impacts could help to build momentum for economic recovery in 2023.

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

The Bank's total assets grew by LKR 80,421 Mn, representing a 17% increase from December 2021. This growth included a loan portfolio increase of LKR 3,172 Mn, bringing the total to LKR 369,072 Mn, compared to LKR 365,901 Mn as of 31 December 2021, which represents a 1% increase. The Bank's deposit base increased to LKR 370,314 Mn as of 31 December 2022, compared to LKR 319,861 Mn as of 31 December 2021, reflecting a 16% increase. The Bank's CASA ratio, which indicates the proportion of low-cost deposits, decreased to 18.50% by 31 December 2022, compared to 31.25% in December 2021. The Bank's profit after tax decreased by 22% to LKR 2,513 Mn, and the earnings per share (EPS) decreased by 33% during the year 2022.

Income Statement Analysis

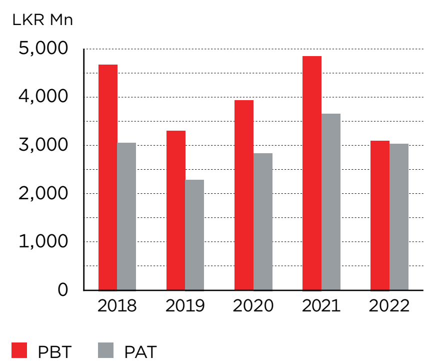
Profitability

DFCC Bank PLC, the largest entity within the Group, reported a Profit Before Tax (PBT) of LKR 2,439 Mn and a Profit After Tax (PAT) of LKR 2,513 Mn for the year ended 31 December 2022. This compares with a PBT of LKR 4,326 Mn and a PAT of LKR 3,222 Mn in the previous year.

The Group recorded a PBT of LKR 3,112 Mn and PAT of LKR 3,042 Mn for the year ended 31 December 2022 as compared to LKR 4,859 Mn and LKR 3,665 Mn respectively in 2021. All the member entities of the Group made positive contributions to this performance.

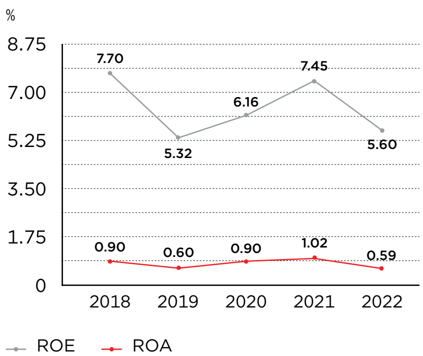
The Bank's Return on Equity (ROE) declined to 5.04% during the year ended 31 December 2022 from 6.55% recorded for the year ended 31 December 2021. The Bank's Return on Assets (ROA) before tax for the year ended 31 December 2022 is 0.46% compared to 0.92% for the year ended 31 December 2021.

GROUP PROFIT BEFORE AND AFTER TAX



FINANCIAL CAPITAL

ROA AND ROE (GROUP)



Net Interest Income

The tight liquidity conditions in the domestic money market have resulted in continuously rising market interest rates. As a result, the Bank's deposit and lending products experienced a significant increase in interest rates during the period under review. While the higher interest rates may have depressed the lending portfolio, it led to an overall improvement in Net Interest income (NII). In fact, the NIIs of the entire banking sector have grown dramatically due to the high lending rates.

The Bank's Net Interest Income (NII), which is its core business, increased by 106% to reach LKR 26.0 Bn by the end of 2022. The interest margin increased from 2.66% in December 2021 to 4.96% by December 2022, due to a 1,985 bps increase in the AWPLR over the past 12 months and the time lag in repricing existing deposits.

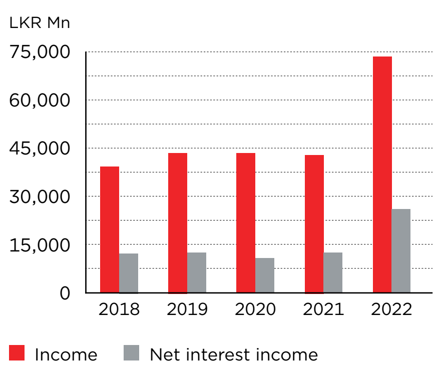
Fee and Commission Income

The untiring efforts of the Bank's staff led to an increase in non-funded business during the year, resulting in a rise in net fee and commission income to LKR 2,877 Mn for the year ended 31 December 2022, compared to LKR 2,596 Mn in the previous year.

Although trade operations were severely impacted in the early part of the year, they improved to a certain extent as more foreign funding became available. Additionally, inward remittances significantly improved enabling the Bank to accommodate more trade operations. Fee based business have shown a slight improvement in profitability due to the higher tariffs levied, though the actual volume of operations is lower than before.

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

INCOME (GROUP)



Other Comprehensive Income (OCI)

Changes in fair value of investments in equity securities and fixed income securities (treasury bills and bonds) and movement in hedging reserve are recorded through OCI. Due to the application of hedge accounting, the impact on equity due to changes in foreign currency rates was minimised. A fair value loss of LKR 4,506 Mn was recorded on account of equity securities outstanding as at 31 December 2022.

Impairment Charge on Loans and Other Losses

The impaired loan (Stage 3) ratio increased from 3.03% in December 2021 to 4.36% as at 31 December 2022. In order to address the current and potential future impacts of prevailing economic conditions on the lending portfolio, the Bank has made adequate impairment provisions during the year, by introducing changes to internal models to cover unseen risk factors in the present highly uncertain and volatile environment.

The main uncertainties regarding the recoverability of the Bank's total sovereign debt exposure relate to the debt service capacity of the Government of Sri Lanka. This is, in turn, affected by the development of the prevailing macroeconomic environment as well as the levels of liquidity of the Government. The ongoing debt restructuring negotiations with the International

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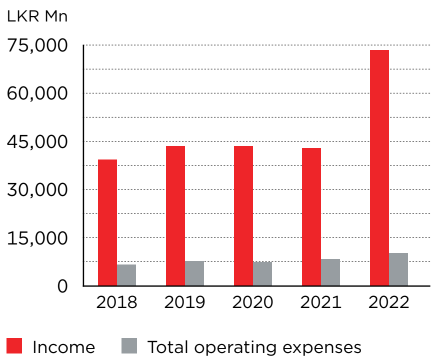
Monetary Fund (IMF) and the resultant comprehensive debt restructuring programme could have other adverse outcomes. Based on the currently available data, the Bank has used its discretion and informed judgment to estimate the recoverable value. Accordingly, it has been decided to maintain a minimum impairment provision cover of 35% of our overall sovereign debt investment.

With these provisions made to cover the additional risk in the economic environment, the impairment charge recorded an increase of 280% against the comparative period and stood at LKR 17 Bn for the year ended 31 December 2022 compared to LKR 4.5 Bn in the comparable year.

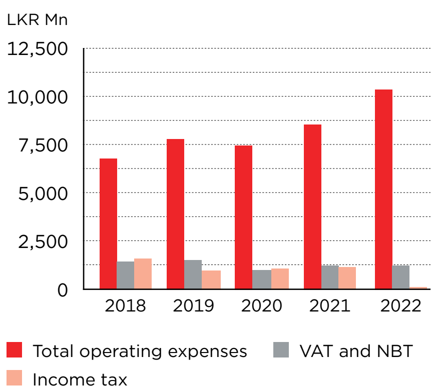
Operating Expenses

With the implementation of the core banking system during the last quarter of 2021, the Bank upgraded its IT infrastructure to provide multiple channels for service delivery to customers through a robust digital drive. Due to the increase in IT related expenses as a result of infrastructure upgrades carried out, and increases in cost due to inflation and SLR devaluation, the operating expenses for the year ended 31 December 2022 increased to LKR 10,117 Mn compared with LKR 8,381 Mn during the corresponding period in 2021. However, the numerous process automation and workflow management systems introduced during the period helped curtail and manage operating expenses at reduced levels.

TOTAL INCOME TO OPERATING EXPENSES – GROUP



EXPENSES (GROUP)



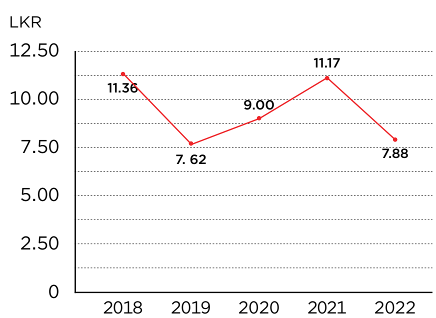
Profit After Tax (PAT)

The Bank recorded a PAT decrease of 22% to LKR 2,513 Mn for the year 2022 compared to LKR 3,222 Mn in 2021. The Bank's total tax expense, which includes financial services VAT and income tax is LKR 1,179 Mn for the year ended 31 December 2022. As a result, the Bank's tax expense taken as a percentage of operating profit for the year stood at 31.94%.

During the year there were revision to the tax legislations applicable to the Bank. Value added tax rate was revised to 18% effective from 1 January 2022. An additional tax charge of LKR 43 Mn in the year was attributable to the 2.5% Social Security Contribution Levy (SSCL) on value addition effective from 1 October 2022. The Bank computed the income tax liability for the first six months of the year of assessment 2022/23 by applying the income tax rate of 24% and the revised income tax rate of 30% for the balance six months. Inland Revenue (Amendment) Act no 45 of 2022 was considered to calculate the income tax liability for the second six months of the year of assessment. The deferred tax assets/liabilities of the Bank as at 31 December 2022 were computed using the revised income tax rate of 30%.

A newly introduced one off surcharge tax of LKR 1,232 Mn was paid by the Bank, calculated at 25% of the taxable income for the year of basement 2020/2021 and was directly set off against the opening equity in line with the Statement of Alternative Treatment (SoAT) on accounting for the surcharge tax issued by The Institute of Chartered Accountants of Sri Lanka.

EPS



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Financial Position Analysis

Assets

Despite the challenges faced by the economy and the banking sector, DFCC Bank's total assets increased by LKR 80,421 Mn, recording a growth of 17% from December 2021. This constitutes a loan portfolio growth of LKR 3,172 Mn to LKR 369,072 Mn compared to LKR 365,901 Mn as at 31 December 2021, an increase of 1%. The Bank did not pursue an aggressive lending growth strategy due to high inflation, currency depreciation and a rising interest rate environment. The Bank curtailed its foreign currency lending portfolio significantly during the year ended 31 December 2022.

The Bank has implemented several relief schemes in line with the Central Bank of Sri Lanka's directives to support those affected customers. The Bank's net asset value per share was recorded at LKR 125.96 as at 31 December 2022 compared with LKR 152.83 recorded as at 31 December 2021.

Liabilities

The liabilities increased by 18% over the previous year to LKR 515,205 Mn as at the year end. The Bank's deposit base also experienced a growth of 16%, recording an increase of LKR 50,453 Mn to LKR 370,314 Mn from LKR 319,861 Mn as at 31 December 2021. This resulted in recording a loan to deposit ratio of 108%. Further CASA ratio is 18.5% as at 31 December 2022. Funding costs of the Bank were also contained by using medium to long-term concessionary credit lines. When these concessionary term borrowings are considered, the CASA ratio further improved to 22.21% as at 31 December 2022.

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

Equity and Compliance with Capital Requirements

DFCC Bank's total equity increased to LKR 50 Bn as at 31 December 2022 with the recorded profit after tax of LKR 2.5 Bn.

With the objective of assisting the future asset growth of the Bank and to improve the capital ratios of the Bank, the Board of Directors have decided to issue up to eighty million (80,000,000) Basel III compliant, subordinated, listed, rated, unsecured, redeemable debentures with a non-viability conversion option, each at an issue price (par value) of LKR 100 with a term up to seven years' subject to obtaining all necessary regulatory and other approvals.

As at 31 December 2022 the Bank recorded Tier 1 and Total Capital ratios of 10.085% and 13.148% respectively. The Bank's Net Stable Funding Ratio (NSFR) was 126.55% and Liquidity Coverage Ratio (LCR) – all currency was 202.34% as at 31 December 2022. All these ratios were maintained above the minimum regulatory requirement.

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 the stressed economic situation.

Dividend Policy

The banking industry faced many challenges during the year from both the business and regulatory fronts due to the global pandemic. The adverse business environment caused 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 2.00 per share in the form of a scrip dividend for the year ended 31 December 2022, balancing the needs of shareholders with business plans. Accordingly, the dividend payout ratio for the year ended 31 December 2022 is over 33% on the distributable profit.

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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 2022 were accounted for in all Group entities. Financials of the 31 March entity were subject to a review by its External Auditor covering the period reported.

The Group made a profit after tax of LKR 3,042 Mn during the year ended 31 December 2022. This is compared to LKR 3,665 Mn made in the year 2021. DFCC Bank accounted for majority of the Group profit with profit after tax of LKR 2,513 Mn, while LINDEL (LKR 224 Mn), Acuity Partners (LKR 332 Mn), Synapsys (LKR 56 Mn), and DFCC Consulting (LKR 24 Mn) contributed positively by way of profit after tax to the Group. In the previous year, Synapsys, Acuity Partners, DFCC Consulting, and LINDEL reported profit after tax of LKR 1.7 Mn, 293 Mn, LKR 5 Mn, and LKR 238 Mn respectively. The associate company, NAMAL, contributed LKR 0.74 Mn to the Group, a decrease from LKR 3.8 Mn in the year 2021. An Inter-company dividend of LKR 90 Mn was paid to DFCC Bank by LINDEL.

DFCC BUSINESS UNITS IN 2022

Retail Banking and SME

The Retail Banking and SME Unit provides a range of services to individual customers as well as SMEs and MSMEs. This includes a range of loan schemes provided at flexible conditions in addition to other services, with the help of the Bank's extensive branch network.

Card Operations

DFCC Bank offers its customers a range of secure, personalised card options. The Bank leverages the latest technology and forges partnerships to support its Merchant Acquiring Business.

Corporate Banking

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

International Banking

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

Treasury and Resource Mobilisation

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

Bancassurance

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

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Retail Banking and SME

Liabilities

Regulator mandated high interest rates resulted in an exponential growth of 21.5% in the liability base over 2021. The Bank focused on growing its retail liabilities while broad-basing the clientele by reaching out to hitherto untapped segments, including a renewed focus on women's banking propositions.

Campaigns and Initiatives

The regulatory mandate that prevailed during the year enabled the Bank to introduce special Fixed Deposit (FD) rates for 100, 200 and 300-day deposits while an extra special rate was offered for five-year FDs. A competitive rate was also offered for foreign currency deposits in a bid to attract much-needed FOREX liquidity to the country. These initiatives were underpinned by a Mega Street Campaign that was conducted island-wide.

DFCC Junior Campaigns at selected schools augmented the Bank's commitment to education, and gearing up the next generation to become future leaders.

Deposit Champions were appointed per Branch while a specialised team addressed the Current Account Transaction operation related issues. The Deposit Rate App Sheet speeded up the approval process and turnaround time to the customer. Encompassing the diversity of the customer base in its core value, the *Garusaru* Gift Scheme was streamlined to ensure that benefits to senior citizens were duly granted.

M-Teller

M-Teller collections doubled in 2022 over 2021 and the staff attached to the Deposit Mobile Teller (DMT) unit increased from 45 to 75. Average transactions per month increased by 74% while the average value per transaction increased by 60%. Similarly, a 48% increase was seen in this average collection per M-Teller.

Outlook for 2023

The economic downturn resulted in heightened NPL factors on several fronts as consumers battled to balance their budgets between the rising cost of living and loan servicing. Given that, the Bank has offered a great deal of flexibility and support to its customer base in these turbulent times. In 2023, CASA will be a key focus area of the Retail Banking arm, in order to meet the versatile needs of the growing customers. The propositions and the savings products will be revamped with enhanced features and benefits. Year round attractive card deals and promotions will be offered to increase the card base while increasing the card holder's spending.

Export financing will also be a key focus area in attracting foreign currency to the country. We will continue to promote credit schemes with the assistance of ADB, CBSL (GOSL), DFC, etc, while enhancing service offerings with the launch of SME propositions to facilitate SME growth.

We are committed towards continuous improvement on service efficiencies to provide unmatched customer experience.

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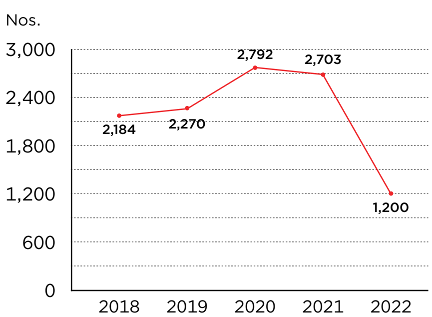
MSME Sector

In the downward economic trend of the year under review, it was the medium to small enterprise sector that was gravely and adversely impacted, given their business model and their limited resources. Recognising the need to offer the segment relief, the Bank initiated a loan restructuring programme and a debt moratorium, which greatly benefitted the impacted group.

NUMBER OF NEW MSME CUSTOMERS



The Bank offers a range of products to suit different segments of the MSME sector, which are;

- *Sahaya* Small Business Loans
- NCRCS and SAPP Refinance Loans for the agriculture sector
- Supplier Financing Schemes
- *Ethera Saviya* Loan Scheme – for skilled migrants
- Bio Gas Loan Scheme – as a solution to the energy crisis and fertiliser crisis
- Leasing.

Female Empowerment Through the MSME Department

Currently, over 40% of the MSME customer-base represents women entrepreneurs mainly engaged in sectors such as tea, dairy, crop farming, mini garments and beauty culture. ADB funded loans under concessionary rates were disbursed among the women led enterprises. DFCC *Aloka* is specifically designed to support women entrepreneurs to launch mainstream business.

DFCC *Aloka* Initiatives

Several programmes were carried out by DFCC *Aloka* that provided a special platform for the women entrepreneurs to network with each other while serving the community.

International Women's Day

An informative and an exciting event was carried out on 8 March 2022 to commemorate International Women's Day, attended by *Aloka* customers and staff members. CEO Thimal Perera addressed the gathering emphasising the Bank being an equal opportunity employer while *Aloka* offers women the opportunity to engage in their businesses with ease.

The number of participants was limited due to residual pandemic issues and the event was aired on the DFCC YouTube channel, LinkedIn and Facebook pages facilitating many viewers to be part of the programme.

"*Avurudu Kumari*"

Selecting manufacturing plants regionally across the island, DFCC *Aloka* crowned the *Avurudu Kumari*, sponsoring the *Avurudu* celebrations at those locations.

"Visit Kandy" Promotional Campaign

DFCC Bank partnered with "Visit Kandy 2022" organised by the Kandy City Centre to coincide with the *Dalada Perahara* as the Official Banking Partner.

Providing yet another opportunity for the MSME customers, four customers from the Katugastota Branch were selected to participate in the event. The campaign was held from 10-13 August at the KCC lobby and the customers displayed their products such as apparel, jaggery, leather products, and spices in their stalls. MSME officers actively participated in the event along with staff members from the branches in the Kandy Region.

Galle District Women Chamber of Commerce AGM 2022

The Galle District Women Chamber of Commerce (GDWCC) concluded its AGM on 27 August 2022 with the participation of over 100 female entrepreneurs from all walks of life. DFCC Galle branch and DFCC *Aloka* took the initiative to partner this event by sponsoring it, creating visibility for the Bank in the Galle Town.

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WCIC Women Entrepreneur Awards 2022 Powered by DFCC *Aloka*

DFCC Bank partnered with the Women's Chamber of Industry and Commerce as the Platinum Sponsor of WCIC Women Entrepreneur Awards 2022, powered by DFCC *Aloka*.

Workshop for MSME Women Entrepreneurs in Kurunegala

DFCC Bank organised a workshop on entrepreneurship development for small and medium scale women entrepreneurs in and around the Kurunegala area. The workshop was successfully held on 19 March 2022 at the Hotel Indoora, Kurunegala with the participation of over 75 women entrepreneurs. The programme provided training for the participants on record keeping, financial management, entrepreneurship, networking and marketing, including digital marketing tools, as well as value-added food processing. The training was delivered by Dr Rukmal Weerasinghe, Chairman, Centre for Entrepreneurship and Innovation of the University of Sri Jayewardenepura and Ms Nirmala Wijeratne, of Sunshine Food and Creations.

The sessions were well received and appreciated by the participants and the Bank is pleased of this contribution to a segment that is increasing in volume and growth.

Partnership with Durdans Hospital to Offer Exclusive Medical Benefits to *Aloka* Customers

This allows exclusive medical packages at attractive discounts to the DFCC *Aloka* customers, who will be entitled to discounts on dental procedures, cosmetic procedures, and room rates on hospitalisation.

Partnership with AMRAK Institute of Medical Sciences to Extend Special Discounts to *Aloka* Customers

Selected top achievers will be awarded fully sponsored scholarships through this scheme.

DFCC *Aloka* Sponsored WCIC Santa's Village

DFCC *Aloka* supported yet another initiative by the Women's Chamber of Industry and Commerce, encouraging and supporting female entrepreneurs across the island by facilitating the "Santa's Village" – a Christmas fair.

DFCC *Aloka* Pocket Campaigns

The branch network conducted over 300 pocket campaigns at Regional and Branch level to take the DFCC *Aloka* female centric savings account to all Sri Lankan women across the country.

Introduction of the Biogas Project for Dairy Farmers

A partnership was formed with the National Innovation Agency (NIA) to promote biogas technology to create awareness on sustainable alternative energy sources. Through this partnership, DFCC Bank has provided a special loan product to purchase biogas technology for dairy farmers. The Bank has planned to conduct a series of awareness campaigns targeting the dairy farmers based in the North-Central Province.

Outlook for 2023

In the year 2023, the Bank plans on exerting greater efforts in promoting the refinance and subsidy schemes financed by multiple funding agencies such as CBSL (GOSL), ADB and IFAD to provide lending to the agricultural, manufacturing and services sectors. It also plans to introduce a digital ecosystem to assist the farming community and agribusinesses to develop their entrepreneurial skills, in addition to providing sustainable marketing, supply chain, and payment solutions.

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Credit Cards and Merchant Acquiring Business

The card issuing business made good progress in 2022. The cards in force grew steadily, cardholder spend increases were seen across daily essentials and the portfolio grew at a formidable pace. Several card promotions were introduced to spur spending and new products such as; *Aloka* debit/credit card for females and a new partner was added to the Affinity credit card product. With the current economic trends, the Bank introduced a number of controls to mitigate the risk with a focus on improving credit quality.

The Balance Build Up Products were curtailed and certain relaxations were introduced during the fourth quarter keeping the seasonal spend in mind. Throughout the year a variety of promotions were introduced, whether at popular outlets, travel and holidays or via online portals to cater to the spending patterns of the customers. The Back to School Easy Payment Plan was relaunched to assist parents pay school fees and a first of its kind seasonal promotion in Sri Lanka the "Make a Wish" campaign was launched targeting new card acquisitions and spend.

Similarly, the sales volume of the Merchant Acquiring Business increased rapidly as the Bank focused on using this channel to improve CASA balances and it was complemented with a significant number of new merchants being acquired. The Bank partnered with JCB to accept international cards via DFCC ATMs, while UnionPay card acceptance was enabled at point of sale machines. The need for development of digital-based solutions and expansion of e-commerce resulted in the launch of two major Internet Payment Gateways, Mastercard Payment Gateway and Paycorp. The Mastercard Payment Gateway Service platform enabled the acceptance of digital transactions through Visa and Mastercard whilst Paycorp allowed the acceptance of American Express, UnionPay and Diners cards through Paycorp Payment Gateway Services Platform. An aggregator arrangement was established to offer Easy Payment Plans on websites.

Outlook for 2023

The Bank will focus on key projects such as achieving Payment Card Industry Data Security Standards compliance, Visa, UnionPay and Mastercard acceptance on ATM's, migration to a new debit card switch and enabling Application Programming Interface (API) access for QR transactions on point of sales machines and websites. Further, introducing new Affinity partners will be taken forward with the issuance of new co-branded credit cards.

Bancassurance

Forging relationships with customers, offering them tailor made products in their lifetime and ensuring their loved ones are supported in case of an eventuality, are done with great care and thought by the Bank, through its Bancassurance channel offered at affordable group rates to its customer base.

The partnership formed with AIA Insurance in 2016 continues to add value to the customer base as the range of life insurance products offered to them has widened to include education protection for children, in these difficult times. Together with the addition, the Bancassurance product currently includes an attractive suite, to cater to the diversified needs of the customers.

Life Insurance Products

1. AIA Easy Pensions Plus*

A pre-packaged retirement plan with the option of selecting from 6 packages at the customers' convenience. An in-built Life Benefit is available in each package along with an Accident Benefit. Also, AIA will continue the policy by paying premiums on behalf of the customer, if the customer passes away or becomes totally and permanently disabled. The pension fund will be boosted with a Loyalty Reward of up to 8 times (800%) of the Annualised Basic Premium. Further, customers can choose to receive the Maturity Benefit as a lump sum or as a monthly pension or as a combination of both.

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2. AIA Smart Pensions Plus*

A comprehensive pension plan with the choice of selecting the pension fund at maturity as a lump sum or as a monthly income or as a combination of both. AIA will continue the policy by paying premiums on behalf of the customer, if the customer passes away or becomes totally and permanently disabled. A professionally managed pension fund increased further by a loyalty reward up to 1,650% of the Annualised Basic Premium. Customers have the ability of adding the optional benefits such as Accident Benefit, Critical Illness Benefit, Permanent Disability Benefit, Adult Surgery Benefit, Hospitalisation Benefit, Health Expense Cover, etc.

3. AIA Health Protector*

A worldwide coverage on hospitalisation expenses up to LKR 50 Mn which allows the best healthcare in the world. AIA Health Protector provides the convenience of cashless hospitalisation at over 60 hospitals in Sri Lanka and overseas. Further, this gives coverage for 37 illnesses including cancer, stroke, heart attack and kidney failure and worldwide coverage for 250 surgeries and 136 one-day surgeries. Inbuilt benefits such as coverage for wellness, dental, maternity and hospitalisation in ayurvedic hospitals are also available. This includes an in-built Life Benefit and Accident Benefit so that customers can enhance the protection of their loved ones.

4. AIA *Suwa Diriya**

A life insurance plan which provides coverage for 4 major common critical illnesses (heart, cancer, kidney failure and stroke). This covers a specific set of minor heart related illnesses, surgeries and early-stage cancer. Also, “Recovery Benefit”, which provides a monthly income during the recovery phase of a critical illness (in the event of a claim due to major heart disease, major stage cancer, stroke or kidney failure).

5. AIA Super Protector*

A personalised solution with affordable premiums for the protection needs of all Sri Lankans. This provides the ability to select a Life Benefit between LKR 1 Mn to LKR 500 Mn whilst the Life Benefit increases by 5% at each Policy Anniversary (on a simple straight-line basis) until the end of the Policy Term or until a death claim is made. AIA Super Protector has 6 optional benefits to select in order to customise the protection (Accident Death Benefit, Permanent Disability Benefit, Family Income Benefit, Critical Illness Benefit, Returning of Premiums Paid Benefit and Premium Protection Benefit).

6. AIA Education Plan*

A life insurance product specifically designed to safeguard children’s education dreams. AIA Education Plan has a fund that will earn dividends each year so that the education fund continues to grow over time. This also includes an in-built Life Benefit and an Accident Benefit so that customers can enhance the protection of their loved ones. The education fund will be boosted by adding loyalty rewards up to 400% of the Annual Basic Premium on the tenth policy anniversary.

7. AIA Smart Wealth*

A life insurance product specifically designed to create, manage and protect the wealth of Sri Lankans. AIA Smart Wealth provides a long-term protection for a short premium paying term or a single premium. This has a unique dividend system that ensures continuous growth of the fund each year with the ability to claim the fund at maturity as a lump sum or as a monthly income or as a combination of both. The in-built Life Benefit can be selected of up to 50 times the Total Annualised Premium. Moreover, AIA will continue the policy by paying premiums on behalf of the customer, if the customer passes away or becomes totally and permanently disabled.

8. AIA She Protect*

AIA She Protect is a comprehensive life insurance plan, specially designed to protect Sri Lankan women. This is a personalised solution with affordable premiums for women’s protection needs along with the ability of customising the protection with 6 optional benefits that cater to individual needs and expectations.

These long term insurance products are issued and underwritten by AIA Insurance Lanka Limited (AIA Sri Lanka) and offered to the customers of DFCC Bank through the Bancassurance partnership DFCC Bank has with AIA Sri Lanka.

*Please refer the policy document for more details on benefits, applicable terms and conditions, exclusions, etc.

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General Insurance

Bancassurance includes a provision of general insurance packages that serve professionals, SMEs and segments of the large corporates supporting the businesses with a long term vision.

Motor insurance includes a private car, commercial vehicle, motorcycle and trade plate insurance, while Fire and Engineering Insurance includes, a Private Dwelling and House Fire Insurance, Commercial Fire Insurance, Plant and Machinery and Contractors All Risk Insurance.

Customer centricity being the core concept, the Bank facilitates this repertoire of tailor made products to its customer base through its insurance service provider, such as, Title, Travel, Surgical, Workmen's Compensation, General Accidental, Fidelity Guarantee, Marine Imports, Marine Exports, Marine Goods in Transit, Marine Open Cover, and Hull Insurance.

Bancassurance Income Generation

Bancassurance business generated LKR 210 Mn net income for the year 2022. The Gross Written Premium (GWP) generated under General insurance business stood at LKR 1 Bn, while Life insurance premium stood at LKR 400 Mn, (ANP – Annualised New premium). The bancassurance business facilitated claims worth of LKR 226 Mn in 2022 which accounted for 436 cases.

Initiatives

In the year under review, the Bank launched the "Banca Champion" Campaign, the revamped CEO Club 2022, digital lead-generation application, SMS campaigns and social media campaigns on Life Insurance products. An inter-branch competition was launched under the theme, "Bancassurance Retail Challenge" and an island-wide "Banca-Month" programme too was conducted successfully in the third quarter of 2022. An Executive Development Programme for selected DFCC staff was conducted by PIM – Sri Lanka, as part of raising the skills of staff under the DFCC-AIA partnership during 2022.

Corporate Banking

Expertise across diverse industry sectors, the ability to structure large and complex deals and long-term customer relationships underpin our position as a leading Corporate Bank in the country. The Corporate Banking Unit's portfolio comprises multinationals, large corporates, middle market enterprises, public sector organisations, as well as non-banking financial institutions. The ability to deliver value in a timely, effective, and industry-specific manner has garnered over 500 corporate customers for the Unit, as of 2022.

Harnessing the resources of a cross-functional team of highly experienced and qualified personnel, the Unit offers a range of solutions to its customers. These include: working capital financing, trade finance, project and term funding, cross-border financing, corporate financing and investment banking, in addition to liquidity and cash management solutions.

Performance in 2022

Overcoming the obstacles that have beset the Sri Lankan economy in general and the banking industry in particular, the Corporate Banking Unit performed significantly well, including consolidation in its asset growth and impairment management. The unit recorded a CASA ratio of 32% as at end December. Operating Income of LKR 6.1 Bn was achieved despite pressure on income of both funded and non-fund bases due to various concessions given during the year

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and due to the prevailing economic conditions. Strong focus on supporting the exporters, Trade Finance and Cash Management, focus on fee based income, on-boarding quality premium segment customers, cross-selling and focus on profitability enabled the Unit to record sustainable revenue and portfolio growth.

Outlook for 2023

Sri Lanka's economy is expected to face challenges, based on the envisaged debt restructuring programme, implementation of structural reforms, privatisation of loss-making State-Owned Enterprises, and economic adjustment programmes supported by the International Monetary Fund (IMF). Anticipated growth in the tourism sector, improvements in exports and inward remittances, as well as the Government's focus on increasing Foreign Direct Investments are likely to positively impact economic growth. The Unit will focus on maintaining asset quality, managing impairments and driving CASA and fee based revenue. Propositions are in place for relationship management, promoting transaction banking and improving process efficiencies to ensure sustainable growth of the business. Aligning with the overall growth strategy of the Bank, Non-Funded Income (NFI) remains a key focus area.

Trade Finance for exporters, working capital, and sustainable finance will be key focus areas for 2023. In partnership with the Banks' joint venture, Acuity Partners, the Unit will look to support customers with Corporate Finance and Investment Banking services as well. As mentioned above, the Unit will continue to focus on driving CASA, especially the acquisition of operating and current accounts of customers by leveraging the Payments and Cash Management proposition which was voted by customers as the Market Leader and Best Service in Cash Management for 2022 in a survey conducted by the prestigious Euromoney Magazine.

Treasury

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

The Treasury Front Office (TFO) is the main income generating unit. The TFO, which comprises a highly experienced team of dealers, generate revenue through trading in foreign exchange and fixed income securities, income through customer-related transactions and interest income from investment. The Unit also manages the Bank's liquidity ratios and other key regulatory ratios. The TFO reports directly to the Head of Treasury. Treasury Middle Office (TMO) independently reports to the Chief Risk Officer (CRO). TMO engages in risk monitoring and reporting of TFO activities on the basis of Board-approved limits, controls and regulatory guidelines. Treasury Back Office (TBO) comes under the purview of the Head of Finance/ Chief Financial Officer (CFO). TBO is responsible to prepare, verify and settle all transactions carried out by the TFO.

Performance in 2022

The Treasury Unit was able to contribute significantly to the Bank's bottom line under extremely challenging macro and micro environments. Customer related transaction volumes were impacted due to tough economic conditions. The continuation of the economic crisis suppressed potential revenues. Despite these challenges, Treasury was able to deliver a seamless service to the customers through the use of digital channels while ensuring the said revenue targets were achieved.

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During the latter part of 2021, DFCC Bank was able to raise long term funding of USD 150 Mn from the United States International Development Finance Corporation at very competitive terms. The Treasury Department was able to successfully hedge the proceeds of the same enabling on-lending to SME, MSME and Women led enterprises at concessionary rates while ensuring steady revenue streams throughout the year.

Outlook for 2023

It is expected that the economic conditions will improve in the coming year. The Treasury Department of the Bank is confident that it will be able to capitalise on the market opportunities.

Investment Banking

Previously known as the "Resource Mobilisation Unit", the unit was renamed in 2022 as the Investment Banking Unit to reflect its expanded role within DFCC. In a volatile market, the Investment Banking Unit is well-equipped and highly skilled to offer the customer quick turnaround times with flexible documentation optimising customer benefits in a timely manner.

The Unit continued to manage the Bank's Quoted share portfolio which is booked under Fair Value through Other Comprehensive Income (FVTOCI) and Fair Value through Profit and Loss (FVTPL) in a profitable manner despite the overall market losing over 30% (All Share Price index) during the year.

In the year 2022, LKR 3,620 Mn was raised through a Rights Issue strengthening the Capital ratio of the Bank.

With customer-centricity as its primary focus, the Unit engages in sourcing medium to long term funding, managing the Bank's Equity and Unit Trust portfolios, Margin Trading Business, and the Underwriting Business, while acting as the coordinating point for matters relating to Capital Raising and National and International Ratings for the Bank.

On the Margin Trading Portfolio, the existing customers continue to hold the limits with reduced exposure in order to strengthen their portfolio to the high volatile market conditions. We are confident that with the expected improvement in the stock market conditions the clients would enhance their positions according to their capacity and borrowing power.

Outlook for 2023

The Bank will continue sourcing funds from domestic and external channels to support the growth plans. Custodian Banking Services are planned to be launched in 2023. The Bank is confident that the Sri Lankan Equity market will have a steady growth in the coming year.

Trade

In an operating environment that continued to impact imports adversely, the Bank pivoted its operating model and focused on growing the available opportunities and exploring untapped market segments, to maximise its trade business.

This strategy worked well, as by the end of October 2022, the fee income generated from trade business surpassed LKR 800 Mn, which is a contribution of 35% of the overall fee income of the Bank.

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Initiatives

To achieve this, the Bank took a number of initiatives including the signing of a Memorandum of Understanding (MOU) with the National Chamber of Exporters and the publication of DFCC advertorials in their quarterly magazine, thereby heightening the Bank's visibility among the relevant trade groups.

The volatility of the market and economic trends were minutely scrutinised by the team at Trade Business Development Unit that made timely visits to potential business segments while speedily tapping into the cinnamon exporters segment where increased activity was shown.

The challenges are yet to abate to a level where import activities could resume at a reasonable level, given the scarcity of foreign exchange. Facing headwinds with commitment and diligence, the Bank is confident that the Trade business will experience a revival at a higher level, when the economy stabilises to a reasonable position as expected in the year 2023.

Institutional Business Development

Several new corporate relationships were secured by the Institutional Business Development Unit in 2022 that added strength to the Bank's institutional business portfolio.

In its relentless efforts to be customer-centric, the Bank partnered with the Ceylon Petroleum Corporation (CPC) with collection accounts, where the CPC's supply chain could deposit funds directly and place orders for their fuel consumption. This initiative significantly eased the burden on the Bank's customers during the acute fuel shortages as well as the Bank's collections achieving a significant improvement within a short timeline.

Taking a futuristic view, the Unit entered into strategic business partnerships with institutions such as the Ceylon National Chamber of Industries (CNCI), Industrial Development Board (IDB), Sri Lanka Association for Software Services Companies (SLASSCOM), and the National Innovation Agency (NIA) during the year, which was mutually beneficial for all concerned.

Outlook for 2023

While enhancing opportunity in the businesses onboarded in 2022, the unit will be focused on new tie ups to increase collection, FCY with offshore banking and BOI registered companies and sustainable business in 2023.

Lanka Money Transfer

DFCC Bank has accomplished remarkable growth in LMT (Lanka Money Transfer) for the year 2022 despite the adverse socio-economic conditions that prevailed in Sri Lanka. As of December 2022, the Bank achieved a total of 36,135 transactions with a healthy turnover of USD 39.278 Mn.

Despite unfavourable political, social and economic conditions, the Bank was able to achieve notable results, as the strategies adopted during the crisis paid off in the long term. The Bank sought to support Sri Lanka's efforts to increase foreign remittances by offering a cash reward scheme in the generation of foreign exchange through authorised banking channels.

Further, the Bank successfully launched a pre-departure loan to overseas job seekers to pay off their visa fee, ticket cost and agency fees. The placement of staff members in UAE and Israel have paid off in increasing the Bank's market share.

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International Trade and Remittances

DFCC Trade and Remittances Department consists of four units namely Imports, Exports, International Remittances and Correspondent Banking. This structure ensures efficient delivery of services to internal and external customers of the Bank. Apart from the above, the operational functions of Lanka Money Transfer, which handles worker remittances brought into the country, are executed by the Trade and Remittances Department.

Confidently Facing the Headwinds

Even though the negative impact to the economy from the pandemic started to reduce gradually during 2022, the political instability and regulatory restrictions imposed to curtail foreign currency outflow, resulted in a considerable setback for the import and remittance business. Furthermore, defaulting repayment of sovereign debts and downgrading of the country's credit rating by the international credit agencies was an added burden on an already fragile economy which created obstacles in facilitating trade transactions through global banks.

Notwithstanding this crisis and resultant setbacks, the Bank facilitated many Foreign Currency transactions for our customers. While attending to our customers import requirements, the Bank was also able to facilitate importation of food items, pharmaceuticals and petroleum products which contributed towards fulfilment of the country's essential import requirements.

Due to the nature of the tasks carried out, such as examining physical documents and issuing the same to customers, the Trade and Remittances Units require physical presence of staff at the office premises and any delay could cause financial losses to customers. Therefore, even with the difficulties experienced in transportation due to scarcity of fuel, the department ensured availability of sufficient staff at office in order to provide uninterrupted services to the Bank's customers.

The Correspondent Banking Division played a commendable role in strengthening the existing relationships and onboarding new correspondent relationships with international banks, at a time when the country was faced with issues due to defaulting of sovereign debts and downgrading of the Country's national rating. This timely act of the Correspondent Banking Division was very important to us since global trade transactions were faced with many hindrances due to the prevalent economic constraints of the country.

Despite the above setbacks, the Trade and Remittances Unit helped the Bank generate LKR 1.106 Bn and to achieve the fee and commission income allocated to the trade business. The International Remittance Unit was able to generate LKR 559.76 Mn which is a significant increase in fee and commission income compared to the previous year.

Outlook for 2023

The Trade and Remittance department consists of experienced and committed staff equipped with the required knowledge, and will continue to provide necessary guidance and customised solutions thereby assisting the local businesses expand globally, contributing to the growth of the country's economy.

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Institutional capital at DFCC Bank encapsulates the intangible, non-financial aspects of the organisation, such as its accumulated knowledge, systems and processes, corporate culture, values, and brand. Collectively these contribute to the Bank's value creation process and performance, which shape its unique work style and culture, as well its distinctive identity.

Organisational Knowledge

Since its very inception, DFCC Bank has amassed a vast body of knowledge including systems, processes, and protocols that define its way of doing business. The Bank's accumulated knowledge is perpetuated by in-house experts who educate and mentor staff on various aspects of banking. Through this collective learning, senior staff members pass on their knowledge to the next generation. The Bank's intranet, WeConnect, serves as a repository of policies, knowledge, procedures, and regulations that staff can access with ease. Through these efforts the Bank promotes a culture of learning and remains true to our tagline, "Keep Growing".

The transfer of knowledge from an outgoing staff member to a new employee is facilitated through a formal handover process. This process involves the outgoing staff member sharing their understanding of job processes and procedures with the incoming employee. The supervisor also plays a role in guiding the new employee and offering additional support as needed. Additionally, a work buddy system has been established to provide new employees a support network to assist them to integrate better with the workplace as well as acquire the necessary level of comfort and confidence in their new job roles while formal onboarding and familiarisation sessions are also conducted for all new entrants to the Bank.

Furthermore, the Training Unit of the Bank provides access to varied knowledge sharing and learning and development opportunities through classroom and virtual sessions, the e-learning platform, job rotations, special assignments, etc. to enable employees exposure to internal as well as external experts, thereby providing them with access to varied thinking as well as information on new developments.

Corporate Culture

DFCC Bank's core values form the pillars of our corporate culture and are intrinsic and integral to the Bank's interactions with all stakeholders. These core values comprise ethics, customer-centricity, innovation, professionalism, accountability, team orientation, social responsibility, stewardship and diversity, equity and inclusion (DEI), with the latter two being introduced in 2022. New employees undergo intensive orientation intended to inculcate the Bank's values and expected behaviours. Regular refresher programmes are organised to reinforce these values among all employees.

In 2022, an intensive internal communication effort was launched to enhance staff awareness of the company's values and expected behaviours. This included the use of electronic direct mail (EDMs), employee testimonials, and videos. The CEO emphasised the importance of these values in his inaugural address to staff and further emphasised them during his visits to regional branches. The CEO also communicated updates through various meetings, forums, and a periodic bulletin.

In line with the introduction of the diversity, equity, and inclusion (DE&I) value, the existing secure environment framework was reviewed and broadened in scope. Employees were educated on the new DE&I policy through flyers and interactive means such as quizzes. The policy is also easily accessible to all employees on the Bank's intranet. Ensuring a safe and secure environment free of harassment and bullying as well as focus on the mental and physical well-being of our staff continue to be areas of strong priority.

DFCC Bank actively fosters a work environment that is inclusive, open and supportive, promoting diversity of opinion and transparent communication through a multitude of varied channels. We pride ourselves on enabling transparent, equitable and inclusive opportunities for all which encapsulates all aspects of the employee journey including reward and recognition, access to learning, career advancement, performance management, etc.

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Integrity and Ethics

The Bank's operations are guided by a strong foundation in ethics and integrity, which are strictly observed in all its business dealings and relationships. These aspects are integral to all areas of the Bank's functionality, including relationships with employees, business partners and customers. Aspects such as honesty, fairness, trust and respect are intrinsic to all the Bank's operations, processes and practices. A Whistleblowing Policy is in place for employees to report instances of ethical violations, and cross-functional committees and other mechanisms have been established for employees to raise their concerns.

Digital Banking Strategy and Innovation

DFCC Bank based its digital strategy around six key pillars: digital channels, digital payments, digital operations, digital services, digital analytics, and DFCC Agile, the Bank's innovation centre of excellence (established in 2021). These six pillars serve as the foundation and starting point for the various products and services introduced over time. The Bank's digital strategy roadmap is aligned with its aim of becoming the most customer-focused and technologically advanced bank by 2025. The methods and strategies for achieving this roadmap continue to evolve as new technologies emerge to meet changing customer needs.

The Bank's strategy for digital banking and innovation resulted in a range of new concepts and products being developed and tested by workstreams through DFCC Agile. To support the innovation roadmap, 25 internal teams participated in immersion sessions, leading to the creation of a roadmap with 9 themes and 79 recommendations, along with 5 quick-win activities by way of collaboration with external innovation partner Innovation Quotient (Pvt) Ltd. In addition, 45 staff members received training in design thinking and the process is being integrated into the new product development policy. Seven teams presented solutions for investment review and approval by the leadership team, with 49 recommendations grouped into 7 workstreams for development and implementation.

34 staff members were awarded certificates based on evaluation by the trainers and peers. Training was conducted by experts from the Innovation Quotient (IQ) team with whom the Bank collaborated. This workshop is part of the DFCC Agile Innovation Centre of Excellence project to introduce designing thinking methods and tools to help develop value propositions, solutions to effectively manage the challenges of the modern marketplace caused by automation, adoption of artificial intelligence, leveraging big data, emergence of new entrants and rapid changes in consumer behaviour. The approach was through offline and online clinics which covered identifying a value proposition, testing, building prototypes, business case preparation, pitching the story for investment and business integration.

The Business Technology Road Map and Data Evangelism workstream were also initiated as part of the DFCC Agile program which is ongoing. Two quick-win initiatives were launched and resulted in the introduction of new products and services, such as the "Wish Engine" campaign and improvements to the use of digital touchpoints and content creation for the marketing and business teams. The design thinking process will also be incorporated into the new product development policy, with 5 new products, services, and processes to be launched during the year 2023. Staff are strongly encouraged to share ideas, recommendations via multiple channels that are reviewed by internal teams. Investment for innovation and collaboration was approximately LKR 12 Mn during 2022.

Given below are the noteworthy improvements to our digital infrastructure.

- ATMs: new offsite ATM at MAS Fabric Park was launched to support the communities.
- CRMs: 16 new CRMs deployed. Total CRMs live have risen to 80.
- Cheque deposit kiosks: 7 new cheque deposits kiosks deployed.
- Pay&Go Kiosks – 5 Pay&Go machines deployed.
- MySpace locations – 14 new locations branded with MySpace.
- New offsite CRM installed at the Templeburg Industrial Zone.

Upgrades to the Online Retail Banking Platform.

- My Portfolio page upgrade.
- Transaction history – optimisation (PDF output/download button/ search criteria/transaction narration).
- Password – show/hide password option.
- Logout confirmation prompt.

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- Profile settings option.
- Dashboard account widget optimisation to improve visibility of joint accounts.
- Manage payees and biller screen optimisation.
- Live chat integration.
- Default OTP channel selection.
- Speed improvements.

New Features in Development to be launched in 2023.

- Online FD upliftment.
- Online cash back loan.
- Transaction history UI improvement.
- Utility bill outstanding retrieval.
- Mobile Banking App.
- Enabling government payments (Eg: Payments to Inland Revenue Department).

DFCC Bank recently made several changes to DFCC Virtual Wallet to improve its internal processes, risk management, and user experience. The Debit Card onboarding was updated with validations against information in the core banking system when customers self onboard for DFCC Virtual wallet for better internal process and risk management. Additionally, a Dialog Number Validation was added to ensure the correct number was stated and enhance the user experience. The Utility Transaction flow was also changed for better process, as well as the Top Up and Return to Bank Transaction flow. To improve the user experience and process, a Credit Card number validation was added for DFCC Virtual Wallet.

In terms of user experience, the Bank enabled receipt sharing via WhatsApp for transactions done via the DFCC Virtual Wallet to meet user expectations and changed the Dialog Broadband popup messages for a better user experience. The Bank also integrated the OnePay Payment gateway to enable customers to make e-commerce transactions. The Bank conducted a salary week promotion to add value to users, and added 5 new billers to provide more convenience to users when making payments. These changes demonstrate the Bank's commitment to providing a seamless and user-friendly experience.

The Mobile Teller doorstep banking service has undergone several updates to include new features. This has led to a significant increase in the growth of M-Teller collections, which rose by 158%, and the growth of active branches increased by 31%. The service is now available in 82% of the network, providing a widespread and convenient option for customers. Security features have also been enhanced to provide a seamless and secure banking experience. The WhatsApp channel was added to DFCC Chatz in August 2022 and improvements made to responses of the chatbot.

The DFCC website underwent several significant changes to improve its functionality and user experience. The Loan Inquiry forms were upgraded with additional data fields for a more comprehensive loan application process. The Sustainability and Remittance web pages were also revamped for a more user-friendly experience. The Online Account Opening User experience was upgraded based on recommendations from the innovation team for a more seamless account opening process. To improve the website's visibility, all pages were optimised for search engines, and keywords were ranked to appear in the top 10 search engine results pages. In addition to these upgrades, several new product pages were created in English, Sinhala, and Tamil, which were completed during the year. New landing pages were also created for various products, including the DFCC *Aloka* micro site, *Aloka* event section page, Sustainability webpage revamp and Remittance webpage revamp. These changes demonstrate the Bank's commitment to providing customers with a comprehensive and user-friendly online experience and create better awareness of its products and services online.

In 2022, the Bank introduced several new and improved digital banking services to enhance the customer experience. One of these was to continuously update and optimise verification of all branches on Google My Business, providing customers with up-to-date information on each branch's location and services. Additionally, JCB acquiring services were enabled on ATMs and CRMs, offering customers greater flexibility in their banking transactions. Furthermore credit card number validation was introduced to cash deposits to CRMs. These new digital banking services further demonstrate DFCC Bank's dedication to providing customers with a comprehensive and convenient banking experience.

Given below is a summary of DFCC's digital transactions in terms of value and volume over the past year:

- The number of active users of DFCC Virtual Wallet (Hybrid Mobile App) increased by 27%.
- The volume of DFCC Virtual Wallet transactions increased by 41%, while the value grew by 92%.

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- Bill payments volume grew by 63% and value grew by 306%.
- 79% total CEFTS transactions are routed through the DFCC Virtual wallet.
- Transactions through cheque deposit machines grew by 160%.
- Cash deposit volumes through CRMs increased by 25%.
- Off-us transactions on ATMs/CRMs grew by 60%.
- 85% of total transactions were conducted through digital channels compared to counter transactions.
- Fees and commissions from digital channels increased by 28%.
- The rating of DFCC Virtual Wallet on the Play Store was 4.5 stars and on iOS 4.2 stars.
- 185,000 customers were registered for DFCC Alerts in the year 2022.
- 70,874 customers were registered for e-Statements.

Volumes	2022	2021	2020
ATM/CRM withdrawals	2,765,004	2,018,343	1,469,390
CRM cash deposits	608,278	533,159	146,792
Cheque deposit machine transactions	424,162	390,437	75,849
DFCC Virtual Wallet transactions	2,692,799	1,902,240	627,861

Growth %	2021 (Jan-Dec) Vs 2022 (Jan-Oct) %	2020 Vs 2021 %
ATM/CRM withdrawals	37	37.30
CRM cash deposits	14	263.20
Cheque deposit machine transactions	8.6	414.80
DFCC Virtual Wallet transactions	42	203.00

Core Banking System

DFCC Bank's new core banking system has significantly improved productivity and operational efficiency, reduced operational costs, and broadened the reach and accessibility of the Bank.

Marking its first year of operation, the system has enabled the Bank to offer 24x7 non-stop banking services to customers. It is integrated with other systems through APIs, creating an agile platform that can respond quickly to changing conditions. The system offers a variety of features and capabilities, including the ability to offer a wide range of products to customers and a 360-degree view of each customer, including core banking information, to support better decision making.

The new online banking platform allows customers to open fixed deposits, create new accounts, make payments, and more, without the need to visit a physical branch. It also provides a savings goals feature, where customers can set a target balance and automatically transfer funds on a regular basis until the goal is reached.

In addition, the new LPOPP interface by LankaClear was integrated into the core banking system, enabling online payments to multiple institutions, such as the Inland Revenue Department, Customs Department, Ports Authority, and Employees' Provident Fund

Robotic Process Automation (RPA)

During the year, the Bank implemented several process automations and enhancements. One of these was the implementation of the first Human-BOT RPA for online credit card application processing. Another RPA was introduced to automate the change of profiles for the core banking system users, streamlining a previously manual process. The entire RPA platform was also upgraded to the latest version.

A new workflow was introduced to automate the approval process for vehicle loans and loans related to PFS. Further updates are expected on the Visa Secure platform, POS units, and DFCC Pay App.

Security and Infrastructure

The Bank upgraded its security and infrastructure measures by relocating its main production site and disaster recovery site to Tier 3 certified data centers. This enhances the resilience of the data center support infrastructure and offers an expected uptime of 99.982% with minimal downtime. Additionally, the Bank modernised its branch connectivity by implementing the latest SD-WAN technology, providing multiple redundant paths, cost savings, and high-level security.

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Business Processes and Operational Efficiencies

The COVID-19 pandemic of the last two years led to a swift shift towards remote work, with most Bank employees working from home. In 2022, this "new normal" was maintained by the Bank, which allowed its staff to work from anywhere. By reducing the time spent on commuting, the Bank was able to offer its employees better work-life balance while also improving productivity and morale.

To accommodate this new way of working, the Bank switched to a stronger and more secure cloud-based remote work setup, providing a more flexible and enjoyable experience for employees while maintaining a secure environment for the Bank.

Marketing and Communications

The increase in digital consumption in Sri Lanka due to the COVID-19 pandemic has resulted in many people making social media a way of life. The DFCC Communications Strategy reflects this change and combines above-the-line and below-the-line promotional tactics to achieve marketing goals. The Bank's communications and digital platforms are trilingual to reach all geographical segments of the country and are governed by the Communications and Social Media Policies to ensure compliance with regulatory requirements.

During the year under review, the Bank carried out several brand-building and product-specific campaigns with a focus on digital channels while still using above-the-line and below-the-line channels. These campaigns aimed to raise awareness for DFCC's products and services, including new products and partnerships launched during the year, such as 30/5 Fixed Deposits, Make a Wish with DFCC Credit Cards, DFCC Virtual Wallet M-Cash Integration Campaign, DFCC *Ethera Saviya* Loan scheme, and the DFCC Pawning Campaign.

Due to the pandemic and political and social unrest, there were limited physical events. However, the latter half of the year saw an increase in physical events such as the Customer Week Forum and Town Storming Drives for deposit mobilisation across the country. To maintain brand recognition, the Bank intensified online events such as webinars, forums, and customer engagement initiatives.

Brand Equity

Over the years, DFCC Bank has experienced consistent growth in its brand equity. This success is attributed to the effective implementation of its brand strategy and communication mix, which has helped the bank establish itself as a leading full-service commercial bank with a unique history as a development bank that also offers commercial banking services. The Bank's communication strategy has increased its visibility on digital and traditional platforms, enhancing its recall among stakeholders.

Despite the challenging economic climate, DFCC Bank continued to execute its marketing strategy effectively, with a focus on digital and strategic marketing campaigns. The Bank's digital presence was strengthened through social media content marketing on platforms such as Facebook, Instagram, YouTube, LinkedIn, TikTok, and Twitter. This resulted in increased customer engagement and interaction with the brand.

To optimise its return on investment, the Bank's digital strategy also included Google Display Network, search ads, and programmatic ads on third-party websites and apps, and every campaign was carefully measured. This has helped the Bank attract substantial followers, increase views on its products and services, and improve brand-related content impressions. For example, the Bank recently gained over 10,000 followers on Instagram.

The Bank's content strategy adopted an audio and visual approach, as these modes of communication effectively convey emotions and messages, resulting in more impactful storytelling. This approach has allowed the Bank to build a positive connection with its audience and share meaningful, relevant, and relatable content. Digital has been a valuable tool for reaching and connecting with a wider audience at an economical cost.

The Bank has also continued to support its businesses through traditional above-the-line and below-the-line channels, with a variety of campaigns aimed at different target audiences for each product portfolio. These campaigns, such as the "DFCC *Ethera Saviya*", loan scheme for overseas jobs, fixed deposits campaigns, town storming drives, and strategic partnerships like the WCIC *Prathibhabhisheka* Women Entrepreneur Awards 2022 powered by DFCC *Aloka* and the "SAARC Ethnic Elegance" cultural event organised by the SAARC Women's Association – Sri Lanka Chapter, have played a critical

INSTITUTIONAL CAPITAL

role in raising brand awareness and driving messages to multiple segments in the country. The Bank has also strengthened its public relations and online initiatives having placed fourth as a brand in public relations in the Banking sector and continues to be one of the top performers on Facebook and Instagram in terms of engagement.

DFCC Bank has evolved into one of the most digitally advanced banks, with a steady growth in its brand presence on social networks.

	Facebook	Instagram	LinkedIn	YouTube
Followers	156,682	10,655	46,789	3,050
Impressions/Number of Video views	65.4M	13.6M	734,475	263,413
Reach	52M	11.5M	293,098	N/A
Source – Annual Social Media Statistics Report, Fanpage Karma (2022)				

DFCC Bank leveraged the power of Facebook and Instagram to improve its annual reach and impressions on these platforms. The Bank's Facebook follower base grew from 122,329 at the beginning of the year to 156,682 by year-end as a result of its aggressive content strategy and advertising efforts. The follower base on Instagram rose from 9,305 to 10,655 by the end of the year, earning the Bank the 5th place in terms of followers among banking brands. According to Fanpage Karma's social analytics, DFCC Bank is the highest-ranked banking brand in terms of engagement ratio.

Additionally, the Bank's LinkedIn following increased from 37,802 at the end of December 2021 to 47,051 by mid-December 2022, with strategies aimed at the professional demographic. On YouTube, the Bank's following grew from 2,630 at the beginning of the year to 3,050 by year-end due to custom-made videos and advertising on the platform.

DFCC Bank has once again demonstrated its dedication to customer-centric and digitally innovative banking, as it was voted by Euromoney as the Market Leader in Cash Management in Sri Lanka for the second consecutive year in 2022. The Bank has also received recognition for Best Service this year. DFCC Bank's "*Salli Athin Allanne Na*" digital marketing campaign to promote the DFCC Virtual Wallet was recognised as a finalist at the SLIM DIGIS 2.1 awards. The Bank prides itself as the Bank for Everyone.

The Bank was awarded Gold for the "Best Social Media Content Award (YouTube, Facebook)" at the 11th ACEF Asian Leaders Awards, competing against countries in South Asia. Its winning entry was a short film released during Customer Service Week, and it was the first-ever digital film created by a Bank in Sri Lanka. The content was based on a true story and went beyond the typical TV commercial, featuring an emotional content piece. This allowed the Bank to position itself as a pioneer and game changer in the industry, willing to think outside the box and connect with the target group in a relatable way. The content's originality and meaningfulness helped foster an emotional connection with customers, creating Top of Mind (TOM) awareness of the brand.

Anti-Bribery and Corruption

The Bank's Anti-Bribery and Corruption Policy (ABC Policy) is regularly updated, reviewed and approved by the Board of Directors. It governs the Anti-Bribery and Corruption Framework of the Bank, which is monitored by the Fraud Risk Management Committee (FRMC). The Policy applies to all directors, employees, and authorised representatives of the Bank. It also prohibits any business dealings with individuals or entities known to be associated with or susceptible to bribery and corruption. The FRMC regularly evaluates the policy through audits, compliance, and HR findings to ensure compliance with the zero-tolerance stance adopted by the Bank with regard to bribery and corruption. Employees and stakeholders are actively encouraged to report any concerns through the Bank's Whistleblowing Policy or other available channels and are prohibited from making facilitation payments or political contributions. The Employee Handbook also covers employee conduct, including provisions regarding bribery and corruption.

INSTITUTIONAL CAPITAL

Whistleblowing Policy

The Bank has implemented a policy to enable employees to raise any concerns regarding misconduct or improper behaviour either confidentially or anonymously. The Bank promises to maintain the confidentiality of the whistleblower and protect them from any retaliation. If the whistleblowing is done confidentially, the management will engage in a dialogue with the employee to gather more information and provide feedback on the actions taken in response to the concern raised. However, if the whistleblowing is done anonymously, two-way communication will not be possible but not withstanding this, an investigation is conducted on the matter surfaced.

Gifts and Inducements

The Bank has established a policy regulating the acceptance of gifts and inducements by employees. Accordingly, with the exception of token gifts of nominal value (not exceeding LKR 10,000) given in connection with a festive occasion, staff members are prohibited from soliciting or accepting gifts and inducements from customers and other third parties associated with the business of the Bank.

Compliance

DFCC Bank adheres to all relevant environmental and legal requirements in Sri Lanka. During the review period, there were no instances of non-compliance related to the Bank's operations, marketing, labeling, consumer data protection, or other processes, with the exception of a penalty of LKR 4,000,000 imposed by the Financial Intelligence Unit for violating provisions of the Financial Transactions Reporting Act No 06 of 2006 (FTRA). The Bank reaffirms its commitment to following all laws and regulations, including those set by the FIU, and has implemented stronger control systems to comply with the provisions of the FTRA and other directives from the FIU.

INVESTOR CAPITAL

Investors are key stakeholders in the Bank's value creation process. Among the core objectives of the Bank is to optimise investors' returns by providing sustainable, long-term yields.

The Bank engages with its investors on a regular basis by providing up to date information on its financial performance and progress. The trust placed in the Bank by our investors provides inspiration to seek out more avenues for growth, and build on the current progress in achieving pre-determined goals.

Shareholder Profile

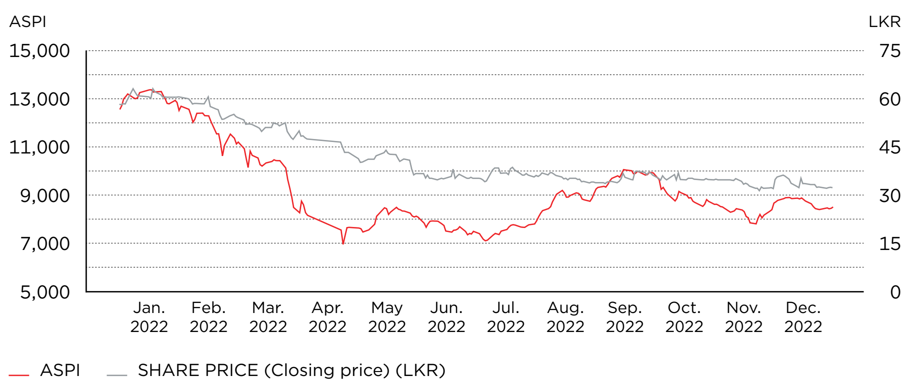
The Bank had 10,459 shareholders on 31 December 2022 (corresponding to a figure of 10,595 as at 31 December 2021), with 402,666,056 shares in issue. Institutions make up approximately 79.9% of the Bank's share capital. 88.5% is held by local shareholders, both institutional and individual.

Share Information

DFCC Bank share price information for the period 1 January 2022 – 31 December 2022.

	2022	2021
Price Indices		
ASPI	8,489.66	12,226.01
S&P SL20	2,635.63	4,233.25
Share Price		
Lowest Price (LKR)	31.00	56.30
Highest Price (LKR)	65.00	80.40
Closing Price (LKR)	32.00	60.00
Market Capitalisation		
Value (LKR Mn)	12,885	19,231
Percentage of total market cap	0.34	0.35
Rank	58	56
Value of Shares Traded		
Value (LKR Mn)	599	2,404
Percentage of total market turnover	0.09	0.21
Rank	121	71
Days Traded		
Number of days traded	231	240
Total number of market days	231	240
Percentage of market days traded	100	100
Frequency of Shares Traded		
Number of transactions	7,486	25,111
Percentage of total frequency	0.12	0.32
Rank	150	76

SHARE PRICE MOVEMENT OF DFCC BANK FROM JANUARY 2022 – DECEMBER 2022



INVESTOR CAPITAL

Distribution of Shareholding

Categories of Shareholders

As at 31 December	2022			2021		
Shareholding (%)	**Foreign**	**Local**	**Total**	**Foreign**	**Local**	**Total**
Individual	6.49	13.61	20.10	10.10	13.34	23.44
Institutional	5.03	74.87	79.90	5.94	70.62	76.56
	11,52	88.48	100.00	16.04	83.96	100.00

Distribution of Shareholding by Size

As at 31 December	2022			2021		
Share range	**Number of shareholders**	**Total holding**	**%**	**Number of shareholders**	**Total holding**	**%**
1 – 1,000	6,343	1,807,299	0.45	6,399	1,783,326	0.55
1,001 – 10,000	3,458	9,577,980	2.38	3,513	9,577,349	2.98
10,001 – 100,000	558	14,372,961	3.58	577	15,025,500	4.68
100,001 – 1,000,000	74	19,317,520	4.80	83	20,349,933	6.36
Over 1,000,000	26	357,590,296	88.79	23	273,786,328	85.43
	10,459	402,666,056	100.00	10,595	320,522,436	100.00

Public Holding

As at 31 December	2022	2021
Public holding percentage (%)	67.0	62.5
Number of public shareholders	10,443	10,579
Float adjusted market capitalisation (LKR Mn)	8,636	12,024
Applicable option as per CSE Listing Rule 7.14.1 (i) (a)	Option 2	Option 1

INVESTOR CAPITAL

Twenty Major Shareholders of the Bank

As at 31 December	2022		2021*	
Name of Shareholder/Company	**Number of shares**	**%**	**Number of shares**	**%**
1. Hatton National Bank PLC A/c No. 1	50,224,072	12.47	47,789,949	14.91
2. Bank of Ceylon No. 2 A/c	42,124,141	10.46	40,082,584	12.50
3. LOLC Investment Holding Three (Pvt) Ltd.	40,266,605	9.99	–	–
4. Sri Lanka Insurance Corporation Ltd. – Life Fund	30,537,974	7.58	29,057,943	9.06
5. Don and Don Holdings (Pvt) Ltd.	28,873,821	7.17	671,072	0.20
6. Employees Provident Fund	26,985,361	6.70	25,677,509	8.01
7. Mr M A Yaseen	25,684,181	6.37	24,233,819	7.56
8. Melstacorp PLC	24,786,820	6.15	23,585,521	7.35
9. Seafeld International Limited	19,618,948	4.87	18,668,111	5.82
10. Mr H H Abdulhusein	10,110,000	2.51	9,530,000	2.97
11. People's Leasing & Finance PLC/Don & Don Holdings (Pvt) Ltd.	9,439,441	2.34	8,981,956	2.80
12. Commercial Bank of Ceylon PLC/M A Yaseen	8,216,644	2.04	7,818,423	2.43
13. Renuka City Hotels PLC	7,670,569	1.90	7,298,813	2.27
14. Renuka Hotels PLC	4,510,693	1.12	4,292,082	1.33
15. Employees Trust Fund Board	4,416,115	1.09	4,202,087	1.31
16. Seylan Bank PLC/Senthilverl Holdings (Pvt) Ltd	3,547,601	0.88	3,320,080	1.03
17. Akbar Brothers (Pvt) Ltd. A/c No. 1	3,005,179	0.74	2,844,533	0.88
18. Anverally International (Pvt) Ltd.	2,947,914	0.73	2,582,161	0.80
19. Cargo Boat Development Company PLC	2,766,417	0.68	2,632,342	0.82
20. Sri Lanka Insurance Corporation Ltd. – General Fund	2,384,981	0.59	2,269,393	0.70
Total of the 20 major shareholders	348,117,477	86.38		
Other shareholders	54,548,579	13.62		
Total	402,666,056	100.00		

* Shareholding as at 31 December 2021 of the twenty largest shareholders as at 31 December 2022

Return to Shareholders – Bank

Description	2022	2021
Profit for the year (LKR Mn)	2,513	3,222
Return on total assets (%)*	0.46	0.92
Net assets per share (LKR)	125.96	152.83
Earnings per share (LKR)	6.75	10.14
Dividend per share (LKR)	2.00	3.00

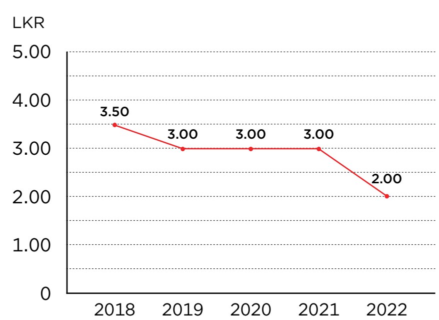
*After eliminating fair value reserve

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 2.00 by way of Scrip Dividend for the year ended 31 December 2022.

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

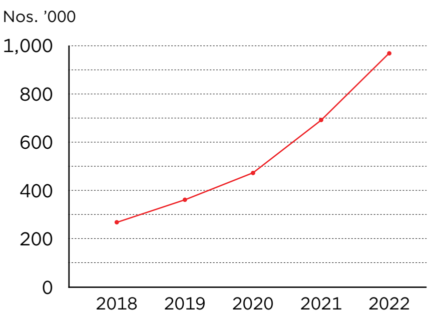
BANK'S DIVIDEND PER SHARE



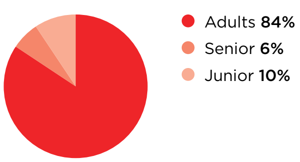
CUSTOMER CAPITAL

Customer-centricity is the core concept on which the Bank carries out its business. With its local heritage well augmented by many international alliances and partnerships, having an overarching customer-centric focus is pivotal to the Bank's strategic vision and long-term objectives.

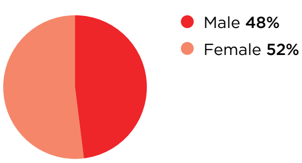
GROWTH IN CUSTOMER ACCOUNTS



CUSTOMERS BY SEGMENT



CUSTOMERS BY GENDER



Product Portfolio

Savings Accounts

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

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

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

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

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

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

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

DFCC *Aloka* Women's Product – DFCC *Aloka* is a financial solution designed to empower women across Sri Lanka to achieve their career goals, business ambitions and personal dreams. *Aloka* is a high interest tiered savings account which can be opened by any female above the age of 18 years.

Special Deposit Account

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

LKR

Product Propositions

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

- DFCC Salary Plus
- DFCC Salary Partner
- DFCC Prestige
- DFCC Pinnacle

CUSTOMER CAPITAL

Housing Loans

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

Personal Loans

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

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

DFCC *Garusaru* Personal Loans are special personal loan scheme for Government pensioners.

Leasing Facilities

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

DFCC Credit Cards

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

Bancassurance

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

Pawning Services

Financing immediate cash requirements of individuals.

Digital Products and Services

- DFCC Virtual Wallet (hybrid mobile banking app)
- DFCC iConnect
- DFCC Chatz/DFCC Video Chatz
- MTeller
- eStatements
- DFCC Alerts (SMS)
- DFCC Online Banking
- DFCC MySpace (digital channels – ATMs, CRMs, CHDMS, Pay&Go Machines)

Lines of Credit from the Refinance Unit

- "*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") to support the manufacturing industries and industry related service sectors of SMEs.
- Environmentally Friendly Solutions Fund II – Revolving Fund ("E-friends II RF") to assist industrial enterprises in finding solutions to the environmental problems, such as industrial pollution caused by their manufacturing and energy consumption, and their environmental improvement initiatives such as waste minimisation, resource recovery and savings, and pollution control and abatement.

CUSTOMER CAPITAL

- Small and Medium-Sized Enterprises Line of Credit – ("SMELoC") SME Component with the Women Entrepreneur Finance Initiative (We-Fi) Grant including SMEs that are led by women, are first-time borrowers, do not have sufficient collateral and are located outside of Colombo for Long-term Investment Loans, Non-collateralised Working Capital Loans.
- Small and Medium-Sized Enterprises Line of Credit – ("SMELoC") Emergency Response Component – for re-energising the COVID-19 affected SMEs by providing short-term working capital in the productive sectors including, manufacturing, agriculture and agro processing, fisheries, tourism, export oriented businesses etc.
- Small and Medium-Sized Enterprises Line of Credit – ("SMELoC") Tea Smallholder Pilot Component with the Japan Fund for Poverty Reduction (JFPR) Grant for supporting capital investments by tea smallholders.
- Smallholder Agribusiness Partnership Programme ("SAPP") for out-grower farmers and youth entrepreneurs connected to the agriculture value chain.
- New Comprehensive Rural Credit Scheme (NCRCS) for uplifting the socio-economic conditions of micro and small scale farmers who engage in cultivation.

Retail Loans

An in-depth study of the customer landscape has enabled DFCC Bank to identify current, latent, and emerging needs of a broad array of customer segments. This has resulted in a range of retail financial propositions and services that is broad enough to accommodate a cross-section of society, with a high level of specificity in meeting their individual needs.

DFCC Educational Loans

Given the nation's need for highly educated, qualified professionals, and the limited capacity of our university education system, DFCC Education Loans are intended to cater to those pursuing higher education in Sri Lanka as well as overseas.

SLASSCOM Partnership

The Bank's partnership with SLASSCOM came at a time when there was an urgent need for continuous work arrangements of employees in the ICT sector during power cuts. In response, special Green Loan product was introduced to SLASSCOM member companies and their employees. They were provided the opportunity to purchase off-grid and on-grid power generation equipment through the special loan scheme at an attractive interest rate.

Leasing

While restrictions on the import of vehicles proved to be a considerable setback to the leasing industry, the Bank continued with its Leasing Product for brand new, registered or unregistered vehicles, machinery, plant and equipment for corporates, SMEs, entrepreneurs, professionals, and individuals in various other categories. Leasing guidelines were revisited and streamlined to ensure propositions that were mutually beneficial to the Bank as well as the customer.

Gold Pledged Lending

The prevailing adverse economic conditions resulted in the widespread adoption of pawning gold jewellery to meet urgent financial needs. In order to upgrade the services offered to the Gold-Pledged Lending customer portfolio, a comprehensive training programme was carried out, providing hands-on experience on gold assaying techniques, including acid tests. These initiatives helped the Bank enhance the competency levels of Pawning Officers, and thereby provide a better service to the customer. Attractive advances at competitive rates were offered, and the Gold Pledged Lending portfolio of the Bank registered significant growth during the year.

CUSTOMER CAPITAL

System Upgrades

Mortgage Loan Workflow System was introduced to provide a speedy loan approval process for Housing Loans while amendments were made to the PFS Loan system to improve the efficiency of Personal Loan disbursements.

In addition to the concessions proposed by the CBSL, the Bank offered a range of concessions such as temporary interest rate reductions, capital grace periods, and loan tenure extensions to retail borrowers who were affected by the depressed economy and high level of inflation.

Due to the unfavourable economic conditions and increased interest rates prevailing in the market, the demand for Retail Loans declined, leading to a decrease in the Retail Asset portfolios during the year. In view of reduced disposable income of individuals, lending to fixed income earners was considered on a selective basis.

Customer-Centricity

The Bank ensures that the principle of Customer Centricity is deeply entrenched in all its customer interactions and support functions.

Investing in Alternate Channels is an area that receives continuing emphasis at DFCC, and is an important aspect of customer-centricity within and outside the organisation. This also provides customers with broader and easier access to their accounts, and the ability to carry out a range of transactions through multiple channels. Our Digital channels, Call Centre, Hybrid Branches and Digital marketing constitute the major Alternate Channel platforms. Customers are diligently sought and served with the intention of providing a service that is speedy, convenient and relevant. The launch of the new state-of-the-art core banking solution is a defining technology enabler which will provide DFCC with a competitive edge for years to come.

Apart from reaching out to the Retail Segment, DFCC's flagship electronic banking platform iConnect has been successfully used to serve the Payments and Cash Management requirements of a range of corporates and institutions. The iConnect electronic banking platform which delivers cutting edge Cash Management solutions is a state-of-the-art Liquidity, Payments and Cash Management system that enables customers to perform their daily transactional banking needs with a click of a button. This innovative solution gives the clients' Finance and Treasury units the opportunity to access the companies accounts maintained with DFCC Bank PLC, both locally and globally. It also offers enhanced security features that enable real-time viewing of account balances, making local and cross-border payments and collection solutions at the click of a button 24/7, 365 days of the year possible.

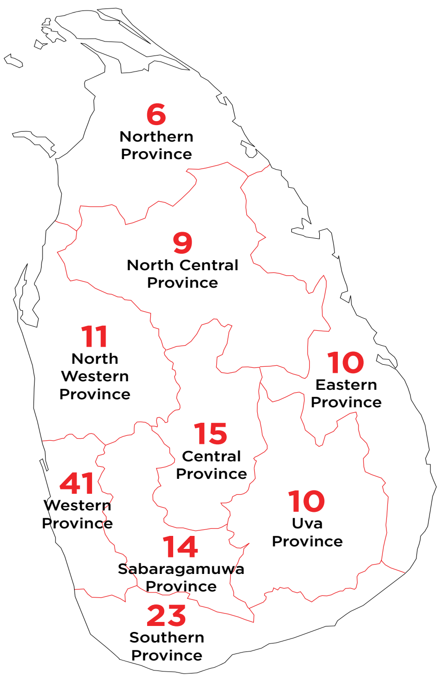
DFCC's efforts in payments and cash management were recognised by Euromoney for the second year in succession in 2022 when it was awarded "Market Leader" and "Best Service" in the domestic cash management segment. Implementation of the concept of customer-centricity is further strengthened at DFCC through continuous improvements in banking products, processes, in addition to pursuing innovation and value-addition on all possible fronts.

DFCC has intensified its focus on reaching out to important socio-economic segments, which could form the basis of strategic segmentation, and possible specialised focus in the future. The exclusive women's centric product "*Aloka*" was launched at the end of 2021, followed by a focused multi-channel marketing campaign to build awareness. *Aloka* was showcased as the Platinum sponsor at the WCIC Women Entrepreneur Awards 2022.

The IT industry is another important segment due to its spearheading role across a multitude of industries, as well as reinforcing DFCC's identity as a Bank with a strong focus on technology. Further solidifying our efforts in reaching out to, and consciously marketing our services to the IT sector, the SLASSCOM package was launched in 2021. It is a tailored solution comprising proposition features and card benefits. DFCC and SLASSCOM signed an MOU recently to provide a special "Green Loan" scheme exclusive for member companies and their employees to purchase solar energy systems to facilitate work from home arrangements for SLASSCOM members. This was intended to mitigate the impact of work disruptions caused by power disruptions.

CUSTOMER CAPITAL

Branch Network



Contact Centre

The Contact Centre has been evolving with the times, adding new services and capabilities, improving processes, training and upskilling personnel, in addition to upgrading the technology. The Centre offers its services on a tri-lingual basis, enhancing the Bank's commitment to inclusivity, and reaching out to a broader customer base.

To meet the needs of our rapidly growing roster of high net-worth customer base, a round-the-clock service was provided by dedicated Customer Agents. In addition, another team of Agents was available 24x7 on "Live" chat to handle the banking needs of the other customer segments. Multiple training sessions were carried out for the Agents, based on feedback obtained from quality checks. They were also given training related to guideline changes, process changes, new promotions, etc. An improved Non face-to-face Digital Onboarding feature was enabled via the Contact Centre during the year, adding considerable ease to the customer on-boarding process, which would have not been possible, given the travel restrictions prevailing during the pandemic.

Going beyond their traditional customer service-related functions, Agents at the Call Centre have been engaged in cross-selling and activations, which helped in achieving of Service Level Agreements (SLAs) and Key Performance Indicators (KPIs), despite a challenging environment.

During the pandemic and lockdowns, Agents from distant locations were allowed to operate from the DFCC branch closest to where they lived. After the lockdowns were lifted, they reported back to the Contact Centre premises.

Customer Experience

The Customer Experience Unit continued to add value to the customer-base by accepting, escalating, and resolving customer complaints and inquiries within the Service Level Agreement (SLA).

SLA monitoring was commenced across multiple fronts, in addition to identifying the root causes for recurring complaints, for which corrective actions were implemented. Further, (NES) and (NPS) scoring for the Credit Cards business, as well as NPS scoring for the Pinnacle proposition were conducted.

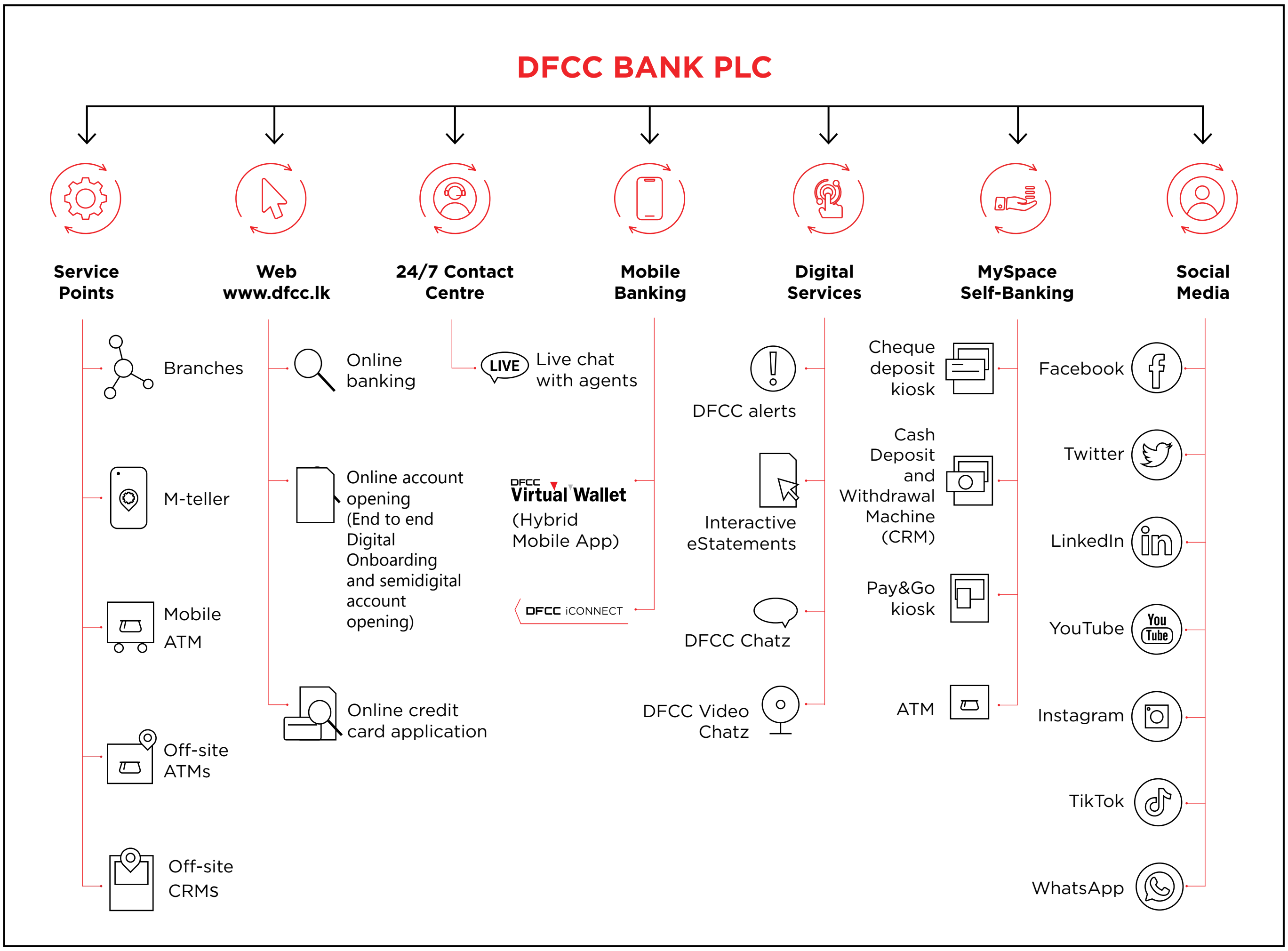
In addition, refresher training was provided for the branches, where service gaps were identified whilst conducting the staff orientation training. In line with the International Customer Service Week, the Customer Experience Unit organised a Customer Service Forum where industry specialists shared their experiences to an audience of Customer Service Ambassadors and the rest of the staff to inculcate the importance of service.

CUSTOMER CAPITAL

Multichannel Customer Touchpoints

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

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



CUSTOMER CAPITAL

Product Responsibility

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

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

Marketing Communications

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

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

EMPLOYEE CAPITAL

DFCC Bank continues its focus on ensuring that its employees are among the most knowledgeable and technically competent in their respective fields of specialisation.

This has become imperative in the face of new technologies and changes in the emerging business environment, as well as evolving customer needs which require entirely new approaches. In turn, staff members have responded with enthusiasm, adaptability and commitment in meeting such challenges. The advanced digital capabilities at DFCC also have played a crucial role in endowing and empowering staff members with new capabilities. The Bank remains committed to upholding the highest standards of ethical practices and the legitimate rights of employees.

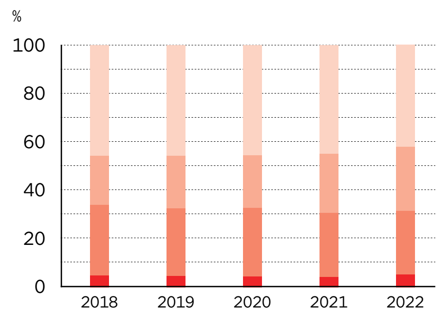
Workforce Statistics

During the year under review, taking into consideration the external economic circumstances and resulting impact to business operations, the Bank took a conscious decision to rationalise recruitments, thereby limiting new hires and replacements as much as possible. As such, at the end of 2022, the total work force amounted to 1989, reflecting a decline of 9.2% in comparison to the previous year. In terms of human capital composition, the male:female ratio amounted to 57:43 while approximately 87% were in the permanent cadre. Approximately 63% of employees in the branch network are based outside the Western Province.

Total number of employees

2022	2021	2020	2019	2018
1,989	2,191	2,072	2,076	1,860

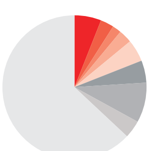
CHANGE IN TOTAL HEADCOUNT



Workforce by employment type/contract and gender

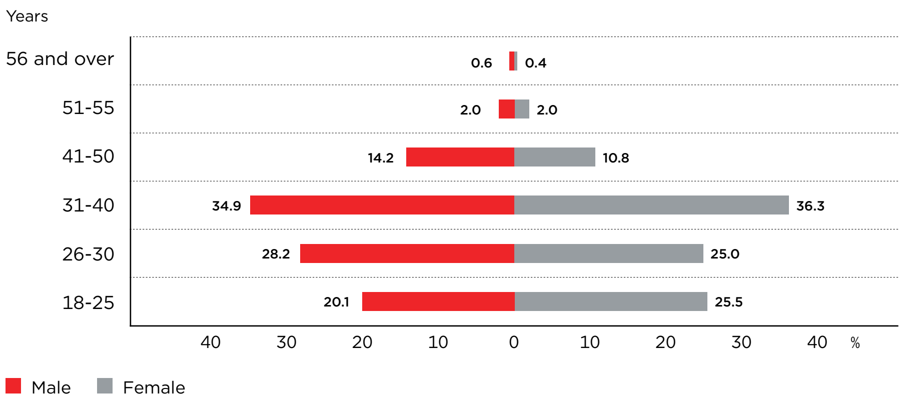
Grade	Permanent			Contract/Casual/Part time			Total number of employees		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Management	74	25	99	4	3	7	78	28	106
Executive	341	178	519	3	1	4	344	179	523
Supervisory staff	258	263	521	3	0	3	261	263	524
Junior staff	328	269	597	127	112	239	455	381	836
Total	1,001	735	1,736	137	116	253	1138	851	1,989

EMPLOYEES BY PROVINCE

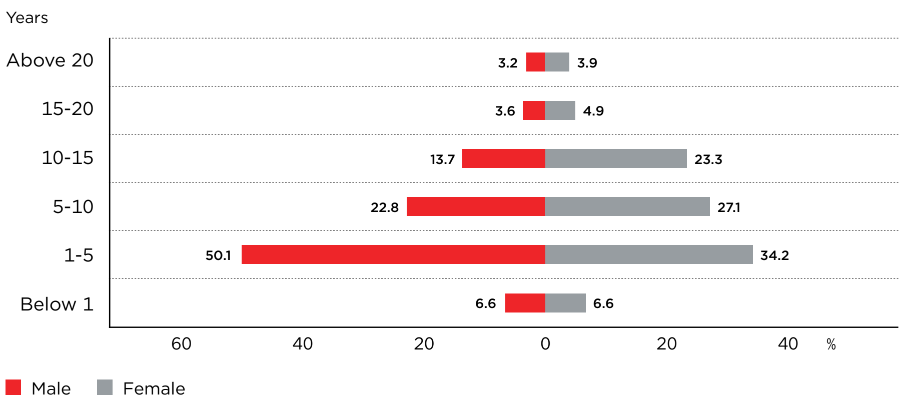


EMPLOYEE CAPITAL

AGE PYRAMID



SENIORITY PYRAMID



Talent Acquisition

The Bank, in tandem with the banking sector and many other industries, experienced a significant loss of skilled resources during the second half of the year due to migration and overseas job opportunities. While, recruitment for replacements and new positions were done on a very selective basis, many challenges continue to be experienced due to the dearth of relevant skills in the current market.

Responding to the external challenges experienced during the year, ensuring the selection and on boarding of the right talent, possessing the required competencies, and cultural and value "fit" with the Bank, was accorded special focus. During the year under review, DFCC Bank focused on multiple digital platforms, referral schemes, engagements with educational institutions and headhunting in order to attract high calibre talent where needed.

New hires by age group and gender

Grade	New employees joining in 2022						
	Age Group				Gender		
	Less than 30 years	Between 30-50 years	Above 50 years	Total	Male	Female	Total
Management	0	3	3	6	5	1	6
Executive	8	42	1	51	40	11	51
Supervisory Staff	22	13	0	35	18	17	35
Junior Staff	179	8	0	187	102	85	187
Total	209	66	4	279	165	114	279

EMPLOYEE CAPITAL

Retention of new hires

	Total New Recruits	Retained	Retention %
Management	6	6	100
Executive	51	46	90
Supervisor	35	29	83
Junior Staff	187	153	82
Total	279	234	84

While the retention rates of new hires are relatively high, it is noted that the bulk of the exits are at very junior levels. The Bank expends considerable effort to ensure new recruits have a positive on boarding experience and assimilate well to the work environment through on boarding training opportunities, availability of buddy programmes etc. During the year, 279 new employees were recruited, of which 67% were in the junior cadre, and approximately 75% of them were under the age of 30 years.

Learning and Development

The Bank's strategic goals and business plan form the basis of the L&D framework for each year. At the beginning of each year, the training needs of employees are gathered by supervisors following one-on-one discussions with employees. The Training Unit also conducts discussions with supervisors as well as focus group meetings with selected broad staff groups in order to better ascertain the overall business needs and expectations. Based on the feedback acquired through the above mechanisms, annual and monthly training plans are formulated and rolled out.

The Bank continued to provide targeted development opportunities for identified individuals with high potential, including leadership training, job enhancements, special assignments, access to specialised training opportunities, etc. Employees are offered access to training based on needs defined in their individual development plans as well as the competencies required for their job roles. Employees and supervisors also have the option of obtaining additional skills in areas of special interest, which could further propel their ascent through the ranks.

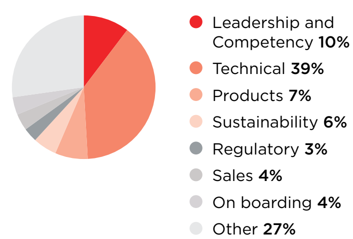
Job rotation of staff across varying functional departments takes into account the future potential of staff and succession planning requirements of the Bank. Transfers are carried out in keeping with the transfer policy of the Bank.

During 2022 the rapidly escalated cost of travel as well as fuel restrictions inhibited in person learning opportunities and interactions. During the fiscal year, approximately 17,000 participants attended 356 programmes, of which 75% were conducted utilising virtual platforms.

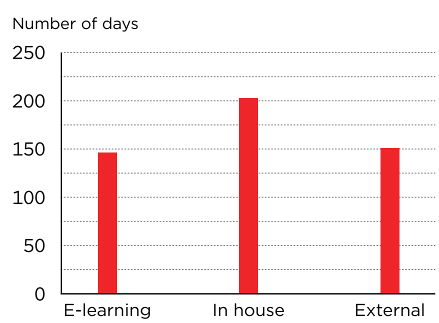
The Bank's eLearning platform, "eAcademy" continues to facilitate online training, including mobile-enabled learning. This has been invaluable in reaching out to regionally dispersed employees as it has provided them with the necessary access and convenience to learn according to their personal schedules. This platform currently provides access to 63 technical and soft skills modules, with the content regularly reviewed and updated and new content added periodically. During the year under review, over 34,000 hours of learning were clocked in the eAcademy.

	Number of Programmes	Training Hours
Online training	268	13,785
Onsite training	88	2,997
E-learning	63	10,503

TRAINING BY CATEGORY

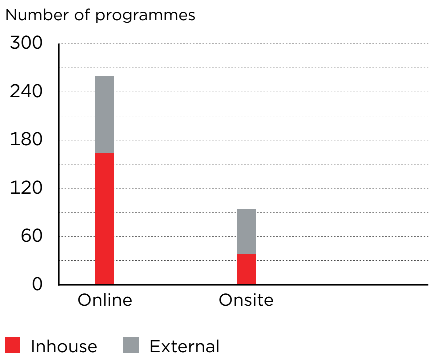


NUMBER OF TRAINING DAYS BY PLATFORM



EMPLOYEE CAPITAL

MODE OF TRAINING



Career Progression Opportunities

Offering transparent and viable paths for career development and advancement for our employees continued to be a key priority. While employees continued to be afforded access to training and leadership development programmes, they were also continued to be advised and mentored on available career advancement opportunities and processes, and the importance of taking control of their careers while taking advantage of the personal development opportunities made available to them. Additionally, during the year specialised fast-tracked skilling and competency enhancement programmes are implemented for identified employees displaying exceptional potential.
In 2022 two special programmes were launched targeting leadership development of female employees, in line with the Bank's priority of enhancing female participation in leadership roles. Opportunities were also provided to high potential staff to participate in special assignments to enhance exposure and visibility through participation in the DFCC Agile project, War Rooms, special committees etc.

Despite the challenges experienced during the year, DFCC continued to prioritise on career enhancement. During the year 342 employees received job upgrades subsequent to a transparent evaluation process and amounted to over 16% of the overall cadre.

Workplace Culture and Engagement

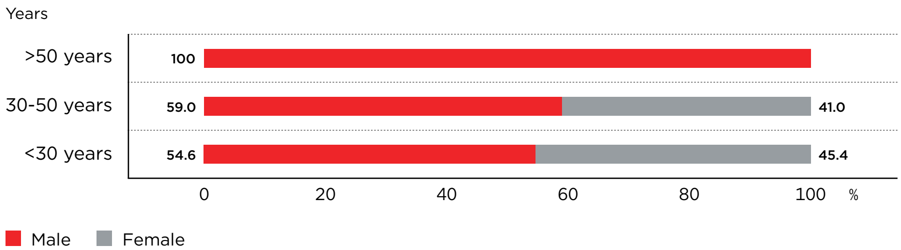
The Bank continued to prioritise on employee engagement and ensuring a transparent and inclusive work culture, as part of our human capital strategy. The Bank's values form the bedrock of our workplace culture and employment practices. During the year under review the Bank's value framework was revisited and two new values namely Diversity, Equity and Inclusion (DE&I) and Stewardship were introduced.

A robust grievance management framework is in place with multiple avenues for grievance redressal. For example, the Grievance Committee, a cross functional committee with regional representation is available to employees to surface concerns. The Reachout Committee, an all female team, is exclusively available to our female employees, to surface any personal or work related concerns they may have. In addition, regular "Open Days" are held throughout the year while an "Open Door Policy" is actively practiced by the CEO and corporate management to ensure all staff have direct access when needed. The Grievance Policy, which is easily available to all employees via the intranet; WeConnect, provides a transparent and formal framework for employees to surface concerns. Additionally, heads of departments are encouraged to conduct regular skip level meetings and other interactions in order to further their accessibility and engagement with their staff. The Whistleblowing Policy actively encourage employees to surface illegal or unethical practices and policy violations. Such matters surfaced are taken very seriously by the management with active investigations launched and disciplinary action taken where warranted. The availability of such multiple mechanisms for grievance escalation are intended to provide comfort and access to all employees, irrespective of their grades and geographical locations of work.

Over the years we have also prioritised on new and improved ways of internal communication. The external circumstances encountered during the last couple of years, initially the pandemic and thereafter the fuel crisis, compelled employees to work from home or alternate locations resulting in significant changes to work processes and practices and communication infrastructure. Digital technologies are extensively utilised in conducting meetings, training, interviews and other necessary discussions. The "Listening Wall", a digital platform introduced a few years ago, is a tool that is extensively utilised by our employees to surface ideas, suggestions and grievances.
The Bank's intranet; WeConnect, is also actively used by employees to update themselves on policies and processes, training offerings, vacancies, events etc. In addition, regular EDM campaigns conveying bank values, DE&I, workplace behaviour, HR policies, etc, were conducted to improve "top of the mind" awareness.

EMPLOYEE CAPITAL

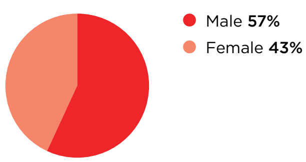
EMPLOYEE TURNOVER BY AGE GROUP AND GENDER



Promoting Diversity, Equity and Inclusion

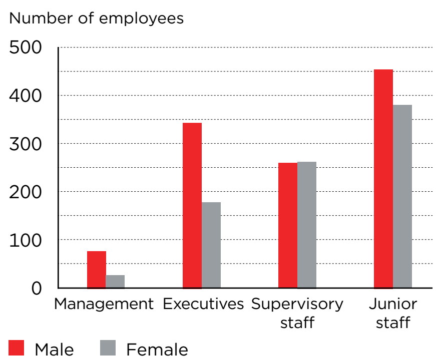
Over the years, DFCC Bank has continued to actively advocate and promote DE&I in the workplace. Our policies, processes and practices are transparent and equitably applied to all stakeholders, irrespective of gender, race, religion, sexual orientation, economic status or any other social construct.

STAFF DISTRIBUTION BY GENDER



Gender parity continues to be an area of focus. The sustainability strategy of the Bank specifies goals and timelines for improved female participation in leadership roles. The leadership programme for identified high potential female staff continued to be implemented. A new programme targetting improved female representation in Branch Manager (BM) roles was launched in mid 2022. Under this programme, identified participants have been taken through a series of development and empowerment sessions to equip them with the necessary technical and soft skills to assume leadership positions as BMs when opportunities arise. Appreciating the many roles that women are expected to play in society, convenient potential locations have been identified for each of the staff undergoing this programme, subsequent to one-on-one discussions.

STAFF DISTRIBUTION BY HIERACHY AND GENDER



During the year, we continued to accommodate increased staff conveniences through the introduction of flexi hour schemes, provision of special leave/WFH options to female staff during the course of their pregnancy if warranted, provision of adoption leave, special consideration for IVF treatment, etc.

The Bank is an equal opportunity employer, actively encouraging all prospective candidates to apply for vacant positions, with selection solely based on competencies, experience and job fit.

Promotions, transfers, performance evaluations and other HR processes are transparently and equitably implemented with primary consideration being business needs and competencies. Remuneration is based on a structured framework with no bias whatsoever. The table below clearly illustrates pay parity maintained at the Bank.

EMPLOYEE CAPITAL

Ratio of salary of men to women by employee category

Grade	Number of employees			Basic salary ratio, Male/Female
	Male	Female	Total	
Management	78	28	106	51:49
Executive	344	179	523	51:49
Supervisory staff	261	263	524	50:50
Junior staff	455	381	836	51:49
Total	1,138	851	1,989	51:49

Gender Parity

Workforce representation (%)	Leadership representation (%)	Board representation (%)	Leadership development (%)
Male: **57** Female: **43**	Male : **74** Female: **26**	Male: **60** Female: **40**	Male: **45** Female: **55**
Career Advancements (ration vis-a-vis cadre numbers)	Remuneration (ratio)	Corporate Management (%)	Rotation and transfers (%)
Male: **17** Female: **15**	Male: **51** Female: **49**	Male: **70** Female: **30**	Male: **53** Female: **47**
Recognised as one of Sri Lanka's Top 10 workplaces for women in 2021 and 2022	Participated in the "Together We Can" and the "Together We Can Plus" initiatives by IFC, Australian Aid and FCCISL	Special programmes in 2022 • Gender sensitisation • EmpowerHer – a special programme for Women's Day • Becoming a Branch Manager – for potential female BMs • Women in Leadership Forum	

In 2022 a special initiative to promote allyship, networking and mentoring was launched targeting women employees in the branch network. Volunteers from each region organised cluster meetings and engaged with female employees in their respective region. These engagements focused on aspects such as work life balance, confidence building, grooming, living the values, dealing with bullying and harassment, importance of empowering and developing other women etc. This initiative covered over 90% of women staff in the branch network and was very positively received.

In keeping with the Bank's stance on inclusivity and in line with our sustainability goals, providing opportunities for persons with disabilities continued to be an area of priority. In recent months several opportunities were provided and we are currently working on an accessibility audit and strategies for provision of reasonable accommodation to enable more sustainable and meaningful career opportunities for such persons.

Safety and Wellbeing

Occupational Health and Safety (OHS)

The Bank has in place a clearly defined OHS policy which mandates general workplace safety measures that need to be adhered to. An e-Learning module on Occupational Health and Safety is available on the e-academy platform. Information and educational material is also shared among employees with regard to healthy diet and lifestyle, health and safety needs, in addition to providing amenities required for keeping health hazards to the bare minimum. While social distancing and adherence to Covid-related health protocols have been somewhat relaxed, the Bank has continued to encourage employee vaccination. Work-from-Home (WFH) arrangements have now been minimised and most employees have returned to their regular workplaces. However, many flexibilities have been made available to employees based on individual needs. The introduction of a flexi hour mechanism has also boosted convenience and enabled employees to better balance their work responsibilities with personal priorities.

EMPLOYEE CAPITAL

Wellness

Promoting health and wellness continued to be a priority especially considering the unprecedented economic and daily living challenges we encountered as a nation during 2022. The Bank's wellness committee, OMMM, and HRD organised many initiatives to promote well being, some of which included:

- Monthly fellowship cycling events
- Mental wellness and stress management programmes
- Physical fitness programmes
- Events to engage staff families
- Breast cancer awareness initiative
- Monthly wellness calendar targeting varied topics
- Availability of yoga, zumba and various dance classes
- Provision of subsidised gym and social club memberships
- Provision of financial assistance for purchase of bicycles and related equipment
- Active encouragement of the adoption of cycling as a lifestyle

Providing Relief to Staff

We were very cognisant of the impact of the severe economic and political upheaval experienced in 2022 on our employees, many of whom encountered a significant deterioration in their living condition. Towards easing their burden some of the following measures were adopted:

- Review and revision of remuneration, benefits and incentive structures where possible
- Special relief to junior staff
- Availability of WFH opportunities and special work arrangements to ease transportation constraints
- Actively promoting and enabling cycling as a healthy, viable and cost-effective mode of transport
- Launch of "Rise and Shine" programme focusing on encouraging employees to manage change through programmes focusing on money management, family matters, home gardening etc.
- Initiatives by the OMMM Committee to promote wellness and mental resilience

Benefits

Benefits and emoluments provided to employees are reviewed periodically and revised where warranted in line with industry offerings as well as affordability considerations. The table below illustrates the benefits available to employees of the Bank.

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

Employment Type	Housing Loan	Vehicle Loan*	Exam Loan*	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

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

** Only for non executive staff

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

BUSINESS PARTNER CAPITAL

The Strong and long standing partnerships DFCC Bank has created and continues to maintain with its many international and local business partners are a key factor for the Bank to be identified as a credible financial institution, with an impeccable track record.

Multilateral and Bilateral Institutions

The Bank's credible financial stewardship and ingrained ethics in conducting its core business has paved the way for DFCC to be among the top ten banks in Sri Lanka, through which the Government of Sri Lanka and multilateral and bilateral financial institutions including the Asian Development Bank (ADB) disburse funding to the end – users of such facilities. DFCC, therefore, manages many projects where credit and grant funding is administered towards market development and capacity building. In addition, the Bank continues in its partnership with worldwide institutions as listed below, managing many credit programs that benefit the people of Sri Lanka.

- 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
- NederlandseFinancierings – MaatschappijvoorOntwikkelingslanden N.V. (FMO) – The Netherlands
- Proparco, a subsidiary of Agence Française de Développement (AFD) – France
- RAKBANK, also known as the National Bank of Ras Al Khaimah – United Arab Emirates
- The World Bank
- U.S. International Development Finance Corporation (DFC)

Notwithstanding the country's dire economic situation and depressed prospects worldwide, the Investment Banking Unit relentlessly sought viable means of expanding the Bank's funding avenues, by actively engaging in partner relationships as well as exploring other markets, to add to its Business Partner portfolio.

Correspondent Banks

The Bank maintains approximately 200 global Correspondent Banking relationships that are vital to international trade, while the following institutions act as the Bank's nostro agents in their respective countries.

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

Bank	Currency	Country
Bank of Ceylon (UK) Limited	GBP	UK
Bank of Ceylon	ACU $	India
Bank of Ceylon	ACU $	Maldives
Bank of China	CNY	Sri Lanka
Commerzbank AG	CAD	Germany
Commerzbank AG	EUR	Germany
HDFC Bank	ACU $	India
HSBC Bank USA N.A.	USD	USA
JPMorgan Chase Bank	USD	USA
JPMorgan Chase Bank	AUD	Australia
Kookmin Bank	USD	South Korea
Mashreq Bank PSC	ACU $	India
Mashreq Bank PSC	AED	UAE
Mashreq Bank PSC	USD	USA
Standard Chartered Bank (Pakistan) Limited	ACU $	Pakistan
Standard Chartered Bank	ACU $	Bangladesh
Standard Chartered Bank	ACU $	India
Standard Chartered Bank	AUD	Singapore
Standard Chartered Bank	EUR	Germany
Standard Chartered Bank	GBP	UK

BUSINESS PARTNER CAPITAL

Bank	Currency	Country
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

Over the years, the procurement procedure has undergone strict adherence to a transparent and rigorous policy framework. All registered vendors and on-boarding vendors are brought into a uniform platform which ensures an equal opportunity is provided to them to cater to the many needs of the Bank. Chaired by a Senior Vice President, the Procurement Committee ensures the supplies are sourced in a cost-efficient manner and mostly from domestic suppliers.

Suppliers are subjected to an exhaustive evaluation as to their business standing, quality of products, adherence to delivery timelines, pricing, and post-sale support. They are re-evaluated every two years and the decision to retain them in the Bank's supply chain will depend on their performance during those two years. The Bank, on principle, prefers to source its needs from local suppliers as a commitment to the community it serves and the registered suppliers have access to advice on their financial and business issues, as a support service from the Bank.

High priced IT related procurement is routed through the IT Steering Committee (ITSC) while capital investments in specialised items may further be subjected to scrutiny by independent parties, where necessary.

Partners for Service Delivery

As a reputed and long standing financial institution that is customer-centric in its business approach, the Bank has created and nurtured a number of service delivery channels, primarily geared to afford its customers the premium service they expect from the Bank. These include, agency banking to create easy access to the customers, cash management, transport of security items belonging to the customers and ensuring that all its ATMs are well stocked with cash for customers to access their funds, when they need it.

Consulting with IT proficient partners is another aspect where the Bank ensures its technological and digital platforms are functioning at a high efficiency in a well secured manner protecting customer data and the Bank's access channels.

Many other back office operations such as payroll and audit functions, document storage and archival, legal advisory, maintenance of equipment are also outsourced to our partners, to ensure a smooth operation of the Bank's many operational aspects.

Name of the vendor	Description of outsourced activity
AB Securitas (Pvt) Ltd.	Cash transport, cash sorting vault operation, agency banking and cash loading for off site ATM/CRMs
Aegis Services Lanka (Pvt) Ltd.	Recruiting staff on an outsourced basis for the Contact Centre
Aegis Services Lanka (Pvt) Ltd.	Data capture function for credit card application process (application screening and rectification has been given as an additional function)
Aegis Services Lanka (Pvt) Ltd.	Credit Card data entry and hard copy validation and archiving
Aegis Services Lanka (Pvt) Ltd.	Data entry operators for data capture function of credit card application process and loan approval process in WF system attached to the PFS Hub
Aiken (Pvt) Ltd.	POS terminals deployment and maintenance
Aiken (Pvt) Ltd.	Supply and maintenance of cash counting machines

BUSINESS PARTNER CAPITAL

Name of the vendor	Description of outsourced activity
Aramex (Pvt) Ltd.	Local card courier services
Aspire Systems Consulting (Pvt) Ltd.	Temenos Infinity support and development
Certis Lanka Secure Logistics (Pvt) Ltd.	Cash transport, cash sorting, vault operations and agency banking
Ceylon Business Appliances (Pvt) Ltd.	Purchase of pawning dencimeters and maintenance
Ceylon Business Appliances (Pvt) Ltd.	Payroll processing
CyberGate Services (Pvt) Ltd.	Recovery of untraceable non-performing lease assets
D.K.K. Susil Samantha	Recovery of debts
Domestic Express (Pvt) Ltd.	Central archival operation (lodgement, new carton issuance, retrieval and collection)
EPIC Lanka (Pvt) Ltd.	Credit Card management system maintenance activities (CR and Value Additions)
EPIC Lanka (Pvt) Ltd.	POS terminals deployment and maintenance
Ernst & Young Sri Lanka	Audit on payroll function
Fortuna Global (Pvt) Ltd.	Website development and management
Ingenuous – Intuition	Card transactions fraud monitoring system.
Innovation Quotient (Pvt) Ltd.	Developing Innovation Road Map/Capacity Building
K & D Management Services (Pvt) Ltd.	Service provider for Debt Recoveries
Lake House Printers & Publishers	Printing cheque books
Loops Digital (Pvt) Ltd.	Chatbot development and management
M J Holdings (Pvt) Ltd.	Purchase of Pawning Dencimeters and maintenance
Management Systems Ltd.	Payroll processing
Master Recovery Services (Pvt) Ltd.	Recovery of untraceable non-performing lease assets
MCS Computer Systems (Pvt) Ltd.	Cheque Deposit Machine deployment, maintenance and 1st level support
Mega Pay (Pvt) Ltd.	Operating and deploying the megapay reload machine
Mobitel (Pvt) Ltd.	mCash is an aggregator platform which allows payments to be done for various entities.
N-able (Pvt) Ltd.	Managing the virtualised environment
Novustech Transact Lanka (Pvt) Ltd.	Providing the ATM Switch and the Debit Card Management System.
Novustech Transact Lanka (Pvt) Ltd.	ATM/CRM deployment maintenance, 1st level support, add new machines and replace machines, switch management and integrations
Novustech Transact Lanka (Pvt) Ltd.	ATM Reconciliation
Panel and retained lawyers	Title checking and security document execution and registration
Pronto Lanka (Pvt) Ltd.	Local card courier services
Rimacve Management Services (Pvt) Ltd.	Service provider for Missing NP Lease Asset Recoveries
Rimacve Management Services (Pvt) Ltd.	Service provider for Debt Recoveries
Sensus BPO Services (Pvt) Ltd.	Recovery of debts
Synapsys Limited	Database administration, application support service, system administration, daily operations and other support services
Synapsys Limited	Application service delivery, and other banking services
Sysenact (Pvt) Ltd.	L3 support and developments for Temenos 24

BUSINESS PARTNER CAPITAL

Name of the vendor	Description of outsourced activity
TechCert	Consultancy services for vulnerability assessment and penetration testing
Temenos Singapore	Temenos T24 L1&L2 onsite support (FLS)
Thoolawie Consultancy Services (Pvt) Ltd.	Registration of the mortgages and its connected documents for its due registration and return
Toppan Forms (Colombo) Ltd.	Printing and dispatching cheque books, cheques and pay orders, bank statements, credit card statements.
Transnational Lanka (Pvt) Ltd.	Central Archival Operation (lodgement, new carton issuance, retrieval and collection)
WM Group (Pvt) Ltd.	Purchase and licence renewal and service of Pawning Scales

Strategic Alliances

The DFCC Group comprises several subsidiaries, joint ventures and associate companies adding bandwidth to its strategic focus.

DFCC Consulting (Pvt) Ltd.
(Subsidiary)

Lanka Industrial Estates Ltd.
(Subsidiary)

Synapsys Ltd.
(Subsidiary)

Acuity Partners (Pvt) Ltd.
(Joint venture)

National Asset Management Ltd.
(Associate)

DFCC Consulting (Pvt) Ltd.

DFCC Consulting (Pvt) Ltd. is a fully-owned subsidiary involved in consultancy, advisory services and related areas since 2004. The company has undertaken local and international consultancy assignments in diverse fields such as programme management, engineering, environment and renewable energy for a wide variety of customers including the World Bank and the ADB. The company draws a pool of knowledge and expertise from DFCC Bank's own staff and from external consultants, and where necessary, partners with overseas experts and firms.

Lanka Industrial Estates Ltd.

Lanka Industrial Estates Ltd (LINDEL), is a subsidiary that was established in 1992 as a public-private partnership with the Government of Sri Lanka to convert the remaining facilities of the defunct State Fertiliser Manufacturing Corporation plant at Sapugaskanda into an industrial estate and to operate and manage thereafter. LINDEL provides superior infrastructure and allied services to its tenants who are from a variety of sectors including chemical, construction material, diversified engineering, fertiliser, FMCG, metal fabrication and packaging.

Negotiations with the Ministry of Industries are ongoing as part of expansion efforts to setup and develop a second industrial estate. Plans to list on the CSE have been postponed, as the economic conditions in the country are not conducive at present.

Synapsys Ltd.

Synapsys Ltd., a fully owned subsidiary, is an innovative technology company leveraging a 16-plus year track record of client service across banks, capital markets, insurance and retail payments across Asia-Pacific and the UK. Synapsys focuses on financial inclusion, disruptive financial services - "Bank Different!" and alternative low cost payment networks. Synapsys forges trusted partnerships to build and operate cloud ready Fintech platforms by capitalising on domain expertise in the SME, Micro and Agri-finance areas. A multi-disciplinary team of professionals ranging from software engineers, banking consultants, payment solution experts, IT operations experts to operations management teams drive success.

BUSINESS PARTNER CAPITAL

Acuity Partners (Pvt) Ltd.

Acuity Partners (Pvt) Ltd. is a joint venture of DFCC Bank and Hatton National Bank created to consolidate all investment banking related activities of the two banks under a common platform. The Acuity Group, comprising of Acuity Partners (Pvt) Ltd., Acuity Securities Ltd., Acuity Stockbrokers (Pvt) Ltd., and Lanka Ventures PLC, offers a comprehensive suite of products and services in Corporate Finance, Fixed Income Securities, Stock Brokering, Margin Trading and Venture Capital Financing.

National Asset Management Limited

National Asset Management Ltd. (NAMAL), an associate company of DFCC Bank is Sri Lanka's pioneer unit trust management company. On its founding in 1991, NAMAL launched Sri Lanka's first ever unit trust – the National Equity Fund. NAMAL currently operates four unit trusts and provides fund management services and private wealth management solutions. NAMAL is resourced by qualified and experienced professionals in the financial industry.

Membership in Industry Associations

As the Bank's footprint is spread among various business sectors, it maintains links in a number of business and professional associations such as;

- American Chamber of Commerce in Sri Lanka
- Association of Compliance Officers of Banks Sri Lanka
- Association of Development Financing Institutions in Asia and the Pacific
- Association of Professional Bankers Sri Lanka
- Colombo Stock Exchange
- Galle District Chamber of Commerce and Industry
- International Chamber of Commerce Sri Lanka
- Matara District Chamber of Commerce and Industry
- Payment Card Industry Association of Sri Lanka
- Securities and Exchange Commission of Sri Lanka
- Sri Lanka Forex Association
- The Ceylon Chamber of Commerce
- The Ceylon National Chamber of Industries
- The Employers' Federation of Ceylon
- The European Chamber of Commerce of Sri Lanka
- The Financial Ombudsman Sri Lanka (Guarantee) Limited
- The Institute of Chartered Accountants of Sri Lanka
- The Mercantile Service Provident Society
- The National Chamber of Commerce of Sri Lanka
- The Sri Lanka Banks' Association (Guarantee) Limited

As a premier Bank of repute and standing in Sri Lanka, the Bank places great value on its Business Partners as it believes strong partnerships contribute towards sustainable business growth to serve the community in an impactful manner.

SOCIAL CAPITAL

DFCC's commitment to Sustainability and the community has continued with an ambitious sustainability agenda and calendar, despite the enormous challenges the banking industry weathered in 2022.

DFCC Sustainability Strategy

The Financial Sector continues to be impacted by the many uncertainties that challenged Sri Lanka, which are also expected to remain unchanged in the short term. Against this backdrop, and in its efforts to contribute towards building a resilient Sri Lanka, the Bank stayed on course with its Sustainability Plan that drives its Social and Environmental Capital initiatives, grounded on top-down accountability to its stakeholders.

The Bank believes that the best sustainability framework to adopt to achieve our sustainability purpose; contribute towards a resilient Sri Lanka is the Triple Bottom Line (TBL) approach comprising 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.

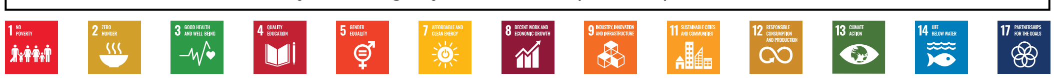
In applying the TBL approach to the Bank's Sustainability Vision, the Bank has focused on three key Sustainability Dimensions: Resilient Business; Impact for Resilience and Resilient Communities to achieve three key goals as depicted in the DFCC Strategic Sustainability Framework outlined below:

Sustainability Vision
To be the leading bank contributing towards sustainability by 2030

Resilience	Resilient Business	Impact for Resilience	Resilient Communities
Key Goals:	Contributing to sustainable economic growth The Bank for Green Finance	Promote positive social and environmental impacts Carbon Neutral Bank by 2030	Advancing sustainable workplace and lifestyles Achieve Sustainable Work-Lifestyles by 2030
Key Focus Areas:	Key focus areas > Promote sustainable and green finance > Promote/empower sustainable entrepreneurs	Key focus areas > Improve resource efficiency > Be a digitally enabled bank > Be a clean air champion	Key focus areas > Promote equal opportunity employment > Promote staff and customer wellbeing

6E'S Six cross cutting themes: Education, Elderly, Emergency Relief, Entrepreneurship, Environment, Exercise

Align with UN SDGs



Key enablers: Collaboration, Digitising, Empowerment, Innovation, Inclusivity

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The Bank's overall sustainability strategy is aligned with the thirteen UN Sustainable Development Goals (SDGs), as depicted in the graph, as well as the three Key Goals identified under the strategy, which were pursued by the Bank in 2022.

Three Key Goals

Goal 1 – The Bank for Green Finance

The Bank is committed to seeking out and specialising in environmental, energy, and sustainability related projects and project advisory. To this end, the Bank has in place a Social and Environmental Management System (SEMS), which ensures that projects funded by the Bank adhere to required environmental and social regulations. Developed and implemented by the Bank's Sustainability Unit since 2016, it ensures that the Bank does not fund any projects that are harmful to the environment or society while also encouraging clients to be more vigilant about the possible impact of their actions on the environment and society.

Goal 2 – Carbon Neutral Bank by 2030

Towards meeting its objective of being a Carbon Neutral Bank by 2030, DFCC partners with a number of organisations to set the pace for carbon neutrality, combining energy conservation and efficiency, as well as renewable energy.

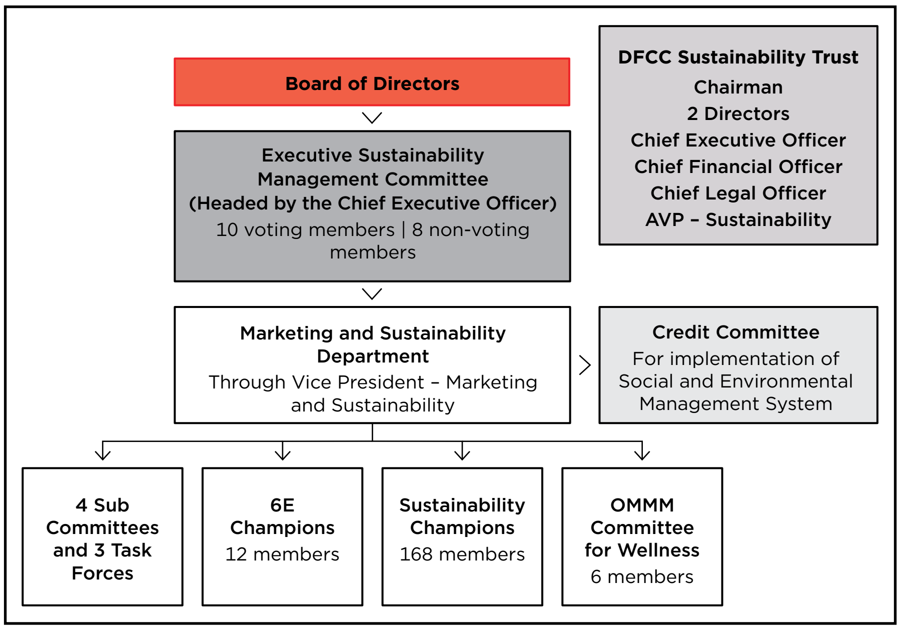
Goal 3 – Achieve Sustainable Work-Lifestyles by 2030

To promote diversity, inclusivity and sustainability-oriented productivity, the Bank engages with both staff and customers alike with the aim of achieving sustainable lifestyles by 2030.

Sustainability Governance

Sustainability governance is an integral part of the Sustainability Policy of the Bank, and is driven by the cross-functional Executive Sustainability Management Committee (ESMC) that was formed in November 2020. Chaired by the CEO and consisting of 18 staff, including many C-level staff, the ESMC meets every six weeks. It ensures the proper implementation of the Sustainability Strategy, as well as providing the required guidance and support.

DFCC Sustainability Organogram



Employee Engagement in Sustainability

Encouraging and Building Staff Volunteerism

To inculcate an attitude that "Sustainability is a way of life" at DFCC, sustainability-oriented tasks, action points and measurement matrices are built into staff evaluation and appraisal processes, while the Sustainability Pledge forms a part of their HR tool kit. Sustainability Champions, a group of people with a passion for protecting the environment and society, have been appointed from the staff.

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Sustainability-Focused Training

From the ESMC through to staff at all levels, training is provided to ensure that sustainability becomes a way of life at the Bank. Additionally, Training of Trainers sessions were held for Sustainability Champions to train staff in their respective branches or units on Sustainability.

Sustainability focused training for the staff 2022 – Summary

Programme description	Target Audience	Number of sessions
DFCC Sustainability Strategy and related topics, Role of Sustainability Champions	Sustainability Champions	9
Sustainable and social entrepreneurship	Branch Managers, Credit Officers, MSME Officers	6
Sustainability at DFCC	New Recruits	6
Social and Environmental Management System (SEMS)	Credit Officers	2

DFCC Sustainability Pledge

I promise that I will make every endeavour to care for Planet Earth and all living things;

Contribute towards DFCC's Sustainability activities for a more resilient Sri Lanka by actively supporting DFCC's sustainability goals and targets;

To treat all persons with dignity, respect and friendliness;

Use as little of our non-renewable resources as possible;

Minimise use of toxic chemicals, pesticides and other poisons and encourage others to do the same;

Support the less fortunate to become self-sufficient and have a decent life including clean air and water, food, health care, housing, education and individual rights;

Contribute towards the six cross cutting themes (6Es): Education, Elderly, Entrepreneurship, Environment, Emergency Relief and Exercise.

I will make a difference for the environment and society. DFCC Bank can count on me to help protect our planet.

Corporate Social Responsibility (CSR)

The key three sustainability dimensions of the DFCC sustainability strategy are implemented across six cross-cutting themes, known as the 6Es: Education, Elderly, Emergency Relief, Entrepreneurship, Environment and Exercise. DFCC initiated and implemented several CSR activities during the year, despite the adverse economic challenges the banking industry encountered in 2022.

Education

Alignment with UN SDGs:

DFCC "*Samata* English" – Educational Programme for Youth

DFCC "*Samata* English" ("English for Everyone") social support and development programme is the Bank's flagship project under the "Education" pillar, one of the 6 cross-cutting themes under the Bank's sustainability vision, contributing towards resilient communities.

This year, the Bank initiated the programme to empower a broad spectrum of youth aged 18-25 who have completed the GCE Advanced Level Examination in the Hambantota, Trincomalee and Nuwara Eliya Districts through the promotion and development of English language and soft skills.

Over the past years, from 2017 to 2021, DFCC Bank's "*Samata* English" programme has directly benefited over 350 young people across the Island in Gampaha, Kalutara, Kandy, Kurunegala, Galle, Ampara, Rathnapura, Polonnaruwa, Jaffna, Badulla, Anuradhapura and Vavuniya. This programme is part of DFCC Bank's long-term sustainability strategy and focuses on one of its core pillars, Developing Resilient Communities.

On average, the "DFCC *Samata* English" programmes go on for 4 months and are conducted by the Gateway Language Institute on behalf of DFCC Bank. The course includes a module on General Skills Development, which will further help enhance the participants' attractiveness to would-be employers. The Spoken English segment of the course is conducted over three months and includes training on improving communication skills, basic grammar

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and sentence structure, listening skills, reading skills, and writing skills needed in the job market and activity-based learning, including pair and group work. The soft skills segment of the course is conducted for one month and includes areas such as teamwork, time management, presentation, writing skills and equipping them with skills to face an interview. Applications for the course are advertised through the DFCC Branches as they are conducted in the vicinity of the branch network, and candidates are selected based on an initial assessment.

Each participant in the programme will be entitled to free access to the course and all course material, leading to a Certificate in Spoken English and Soft Skills Development, endorsed by DFCC Bank and the Gateway Language Institute. They will also receive a free savings account funded with an initial deposit from the Bank. Participants who perform well during the final assessment will also be provided internship opportunities within DFCC Bank's island-wide branch network.

DFCC Education Scholarship Programme

In collaboration with CARITAS Sri Lanka – SEDEC, the Bank embarked on a five-year journey to support the continued education of students from under-privileged families by granting financial support for secondary and tertiary education levels. Commenced in 2020, the Bank invested LKR 1.25 Mn in the programme supporting 174 students during the year.

Beneficiaries of the DFCC Education Scholarship Programme – 2022

O/L and Other	A/L	Vocational Training	Undergraduates	Total
66	71	13	24	174

Emergency Relief

Alignment with UN SDGs:

DFCC Community Kitchen Programme

The near-collapse of the economy greatly burdened those who either lost their daily income or were subjected to pay-cuts when industries floundered sending every area of normal daily life into a tail spin, as the foreign exchange crisis deepened. One of the worst outcomes of this was the inability to afford food by many segments of society due to dwindling incomes and high rates of inflation. Against this backdrop, the Bank stepped into ensure that food was available to the most affected, by conducting nine Community Kitchens in Colombo, Badulla, Gampaha, Kurunegala, Rathnapura, Kandy, Matara, and Kilinochchi Districts. Conducted as a "Green Initiative", these were "Plastic Free" events. The Bank invested LKR 1.9 Mn for this programme in 2022 which benefitted 4,218 people.

Beneficiaries of the DFCC Community Kitchen Programme – 2022

Male	Female	Children	Total
916	1,456	1,846	**4,218**

DFCC *Vesak* Initiative

In line with the Bank's Sustainability Strategy, 25 selected branches in key areas distributed dry rations to needy and deserving families using the funds allocated for *Vesak* decorations at branches during the *Vesak* Week in the month of May 2022.

Educational Assistance to the Children who were Affected by the Easter Sunday Attack

Being the "Bank for Everyone"', DFCC Bank always comes forward to assist people in difficult times. Thus, the Bank initiated an Educational Support programme for the children who were affected by losing either one or both of their parents due to the Easter Sunday Attack in 2019 at Katuwapitiya Church, so as to enable them to continue their education. Accordingly, from 2019, the Bank is making an annual contribution of LKR 180,000/- to selected 12 children until they complete their secondary education.

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Exercise

Alignment with UN SDGs:

3 GOOD HEALTH AND WELL-BEING

DFCC Bike to Work Initiative

The fuel crisis was the springboard that allowed the Bank to popularise its "Bike to Work day" of the month, among all DFCC staff. This was gradually expanded to include participation of other banks from time to time as well. A supplies area was opened at Head Office to carry out minor repairs and services to bikes. Additionally many concessions were made available to employees to facilitate the purchase of bicycles and related equipment. While promoting a healthy and sustainable lifestyle, this initiative sought to contribute towards lessening the carbon footprint of the Bank in a practical manner, which can be easily replicated across the branch network.

Benefits of Cycling

- Reduce carbon footprint
- Prevent global warming
- Environment friendly, silent transport mode
- Fuel efficient transport mode
- Improve strength and healthy living
- Reduce chances of suffering Non-Communicable diseases (NCDs)
- Improve sustainable lifestyles

OMMM Virtual Cycling Challenge

As an initiative to set a trend to reduce emissions through employee commuting, the Bank conducted OMMM Virtual Cycling Challenge among employees. The challenge of the competition was to cycle 400kms, a distance equal to travelling from Colombo to Yala and back. The competition spanned over six weeks, starting from 10 October 2022. The cycling performance of participants were monitored through the "Strava App". Fifty cyclists representing 10 teams participated in the competition. Best performing teams and individuals were commended and awarded cash prizes.

DFCC "Rise and Shine" Programme

The internal campaign, "Rise and Shine", was launched to support DFCC staff and their families in overcoming physical and mental challenges that impacted their physical and mental wellbeing. In this regard, the Bank has put together a range of initiatives under the 6E framework of the sustainability strategy, to help them cope with, build resilience and embrace change. During the year, the Bank focused on the following topics in conducting awareness sessions and engagement activities under this programme.

- Stress Management
- Economical Meal Plans
- Meaningful Relationships
- Financial Literacy and Budgeting
- Sustainable and Social Entrepreneurship
- Exercise for a healthy life
- Prevention of Non-Communicable Diseases
- Sustainable Living Journey
- Improving mental health at work
- Home gardening to ensure self sufficiency in food
- Provided vegetable seed packs to all staff, in addition to awareness sessions on cultivation

All online sessions were shared with all staff via emails and WeConnect. In addition, e-flyers were regularly shared with all employees to educate them on important tips to manage their lifestyles. Hence, all employees and their families benefitted from these programmes.

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Entrepreneurship

Alignment with UN SDGs:

DFCC Entrepreneurship Development Programme

Entrepreneurship development is at the core of the Bank's corporate responsibility efforts. We continue to support different micro, small and medium scale entrepreneurs, not only providing required financial assistance but also facilitating the programmes to get the required technical know-how, competency development and financial literacy aspects that will empower budding entrepreneurs as well as others to develop their businesses. We support different micro, small and medium scale entrepreneurs including youth and women who represent different sectors: agriculture, export, manufacturing, health, education, construction, energy, etc.

"DFCC *Sahaya Hamuwa*" is a specially designed financial literacy programme for MSMEs, collaboratively conducted with the Central Bank of Sri Lanka. "DFCC *Vyapara Athwela*" is the Bank's business competency development programme to provide entrepreneurial guidance. Through these programmes the Bank guides MSMEs to seek new business opportunities as well as to ensure the business continuity.

DFCC Entrepreneurship Development Programme – Summary

Programme	Mode of delivery	Year	Progress
DFCC "*Vyapara Athwela*"*	Online sessions on YouTube	Available on YouTube for reference since 2020 to date	More than 100,000 YouTube views
MSME development programme for women entrepreneurs	Physical workshops	2022	• Number of programs covered: 01 • Number of participants: 75 • Districts covered: Kurunegala
Biogas awareness and pilot project launch for dairy farmers	Physical workshops	2022	• Number of programs covered: 01 • Number of participants: 25 • Districts covered: Kurunegala

Due to the pandemic and travel restrictions imposed within the country, DFCC *Vyapara Athwela* was conducted via online sessions on YouTube to assist entrepreneurs.

DFCC *Aloka* was the frontrunner in the Bank's efforts to infuse new life into a business segment that was adversely impacted by the ongoing crisis in 2022. Empowering women and making an indelible footprint in supporting women entrepreneurs, DFCC *Aloka* led the way in the MSME development programmes the Bank implemented in 2022. For more information, please refer to the Financial Capital chapter on page 62.

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Signatories and Affiliations for Sustainability Initiatives

The Bank partnered with the following institutions to execute sustainability initiatives

Partner Institution	Purpose/focused initiatives/focused content
Sri Lanka Banks' Association	Sustainable Banking Initiative DFCC Bank is a pioneering signatory to the 11 Sustainable Banking Principles of the Sri Lanka Banks' Association (SLBA) under the Sustainable Banking Initiatives (SLBA-SBI). DFCC Bank is also represented at the "Core Group" of the SLBA-SBI to promote the SLBA-SBI to all banks.
Global Sustainable Finance Network	Global Sustainable Finance Network DFCC Bank is a member of the Global Sustainable Finance Network (GSFN), which is a voluntary membership based global initiative launched in 2011 under the auspices of the World Federation of Developing Financial Institutions (WFDFI) by the European Organisation for Sustainable Development (EOSD) and the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP). The Vision of GSFN is to create a thriving pre-eminent global community of financial institutions and other stakeholders working together for projects, programmes and activities that are socially beneficial, environmentally responsible and economically viable.
Good Life X MoU signed for the Climate Adaptation Accelerator Initiative	To promote sustainable entrepreneurs by working with start-ups already in the market and to develop their businesses and products to match market requirements.
Ministry of Agriculture	Smallholder Agribusiness Partnership Programme.
Export Agriculture Department	Developing smallholder farmers engaged in cultivating export agriculture crops.
Market Oriented Dairy (MOD) – (funded by the "Food for Progress" programme of the U.S. Department of Agriculture)	Empowering dairy farmers through capacity development and financing.
National Innovation Agency	Signed an MOU connecting Bank's Dairy farmer clients and entrepreneurs to biogas technology to promote circular economy innovation.
Central Bank of Sri Lanka	Small enterprise development by providing financial literacy and funds at concessionary rates.
Small Enterprises Development – SED	Small enterprise development by providing required capacity development and training.
Caritas	To promote education for underprivileged segment of the society.
Gateway Education Center	To promote English education for youth.
Neptune Papers Private Limited	To promote recycling initiatives of the Bank.
Think Green Private Limited	To promote recycling initiatives of the Bank.

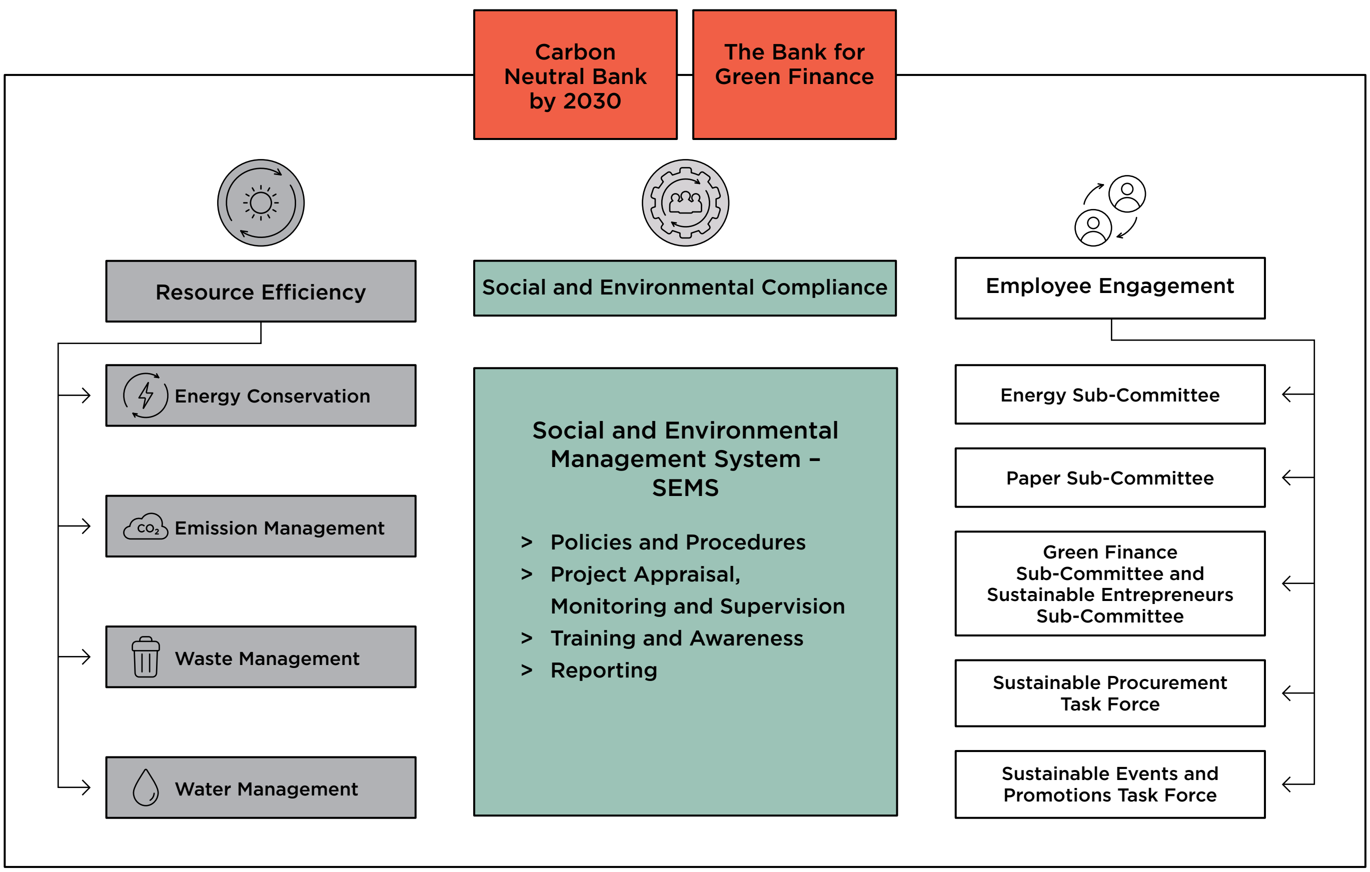
NATURAL CAPITAL

DFCC's commitment to Sustainability and Environmental Capital continued with an ambitious sustainability agenda and calendar, despite the enormous challenges weathered by the banking industry in 2022.

Our Approach to Natural Capital Management

DFCC Bank has consistently strived to act responsibly with regard to the impact that we could possibly have on the environment through our business operations. Therefore, we continue to reform and update our climate action strategies to meet our stakeholder expectations on managing the environmental footprint of the Bank. The Bank has been consistent in conforming with Sustainability guidelines and best practices applicable to the banking sector. We also ensure that the projects that we fund meet the required environmental and social regulations and guidelines through the implementation of a Social and Environmental Management System (SEMS).

DFCC's approach towards Natural Capital Management and Environmental Sustainability



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Best practices during the year to manage the environmental footprint of the Bank

- Using the internally developed "Eco Efficiency App" to record and track energy, paper and fuel usage
- Having Four teams (Energy Paper, Sub-Committees, Procurement and Sustainable Events and Promotions Task Forces) for resource efficiency and reducing the environmental impact
- Regular awareness and training on key environmental topics, tips to save resources, optimised resource utilisation and implementation of policies and processes
- Solar rooftop panel installation for DFCC owned buildings
- Conducting a baseline assessment for the carbon footprint of the Bank
- Establishing and working towards 2025 paper reduction targets within the Bank

Sustainable Green Finance

Overview on the Bank's Sustainable Finance Policies and Activities

One of the 3 main Sustainability Goals of DFCC Bank under its Sustainability Strategy is to be "The Bank for Green Finance". Accordingly, the Bank set-up the following two Sub-Committees in 2020:

- Green Finance Sub-Committee
- Sustainable and Social Entrepreneurship Sub-Committee

The above two sub-committees, together with the Marketing and Sustainability Department also conducted many training programs to credit staff on sustainable finance. This included a series of training sessions on Sustainable and Social Entrepreneurship, conducted by Dr Kumudu Jayawardena of the University of Uva Wellassa.

CBSL's Directives on Sustainable Finance Practices

In addition to our own sustainability policies and agenda, we have also made necessary arrangements to adhere to the initiatives of the Central Bank of Sri Lanka (CBSL) on Sustainable Finance, such as the Road Map for Sustainable Finance in Sri Lanka (2019), Sri Lanka Green Finance Taxonomy (2022) and the Banking Act Direction No. 5 of 2022 on Sustainable Finance Activities of Licensed Banks (2022).

Tagging of facilities as per the Green Finance Taxonomy published by the CBSL in May 2022 commenced during the year by the Sub-Committees on Green Finance and Sustainable and Social Entrepreneurship, together with the Marketing and Sustainability Department. Accordingly, the Bank met the quarterly reporting requirements of CBSL on Sustainable Financing Activities, as per the Banking Act Direction No. 5 of 2022 on Sustainable Finance Activities of Licensed Banks.

Bank's Approach towards Sustainable Finance Activities and the Way Forward

As Sri Lanka's "Pioneer Development Bank", DFCC Bank has been the leading project financier in the country for more than 68+ years. The Bank has also been the financier of trail blazing Sri Lankan entrepreneurs, particularly during their risky early stages. DFCC Bank is still the preferred lender for "Green" development projects, including all types of Renewable Energy projects.

Building on its historical achievements in Project Financing, as well as understanding the importance of sustainable financing in the current context, the Bank has set a goal of becoming "The Bank for Green Finance" under its Sustainability Strategy 2020 – 2030. Accordingly, the Bank is making necessary structures and processes internally to achieve this goal, as well as to meet statutory and other requirements pertaining to Sustainable Finance. In addition, the Bank is also placing greater emphasis on innovation, as well as training its staff on Sustainable Finance, so as to meet the future demands in this area.

NATURAL CAPITAL

Social and Environmental Management System – SEMS

Developed and implemented by the Bank's Sustainability Unit since 2016, the Social and Environment Management System (SEMS) ensures projects that are harmful to the environment or society are not funded by DFCC. This also encourages clients to be more vigilant about the possible impact of their actions on the environment and society. Accordingly, appropriate mitigation measures are carried out for risks identified by both the Credit Units and the Marketing and Sustainability Department at the appraisal and the monitoring stages.

SEMS Actions Adopted by DFCC Bank

1. Environmental and Social (E&S) Checklists to be completed by Project Officers during appraisal – Mandatory for term loans over LKR 25 Mn.
2. Inclusion of a loan condition on E&S aspects under "General Conditions" in the offer letters.
3. E&S categorisation of all term loans over LKR 25 Mn by the Sustainability Unit at the appraisal stage.
4. Providing comments on E&S aspects by the Sustainability Unit for all term loans over LKR 25 Mn, to be included in the Appraisal Reports.
5. Monitoring of E&S aspects on approved facilities, especially term loans over LKR 25 Mn.
6. Reporting on E&S aspects

    Internal – Credit Committee, ESMC
    External – Development Finance Institutions, such as Proparco and ADB.
7. Develop and update the Exclusion List for lending.

In addition, the Sustainability Unit also acts as the "Environmental Screener" for all loans funded through the ADB Credit Line for SMEs, as well as monitoring of E&S aspects of these loans.

Given below is a summary of the E&S Risk Categorisations carried out for all term loans over LKR 25 Mn as at 31 December 2022:

Category	Number of loans	As a percentage of total loans
Very High Impact (A)	10	9.6%
High Impact (B)	32	30.8%
Medium Impact (C)	15	14.4%
Low Impact (D)	5	4.8%
Very Low Impact (E)	42	40.4%
Total	104	100%

Training programmes conducted on SEMS

Topic	Target group	Number of participants
Environmental evaluation for project lending	Credit Officers	47
Training on environmental approvals	Credit Officers	237

Energy Conservation and Emission Management

Our primary source of energy is grid electricity, which is the largest contributor towards our carbon footprint. Given the obvious impact of our overall carbon footprint on the environment, energy management has become a key priority, which has prompted us to measure and monitor energy consumption on a monthly basis. For this purpose, we have an "Eco Efficiency App", developed in-house, to record and track electricity and fuel usage of DFCC, including the branch network.

The Energy Subcommittee, together with the Marketing and Sustainability Department, is tasked with implementing strategies to achieve greater energy efficiency.

Key highlights 2022

Energy from grid	Energy from solar	Number of solar power converted branches
5,924,534 kWh	**153,649 kWh**	**03**

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Key actions taken during the year 2022 to ensure energy efficiency

Focus	Key Actions
Implementation and monitoring of key tasks on energy management	Progress update to the Executive Sustainability Management Committee (ESMC) by the Energy Sub-Committee
Streamlining data tracking and monitoring	Introducing the "Eco Efficiency App", which provides access to all branches to enter their energy consumption data
Awareness and Training	• Communicating tips on efficient use of resources • Training on data tracking and monitoring through the Eco-Efficiency App
Reduce and control energy usage	• Numbering switches and lights in work areas to enable staff to easily switch-on only the required lights and to switch off after work • Switch off sign boards as per the discretion of the Management • Limit lift operations before 7.30am and after 4pm • 100% A/C capacity during customer hours and 60% capacity in non-customer hours • Need to obtain prior approval for after-office work and weekend and holiday work • Maximum usage of natural light wherever possible • Energy efficient lighting solutions
Electricity savings through Renewable Energy Sources	Installing Rooftop Solar for DFCC owned buildings – 03 buildings completed

Renewable energy usage through solar power as at 31 December 2022

Branch or location of the building	System capacity (kW)	Electricity generation (kWh)
Kurunegala	50	72,489
Negombo	27	36,880
Ramanayaka Mawatha	34.6	44,280

Reduce Energy Footprint – Future Outlook

- Continue to limit air conditioning and lift usage
- Continue to change CFL and tube-lighting into LEDs
- Installation of rooftop solar system for the DFCC Head Office building

Moving forward to achieve one of the key sustainability goals in our Sustainability Strategy, "To be a Carbon Neutral Bank by 2030", we have consciously taken every effort to reduce emissions across our value chain during the course of business.

We promote efficient resource operations, encourage low carbon solutions, and thereby contribute towards accelerating the implementation of new climate solutions. We consider carbon footprint calculation as a key driver to manage emissions. Accordingly, we carried out a baseline assessment for the year 2022 with the consultation of RR Associates (Pvt) Ltd. based on GHG protocol guidelines and ISO 14064-1:2018 to report on the direct emissions resulting from our business activities (Scope 1), indirect emissions including purchased electricity (Scope 2) and other indirect emissions caused by employee commuting (Scope 3). As per the assessment, we did not identify any significant air emissions or emission of ozone depleting substances, pollutants and other hazardous compounds arising from our business operations.

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Assessment Type: Organisational Greenhouse Gas Assessment*

Compliance: ISO 14064-1:2018
Greenhouse gas protocol – a corporate accounting and reporting standard

Reporting period: 1 January 2022 to 31 December 2022

Scope 1 – Direct Emission	Scope 2 – Indirect Emission by purchased energy	Scope 3 – Other indirect Emission	Total Carbon footprint	Emission per employee
628.42 tCO_2e	4,622.80 tCO_2e	2,501.39 tCO_2e	7,752.61 tCO_2e	3.89 tCO_2e

CO_2 = 7729.06 tCO_2e CH_4 = 17.56 tCO_2e N_2O = 5.99 tCO_2e

*Figures confirmed by RR Associates (Pvt) Ltd.

Waste Management

Towards our goal of achieving zero waste in the long term, we implemented a waste management strategy specifically for paper, food, plastic, glass and e-waste, through waste classification, segregation and recycling. At DFCC, recycling is practised in collaboration with third-party recyclers to ensure the safe disposal of different types of waste. Further, the Bank encourages reusing of furniture and chairs after repairing them instead of replacements.

Paper Waste Management

The Bank continues the 3R principles; i.e. Reduce, Reuse and Recycle to manage paper waste. The paperless initiative which commenced in 2020 has made steady progress over the years to achieve paperless targets of the Bank; 100% paperless internally by 2024 and 50% paperless externally by 2024. In addition, the collected paper waste have been recycled through Neptune Papers Private Limited.

Key actions taken

- *Installation of User Codes to printers*

  To avoid unnecessary printing and wastage due to uncollected printouts, all printers were installed with user codes. Further some of the printers were installed with a software that captures the number of printouts and photocopies taken by each user.

- *Paperless certification program*

  This is an initiative where the departments are encouraged to streamline their processes in order to eliminate paper usage by at least 85% and apply for a paperless certification for that respective process.

  As at 31 December 2022 over 50 processes across 14 departments have proactively streamlined their processes from 85%-100% where respective certifications were issued and regular monitoring is being conducted.

- *Introducing the "Shared – Google Drive" to branches*

  Printing of certain specified documents such as reports, transaction confirmations, etc. were discontinued. Instead, the branches now save the soft copy of each document in the shared Google Drive thus reducing paper usage at branches to a great extent.

  The initiative was started in October 2022 and the expected average savings amount to 917,784 A4 sheets and a cost saving of approximately LKR 3 Mn.

- *Discontinuation of 3 in 1 Printers*

  21 branches with 3 in 1 printers were identified and they were removed to discourage printing.

- *Installation of hand dryers in the wash rooms of the main buildings to eliminate paper towels*

NATURAL CAPITAL

Key highlights on paper waste management

Savings from paperless business operations (per annum)

Quantified savings		
1,223,348 sheets Saved A4 papers (Approximately)	**LKR 4.1 Mn** Cost savings (Approximately)	**122** Saved fully grown trees (Approximately)

Savings from accounts conversion to e-statements (per annum)

	Quantified savings		
43,585 Total accounts Converted to e-statements	**87,170 sheets** Saved A4 papers (Approximately)	**LKR 1.2 Mn** Cost savings (Approximately)	**8** Saved fully grown trees (Approximately)

Savings from waste paper recycling*

	Quantified savings		
4,410 Kg Total paper recycled	**75** Saved fully grown trees	**17,640 Kwh** Saved electricity	**7,740 litres** Saved oil
	140,150 litres Saved water	**13 cubic meters** Saved landfill	**4,410 CO_2e** Greenhouse gas emission reduction

*Figures confirmed by Neptune Papers (Pvt) Ltd.

Paper waste management – Future outlook

- Review results on implemented Google Drive.
- Maintaining and improving the "Paperless Business operations" within departments and extending it to the branch network.
- Launch of Phase 1 of Digital On-boarding – customer account opening shifted to the digital platform.
- Digital Signatures – registering internal users and segments of external customers to the e-signatures platform, thereby, using it for requests, approvals and transactions.
- Launch of e-business cards.
- e-Statement conversion.
- Management and reduction of paper based sanitary products.
- Streamlining of processes at an overall level.

As a means of cementing the Bank's paperless goal in the routine of staff members, setting paperless KPIs to the performance appraisal goals are to be considered and parameters to review to be set.

Plastic waste management – Key actions taken

Plastics and glass waste recycling commenced on the DFCC Clean-Up Day, which was held in September 2022.

We have set up plastic drop off bins at our Head Office and Ramanayaka Mawatha buildings to collect plastic waste. Collected plastic waste is handed over to Eco Spindles Pvt Limited for recycling; to manufacture yarn and filament products using waste plastics as raw material.

NATURAL CAPITAL

Water Management

This is an important focus area under the Bank's sustainability strategy on resource efficiency. Currently the Bank continues to increase the awareness of employees on water management through internal communication platforms.

Pipe-borne water from the National Water Supply and Drainage Board is the main source of water. We use a filtered water system to provide safe drinking water facilities to all our 5 main buildings and 86% of our branch network. Measuring and monitoring consumption of water from the source, and water withdrawals will be added to the Eco Efficiency App from year 2023 onwards.

Environmental CSR Programmes

DFCC Clean Up Day

The Annual DFCC Clean-up Day 2022, coinciding with the World Clean-up Day on 17 September, was successfully concluded with the participation of DFCC team members at Head Office and branches with the motive of creating a healthier, safer and happier work environment. Teams who took part actively cleaned their office and surrounding areas, discarded unnecessary clutter and organised their workplaces. Important documents were archived, and paper and other waste were segregated and sent for recycling through partner vendors.

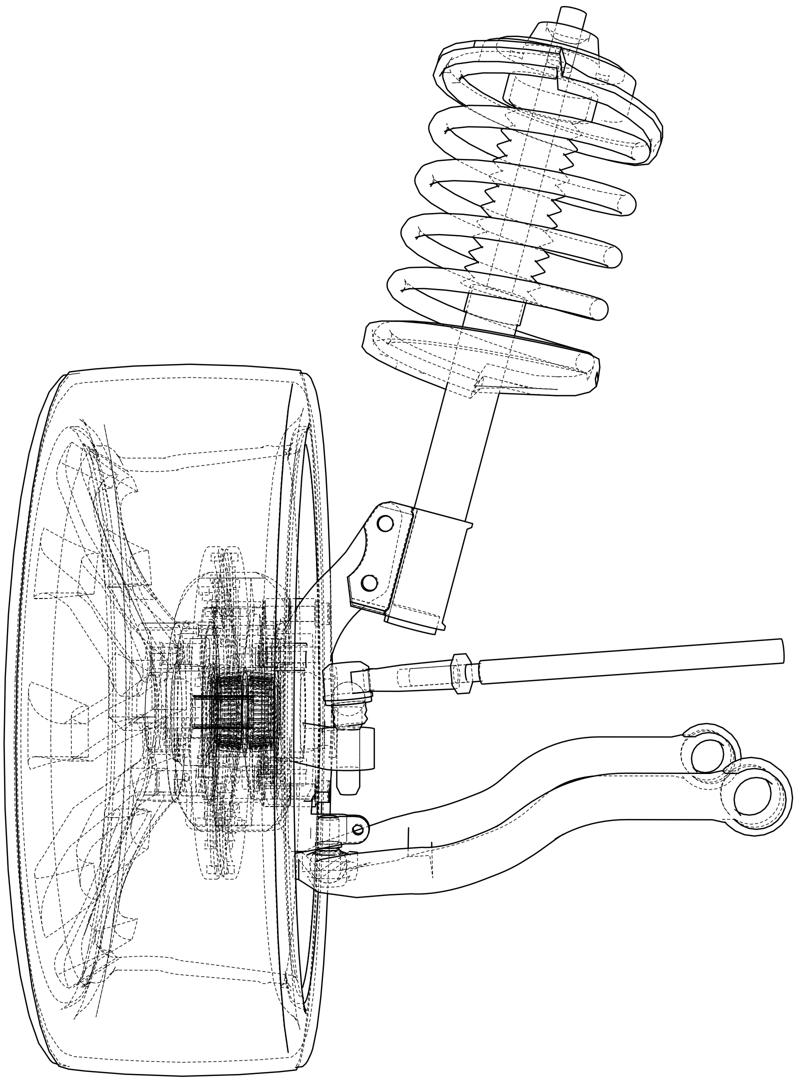
Promoting Home Gardening under the "Rise and Shine" Programme

With the objective of meaningfully contributing to the welfare of employees by ensuring that they remain self-sufficient during this present time of need, the Bank encouraged all staff members to engage in home gardening to meet their food needs. While this initiative provides employees with much-needed ease of access to food, it will also deepen their family engagement and happiness, enabling them to enrich both their professional and personal lives. As part of this initiative, DFCC distributed vegetable seeds packs to all employees. The Bank also organised webinars on home gardening for all employees by engaging specialised personnel in the subject for this purpose.

Training and awareness programmes on Environmental Management

Awareness Programmes	**Beneficiaries****
	Participants in live streaming (Approximately)
Webinar on Home Gardening – Part I	85
Webinar on Home Gardening – Part II	85
Webinar on Home Gardening – Part III	85
Awareness Session on Plastic Recycling	145

**All sessions were shared via the intranet and made accessible to all employees.



RECOGNITION

AWARDS AND ACCOLADES

Category	Awards	Project	Institution	Month
1. Banking and Finance	Best Digital Marketing Campaign	DFCC Virtual Wallet	SLIM Digi Awards	January 22
2. Cash Management Service Provider in Sri Lanka	Market Leader in Cash Management Sri Lanka (Domestic Banks)	Payments and Cash Management	Asiamoney publication	January 22
3. Cash Management Service Provider in Sri Lanka	Best for Services in Cash Management – Sri Lanka (Domestic Banks)	Payments and Cash Management	Asiamoney publication	January 22
4. Cash Management Service Provider in Sri Lanka	Market Leader in Cash Management Sri Lanka (Domestic Banks)	Payments and Cash Management	Euromoney Market Leaders Awards 2022 by Euromoney Magazine	January 22
5. Cash Management Service Provider in Sri Lanka	Best for Services in Cash Management – Sri Lanka (Domestic Banks)	Payments and Cash Management	Euromoney Market Leaders Awards 2022 by Euromoney Magazine	January 22
6. Top Ten Winner in Best Management Practices	Best Management Practices Company Awards 2022	Corporate Brand	The institute of Chartered Professional Managers of Sri Lanka	February 22
7. Best Common ATM Enabler of the Year (Category B)	Merit	DFCC MySpace Self Banking	LankaPay Techinnovation Awards 2022	March 22
8. Bank of the Year for Financial Inclusivity (Category C)	Merit	DFCC MySpace Self Banking	LankaPay Techinnovation Awards 2022	March 22
9. Best Social Media Content (YouTube and Facebook)	Gold Award	Digital Marketing	11th ACEF Asian Leaders Awards	September 22
10. One of Sri Lanka's Most Outstanding "Women-Friendly Workplaces" Award	Winner	DFCC Bank, Corporate	CIMA, together with Sri Lanka's most popular women's magazine, Satyn	September 22
11. Category 1, Human Capital Development	Merit	DFCC OMMM Project	Association of Development Financing Institutions in Asia and the Pacific (ADFIAP)	October 22
12. Business Today Top – 30 (2021/22)	Position – 36	DFCC Bank, Corporate	Business Today Magazine	November 22
13. Sri lanka's most valuable and most strongest brands Top 100 (2020/2021)	Position – 28	DFCC Bank, Corporate Brand	Brand Finance, Sri Lanka	December 22

AWARDS AND ACCOLADES

Top Ten Winner in Best Management Practices

Bank of the Year for Financial Inclusivity (Category C)

Best Common ATM Enabler of the Year (Category B)

Best Digital Marketing Campaign

Best Social Media Content (YouTube and Facebook)

KEY EVENTS OF THE YEAR


DFCC Bank Annual General Meeting


Technology Risk Management training programme


DFCC *Aloka* celebrated International Women's Day


Branch relocations


Customer Service Week Branch Activities


DFCC Annual Art Competition


DFCC Badminton Team won multiple medals at the Mercantile Badminton Tournament

DFCC Bank Banking Category Winner of the CSE Masterminds Capital Market Quiz Competition

DFCC Bank celebrated Customer Service Week


DFCC Bank Main Sponsor and Official Banking Partner of CNCI Achiever Awards

DFCC Bank opened an Offsite ATM in Panagoda


DFCC Bank partners with National Innovation Agency (NIA) to support adoption of Biogas Technology

KEY EVENTS OF THE YEAR


DFCC Bank was one of the Top 10 Winners at the Best Management Practices Company Awards


DFCC Bank was one of the Top 10 Winners at the Women-Friendly Workplaces Awards


DFCC Bank Won 10th place at the Mercantile Athletics Championship


DFCC Capacity Building Programme


DFCC Community Kitchens


DFCC Cycling Day


DFCC Deposits Mega Drive

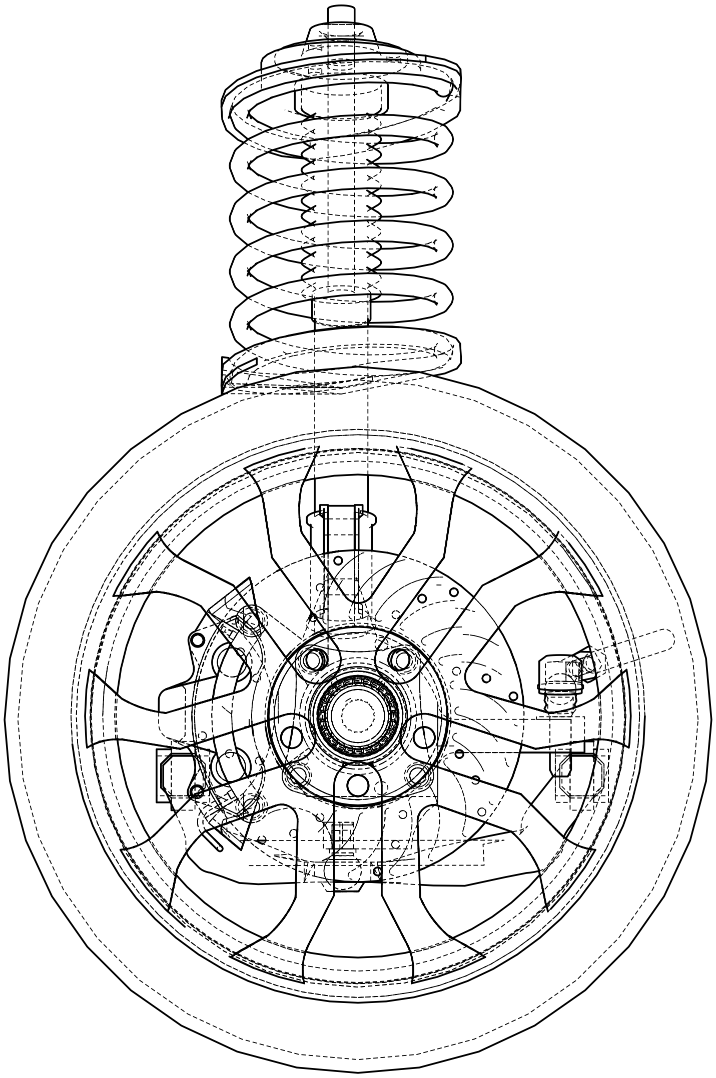

DFCC *Samata* English Programme


DFCC yoga and dance programmes for staff


The First Loan under the Biogas Project for Smallholder Dairy Farmers


The Installation Ceremony of DFCC Toastmasters


TLC Breast Cancer Awareness Programme



STEWARDSHIP

INTEGRATED RISK MANAGEMENT

Risk Culture and Vision

DFCC Bank PLC (the Bank) adopts a comprehensive and well-structured mechanism for assessing, quantifying, managing and reporting risk exposures which are material and relevant for its operations within a well-defined risk management framework. An articulated set of limits under the risk management framework explains the risk appetite of the Bank for all material and relevant risk categories and the risk capital position. Risk management is integrated with strategic, business and financial planning and customer 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 the "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.

INTEGRATED RISK MANAGEMENT

j. Aligning the 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 the risk management framework and ICAAP to align them with Basel recommendations and regulatory guidelines.
m. Maintenance of internal prudential risk limits based on the risk appetite of the Bank and wherever relevant, over and above the required regulatory limits.
n. Ensuring a prudent risk management culture within the Bank.
o. Periodic review of risk management policies and practices to be in line with the developments in regulations, business environment, internal environment and industry best practices.

A risk management culture has been created across the Bank that promotes its business objectives and an environment that enables the 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 or 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

"Three Lines of Defence" Approach

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.

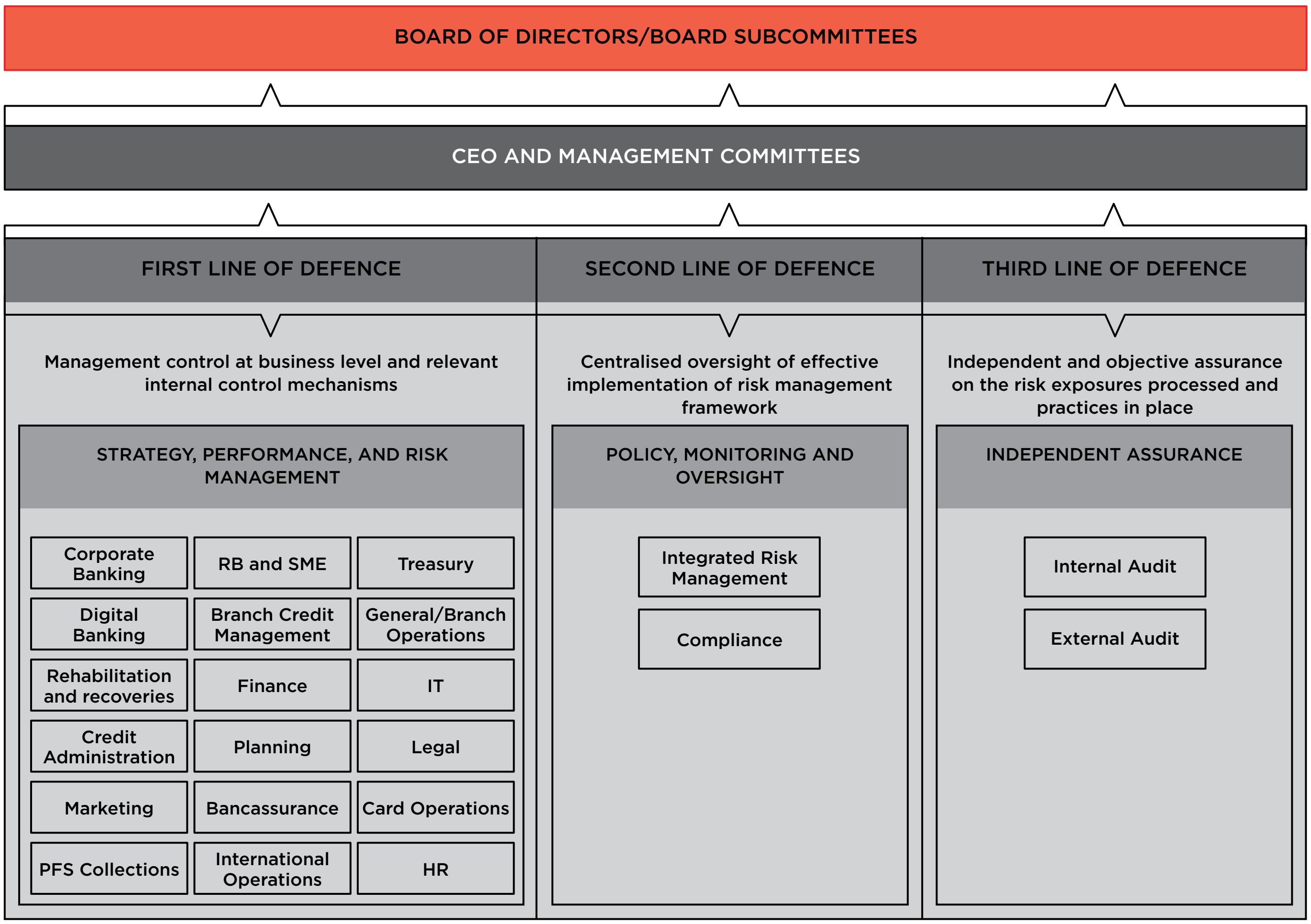
The First Line of Defence involves management control at business level and adhering to relevant internal control mechanisms while discharging the responsibilities and accountability for day-to-day management of business operations. Independent risk monitoring, validation, centralised oversight of effective 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.

INTEGRATED RISK MANAGEMENT

Governance Structure for Risk Management

The Concept of the "Three Lines of Defence" for Integrated Risk Management Function



Risk Policies and Guidelines

A set of structured policies and frameworks recommended by the Integrated Risk Management Committee and approved by the Board of Directors 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 periodically and communicated across the Bank. Respective staff members are required to adhere to the specifications of these frameworks when conducting business transactions.

INTEGRATED RISK MANAGEMENT

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 requirements.

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)	> 8.5% (Regulatory) Internal limit is based on ICAAP
	Total capital adequacy ratio (under Basel III) (Total capital as a percentage of total risk-weighted assets)	> 12.5% (Regulatory) Internal limit is based on ICAAP
Credit quality and concentration	Stage 3 ratio	< Industry average as published by the 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 assets ratio	> 20% (Regulatory) > 22% (Internal)
	Leverage ratio	> 3% (Regulatory)
	NSFR	> 90% (Regulatory) > 100% (Internal)
	Liquidity coverage ratio (all currencies and rupee only)	> 90% (Regulatory) > 100% (Internal)
Market risk	Forex net open long position or short position	As prescribed by the Central Bank of Sri Lanka

INTEGRATED RISK MANAGEMENT

Board Integrated Risk Management Committee (BIRMC)

The BIRMC is a Board Subcommittee, which oversees the risk management function as required by the Regulator. 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 permanent members. Further, Heads representing, 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 185 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 2022, five BIRMC meetings were conducted and the Committee paid more attention on liquidity risk, credit risk and capital adequacy in the increasingly volatile operating environment due to stressed macroeconomic landscape. The Committee reviewed the adequacy of the risk mitigating actions taken and stress testing results to align the risk appetite of the Bank to navigate ongoing challenges.

Scope and Main Content of Risk Reporting to the BIRMC

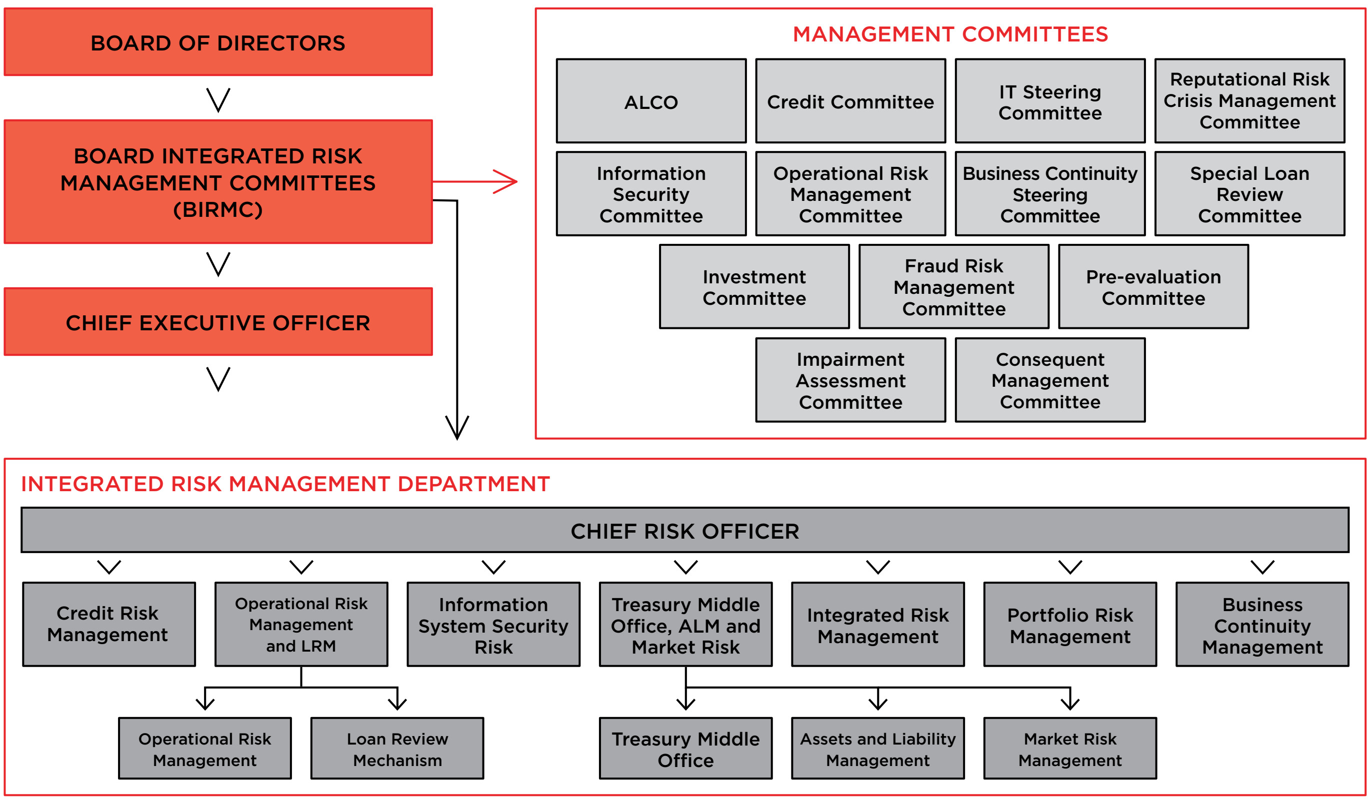
Risk type	Scope and main content of risk reporting
Overall risk	• Review of the Internal Capital Adequacy Assessment Process (ICAAP) • Regulatory capital adequacy position and trends compared with limits • Overall risk limit system including regulatory and internal limits • Stress testing of key risks and overall exposures • Reports on top and emerging strategic and business risks • Risk analysis of Group companies • Review of risk management policies and frameworks
Credit risk	• Credit portfolio analysis and risk quantifications • 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 • Status report of current security posture • Top and emerging risks and the status update
Compliance risk	• Status of the Bank's compliance with rules and regulations • Results of compliance tests undertaken and assessment of overall compliance risk levels • New rules and regulations • Review of compliance related policies and procedures • Anti Money Laundering (AML) and Countering Financing of Terrorism (CFT) Measures

INTEGRATED RISK MANAGEMENT

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) Impairment Assessment Committee (IAC), Information Security Committee and Consequent Management Committee are included in the organisational structure for integrated risk management function. The responsibilities and tasks of these committees are stipulated in the Board-approved Charters and Terms of References (TORs) and the membership of each committee is defined to bring an optimal balance between business and risk management.

Organisation Structure for Integrated Risk Management



The Integrated Risk Management Department (IRMD) is responsible for measuring and monitoring risk on an ongoing basis to ensure compliance with the parameters set out by the Board or BIRMC and other Management Committees for carrying out the overall risk management function in the Bank. It consists of separate units such as Credit Risk Management, Market Risk Monitoring, Operational Risk Management, Asset and Liability Management, Loan Review Mechanism, Information Systems Security Risk Management, Integrated Risk Management, Treasury Middle Office, Portfolio Risk Management and Business Continuity Management. 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.

INTEGRATED RISK MANAGEMENT

Key Developments in the 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. Five new internal limits were introduced in the Liquidity risk management area and a quantitative risk appetite limit was introduced for Operational risk. Exposure to GOSL and exposure to the Maldives were reviewed considering a holistic view and to manage the overall concentration risk. Internal limit on exposure to Manufacture of Textile and apparel was enhanced considering the further depreciation of LKR and the national requirement to facilitate export oriented business.

All the Board-approved risk management frameworks, charters, and TORs were reviewed during the period, especially considering changes in regulatory and business environment. A new policy was established during the year for the "Blacklisting" of the clients.

Revised credit rating models, after incorporating the required calibrations or amendments based on the results of the independent model validation process, were launched during the year. A new rating model was launched for Credit Cards.

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.

Stress testing process was improved with updated stress scenarios which are more relevant to the current economic landscape. A stress testing dashboard was introduced for better presentation of the impact on capital adequacy under each stress circumstances.

IRMD continued to conduct ICAAP which quantifies the amount of capital required for all types of material risks to the Bank, covering both pillar I and pillar II of Basel framework. The capital cushion to be maintained over and above the regulatory minimum requirement covers a portion of stress capital requirement as well.

Necessary amendments to the facility upgrading under SLFRS 9 policy were introduced to be in line with the new regulatory Direction on SLFRS 9 implementation.

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

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

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

Complying with the regulatory Direction on SLFRS 9 implementation, the Bank obtained an independent external validation of the impairment assessment models. This enabled the Bank to establish the robustness of the models and ensure a more accurate and effective impairment assessment.

INTEGRATED RISK MANAGEMENT

A new unit within IRMD was established for "Portfolio Risk Management" directly reporting to the CRO. The unit is primarily responsible for actively identifying credit risk related issues, formulating risk mitigation strategies and models to monitor consumer lending products at portfolio level by analysing customer and market data.

The credit workflow ensures that every credit proposal except for certain identified products 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.

The Loan Review unit which is an independent unit from Credit Risk Management Unit, constantly evaluates the quality of the loan book and brings about qualitative improvements in credit function. The Unit has taken specific actions to increase the sample size and the scope of the loan reviews to obtain feedback from business units with regard to the improvements brought into the post disbursement 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 Information Security 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 a regular basis to ensure required attention is given for rectifying known vulnerabilities and security weaknesses in a timely manner. Furthermore, the Unit is involved in new system implementations from request for proposal (RFP) stage to Go-live confirmation and make sure new systems are compliant with industry security best practices. Further, the Unit works with reputed external parties to ensure that critical and customer facing systems are appropriately secured.

Staff awareness programmes on operational risk were held for staff at various levels, from new recruits to Branch Managers while it was further facilitated through the e-Academy. Operational Risk alerts have been shared with the Bank staff as knowledge sharing on the operating risk incidents by indicating the risk and the learning from the incidents. The Bank has developed a model for Risk and Control Self-Assessment (RCSA) and Key Risk Indicators (KRI) for operational risks across all major functions and departments, and continues to monitor closely their applicability, trends and effectiveness of the controls on a semi-annual basis. Currently IRMD monitors 49 departments or units for the KRI and in 2022 RCSA and KRIs were developed for six units.

Credit Risk

Credit risk is defined as the potential loss arising from the customers' failure to meet contractual obligations as and when they fall due. For banks, Credit risk occurs primarily due to their lending activities - granting of loans and advances to individuals, MSMEs, SMEs and corporates. Direct lending activities as well as commitments and contingencies expose the Bank to credit risk.

From the beginning of the year 2022, banks were experiencing challenges with business disruptions, policy changes, declining foreign exchange reserves, inflationary pressures, rupee depreciation and the surrounding uncertainties in many industry sectors. Government support measures introduced by way of moratorium to cushion the impact on the households and the business entities have masked the true underlying creditworthiness of some of the borrowers that could lead to further deterioration of asset quality in the years ahead.

The lending portfolio accounts for 65% of total assets and credit risk accounts for 91% of the total risk-weighted assets. It is imperative to manage the credit risk of the Bank prudently to ensure sustainability of the Bank, since increase in credit risk will have a negative impact on profitability and capital of the Bank.

Considering the above, the Bank has taken precautionary steps to curtail lending, analysing various segments of the lending portfolio for signs of deterioration, extended repayment periods for identified borrowers and management overlays for risk elevated sectors.

INTEGRATED RISK MANAGEMENT

Credit Risk Mitigating Strategies Implemented by the Bank

Review of Credit Risk Framework, Credit Policies and manuals

The Bank continues to review and update its credit policies and processes in response to evolving dynamics to ensure that risk practices are relevant, up to date and address the changing business requirements. During the year, several key policies including Credit Policy, Credit Risk Management Framework and Credit Manual were reviewed and updated further with a view to strengthen Credit Risk Management of the Bank.

Concessions to Bank Customers

Expecting the recovery of businesses to take a longer period with the current stressed economic situation, the Bank in addition to concessions granted by the CBSL, proactively discussed with customers and evaluated the future business cash flows, financial position, industries in which the businesses operate, capacity to resume loan repayments and offered relief for repayments of the facilities.

3,617 moratorium facilities worth LKR 50.29 Bn were provided to the impacted borrowers during 2022.

Moratorium granted during 2022

	Number of facilities	Amount (LKR Bn)
Saubhagya	58	0.14
Refinance – other	89	0.64
PFS	180	0.46
MSME	392	0.10
Tourism	250	9.39
Corporate	324	23.71
Branch Banking	2,324	15.85

Identification of Watch Listed Clients Based on Early Warning Signals

The Bank has established a watch listing and close monitoring process to identify clients that have demonstrated signs of increased credit risk. The information on frequently watch-listed clients based on overdue exposures, frequent excess positions, frequent cheque returns, restructured and extended facilities, rating downgrades monitored over a period of time, and crossovers to Stage 3 is disseminated to management with a view of taking corrective measures to assure the quality of the Bank loan book. Watch-listed borrowers demonstrating high rate of deterioration in credit quality with significantly large exposures are reported to the Board Credit Committee. A traffic light system is also employed to identify watch listed clients with varying levels of impact to the portfolio.

Industry Analysis

The Bank as a prudent measure has reviewed and analysed industries and portfolio segments to proactively identify negative trends, risk elevated industries and unsecured exposures. IRMD reports to the BIRMC on portfolio dynamics through dashboards and reports that give a snapshot of credit portfolio quality and performance. These analyses further provide direction to business line managers on the direction of lending by dissemination of credit risk related knowledge and sharing information on critical areas.

Further IRMD has provided continuous contribution towards human resource development programs by providing resource personnel to conduct knowledge boosting training programs in areas such as credit evaluation and credit risk management.

Stressed Industry Segments

IRMD initiated a process to identify stressed industry segments in April 2020 with the outbreak of Covid-19 and has been reviewing stressed industry segments periodically. The Bank continues these reviews focusing on current challenges faced by each sector.

Portfolio Risk Management Unit

Recognising the importance of identifying aggregate risks in the Bank's credit portfolio, a new unit was established to proactively identify and mitigate risks at portfolio level.

The unit will carry out in-depth analyses of the Bank's multiple lending products to examine portfolio behaviour covering various demographic, geographic customer dimensions and key internal areas.

INTEGRATED RISK MANAGEMENT

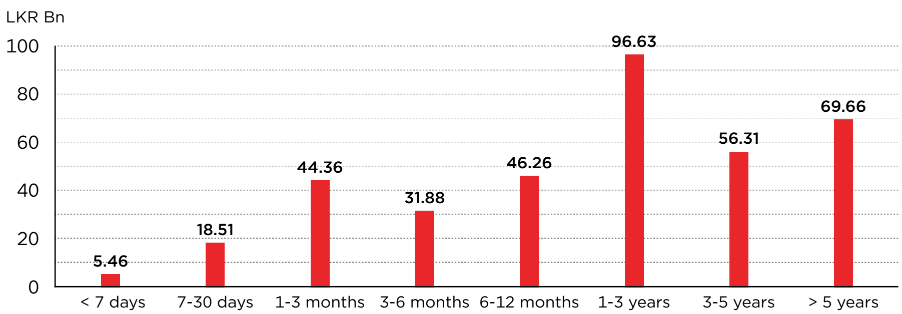
Tools such as data analytics and modeling techniques are used to gain detailed insights of portfolios. The findings along with recommendations are shared with business units and relevant internal stakeholders for decision making and action. This will add value to achieve business goals in a prudent manner while managing risks more efficiently.

IT Involvement

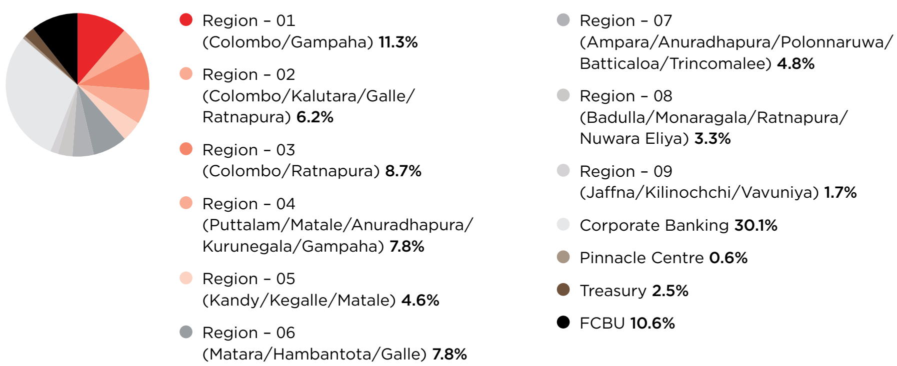
To increase the efficiency of the credit facility allocation and progress monitoring, IRMD tracker version 2.0 was released in January 2022. The latest version is capable of measuring the Service Level Agreement (SLA) of facility delivery and consists of various dashboard functionalities. This system is an inhouse development of the IRMD using Google AppSheet application.

To facilitate the financial evaluation of finance companies, a new financial evaluation module was introduced to the Financial Analysis Worksheet.

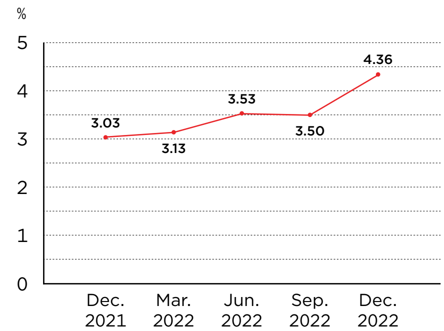
RESIDUAL MATURITY OF TOTAL ADVANCES



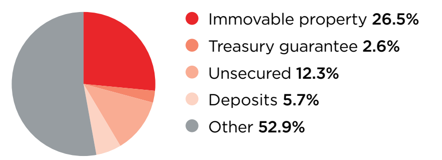
GEOGRAPHICAL DISTRIBUTION OF GROSS LOANS AND ADVANCES



MOVEMENT OF STAGE 3 RATIO

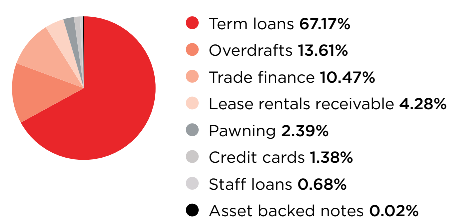


COLLATERAL DISTRIBUTION OF THE LOANS AND OVERDRAFTS PORTFOLIO

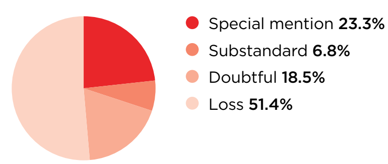


Note:
"Other" category includes guarantees, inventory and book debts, movable equipment and machinery, vehicles, shares, promissory notes, insurance and undertaking/agreement to mortgage.

PRODUCT COMPOSITION



COMPOSITIONS OF NON PERFORMING FACILITIES



INTEGRATED RISK MANAGEMENT

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	Reviewed Credit risk management framework and credit policy to meet the requirements of the current economic conditions. Governance structure and specific organisational structure for credit risk management. IRMD creates awareness of credit risk management through training programmes and experience sharing sessions, including online channels and infographic e-learning modules to enhance credit underwriting and evaluation capabilities in the Bank. Enhanced the TOD management process to identify and report on exceptions. Continuous review and monitoring of the Bank lending portfolios to proactively take steps to restructure facilities including identifying those that require greater credit supervision. Carried out industry studies to evaluate specific challenges, risks and opportunities available to realign the credit strategy and direction on lending to business units.
Credit approval process	Structured and standardised credit approval process is 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 once in two years at minimum or more frequently if required. Standardised appraisal formats and workbooks have been designed for each facility type and are being reviewed annually or as and when required to be in line with the business needs. For processing of finance leases, the Bank is using an inbuilt application software. 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 certain identified products. CRO and VP CRM is an observer of the Credit Committee and evaluates credit proposals from a risk perspective. Risk-based pricing is practised at the Bank with the exception for identified products, any deviations being allowed only for funding through credit lines and where strong justification is made due to business development purposes.
Control measures	Exclusion list and special clearance sectors are identified based on the country's laws and regulations, the Bank's corporate values and policies and level of risk exposure. Exclusion list specifies the industry sectors to which lending is disallowed while special clearance sectors specify industry sectors and credit products to which the Bank practices caution in lending. Exposure limits on single borrower, group exposure, and advisory limits on industry sectors and large group borrowers are set by the Board of Directors on recommendation of IRMD.

INTEGRATED RISK MANAGEMENT

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 or regions. Industry reports or periodical economic analysis provide direction to lending units to identify profitable business sectors to grow the Bank's portfolio and to identify industry-related risk sources and their impact. Categorisation of the industry sectors into four stress segments based on the magnitude of impact and timing of recovery and reviewing the industry stress segments at frequent intervals based on the evolving situation . Evaluation of new products from a credit risk perspective. Independent rating review by the Credit Risk Management Unit of IRMD ensures an assessment of credit quality at the time of credit origination and annual credit reviews. Post sanction review of loans within a stipulated time frame is in place in accordance with Loan Review Policy to ensure credit quality is maintained. Separate Loan Review Unit is established independent of the Credit Risk Management Unit. Periodic validation of credit rating models and introducing necessary adjustments to the models for better discriminatory power, based on model validation results and existing macroeconomic outlook.
Credit risk monitoring and reporting	Analysis of total portfolio in terms of stage movement, product distribution, industry sectors, Top 20 borrower exposures, borrower rating distribution, branch-wise portfolio distribution, and collateral distribution is carried out periodically and reported to the BIRMC. A comprehensive and a systematic process of watch listing is in place for identifying, monitoring and reporting clients that demonstrate significant increase in credit risk, which will contribute to the continuous improvement of the quality of the loan book. Reporting quarterly to BIRMC on credit concentration risk positions with regard to regulatory limits such as single borrower and group exposure limits and internal advisory limits on industry sectors, large group borrowers, and selected geographical regions as well as exposure based on credit rating grades. Reporting on top key risks to the BIRMC and the Board. Continuous contribution to effective financial reporting through loss ratio calculation, stage upgrades in accordance with SLFRS 9 and involvement in the Impairment Committee.
Credit risk mitigation	For the purpose of proactively identifying and reducing the credit risk at the portfolio level, an independent portfolio risk management unit has been established. Comprehensive and in depth analyses are being continuously carried out to evaluate the portfolio behaviour covering various demographic, geographic and customer dimensions. Credit strategy on portfolio level will be realigned with the findings of this unit.

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 or 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

INTEGRATED RISK MANAGEMENT

Dimensions for Analysis and Monitoring of Credit Concentration Risk

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

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

Loan Review Mechanism

Loan Review Mechanism (LRM) is a regulatory requirement under the CBSL Direction No. 7 of 2011 on Integrated Risk Management which is an effective tool for constantly evaluating the quality of the loan book and bringing about qualitative improvements in credit functions. The LRM function is carried out by the Loan Review Unit (LRU) of IRMD.

During 2022, LRU expanded its scope of work by adding credit cards and group review for Branch Banking. Further, the facility size was reduced to ensure more reviews are carried out covering all the segments of the Bank.

Total volume of the facilities that were reviewed by the LRU in 2022 was well above the regulatory and advisory limit covering all the aspects specified in the policy. Based on the findings, LRM recommendations are reported to the Credit Committee, Consequence Management Committee and to the BIRMC to ensure that the remedial actions are taken to enhance the quality of the credit portfolio.

LRU conducted a knowledge sharing session for the credit staff on the LRM findings in June 2022. Also two special papers on "Foreign Currency (FCY) remittance by Cinnamon Exporters of the Bank" and "Personal loans and credit cards crossed over to Stage 3 within 3 months of the grant" were submitted along with observations and recommendations to the Credit Committee and the Fraud Risk Management Committee respectively. In addition, special follow up on facilities approved by the Credit Committee were also carried out.

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 to ALCO and BIRMC by IRMD and the Treasury. The market risks are controlled through various limits. These limits are stipulated by the Investment Policy, TMO Policy, Treasury Manual, and Overall Limits System of the Bank. Interest rate sensitivity analysis (Modified duration analysis), Value-at-risk (VAR), simulation and scenario analysis, stress testing and marking-to-market of the positions are used as quantification tools for the purpose of risk monitoring and management of market risks.

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

The Treasury system has enhanced TMO's capability to report crucial data with better accuracy and on a real time basis. The strengthened Treasury and market risk management practices

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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. During the year, the unit improved the Bank's bidding process of treasury bills/bonds auction in primary market for a better risk management approach.

Interest Rate Risk

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

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

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

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

Foreign Exchange Rate Risk

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

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

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 it in accordance with the market volatilities.

Indirect Exposures to Commodity Prices Risk – Gold Prices

The Bank's pawning portfolio amounted to LKR 9,620 Mn as at 31 December 2022, which is less than 2% of total assets. The Market Risk Management Unit (MRMU) manages the risk emanating from gold through constant analysis of the international and local market prices and adjusting the Bank's preferred loan to value (LTV) ratio. MRMU also conducts stress testing for the Gold portfolio by forecasting adverse Loss Given Default and PD rates. Stress results are reported to ALCO, BIRMC and the Board.

Equity Prices Risk

Equity prices risk is the risk of losses in the marked-to-market equity portfolio, due to the decline in the market prices. The direct exposure to the equity

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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 a 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 the 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 the 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 above the regulatory minimums.

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.

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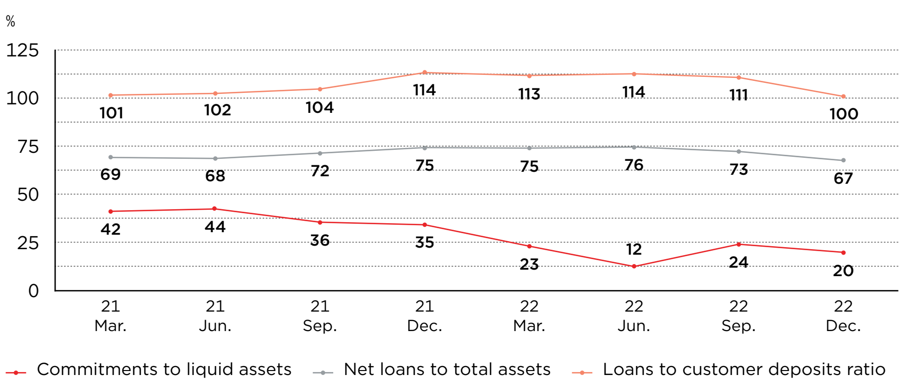
The Central Bank of Sri Lanka (CBSL) issued guidelines for Net Stable Funding Ratio (NSFR) in November 2018, and progressively increased the requirement to 100% from 1 July 2019 onwards. However, due to adverse economic concessions CBSL relaxed the requirement to 90% till December 2022 for both LCR and NSFR ratios and subsequently both ratio requirements were increased back to 100%. NSFR standards are designed to reduce funding risk over a longer time horizon by requiring banks to fund with sufficiently stable sources to mitigate the risk of future funding stress and require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet exposures.

Key Liquidity Risk Measurement Tools and Reporting Frequencies

Liquidity risk measure/indicator	Minimum frequency
Stock approach – Ratio analysis:	
Net loans to total assets	Quarterly
Loans to customer deposits	Quarterly
Large liabilities to earning 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 any high liquidity risk scenarios.

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,

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omissions, inefficiencies in reporting, technology failures or from external events such as natural disasters, cyberattacks, terrorism, theft, political instability and extraordinary events such as the COVID-19 pandemic. The objective of the Bank is to manage, control and mitigate operational risk in a cost-effective manner consistent with the Bank's risk appetite. The Bank has ensured an escalated level of rigour in operational risk management approaches for sensitive areas of its operations.

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 ensures the process of operational risk management through Operational Risk Coordination Officers (ORCOs).

Segregation of duties with demarcated authority limits, internal and external audit, strict monitoring facilitated by the technology platform and back-up facilities for information are the fundamental tools of operational risk management. Audit findings of high-risk nature and Management responses are forwarded to the Board's Audit Subcommittee for their examination. Effective internal control systems, supervision by the Board, Senior Management and the line managers form part of the First Line of Defence for operational risk management at 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 unit has completed five reviews and are involved in six process/product improvement discussions to provide inputs for the same.

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

- Monitoring of Risk and Control Self-Assessment (RCSA) and Key Risk Indicators (KRIs) for the functions under defined threshold limits using a "Traffic Light" system.
- Maintaining internal operational risk incident reporting system and carrying out an independent analysis of the incidents by IRMD to recognise necessary improvements in the systems, processes, and procedures.
- Trend analysis on operational risk incidents and review at the ORMC.
- Review of downtime of the critical systems and assessment of the causes. The risk and business impact are evaluated. Rectification measures are introduced whenever the tolerance levels are compromised.
- Review of HR attrition and exit interview comments in detail evaluated at the ORMC in an operational risk perspective.
- Establishment of the Bank's complaint management process under the Board Approved Complaints Management Policy. IRMD analyses the complaints received to identify any systemic issues and reports to ORMC on an annual basis where the Customer Experience Unit submits quarterly analysis.
- 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 and 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	

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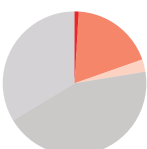
Operational Risk Losses

The Bank has improved its operational risk incident reporting system overtime by creating an increased level of awareness among the employees with regard to operational risks and the importance of timely incident reporting. A total of 214 incidents were reported in 2022. The Operational Risk Coordination Officers (ORCO) are required to send a report to the Operational Risk Management Unit (ORMU) regarding operational risk related incidents if any took place at their respective branches or departments. The operational risk incidents reported in 2022 based on the event type are given in the graph.

OPERATIONAL RISK INCIDENTS



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

Risk and Control Self-Assessments (RCSAs) and Key Risk Indicators (KRIs) Process of the Bank

Monitoring of Risk and Control Self-Assessments (RCSAs) and Key Risk Indicators (KRIs) in key functions of the Bank, was further strengthened by identifying the new units of processes within the Bank and developing KRIs and RCSAs, during the year as a measure to allow the early detection of operational risks before actual failure occurs. Currently IRMD monitors 49 departments/units for the KRI and in 2022 RCSA and KRIs were developed for six units.

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

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

Insurance as a Risk Mitigant

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

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

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

Losses from counterfeit, forged, fraudulently altered, stolen cards and associated legal expenses

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

Outsourcing of Business Functions

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

The Bank has outsourced some business functions under its outsourcing policy after evaluating

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

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

Key Operational Risk Measurement Tools and Reporting Frequencies

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

For better operational risk management and monitoring, the ORMC and – Sub Committee meeting frequency has been increased to 6 each per year with effect from January 2023 and the ORMC framework has been amended accordingly.

Operational Risk Management of Information Systems Security (ISS) Risk under IRMD

Information security risk management (ISRM) is the process of managing the risks associated with the use of information technology and evaluating risks to the confidentiality, integrity, and availability (CIA) of the 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 and technology controls. Further, the Bank's information security management system is ISO 27001:2013 certified since 2016.

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

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

The Bank has started adapting the Technology Resilience framework of the Central Bank of Sri Lanka and the Personnel Data Protection Act during the year 2022 to further improve the ISRM strategy of the Bank.

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

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

INTEGRATED RISK MANAGEMENT

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

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

By understanding the complexity of current supply chain-based cybersecurity threats, the Bank consulted a specialised service provider for 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 working remotely, which 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 the Senior Management considering the importance of cybersecurity to business continuation.

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

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

- Improve the Security Operations Center (SOC) capabilities by investing on a state of the art cloud Security Information and Event Management (SIEM) solution as the first Bank to adopt a cloud based SIEM in Sri Lanka.
- Improve the frequency of security assessments and the depth on critical business applications.
- Improve real time vulnerability detection and risk based vulnerability management capabilities bankwide through improvements to the existing Endpoint Detection and Response (EDR) solution.
- Performing technology and operational security gap assessments in the payment card related business functions and initiated control implementations to improve the security posture by aligning it with the PCI-DSS security standard requirements.
- Implementation of Data Leakage Prevention (DLP) solution to ensure the protection of customer and business-sensitive data of the Bank as a part of the Bank's data governance process.
- Implementation of endpoint data encryption solution to better align with data protection governance requirements.
- Improving Bank policy and procedure coverage to accommodate work from home requirements and strengthening the security controls and monitoring mechanisms to ensure the security continuation during a crisis situation.
- Improving information security training and awareness programmes by introducing new modules to the existing computer-based training (CBT) platform.

Key Information Security risk measurement tools and reporting frequencies

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

INTEGRATED RISK MANAGEMENT

Reputational Risk

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

Business Risk

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

Legal Risk

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

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

Compliance Risk

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

Bank's governing principles on compliance are to: ensure compliance starts from the 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.

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

The Bank's Board of Directors are responsible for overseeing the management of the Bank's compliance risk. Towards this; the Board has delegated its powers to the Board Integrated Risk Management Committee which takes appropriate action to establish a permanent, independent and effective compliance

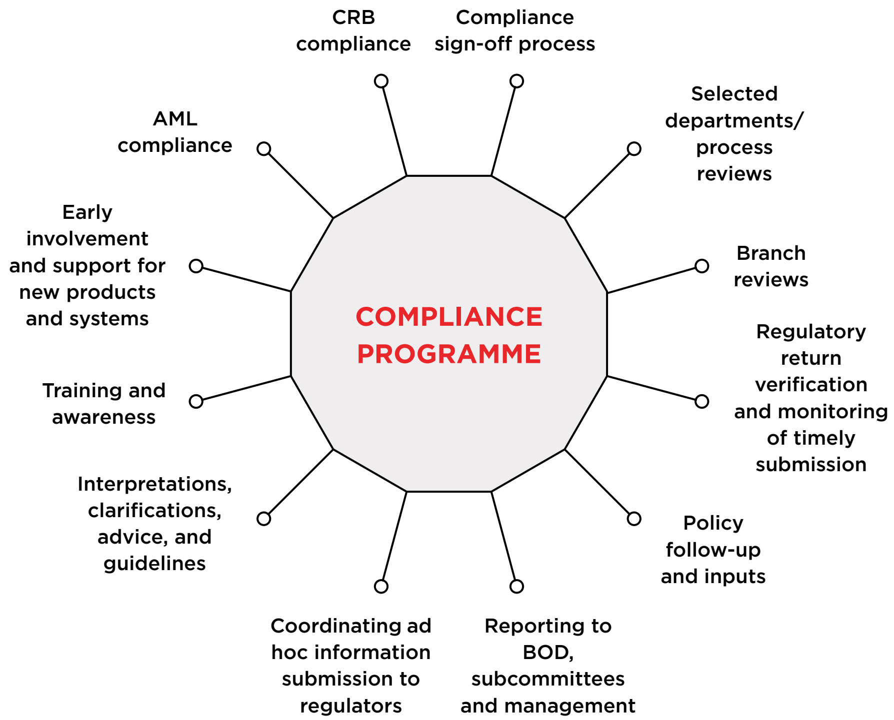
INTEGRATED RISK MANAGEMENT

function in the Bank, to ensure that compliance issues are resolved effectively and expeditiously by the Senior Management of the Bank with the assistance of the compliance function and assess the extent to which the Bank is managing its compliance risk effectively.

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

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, the 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 timely submission of regulatory returns, clarifications of regulatory circulars, reporting to Board and/or subcommittee and educating staff on compliance matters and conducting bank-wide compliance training. It also manages and ensures information accuracy of the Data submitted to the Credit Information Bureau of Sri Lanka.

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



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

Thus, AML and CFT related compliance programme of the Bank is a core activity of the Compliance Function. To make the Bank safe and sound in terms of AML and CFT, the compliance department spearheads a number of activities such as formulating policies, procedures connected with KYC and Customer Due Diligence, Transaction

INTEGRATED RISK MANAGEMENT

Monitoring to identify suspicious transactions, Name Screening process to ensure that the Bank is not dealing with sanctioned persons or entities, Politically Exposed Persons (PEP) related Enhanced Due Diligence process, etc. Further, in line with the Customer Due Diligence (CDD) rules issued by the Financial Intelligence Unit and the Financial Action Task Force Recommendations, the Bank has adopted a risk based approach in identifying ML/TF exposure of the Bank relating to customers, products, services, channels, countries, geographic regions and transaction volumes.

The Compliance department uses the Financial Crime Mitigation (FCM) System to better manage the ML/TF risk of the Bank.

FCM has sound functionalities such as sanctions screening, identifying the Politically Exposed Persons (PEPs), KYC Risk scoring and categorisation, AML Transaction Monitoring and fraud mitigation and support all user functions including alert management, case management, reporting and dashboards and the same is used in managing the ML/TF Risk that the Bank is exposed to.

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

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

Business Continuity Management

The Business Continuity Management System (BCMS) and the Business Continuity Plan (BCP) of the Bank ensure timely recovery of critical operations that are required to meet stakeholder needs based on identified disruptions categorised into various severity levels. The BCMS 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.

In order to enhance the resilience of the Bank's IT systems, the Primary Data Centre and backup Disaster Recovery (DR) IT Systems were relocated to two separate Tier 3 certified co-location data centres during the year. The existing DR site located in a suburb of Colombo will continue to be used as an alternate work site for critical business operations.

The Bank conducts periodic DR 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 Board's observations. Learnings and improvements to DR activities are discussed and implemented through the BCMS Committee, the ORMC and the BIRMC. Training and drills are carried out to ensure that employees are aware of their role within the BCP.

Stress Testing of Key Risks

The Bank has been conducting stress testing on a regular basis. A comprehensive Stress Testing Policy which is in line with the regulatory guidelines as well as international best practices are in place. The Policy describes the purpose of stress testing and governance structure, methodology for formulating 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 the stress testing process is monitored carefully and remedial actions taken and used by the Bank as a tool to supplement other risk management approaches.

INTEGRATED RISK MANAGEMENT

During 2022, the Stress Testing Process was improved with updated stress scenarios which are more relevant to the current economic landscape and a stress testing dashboard was introduced for better presentation of the impact on capital adequacy under each stress circumstances. The details of stress tests carried out by the Bank for 2022 are given below:

Risk area and methodologies adopted	Results
Credit and concentration risk • Impact of adverse movement of the impairment stages • Impact of increase in the Stage 3 Assets • Impact to the Bank due to fall in value of collaterals of Stage 3 facilities • Sector concentration, concentration of credit ratings, concentration of products and concentration of borrowers • Capital Adequacy Ratios (CAR) were stressed to see if the ratios fall below the regulatory levels • Additional capital was computed for all extreme concentration risks and was reported to the Senior Management	• The CAR remained above the minimum regulatory limit under low stressed conditions • At medium and high stress conditions, CAR stands above 10% which is the minimum regulatory requirement at a full drawdown of the Capital Conservation Buffer (CCB).
Market risk • Stress testing and VaR calculations of currency exposure • Stress testing and VaR calculations for the equity portfolio • Change of interest rates and its effect on the 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 except for high stress scenarios.
Operational risk • Stress on the Bank's capital against increase of possible operational losses	• No significant effect on capital and is well within the Bank's risk absorption capability.
Liquidity risk • Stress on liquidity due to settlement risk, decline in collections, and bulk deposit redemption • Stress on liquid assets ratio due to run on liabilities • Erosion of deposits due to sudden reputation risk and associated liquidity risks	• Liquid asset ratio was maintained above the minimum regulatory limit at moderate stress scenarios. • Even at the run off of 20 largest depositors, liquid asset ratio stands above the regulatory limit.
• Multifactor stress testing • Combined stress of all risks	• At all stress conditions, CAR stands above 10% which is the minimum regulatory requirement at a full drawdown of the Capital Conservation Buffer.

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

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

INTEGRATED RISK MANAGEMENT

Risk Capital Position and Financial Flexibility

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

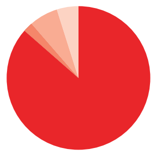
As at 31 December 2022, the Bank maintained a risk capital position of 10.09% Tier I capital ratio and 13.15% total capital ratio based on the Basel III regulatory guidelines. Both ratios are above the minimum regulatory requirement of 8.5% for Tier 1 and 12.5% for total capital.

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 2022, 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 86% of the total capital while the available capital buffer is 5%.

CAPITAL DISTRIBUTION



Capital Adequacy Management

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

Additionally, the Pillar II (Supervisory Review Process – SRP) under the Basel regulations requires banks to implement an internal process, of Internal Capital Adequacy Assessment Process (ICAAP), for assessing capital adequacy in relation to the risk profiles as well as a strategy for maintaining capital levels. The Bank has in place an ICAAP, which has strengthened the risk management practices and capital planning process. It focuses on formulating a mechanism to assess the Bank's capital requirements covering all relevant risks and stress conditions in a futuristic perspective in line with the level of assumed risk exposures through its business operations. The ICAAP formulates the Bank's capital targets, capital management objectives and capital augmentation plans.

The ICAAP demonstrates that the Bank has implemented methods and procedures to capture all material risks and adequate capital is available to cover such risks. This document integrates Pillar I and Pillar II processes of the Bank wherein Pillar I deals with regulatory capital, primarily covering credit, market and operational risks whilst Pillar II deals with economic capital involving all other types of risks.

As per the direction issued by the CBSL, under supervisory review of Basel III, CBSL encourages banks to enhance their risk management framework and manage emerging risks in a more proactive manner. This is to ensure that the Bank maintains an 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.

INTEGRATED RISK MANAGEMENT

Capital adequacy ratio and risk-weighted assets of DFCC Bank PLC on a solo and a group basis under Basel III

31 December	2022		2021	
Quantified as per the CBSL Guidelines	**Bank**	**Group**	**Bank**	**Group**
Credit risk-weighted assets (LKR Mn)	331,751	332,256	339,261	339,722
Market risk-weighted assets (LKR Mn)	8,392	8,392	10,006	10,006
Operational risk-weighted assets (LKR Mn)	24,960	25,493	18,910	19,381
Total risk-weighted assets (LKR Mn)	365,103	366,141	368,177	369,109
Total Tier I capital adequacy ratio – Basel III (%)	10.09%	9.94%	9.31%	9.28%
Total capital adequacy ratio – Basel III (%)	13.15%	12.99%	13.03%	13.00%

Financial Flexibility in the DFCC Group's Capital Structure

The Bank has access to contributions from shareholders as well as it possesses built-up capital reserves over a period of time by adopting prudent dividend policies, maintaining an increased level of retained profits and issuing Tier II eligible capital instruments as and when necessary.

Apart from the capital position reported on balance sheet, the Bank maintains financial flexibility through the stored value in its equity investment portfolio. The unrealised capital gain of the listed equity portfolio is included in the fair value reserve.

INTEGRATED RISK MANAGEMENT

Assessment of Integrated Risk

In the process of assessment of integrated risk, the Bank reviews key regulatory developments in order to anticipate changes and their potential impact on performance. The nature and impact of changes in economic policies, laws and regulations, are monitored and considered in the way the Bank conducts business and manages capital and liquidity.

The Bank has complied with all the currently applicable risk-related regulatory requirements while closely monitoring the internal limits as shown in the table below

Risk category	Impact	Key risk indicators	Limit type
Integrated risk management	An adequate level of capital is required to absorb unexpected losses without affecting the Bank's stability (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

INTEGRATED RISK MANAGEMENT

Risk category	Impact	Key risk indicators	Limit type
		Exposure to institutions in the Maldives	Internal
		Stage 3 Ratio	Internal
		Industry HHI	Internal
		Project lending	Regulatory
		Loan and OD – Exposure in BB grade	Internal
		Loan and OD – Exposure in B and below grades	Internal
		Leasing – Exposure in BB and below grades	Internal
		Leasing – Exposure in B and below grades	Internal
		Limit on margin lending for individual borrowers	Regulatory
		Margin trading (aggregate exposure of margin loans extended/total loans and advances)	Internal
Liquidity risk management	If adequate liquidity is not maintained, the Bank will be unable to fund the Bank's commitments and planned assets growth without incurring additional costs or losses.	Liquid Assets Ratio for DBU and Bank level (average monthly liquid assets/ total monthly liabilities)	Regulatory/ Internal
		Liquid Assets Ratio for FCBU	Regulatory
		Liquidity Coverage Ratio (all currencies and Rupee only)	Regulatory
		Liquidity Coverage Ratio (Rupee only)	Internal
		Single Depositor Limit (Highest Single Depositor/Total fixed deposits)	Internal
		Statutory Reserve Ratio	Regulatory
		Foreign Currency Borrowing Limit – Short-term borrowings	Regulatory
		Foreign Currency Borrowing Limit – Total borrowings	Regulatory
		Net Stable Funding Ratio	Regulatory
		Leverage Ratio	Regulatory

INTEGRATED RISK MANAGEMENT

Risk category	Impact	Key risk indicators	Limit type
Market risk management		Forex Net Open Long Position	Regulatory
		Forex Net Open Short Position	Regulatory
		Limit for counterparty off-balance sheet market risk	Internal
		Max holding period for trading portfolio	Internal
		Maximum FX Swap	Internal
		Clean money market borrowing limit	Internal
		Treasury trading securities portfolio	Internal
		Portfolio limit on AFS	Internal
		Portfolio limit on HTM	Internal
Investment risk		Equity exposure – Individual (equity investment in a private or public company/Capital funds of the Bank)	Regulatory
		Equity exposure – Individual (equity investment in a private or public company/Paid-up capital of the Company)	Regulatory
		Aggregate equity exposure in public companies (aggregate amount of equity investments in public companies/capital funds of the Bank)	Regulatory
		Equity exposure (equity exposure as a percentage of Total Lending Portfolio plus Securities Portfolio)	Internal
		Equity exposure in each sector	Internal
		Single equity exposure out of the quoted equity portfolio	Internal
Operational efficiency		Operational efficiency ratio	Internal

INTEGRATED RISK MANAGEMENT

Risk category	Impact	Key risk indicators	Limit type
Operational risk	Adequately placed policies, processes and systems will ensure and mitigate against excessive risks which may result in direct financial impact, reputational damages and/or regulatory actions	Regulatory breaches (zero risk appetite)	Internal
		Inability to recover from business disruptions over and above the Recovery Time Objectives (RTO) as defined in the BCP of the Bank (zero risk appetite)	Internal
		Internal fraud (zero tolerance for losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or Bank policy, excluding diversity/discrimination events, which involve at least one internal party)	Internal
		External fraud (very low appetite for losses due to act of a type intended to defraud, misappropriate property or circumvent laws, by a third party)	Internal
		Employee practices and workplace safety (zero appetite for losses arising from acts inconsistent with employment, health or safety laws or agreements from payment of personal injury claims, or from diversity/ discrimination events)	Internal
		Client products and business practices (zero risk appetite for losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements) or, from the nature or design of a product)	Internal
		Damage to physical assets (very low appetite for loss arising from loss or damage to physical assets from natural disasters or other events)	Internal
		Business disruption and systems failures (low appetite for business disruptions/system failures for more than 30 minutes during service hours)	Internal
		Execution, delivery, and process management (low appetite for losses from failed transaction processing or process management)	Internal

CORPORATE GOVERNANCE

Chairman's Statement

I am pleased to present the Bank's Corporate Governance report on behalf of our Board. The report includes details of how governance underpins and supports our business and the decisions made to deliver our strategy and create long-term value for our shareholders.

The Bank believes that corporate governance remains to be a dynamic concept with a framework of rules, systems and processes adopted by the organisation. Good governance facilitates effective management and enables the Bank to maintain a high level of business ethics. The Board sets the example for employees of the Bank by implementing the highest standards of business ethics and corporate governance. The Bank subscribes to the philosophy of exercising a zero-tolerance policy towards bribery and corruption and expects all staff members to comply with the relevant laws, regulations and guidelines in place to prevent bribery and corruption. The Bank is committed to initiate stern action against any staff member for any breach, irrespective of his/her position or experience, under the covenants of the Bank's disciplinary policy.

The high standards of corporate governance continue to be a key priority for the Board. Corporate governance practices of the Bank are in accordance with the Board approved Corporate Governance Charter of the Bank. The Bank's existing corporate governance framework mandates the responsibilities and duties of the Board and the Management to the shareholders and other stakeholders towards the promotion of a strong corporate governance culture.

The Bank's corporate governance framework is well-structured and is supported by a strong focus on integrity, accountability, transparency in the manner of doing business, and clear and timely communication.

We continually review the framework within which we operate and the processes implemented, to ensure that they reflect the complexities of our business and meet the needs of our stakeholders. The Board understands the benefits of annual performance evaluations, both for Directors on an individual basis as well as for the Board as a whole and looks for ways in which it can improve and develop.

We firmly believe that Board independence is essential to bring objectivity and transparency in the Management and in the dealings of the Bank. As at the end of the year, the majority of our Board members – seven out of eleven are independent members. An Independent Director is nominated as the Chairperson of Audit, Nominations and Governance and Integrated Risk Management Committees.

The Bank has established a cross functional executive Committee on Sustainability chaired by the CEO with the aim of promoting Bank-wide initiatives on sustainability and to ensure the proper implementation of the "Sustainable Strategy 2020-2030". The committee deliberates and decides on the initiatives to deal with issues which are important to the environment, society, and governance of the Bank.

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 2023

CORPORATE GOVERNANCE

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 practices. Ultimate responsibility for the management of the Bank rests with the Board of Directors. The Board focuses primarily upon strategic and policy issues and is responsible for the Bank's long-term success. It sets the Bank's strategy, oversees the allocation of resources and monitors the performance of the Bank. It is also responsible for effective risk assessment and management. The Board has a formal schedule of matters reserved to it and delegates certain matters to its Committees. Board meetings are held ordinarily on twelve scheduled occasions during any given year, as well as holding ad hoc meetings to consider non-routine business, if required.

The interactions in the governance process are shown in the schematic below:

THE BOARD

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

NON-EXECUTIVE DIRECTORS

Exercise a strong independent voice, challenging and supporting the Executive Director. Scrutinise performance against objectives and monitor financial reporting. Monitor and oversee risks and controls, determine Executive Director, and Key Management Personnel (KMP) remuneration and manage Board and KMP succession through their Committee responsibilities.

COMPANY SECRETARY

Advises the Chairman on Governance, together with updates on regulatory and compliance matters. Supports the Board agenda with clear information flow. Acts as link between the Board and its Committees and between Non-Executive Directors and the Senior Management.

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.

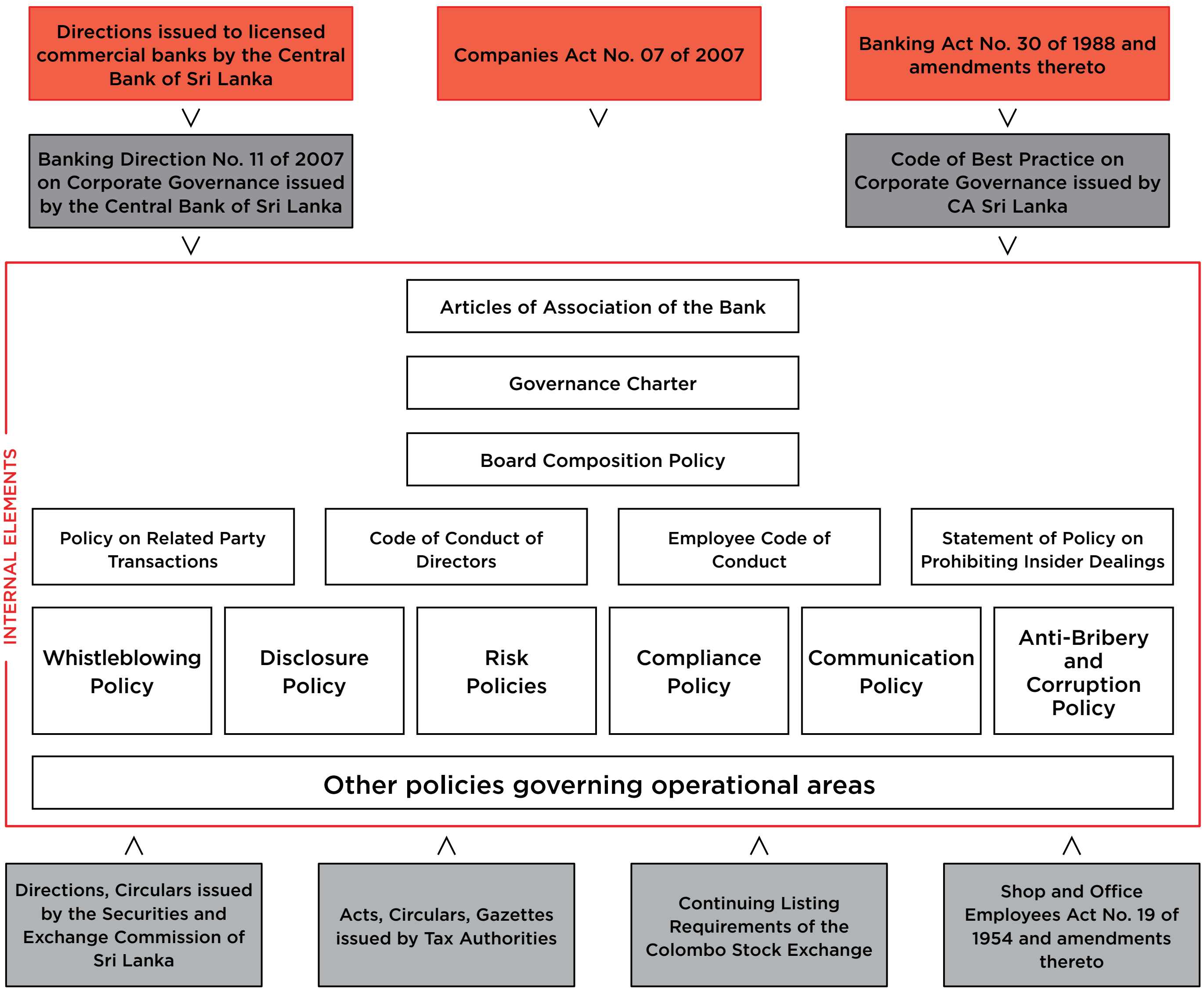
CHAIRMAN

Provides leadership and guidance to the Board promoting high standards of corporate governance. He is the link between the Executive and Non-Executive Directors.

CORPORATE GOVERNANCE

Governance Framework of the Bank

Main elements which encompass 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.

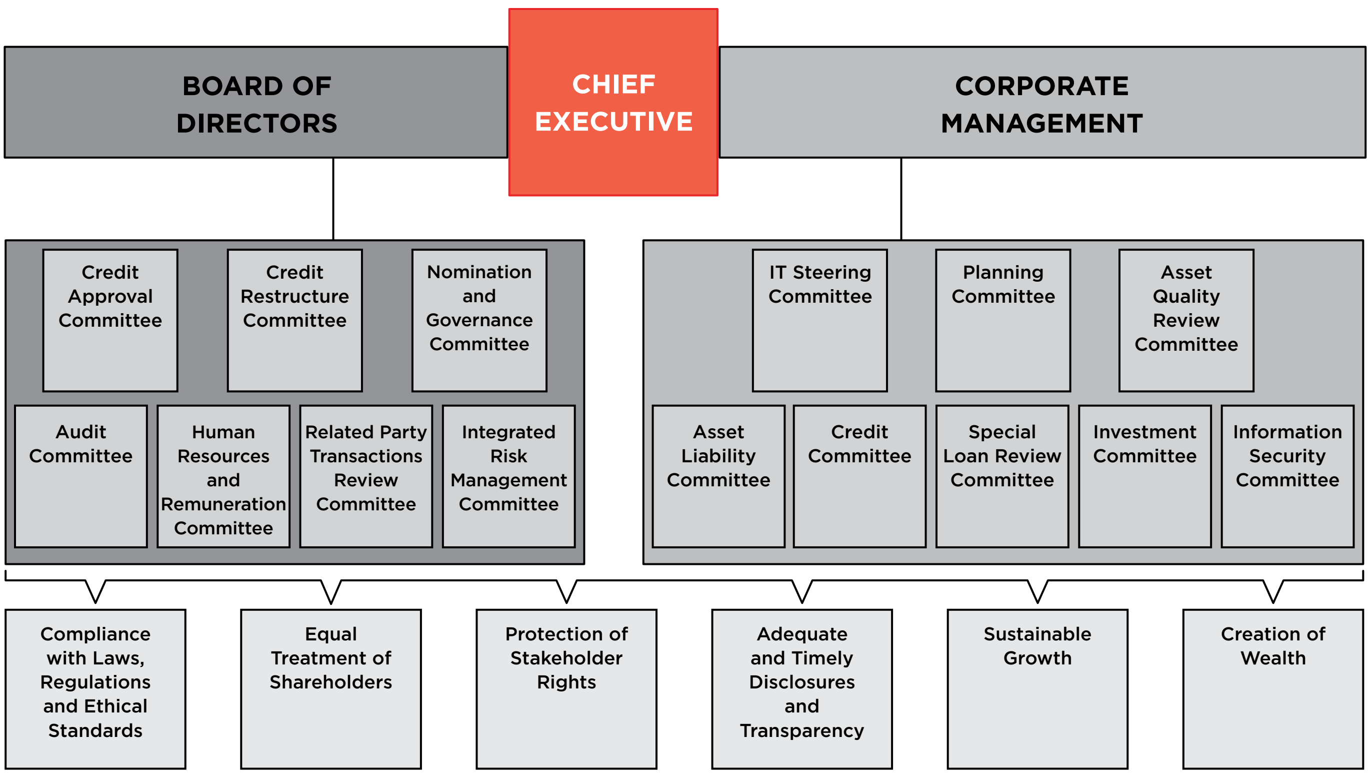
CORPORATE GOVERNANCE

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

The key corporate governance practices of DFCC Bank are given in this Report with specific disclosures relating to the status of compliance with the mandatory requirements of Direction No. 11 of 2007 of the Central Bank of Sri Lanka (as amended).
In view of the application of these mandatory regulatory provisions and disclosures that are required to be made, the Colombo Stock Exchange has exempted licensed banks from the application of Section 7.10 of the Listing Rules of the Colombo Stock Exchange.

DFCC Bank's Goals of Good Corporate Governance



CORPORATE GOVERNANCE

Board Culture

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

Conduct and Ethical Framework

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

- Compliance with laws, rules, and regulations
- Avoidance of conflicts of interest
- Maintenance of confidentiality of information
- Fair dealing with stakeholders
- Protection of the Bank's assets

Employee behaviour is governed by a separate Code of Conduct including other policies and procedures such as the Anti-Bribery and Corruption Policy, Disciplinary Code, Statement Prohibiting Insider Trading, Whistleblowing Policy, Anti-Money Laundering Policy, Compliance Policy, Disclosure Policy, etc.

In terms of the Bank's Whistleblowing Policy and procedure, employees can, in confidence, report on matters where they feel a malpractice is taking place, or if health and safety standards are being compromised. The procedures allow for employees to raise their concerns with line management or, if this is inappropriate, to raise them on a confidential basis. The complaint will be investigated in a confidential manner and, after a decision is made as to what further steps should be taken, feedback is given to the person making the complaint.

The Bank is committed to transparency in all its dealings. This includes transparency in managing actual, potential or perceived conflict of interest, and transparency in the Bank's dealings with the customers and suppliers. Transparency also extends to the way in which relationships are managed with people who are politically exposed, recruitment, remuneration process and dealings with the regulators. The Bank opposes all forms of bribery and corruption. As such, in terms of the Bank's Code of Conduct, employees are prohibited from soliciting or accepting gifts and inducements from clients and other external parties. In terms of the Code, employees are also prohibited from giving contributions or using Bank's property/channels to support candidates for political office or political parties and should not in any way give any impression that the Bank supports any political party or candidate. Employees are also expected to bear in mind that they represent the Bank and should exercise caution and sound consideration when giving their views and opinions on political situations and persons.

Internal Control

The Board is also responsible for ensuring that management maintains a system of internal control that provides assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations. In carrying out this responsibility, the Board has regard to what is appropriate for the Bank's business and reputation, the materiality of the financial and the relative costs and benefits of implementing specific controls. The Board is also the decision-making body for all other matters of such importance as to be of significance to the Bank as a whole because of their strategic, financial or reputational implications or consequences. There is a formal schedule of matters reserved for the Board's decision. Our risk management process identifies the key risks facing each business and reports to the Board on how those risks are being managed. Such a system of internal control can only be designed to manage rather than eliminate risk of failure to achieve business objectives and can provide reasonable, but not absolute, assurance against material misstatement and loss. The Board has a process for identifying, evaluating and managing the risks we face. That process is continual and has been in place for the year under review up to and including the date of this report.

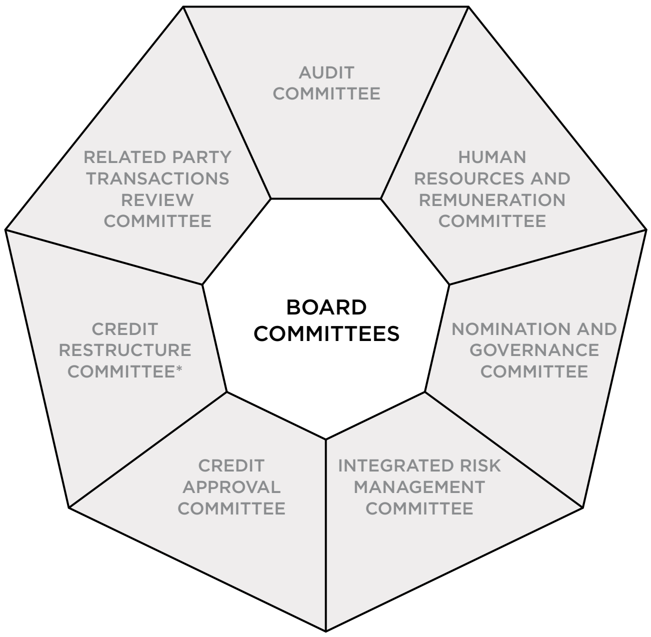
CORPORATE GOVERNANCE

Board Highlights 2022

- Approved the Business Plan for 2022
- Decision to hold the AGM as a Virtual Meeting
- Decision to withdraw S&P Global Ratings Agency's rating on the Bank
- Approved the formation of the Information Security Committee
- Approved the Rights Issue
- Approved the Implementation of a Security Information and Event Management (SIEM) solution
- Approved the payment of a scrip dividend for the Year 2021
- Approved the relocation of Production and Disaster Recovery Data Centers
- Decision to conduct a training for Directors on AML Awareness
- Approved the adoption of policy on Diversity, Equity and Inclusion
- Reviewed and endorsed the KPIs of Key Management Personnel for 2022
- Approved the revision to the DFCC Bank Organisation Structure
- Revised the Delegation of Authority Limits
- Revised Board Committee Charters/Terms of Reference
- Reviewed all major policies
- Approved proposal for Developing a Business Technology Road Map
- Approved a solution for Digital Onboarding of customers
- Review of staff benefit schemes
- Approved the appointment of two new Directors
- Approved the connectivity to LankaPay Common POS switch

CORPORATE GOVERNANCE

Permanent Board Committees as at 31 December 2022



* The Credit Restructure Committee approves papers by circulation.

Name of Director	Attendance of Directors at meetings						
	Main Board	Audit Committee	Human Resources and Remuneration Committee	Nomination and Governance Committee	Integrated Risk Management Committee	Credit Approval Committee	Related Party Transactions Review Committee
Total number of meetings	12	10	6	8	5	12	14
W D Batagoda	4/4		1/1				
J Durairatnam	12/12		6/6	8/8		12/12	14/14
Ms L K A H Fernando	11/12	9/10			4/5		
P M B Fernando	6/6	6/6		3/3		6/6	8/8
W R H Fernando	4/4			4/4	2/2		
Ms H M N S Gunawardana	11/12	4/4	6/6		2/2		
N K G K Nemmawatta	12/12					12/12	6/6
N H T I Perera	12/12				5/5		14/14
Ms V J Senaratne	12/12			8/8	5/5		
Ms A L Thambiayah	11/12		6/6			10/12	
N Vasantha Kumar	12/12			5/5	5/5		
H A J de S Wijeyeratne	12/12	10/10					

attended/eligible to attend

CORPORATE GOVERNANCE

Shareholder Rights

The basic rights of shareholders include;

(a) the ability to transfer shares freely,

(b) to have access to financial and other relevant information about the entity on a regular and timely basis,

(c) the ability to effectively participate in shareholder meetings,

(d) appoint Directors and Auditors, and

(e) equitable treatment relating to the type of shares owned.

The shares of the Bank are freely transferable through the Colombo Stock Exchange but subject to limitations stated in the Articles of Association of the Bank and the Banking Act.

The Board approved Corporate Communications Policy ensures that information relating to the financial performance and the progress of the Bank is made available to shareholders through timely disclosures made to the Colombo Stock Exchange (CSE).

During the year, shareholders were notified through announcements made to the CSE, of quarterly results, dividend declaration for 2021, annual financial statements for 2021, interim financial statements for 2022, appointments of two new Directors, date of the Annual General Meeting 2022 and the Extra-Ordinary General meeting for the rights issue, the listing of shares consequent to the Rights Issue etc. The Bank's website has a dedicated area – Investor Relations – for investors which includes Interim Financial Statements and Annual Reports.

The Annual Report contains a comprehensive review of performance as well as other information of relevance to the other stakeholders apart from reporting on the financial condition of the Bank and the Group. All important information is given publicity through the press and electronic media and posted on the Bank's website.

The Bank has procedures to promptly disseminate price sensitive information and trading in shares by the Directors to the CSE as required by the Listing Rules. In instances where this is not possible, the Chief Financial Officer advises closed periods for trading in the Bank's shares by employees and Directors. The Board has formally adopted a Statement of Policy Prohibiting Insider Trading. As a general rule, the period after the end of each quarter up until two market days after the financial information is released, is treated as closed periods. Procedures are in place to detect any violations.

During the year under review, the Bank shared a reasonable portion of its profit for 2021 with shareholders in the form of a scrip dividend in order to retain the funds and augment the capital to support its growth and development.

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

Shareholder Meetings

The Annual General Meeting (AGM) of the Bank is normally held within a period of one year from the date of the previous Meeting after giving adequate notice to shareholders as required by the Articles of Association. Due to the COVID-19 pandemic, and in view of the Government's directive on social distancing and limitations on gatherings, the AGM was held as a virtual meeting on 30 March 2022, assembled at the "Auditorium" of the Bank, with shareholders and 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 (EGM) are held to obtain shareholder approval on matters that require such approval. An EGM was held on 30 March 2022 to obtain the approval of the shareholders for the Rights Issue.

CORPORATE GOVERNANCE

ANNUAL CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 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 intranet and all employees are guided by these values. During the year, two new corporate values namely "Stewardship" and "Diversity Equity and Inclusion" were added to the corporate values of the Bank.
	(b) Overall business strategy	Compliant	The Bank's Strategic plan was approved by the Board in January 2022. 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. Periodic updates or revisions of the Strategic Plan are considered and formulated as and when necessary.
	(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) and by publicity through the press and electronic media and posts on the Bank's website. The Bank has an internally developed Code of Conduct for its employees which is posted on the internal web and is accessible by all employees. The Bank has also adopted a separate Code of Conduct for the Directors.
	(e) Bank's internal control and management information systems	Compliant	The Audit Committee assists the Board in reviewing and evaluating the integrity, adequacy, and effectiveness of the internal control system including management information systems and controls over financial reporting of the Bank. The internal audit carries out periodic reviews to ensure that the internal control systems are functioning as appropriate. The report by the Board of Directors on internal control over financial reporting is given on page 189. The Independent Assurance Report by the External Auditor on the Directors' Statement on Internal Control is given on page 192.

CORPORATE GOVERNANCE

Rule	Governance principle	Compliance	Remarks
	(f) Key Management Personnel (KMP)	Compliant	The Board has identified and designated its Key Management Personnel.
	(g) Authority and responsibility	Compliant	Areas of authority and key responsibilities of Directors have been set out in the Corporate Governance Charter which has been adopted by the Board. The Board has also identified matters specifically reserved for the Board. The duties and responsibilities of other KMP are formally documented in their job descriptions. Delegation of authority levels for KMP has also been clearly specified in Board approved circulars.
	(h) Oversight of the affairs of the Bank by KMP	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 KMP. Minutes of relevant management committee meetings headed by the Chief Executive Officer (CEO) are submitted to the Board for information. KMP are called upon to clarify matters and make presentations on matters within their purview at the monthly Board meetings.
	(i) Board's own governance practices	Compliant	An annual self-assessment is carried out on a structured format where the Directors submit their individual responses direct to the Board Secretary. The responses are collated by the Board Secretary and submitted to the Board. The effectiveness of the Board's own governance practices is reviewed by the Board and areas for improvement are discussed for necessary action. During this year too, in addition to the assessments carried out by the individual members, the Nomination and Governance Committee, based on a separate checklist, carried out an evaluation of the Board and the results were shared with the other members of the Board and an opportunity was provided to them to comment on the findings of the Committee.
	(j) Succession plan for KMP	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.
	(k) Regular meetings with KMP to monitor progress	Compliant	Meetings are attended by relevant executives when required. Additional information sought by Directors on papers submitted to the Board is clarified by the respective officers. The Board has free access to Senior Management. During the year, the Board reviewed the performance in order to monitor progress against the business plan. These presentations provided an opportunity for the Board members to interact with the Senior Management to clarify reasons for variations against the budget and to suggest corrective action.
	(l) Regulatory environment	Compliant	The Board Secretary/Compliance Officer provides all regulatory information required to the Board members. The CEO briefs the Board on specific issues. Senior Management maintains continuous dialogue with the regulator to ensure an effective relationship.
	(m) Due diligence in hiring and oversight of external auditor	Compliant	The primary responsibility for making recommendations on the appointment of the external auditor rests with the Audit Committee. A formal policy approved by the Board on engagement of external auditor to perform non-audit services is in place.

CORPORATE GOVERNANCE

Rule	Governance principle	Compliance	Remarks
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 the management of the Bank.
3.1 (iii)	Board meetings	Compliant	The Board held 12 Board meetings during the year. The Directors actively participated in the Board's decision-making process as evident from the Board minutes. Seeking approval of the Board by circulation was done only in exceptional circumstances due to urgency.
3.1 (iv)	The Board to ensure that arrangements are in place for Directors to include items and proposals in the agenda of Board meetings	Compliant	Whenever the Directors suggest topics for consideration at the Board meetings, they are included in the agenda under "open discussion" which is an integral part of every Board meeting and other supporting data, reports, documents, etc. relevant for the subject matter are circulated among the Directors for information.
3.1 (v)	Notice of Board meetings – at least seven days notice of regular meetings and reasonable notice of other meetings to be given	Compliant	Dates for the regular monthly Board meetings are agreed by the Directors at the start of each year and any changes to dates of scheduled meetings are decided well in advance. The Board Circulars and other documents pertaining to meetings are made available well in advance to enable the Directors to participate in deliberations.
3.1 (vi)	Attendance at Board meetings	Compliant	All Directors attended more than two-thirds of Board meetings and no Director was absent for three or more consecutive meetings. Attendance details are given on page 158.
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 minutes at all reasonable times.

CORPORATE GOVERNANCE

Rule	Governance principle	Compliance	Remarks
3.1 (x)	The form and contents of the minutes of Board meetings	Compliant	The Board minutes are drawn with reference to Board Circulars with sufficient details to indicate the decisions made by the Board of Directors. The information used in making such decisions, the reasons and rationale of making them and each Director's contribution, if considered material, is included in the minutes.
3.1 (xi)	Independent professional advice on request for Directors to perform their duties	Compliant	The Board has put in place a procedure where the Directors can obtain Independent professional advice, at the Bank's expense, to perform their duties.
3.1 (xii)	The Directors' avoidance of conflicts of interest	Compliant	The Companies Act No. 07 of 2007 requires Directors who are directly or indirectly interested in contracts or a proposed contract with the Bank to declare the nature of such interest. The Directors have declared their interests in contracts involving the Bank and have not participated in the decision-making.
3.1 (xiii)	Schedule of matters reserved for the decisions of the Board	Compliant	Schedule of matters reserved for the Board has 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 above the minimum levels required by the Monetary Board in terms of the capital adequacy and minimum required capital.
3.1 (xvi)	Corporate Governance Report	Compliant	The annual Corporate Governance report forms an integral part of the Directors report of the Bank's Annual Report.
3.1 (xvii)	Self-assessment of the Board of Directors	Compliant	The Board has a structured scheme of self-assessment which is carried out annually. The performance of the respective committees is also evaluated by the other members who are not members of the respective committees in order to ensure that they function effectively. The findings are discussed at the Board meetings and action is taken on areas identified for improvement. The performance assessment criteria of the CEO are given in 3.5 (xi).
3.2 (i)	Number of Directors	Compliant	During the year under review, the Board of Directors comprised a minimum of nine and a maximum of eleven Directors.
3.2 (ii)	Period of service of a Director	Compliant	No Director has held the position of a Director of the Bank for more than nine years.
3.2 (iii)	Number of Executive Directors	Compliant	The CEO is the only Executive Director on the Board.

CORPORATE GOVERNANCE

Rule	Governance principle	Compliance	Remarks
3.2 (iv)	Number of Independent Directors	Compliant	There were seven Independent Directors on the Board at the end of the year under review. The Board has adopted a format of a declaration to be obtained annually from Non-Executive Directors so that each Director shall independently confirm their status against specific criteria applicable to the ascertainment of independence. As such, all Non-Executive Directors have submitted their declaration in compliance with the Board decision.
3.2 (v)	Alternate Directors to represent Independent Directors	Compliant	Persons who are appointed as alternate Directors to existing Independent Directors of the Board are subject to the same criteria applicable to such Directors. During the year, Independent Directors did not appoint any alternates.
3.2 (vi)	The skills, experience, and track records of Non-Executive Directors	Compliant	Non-Executive Directors who held office had professional backgrounds, strong track records, and high level managerial experience in banking, business, industry, law, finance, or auditing.
3.2 (vii)	Number of Non-Executive Directors required to form a quorum at 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 provides that the Directors appointed by the Board of Directors hold office until the following AGM at which they have to be elected by the shareholders.
3.2 (xi)	Resignation or removal of a Director	Compliant	The details of retirement of Directors from office during the year under review are given in the Directors' Report. None of the Directors resigned or were removed during the year under review.
3.2 (xii)	Appointment of a Director or an employee to another bank	Compliant	No Director or employee of the Bank is a Director of another bank.
3.3 (i)	Maximum age of Directors	Compliant	All Directors who reached the age of 70 have relinquished office.
3.3 (ii)	Holding of Director's position in more than 20 companies in all	Compliant	All Directors comply with this requirement.

CORPORATE GOVERNANCE

Rule	Governance principle	Compliance	Remarks
3.3 (iii)	Appointment of a Director or a Chief Executive Officer who has held office in another licensed commercial bank, not to be considered before the expiry of a period of 6 months from the date of cessation of his/her office at the licensed bank in Sri Lanka	Compliant	All newly appointed Directors comply with this requirement.
3.4 (i)	Delegation arrangements	Compliant	The Board of Directors has delegated authority to the Management subject to specific criteria, limitations, safeguards, and monitoring mechanisms.
3.4 (ii)	Extent of delegation	Compliant	The delegation of authority made by the Board is designed to facilitate efficient management of the affairs of the Bank and to aid the oversight role exercised by the Board. It is not of an extent to hinder the ability of the Board to discharge its functions. The Board retains the authority to expand, curtail, limit, or revoke such delegated authority.
3.4 (iii)	Review of delegation process	Compliant	The delegation process is subject to periodic review by the Board in order to ensure that necessary amendments are approved to meet the requirements of the Bank. Material decisions made under delegated authority are reported to the Board for information.
3.5 (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.
3.5 (iii)	Disclosure of relationship between the Chairman, CEO, and other Directors	Compliant	No relationships exist between the current Chairman, the CEO and the other Non-Executive Directors according to the declarations made by them.
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 the CEO and the 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.

CORPORATE GOVERNANCE

Rule	Governance principle	Compliance	Remarks
3.5 (vi)	Providing information to the Directors	Compliant	The Chairman ensures that all Directors are properly briefed on issues which arise at Board meetings and ensures that they receive adequate information in a timely manner. The agenda and all Board papers are circulated electronically to Board members prior to the meeting.
3.5 (vii)	The Board to act in the best interest of the Bank	Compliant	The Chairman encourages exercise of independent judgement by the Directors on matters under consideration by the Board in order that the best interests of the Bank can be assured.
3.5 (viii)	Effective contribution of Non-Executive Directors	Compliant	The Chairman facilitates contributions by the Non-Executive Directors in making decisions. An agenda item has been included which is an integral part of every Board meeting, for a "discussion among Non-Executive Directors" (without the presence of the Executive Director) so as to enable them to bring up any issue that needs to be highlighted.
3.5 (ix)	The Chairman not to engage in executive functions	Compliant	The Chairman is a Non-Executive Director and does not supervise any management personnel of the Bank directly.
3.5 (x)	Communication with shareholders	Compliant	The Chairman has assigned the CEO to maintain a dialogue with institutional investors and to bring any matters of concern to the notice of the Board. The Corporate Communication policy approved by the Board includes a provision for communication with shareholders.
3.5 (xi)	CEO to be in charge of the management of operations and business	Compliant	The CEO is the head of the management team and is in charge of day-to-day management of the Bank's operations and business. At the beginning of each year, the Board discusses the business plan with the CEO and the 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 179.
	(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.

CORPORATE GOVERNANCE

Rule	Governance principle	Compliance	Remarks
	(d) Independence and effectiveness of the audit process	Compliant	The Committee reviewed the statement issued by the external Auditor pursuant to Section 163 (3) of the Companies Act No. 07 of 2007. The Committee discussed with the external Auditors, the nature and scope of the audit, and the effectiveness of the audit process in respect of the financial year 2022.
	(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 the 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 2022.
	(h) Meetings with external auditor	Compliant	The Committee met with the external Auditor on four occasions and at two of those meetings without the presence of the Management.
	(i) Review of Management Letter	Compliant	The Committee considered the Management Letter issued by the external Auditor for the year ended 31 December 2021 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 requirements. The annual performance appraisal of the Head of Internal Audit and the Senior Staff Members are reviewed by the Committee. The internal audit function is Independent of the activities it audits and the findings are reported directly to the Audit Committee.
	(k) Internal audit findings	Compliant	The Committee reviewed the internal audit reports and considered the findings, recommendations, and corrective action.
	(l) Attendance of non-audit committee members	Compliant	Vice President, Head of Internal Audit attends all Committee meetings. CEO, CFO, other Heads of Units, and the external Auditors attend meetings on invitation. During the year, the Committee met with the external Auditor on two occasions without the presence of the Executive Directors.
	(m) Terms of reference	Compliant	The Committee is guided by the Audit Committee Charter.
	(n) Meetings	Compliant	During the financial year ended 31 December 2022, 10 meetings were held. Attendance of Committee members is given in the table on page 158.
	(o) Audit Committee activities	Compliant	Please refer Committee report on page 179.
	(p) Secretary	Compliant	Vice President, Head of Internal Audit serves as the Secretary of the Committee.
	(q) Process of raising issues in confidence	Compliant	The Board has adopted a Whistleblowing Policy to encourage employees to communicate legitimate concerns on any illegal or unethical practices. Arrangements are in place to ensure that all employees are duly informed of the effective use of this process.

CORPORATE GOVERNANCE

Rule	Governance principle	Compliance	Remarks
3.6 (iii)	Board Human Resources and Remuneration Committee		Please refer page 183.
	(a) Remuneration policy	Compliant	A formal remuneration policy approved by the Board is in place.
	(b) Goals and targets for KMP	Compliant	The business plan which is approved by the Board encompasses the annual goals and targets of the CEO and other KMP.
	(c) Review of performance of KMP	Compliant	The Committee annually reviews the performance against the set targets of the CEO and other KMP, and the remuneration levels of the CEO and other KMP, while ensuring appropriate compensation levels are maintained in order to retain and motivate staff.
	(d) CEO's presence	Compliant	The CEO attends meetings and participates in deliberations except when matters relating to him are discussed.
3.6 (iv)	Board Nomination and Governance Committee		Please refer page 184.
	(a) Appointment of new Directors and KMP	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 and appoint Directors and other KMP.
	(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 KMP	Compliant	The Committee evaluates the qualifications, experience, and key attributes required for eligibility for appointment of KMP.
	(d) Fit and Proper Test	Compliant	The fitness and propriety of KMP 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 KMP.
	(f) Composition	Compliant	The Committee consists of four Non-Executive Directors and is chaired by an Independent Director.
3.6 (v)	Board Integrated Risk Management Committee (BIRMC)		Please refer page 185.
	(a) Composition	Compliant	Please refer page 185.
	(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 a set of Key Risk Indicators. The risk assessment of subsidiaries, joint venture, and the associate is reviewed quarterly.

CORPORATE GOVERNANCE

Rule	Governance principle	Compliance	Remarks
	(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.
	(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 given on page 188. 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 the public will be informed if not compliant by the specified date as he/she will cease to hold office.

CORPORATE GOVERNANCE

Rule	Governance principle	Compliance	Remarks
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 the accommodation or interest without prior approval of the Monetary Board	Compliant	No such situation has arisen.

DISCLOSURE ON CORPORATE GOVERNANCE MADE IN TERMS OF SECTION 3 (8) OF THE BANKING ACT DIRECTION NO. 11 OF 2007 OF THE CENTRAL BANK OF SRI LANKA

(i) The Board shall ensure that

	The annual audited Financial Statements and quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and such statements are published in the newspapers in an abridged form in Sinhala, Tamil, and English.	Complied with.

(ii) The Board shall ensure that the following minimum disclosures are made in the Annual Report

(a)	A statement to the effect that the annual audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with. Please refer the Statement of Directors' Responsibility on page 195.
(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 the Directors' Statement of Internal Control on page 189.
(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 192.
(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 pages 24 to 28, 174 and Note 57.2 to the Financial Statements.

CORPORATE GOVERNANCE

(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.

Category of related party	**31 December 2022**	
	LKR '000	**Percentage**
Directors	985	–
Other Key Management Personnel	108.747	0.23
Close Family Members of Directors and Key Management Personnel	1,794	–
A concern in which a Director has a substantial interest	18,858	0.04
Total Net Accommodation	130,384	0.27
Regulatory capital – solo basis	48,004,800	

The total net accommodation was 0.27% 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 57.2 to the Financial Statements.

Further, in addition to the above, compensation, total deposits, and investments made and accommodation obtained as at 31 December 2022 by the other Key Management Personnel (officers performing executive functions referred to in Banking Act determination No. 1 of 2019) amounted to LKR 164.46 Mn, LKR 388.49 Mn and LKR 52.73 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) takes pleasure in presenting the 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 Auditors' Report on those Financial Statements.

The disclosures in this Annual Report conform to the requirements of the Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 (as amended) and the Directions issued by the Monetary Board of the Central Bank of Sri Lanka under the Banking Act and the Listing Rules of the Colombo Stock Exchange (CSE).

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

Section	Disclosure requirement	Reference to Annual Report
168 (1) (a)	The nature of the business of the Bank and the Group	Page 211 (Note 1.4 to the Financial Statements)
168 (1) (b)	Signed Financial Statements of the Bank in accordance with Section 152	Page 205 (Financial Statements)
168 (1) (c)	Auditors' Report on Financial Statements of the Bank and the Group	Page 197
168 (1) (d)	Changes in accounting policies made during the accounting period	Page 221 (Note 6 to the Financial Statements)
168 (1) (e)	Particulars of entries in the interest register made during the accounting period	Page 175 of this Report
168 (1) (f)	Remuneration and other benefits of Directors during the accounting period	Pages 174, 273 and 341 (Notes 20 and 57.2 to the Financial Statements and this Report)
168 (1) (g)	Total amount of donations made by the Bank during the accounting period	Page 176 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 174 of this Report
168 (1) (i)	Amounts payable to the Auditors' as audit fees and fees for other services rendered during the accounting period as a separate disclosure	Page 273 (Note 20 to the Financial Statements)
168 (1) (j)	Auditors' relationship or any interest with the Bank and its subsidiaries	Page 174 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 178 (Signed with an acknowledgment by two Directors and the Company Secretary)

Constitution

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

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

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

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE BANK

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 assessment carried out by the Board took into consideration the current economic developments in order to make projections for future economic conditions of the environment in which it operates. The main factors that cause uncertainties regarding the application of this principle relate to the unstable economic environment in the country.

Specifically, the high degree of uncertainty that characterises the internal economic environment led to deterioration in the creditworthiness of corporate and individuals, to an increase of non-performing loans and therefore to the recognition of significant impairment losses by the Bank and by the banking system in general. Based on the above and taking into account the Bank's capital adequacy and the ability of the Bank to access the liquidity mechanisms, the Bank estimates that the conditions for the application of the going concern principle for the preparation of its financial statements are met.

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 202 to 355 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

Despite unprecedented challenges and a volatile economic environment, DFCC Bank continued its commitment to serving customers across the country, delivering high-quality customer-centric banking services. Throughout these challenging times, customers experienced greater convenience in carrying out their financial transactions due to the Bank's Digital footprint.

The Bank also implemented a number of relief schemes in line with Government Directives to support those customers affected as a result of the volatile economic environment.

The Chairman's Statement, Chief Executive's Report 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	2022 LKR '000
Profit for the period	2,513,352
Appropriations	
Transfer to: Reserve fund (statutory requirement)	128,000
First and final dividend recommended for financial year ended 31 December 2022	805,332
Unappropriated profit for the period	1,580,020

Accounting Policies

The accounting policies adopted in the preparation of the Financial Statements of the Bank and the Group are stated on pages 214 to 355 of the Annual Report.

There were no changes to the accounting policies of the Group in the year under review.

Auditors' Report

The Auditors' Report on the Financial Statements, which is unqualified, is given on page 197.

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 2023. The Audit Committee has reviewed the effectiveness and the relationship with the Bank including the fees paid

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE BANK

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 consists of 11 Directors with wide knowledge and experience in the fields of banking and finance, trade, law, commerce, or services. Profiles of the Directors are given on pages 24 to 28.

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
W R H Fernando
N K G K Nemmawatta
Ms A L Thambiayah
N Vasantha Kumar
H A J de S Wijeyeratne

Non-Independent Non-Executive Directors

W D Batagoda
Ms H M N S Gunawardana
Ms V J Senaratne

Executive Director

N H T I Perera – Chief Executive Officer

Appointment, Retirement/ Resignation and Re-election of Directors

W D Batagoda and W R H Fernando were appointed as Directors of the Bank on 1 September 2022. 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 W D Batagoda and W R H Fernando and the Board having concluded that they are fit and proper persons to be Directors in terms of the provisions of the Banking Act unanimously endorsed the recommendation of the Nomination and Governance Committee.

P M B Fernando retired from the Board with effect from 30 June 2022 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.

There were no resignations during the year.

Retirement by Rotation and Re-election of Directors

The Directors retiring by rotation in terms of Article 44 of the Articles of Association are H A J de S Wijeyeratne and Ms H M N S Gunawardana, 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 2022 is given below.

Year ended 31 December	2022 LKR '000	2021 LKR '000
Bank	60,932	117,463
Group	84,135	137,647

Directors' Meetings

The Bank held 12 Board meetings during the year. The Table on page 158 of the Annual Report gives details of the attendance of the Directors at Board and Board committee meetings during the year.

Directors' Interests in Shares

As at 31 December	Number of Shares 2022	2021
W D Batagoda[2]	Nil	–
J Durairatnam	Nil	Nil
Ms L K A H Fernando	Nil	Nil
W R H Fernando[2]	Nil	–
P M B Fernando[1]	–	2,106
Ms H M N S Gunawardana	Nil	Nil
N K G K Nemmawatta	Nil	Nil
N H T I Perera	24,635	17,701
Ms V J Senaratne	2,006	1,909
L H A L Silva[1]	–	26,200
Ms A L Thambiayah	100,292	95,432
N Vasantha Kumar	Nil	Nil
H A J de S Wijeyeratne	12,316	8,850

1 not a Director as at 31 December 2022
2 not a Director as at 31 December 2021

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE BANK

Directors' Interests in Debentures

Year ended 31 December	2022 LKR '000	2021 LKR '000
L H A L Silva (Retired on 31 December 2021)	–	7,000

No Director directly or indirectly holds options of the Bank.

Directors' Interests Register

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

Directors' Interests in Transactions with the Bank

The Directors' interests in transactions with entities/persons (other than subsidiaries, the joint venture, and the associate) listed under each Director for the year ended 31 December 2022 is as follows.

	LKR '000
J Durairatnam Asian Hotels and Properties PLC Assetline Finance Limited Aggregate amount of accommodation	2,500,000
Asian Hotels and Properties PLC Aggregate amount of payment	58
Ms L K A H Fernando United Motors Lanka PLC Aggregate amount of accommodation	10,000
United Motors Lanka PLC Aggregate amount of payment for services	621
P M B Fernando Evoke International Ltd. Aggregate amount of accommodation	20,000
W R H Fernando Aggregate amount of accommodation	500
Dedunu Housing & Real Estate (Pvt) Ltd. Aggregate amount of accommodation	12,500
Ms H M N S Gunawardana Aggregate amount of accommodation	4,500
N H T I Perera LVL Energy Fund PLC Aggregate amount of accommodation	100,000
LankaPay (Pvt) Ltd. Aggregate amount of payments for services	732
H A J de S Wijeyeratne	
Aggregate amount of accommodation	18,400
Trans Asia Hotels PLC Aggregate amount of payment for services	66

During the year, N H T I Perera has been Chairman/Director of one or more of the subsidiaries, the joint venture, or the associate company. Details of transactions with subsidiary, joint venture and associate company are disclosed in Note 57.4.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE BANK

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

H A J de S Wijeyeratne – Chairman
Ms L K A H Fernando
Ms H M N S Guanwardana

Credit Approval Committee

J Durairatnam – Chairman
N K G K Nemmawatta
Ms A L Thambiayah

Credit Restructure Committee

J Durairatnam – Chairman
N K G K Nemmawatta
N Vasantha Kumar

Human Resources and Remuneration Committee

J Durairatnam – Chairman
W D Batagoda
Ms H M N S Guanwardana
Ms A L Thambiayah

Nomination and Governance Committee

J Durairatnam – Chairman
W R H Fernando
Ms V J Senaratne
N Vasantha Kumar

Integrated Risk Management Committee

N Vasantha Kumar – Chairman
Ms L K A H Fernando
W R H Fernando
N H T I Perera
Ms V J Senaratne
Chief Risk Officer of the Bank is also a member of the Committee.

Related Party Transactions Review Committee

N K G K Nemmawatta – Chairman
J Durairatnam
N H T I Perera

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

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

Dividend

The Directors have recommended the payment of a first and final dividend of LKR 2.00 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 805 Mn (LKR 962 Mn in the previous period), which amounts to 34% 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 for the acquisition of property, plant, and equipment during the year amounted to LKR 1,111 Mn, of which intangible assets amounted to LKR 411 Mn. Details of these are given in Notes 38 and 39 to the Financial Statements.

Reserves

Total reserves and retained profit amounted to LKR 37,539 Mn.

Market Value of Freehold Properties

The information on market value of freehold properties is given in Note 38.1.2 to the Financial Statements.

Stated Capital and Subordinated Debentures

The stated capital as at 31 December 2022 was LKR 13,182 Mn. The number of shares in issue as at 31 December 2022 was 402,666,056.

The Board of Directors, on 17 February 2022 decided to raise new capital by way of a Rights Issue of twelve shares for every thirty-seven shares held at a consideration of LKR 55.00 per share. New capital amounting to LKR 3,620 Mn was raised by way of the Rights Issue. Consequent to the Scrip issue approved during the year, the stated capital increased by LKR 962 Mn.

Further information is given on pages 334 and 335.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE BANK

Share Information

Information relating to earnings, net assets, market value per share and share trading during the period is given on pages 78 to 80 of the Annual Report.

Shareholders

As at 31 December 2022, there were 10,459 registered shareholders and the distribution is indicated on page 79. The 20 largest shareholders as at 31 December 2022 are listed on page 80.

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 the 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 a confirmation report from the Management with regard to compliance with laws, regulations, and prudential requirements on a quarterly basis.

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 60 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 152 to 171.

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, with cross references to facilitate easy reference.

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Reference to rule	Requirement	Reference to Annual Report
3 (8) (i)	Financial statements on prescribed format	Financial Statements on pages 202 to 355.
3 (8) (ii) (a)	Affirmative assurance of compliance with accounting standards and requirements	Directors' Responsibility Statement on page 195.
3 (8) (ii) (b)	Affirmative assurance of the integrity of financial reporting system	Directors' Statement of Internal Control on page 189.
3 (8) (ii) (c)	Assurance report issued by the External Auditor	Independent Assurance Report on page 192.
3 (8) (ii) (d)	Information on Directors	Pages 24 to 28.
3 (8) (ii) (d)	Remuneration of Directors	Annual Report of the Board of Directors on the State of Affairs of the Bank on page 174.
3 (8) (ii) (e)	Net accommodation granted to each category of related party	Corporate Governance Report table on page 171.
3 (8) (ii) (f)	Compensation and other transactions with Key Management Personnel	Corporate Governance Report on page 171.
3 (8) (ii) (h)	Compliance with prudential requirements and regulations	This Annual Report

Annual General Meeting

The Sixty-Seventh Annual General Meeting will be held on 30 March 2023 at 10.00am.

Acknowledgement of the Content of the Report

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

For and on behalf of the Board of Directors,

J DURAIRATNAM
CHAIRMAN

N H T I PERERA
DIRECTOR/CHIEF EXECUTIVE OFFICER

MS N RANARAJA
COMPANY SECRETARY
17 February 2023

REPORT OF THE AUDIT COMMITTEE

Composition

The Board appointed Audit Committee comprises three Independent Non-Executive Directors.

The Committee was chaired by Mr P Mayura B Fernando, who is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka who possessed considerable experience in the field of finance and auditing until 30 June 2022. Subsequent to his retirement, the Board appointed Mr Harin A J de Silva Wijeyeratne as the Chairman of the Audit Committee with effect from 1 July 2022. He has extensive experience in the fields of general management, financial management and auditing and 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).

Ms Shamalie Gunawardena was also appointed as a new member with effect from 1 July 2022. She is an Attorney-at-Law and holds a Master's Degree in Commercial Law from the United Kingdom with diverse experience in the areas of Legal, Fiscal Policy and Economic Affairs.

Accordingly the present members of the Board appointed Audit Committee are as follows:

Mr Harin A J de Silva Wijeyeratne – Chairman

Ms Hiroshini Fernando

Ms Shamalie Gunawardena

There were no other changes in the membership of the Committee during the year. Brief profiles of the members are given on pages 24 to 28.

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 September 2022. The Committee is responsible to the Board of Directors and reports on its activities regularly. The Committee assists the Board of Directors in fulfilling its general oversight of financial reporting, internal controls, internal and external audits.

Further the functions of the Committee are structured and regulated in line with the Rule No. 3 (6) (ii) of the Corporate Governance Direction No. 11 of 2007, issued by the Central Bank of Sri Lanka, the Rules on Corporate Governance as per Section 7.10 of Listing Rules issued by the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). Where appropriate, more details are provided under separate headings in this Report.

Meetings

The Head of Group Internal Audit functioned as the Secretary to the Committee for the year ended 31 December 2022. During the year, 10 Audit Committee meetings were held and proceedings of the Audit Committee meetings were reported regularly to the Board.

Some of the meetings during the year were held virtually due to the continued travel restrictions due to the fuel shortage and attendance by the Committee members at the meetings is given in the table on page 158 of this Annual Report.

The Chief Executive Officer, Chief Financial Officer and Chief Operating Officer attend meetings by invitation. Senior Management also attends the meetings on invitation in order to brief the Audit Committee on specific matters. The Committee held two meetings with the External Auditor; KPMG independently, without the presence of the Executive Management, to discuss the progress and conclusion of the audits.

Principal Activities Conducted During 2022

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 the Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988 and subsequent amendments thereto.

REPORT OF THE AUDIT COMMITTEE

The Committee assisted the Board of Directors to discharge their responsibility for the preparation of true and fair Financial Statements in accordance with the books of accounts and Sri Lanka Accounting Standards. In carrying out the overseeing responsibilities, the Committee reviewed.

- The adequacy and effectiveness of the internal control system and procedures to provide reasonable assurance that all transactions are accurately and completely recorded in the books of accounts.
- All critical accounting policies, practices, related changes thereto, alternative accounting treatments, major judgement areas, material audit adjustments, compliance with accounting standards, going concern assumptions, financial reporting controls and compliance with applicable laws and regulations that could impact the Bank's Financial Statements, its Annual Report and its Quarterly Financial Statements prepared for publication in conjunction with the Management, Internal Auditors and where relevant, External Auditors. Special attention was made to discuss and decide on the changes in accounting treatments necessitated from the Circulars issued by the Regulator and Accounting Profession from time to time.
- During the year the Audit Committee placed additional focus on the assessment of adequacy of provision for Expected Credit Loss (ECL) recognised in the Financial Statements based on the internal models, management overlay computed based on stress testing the exposures to risk elevated sectors, to address the ongoing implications of the COVID-19 pandemic from previous years with the continuing moratorium schemes and also the impacts resulting from the political and economic crisis of the country.
- All quarterly Unaudited Interim Financial Statements and Financial Statements for the year ended 31 December 2022, together with supporting information that included significant assumptions and judgments 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 2022 Financial Statements are reliable and presents a true and fair view of the state of affairs of the Bank.

Core Banking System Migration

During the year, the Audit Committee continued to place additional focus on the core banking system migration that took place in October 2021. Progress of the core-banking system related matters and follow up reviews were discussed at the Audit Committee on a periodic basis. Post migration progress was reviewed with the senior management and with the Project Steering Committee from time to time focusing on key controls, financial reporting and MIS areas. The Committee was apprised on the results of post migration verifications performed and noted that all critical exceptions have been addressed without any delays.

Review of Internal Control System

The Audit Committee assessed the effectiveness of internal controls over financial reporting as at 31 December 2022 as required to comply with Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks, issued by the Central Bank of Sri Lanka. This process assesses the adequacy and effectiveness of the internal controls and the processes for controlling business risks to ensure compliance with laws and regulations. The Committee ensures that appropriate action is taken by the Management on the recommendations of the Internal Auditors to improve the effectiveness of the internal control system of the Bank. The Board of Directors performs its responsibilities on the basis of the internal control framework, which enables the Board to pursue its functions and take necessary measures. The Board's statement on effectiveness of the Bank's internal control mechanism is published on pages 189 to 191.

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

REPORT OF THE AUDIT COMMITTEE

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 its subsidiaries, officials or personnel holding any contractual status of the Bank and its subsidiaries, and to all the premises of the Bank and its 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 2022 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 2022. 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 objectives across the audited units/branches. Process Audits were conducted on specific business processes to review the adequacy, efficiency and effectiveness of the procedures, processes, related controls and further to ensure that the intended objectives and benefits are derived from the related processes of the Bank. The Potential Fraud Monitoring Unit under Internal Audit carried out testing and data analytics related to potential fraud risk areas on a continuous basis while undertaking special reviews and investigations as required from the management and also resulting from feedback received as whistleblowing from time to time.

In addition, the Group Internal Audit performed many certifications during the year as required by the regulators, CBSL and FIU. They included a certification on the Compliance reporting under the GoAML system to FIU/CBSL and quarterly based certifications provided on interest reimbursements on senior citizen accounts and incentives paid on overseas worker remittances.

In 2022, the Board Audit Committee reviewed all the 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 2022.

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. Accordingly, the audit partner rotation was taken place in 2021. 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 ongoing economic crisis and macroeconomic changes.

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.

REPORT OF THE AUDIT COMMITTEE

Reappointment of the 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, be reappointed for the financial year ending 31 December 2023 subject to the approval of shareholders at the next Annual General Meeting.

Good Governance and Whistleblowing Policy

The Committee continuously emphasised on sustaining ethical conduct amongst staff members. In this regard, the Whistleblowing Policy of the Bank and its subsidiaries was reviewed during the year 2022 and all members of staff were educated and encouraged to practice whistleblowing 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 whistleblowing or identified through other channels. The Whistleblowing Policy guarantees the maintenance of strict confidentiality of the identity of the whistleblowers.

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.

MR H A J DE SILVA WIJEYERATNE
CHAIRMAN – AUDIT COMMITTEE
17 February 2023

REPORT OF THE HUMAN RESOURCES AND REMUNERATION COMMITTEE

Composition

The Human Resources and Remuneration Committee appointed by the Board of Directors, presently consists of four Non-Executive Directors. J Durairatnam is the Chairman of the Committee. Ms A L Thambiayah, Ms H M N S Gunawardana and W D Batagoda are the other members.

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

The Committee's composition met the requirements of rule 7.10.5 of the Listing Rules of the Colombo Stock Exchange.

Mandate

Terms of Reference of the Committee adopted by the Board encompasses the tasks specified in Section 3 (6) (iii) of Direction No. 11 of 2007 of the Central Bank of Sri Lanka on Corporate Governance for Licensed Commercial Banks.

The Committee in determining the remuneration policy relating to Directors, Chief Executive, and Key Management Personnel of DFCC Bank, in terms of Directions ensures appropriate compensation levels in order to attract, retain, and motivate talented staff with the core capabilities matched to its strategy and also to ensure that the Bank consistently delivers value to all stakeholders and to make the organisation more competitive. To achieve this, the Committee uses a mixture of fixed and variable pay to reward employees.

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 the 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 takes appropriate steps to induct external skills to strengthen the Management of the Bank where it is deemed necessary.

Meetings

The Committee held six meetings during the financial year to carry out its task. The attendance by members is given on page 158 of the Annual Report.

J DURAIRATNAM
CHAIRMAN
HUMAN RESOURCES AND REMUNERATION COMMITTEE

17 February 2023

REPORT OF THE NOMINATION AND GOVERNANCE COMMITTEE

Composition

The Nomination and Governance Committee of the Board of Directors presently consists of four Non-Executive Directors. J Durairatnam, an Independent Director is the Chairman with Ms V J Senaratne, N Vasantha Kumar and W R H Fernando serving as members. P M B Fernando functioned as the Chairman of the Committee until 30 June 2022.

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

The Committee's composition met the requirements of Rule 3.6 (iv) (f) of the Banking Act Direction No. 11 of 2007 of the Central Bank.

Mandate

During the year under review, the Committee carried out the tasks as set out in the Terms of Reference approved by the Board. The Terms of Reference approved by the Board encompasses the tasks set out in Section 3 (6) (iv) of Direction No. 11 of 2007 of the Central Bank of Sri Lanka on Corporate Governance in Licensed Commercial Banks.

In terms of the mandate, the role of the Committee is to review governance policies and procedures, evaluate the performance of the Board and identify, and evaluate persons with the required skills, knowledge, standing, fitness, and propriety to join the Board of the Bank and to evaluate the suitability of Directors who are seeking re-election. The Committee is also responsible for the task of implementing a procedure for the appointment of the CEO and Key Management Personnel.

Procedure

The Committee meets as necessary and, in any case, at least once a year and acts within its mandate approved by the Board of Directors and makes recommendations to the Board for consideration.

Meetings

Eight meetings were held during the year. The Committee periodically reviews the composition of the Board including the balance between Independent and Non-Independent Directors and considers succession planning for both Directors and the Bank's senior management. In making appointments to the Board, the Committee considers the skills, experience and knowledge of the existing Directors and assesses the potential candidates in terms of who would benefit the Bank most. During the year, the Committee considered and recommended to the Board the appointment of two new Directors. The Committee also identified persons to fill other key management positions after reviewing many candidates from time to time to ascertain the best fit for the Bank in terms of qualifications, ability and character, reviewed succession planning and assessed the fitness and propriety of Directors, and Key Management Personnel, in terms of the requirements of the Banking Act.

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 checklist 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 158 of the Annual Report. The Committee has recommended the re-election of the Directors offering themselves for re-election at the forthcoming Annual General Meeting.

J DURAIRATNAM
CHAIRMAN
NOMINATION AND GOVERNANCE COMMITTEE

17 February 2023

REPORT OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

Composition of the Board Integrated Risk Management Committee (BIRMC)

During the financial year ended in December 2022, the composition of the Board Integrated Risk Management Committee (BIRMC) of DFCC Bank was changed. Chairperson Ms L K A H Fernando stepped down from her post as the Chairperson and Mr N Vasantha Kumar (Non-Executive Director) took over the position. Ms H M N S Gunawardana (Non-Executive Director) stepped down from BIRMC and Mr W R H Fernando who was appointed to the Board as a Non-Executive Director was subsequently appointed to the BIRMC as a member.

There were four Non-Executive Directors and an Executive Director as at 31 December 2022 as members of the Committee. The Chief Risk Officer, who is also a voting member, 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 2022 was as follows:

N Vasantha Kumar – Chairperson of the Committee/Non-Executive Director of DFCC Bank

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

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

W R H Fernando – Non-Executive Director of DFCC Bank

T Perera – Executive Director/Chief Executive Officer of DFCC Bank

K Jayasuriya – Chief Risk Officer

Charter and the Responsibilities of the BIRMC

The approved Charter for the BIRMC stipulates authority, structure, responsibilities, and tasks of the BIRMC. As per its Charter, the primary responsibilities of the 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 a quarterly basis. During 2022, DFCC Bank convened five BIRMC meetings. The attendance of members is listed on page 158 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.

REPORT OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

D. All existing risk policies and practices were reviewed by the Committee in line with the Bank's specific requirements, industry dynamics, and regulatory specifications and approved the necessary amendments to further strengthen the risk management processes in the Bank.

E. The annual review of effectiveness and adequacy of the Management Committees were conducted by the BIRMC during the first quarter of 2022. The review results were shared with the respective Committees for necessary improvements.

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

G. 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 information systems and closely monitoring the action plans and implementation of new projects for further improving information systems security in the Bank.

H. During 2022, the Committee paid more attention on reviewing elevated risk levels in the operating environment due to macroeconomic instability. The Committee reviewed the adequacy of the risk mitigating actions taken and stress testing results under the current operating environment.

Reporting

The proceedings of the BIRMC meetings are reported to the Board through submission of the meeting minutes. Top and emerging risks and other specific matters are submitted separately for information of the Board on a monthly basis. The recommendations made by the BIRMC during the year under review were duly approved by the Board.

N VASANTHA KUMAR
CHAIRMAN –
BOARD INTEGRATED RISK MANAGEMENT COMMITTEE
17 February 2023

REPORT OF THE CREDIT APPROVAL COMMITTEE

Composition

The Credit Approval Committee of the Board of Directors presently consists of three Non-Executive Directors. J Durairatnam is the Chairman with N K G K Nemmawatta, and Ms A L Thambiayah serving as members. P M B Fernando functioned as a member of the Committee until 30 June 2022.

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 authority limit of the Management Credit Committee of the Bank.

Procedure

The Committee normally meets at least once a month and as and when required. The Committee invites the relevant officers to these meetings to clarify issues and for discussion relating to proposals that are submitted for review and also guides the Management in improving the credit policies, procedures and on process improvements for monitoring and recovery action.

Meetings

The Committee held twelve meetings during the financial year to carry out its task. The attendance by members is given on page 158 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 2023

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. N K G K Nemmawatta, an Independent Director is the Chairman of the Committee. J Durairatnam and N H T I Perera are the other members. P M B Fernando functioned as the Chairman of the Committee until 30 June 2022.

The Company Secretary functions as the Secretary of the Committee.

The Committee's composition met the requirements of the Rule 9.2.2 of Listing Rules of the Colombo Stock Exchange.

Mandate

The Committee adopted as its mandate, the tasks specified in Section 9 of the Colombo Stock Exchange (CSE) Listing Rules. The Board has formally adopted the Terms of Reference of the Committee.

The primary purpose of the Committee is to evaluate and consider all transactions with related parties of the Bank except those 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 requirements 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 fourteen meetings during the financial year to carry out its tasks. The attendance by members is given on page 158 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.

N K G K NEMMAWATTA
CHAIRMAN
RELATED PARTY TRANSACTIONS REVIEW COMMITTEE
17 February 2023

DIRECTORS' STATEMENT OF INTERNAL CONTROLS

Introduction

Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007 requires the Board of Directors ("the Board") to report on internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. This Report is prepared in line with the said regulatory requirements and Principle D.1.5 of the Code of Best Practices on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

Responsibility

The Board acknowledges the responsibility for the adequacy and effectiveness of the DFCC Bank's ("the Bank") system of internal controls, which is designed to provide assurance on the maintenance of proper accounting records and the reliability of financial information generated and safeguarding of the assets of the Bank.

However, such systems are designed to manage the Bank's key exposures to risk within acceptable risk parameters rather than to eliminate the risk of failure to achieve the business goals and objectives of the Bank. Therefore, the system of internal controls can only provide reasonable and not absolute assurance against errors or material misstatement of management and financial information and records or against financial losses and frauds.

Framework of Managing Material Risks of the Bank

The Board has set up an ongoing process for identifying, evaluating and managing the material risks faced by the Bank. This process has been in place for the year under review which includes enhancing the system of Internal controls as and when there are changes to the business environment and regulatory guidelines.

The Management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

The process is regularly reviewed by the Board and is in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued by CA Sri Lanka. The Board has assessed the internal control over financial reporting taking into account relevant principles for the assessment of internal control over the financial reporting system as given in the guidance.

The board is of the view that the framework and the system of internal controls in place is sound and robust to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

Key Features of the Process Adopted in Applying and Reviewing the Design and Effectiveness of the Internal Control System over Financial Reporting

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following

- The Board has established Committees to assist them in exercising oversight on the effectiveness of the Bank's daily operations and ensuring that they are in accordance with the corporate objectives, strategies and the budgetary targets as well as the policies and business directions that have been approved.
- Policies/Charters are developed covering all functional areas of the Bank and these are recommended by Board appointed Committees and are approved by the Board. Such Policies and Charters are reviewed and approved periodically.
- The Internal Audit Department of the Bank verifies compliance of operations with policies and procedures and the adequacy and effectiveness of the internal control systems including information system controls on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non-compliance. On-site and Off-site audits are carried out on all units and branches, the frequency of which are determined

DIRECTORS' STATEMENT OF INTERNAL CONTROLS

by the level of risk assessed to provide an independent and objective report on operational and management activities of these units and branches. The annual audit plan is reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review at their periodic meetings.

The Initiatives taken by the internal audit department to conduct off-site/remote audits and centralized monitoring audits during the COVID-19 Pandemic were expanded covering the branch network and departments as well as selected processes and significant risk areas in 2022 as well. The Offsite auditing initiatives were further strengthened to review the design and the effectiveness of the internal control system utilizing appropriate tools/techniques and resources. In addition, monitoring over implementation of the new core banking system and related post implementation audits, reviews on data base security and cyber security reviews were performed during the year and submitted to the Board Audit Committee on a periodic basis.

- The Bank adopted a robust process in implementing the new Core banking system which was lead by a Core Banking Project Steering Committee for the system migration in late 2021. A post migration verification was carried out and all critical exceptions are been addressed progressively.
- The Audit Committee of the Bank reviews internal control issues identified by the internal audit, the External Auditors, regulatory authorities, and management and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit function focusing on the scope of audits and the quality of reporting. The minutes of the Audit Committee meetings are tabled for the information of the Board on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the Report of the Audit Committee on page 179.
- The Board Integrated Risk Management Committee (BIRMC) was established by the Board to assist the Board to oversee the overall management of principal areas of risk of the Bank. The BIRMC includes representation from all key business and operations areas of the Bank and assists the Board in the implementation of policies, procedures and controls identified by the BIRMC.
- Operational Committees have also been established with appropriate mandates to ensure effective management and supervision of the Bank's core areas of business operations. These committees include the Management Committee, Credit Committees, the Asset/Liability Committee, the Impairment Assessment Committee, and the Information Technology Steering Committee.
- In assessing the internal controls over financial reporting identified officers of the Bank continued to review and update all procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Bank. The Internal Audit Department continued to verify the suitability of design and effectiveness of these procedures and controls on an ongoing basis. Further special focus areas were identified and assessed for strengthening the control setup including information system controls adopted in the core banking system and the MIS reporting. The Bank continuously evaluates the evolving internal control environment with the implementation of the new core banking system and the effects of the ongoing digitalisation drive. During the process the Bank particularly considered the possible implications on the financial reporting controls through the ongoing economic crisis.

The Bank adopted SLFRS 9 from 1 January 2018 and made an assessment of the objective of the business model and classification of financial assets as it best reflects the way the business is managed and information is provided to the Management.

With the introduction of "expected credit loss" under SLFRS 9, the Bank developed models to calculate Expected Credit Losses (ECLs). A number of key assumptions were made by the Bank in applying the requirements of SLFRS 9 to the models

DIRECTORS' STATEMENT OF INTERNAL CONTROLS

including selection and input of forward looking information. These models are inherently complex and judgment is applied in determining the correct construction of the same. These models were developed over the past years and reviewed by the management and amendments were made to the initial assumptions where necessary to reflect the recent and updated data and such amendments made were independently reviewed by External Auditors. The Committee reviewed the related Policies on principles, methodologies and assumptions during the year 2022 with consideration of elevated risks due to implications from the pandemic and the economic crisis, and applied the moratorium scheme while aligning with the governing requirements. Further related changes were reviewed and approved by the Board Audit Committee and the Board.

The Bank continues to focus on strengthening the review and testing process of the models developed and the Bank's Internal Audit Department also will continue to review the same with more focus and a robust approach in the future.

The computation of impairment losses from loans and receivables have not been automated yet. Considering the complexity and level of estimation involved in this process, the Bank is in the process of evaluating the options available for automation. This evaluation process will also address the new parameter requirements, level of integration with the Core Systems and 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 2021 were reviewed during the year and appropriate steps have been taken to rectify the same.

The recommendations made by the External Auditors in the financial year ended to 31 December 2022 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, Messrs KPMG, have reviewed the above Directors' statement on Internal Control over financial reporting for the year ended 31 December 2022 and reported that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system over financial reporting of the Bank. Their independent assurance report on the "Directors' Statement of Internal Control Over Financial Reporting" is given on page 192 of this Annual Report.

By Order of the Board,

H A J DE SILVA WIJEYERATNE
CHAIRMAN – AUDIT COMMITTEE

J DURAIRATNAM
CHAIRMAN – BOARD OF DIRECTORS

N H T I PERERA
DIRECTOR/CHIEF EXECUTIVE OFFICER
17 February 2023

INDEPENDENT ASSURANCE REPORT

KPMG
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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 2022.

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.

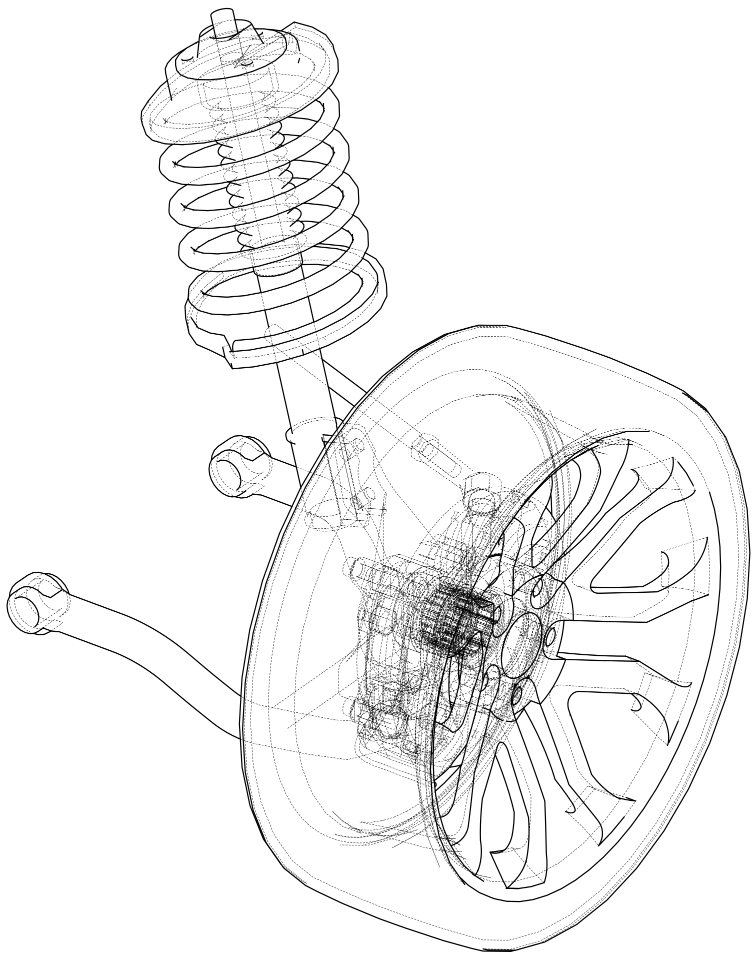
(g) Obtained written representations from Directors on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

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 189 to 191 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 2023



FINANCIAL REPORTS

FINANCIAL CALENDAR

2022

LKR 3.00 per share Final Dividend for 2021 paid on	15 March 2022
Audited Financial Statements signed on	17 February 2023
67th Annual General Meeting to be held on	30 March 2023
First and Final Dividend of LKR 2.00 per share by way of Scrip Dividend for 2022	by 15 March 2023
1st Quarter Interim Results released on	12 May 2022
2nd Quarter Interim Results released on	8 August 2022
3rd Quarter Interim Results released on	14 November 2022

Proposed Financial Calendar 2023

1st Quarter Interim Results to be released in	May 2023
2nd Quarter Interim Results to be released in	August 2023
3rd Quarter Interim Results to be released in	November 2023
68th Annual General Meeting to be held in	March 2024

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

The Auditors' Report sets out the respective responsibilities of the Directors and Auditors relating to the Financial Statements and this Statement provides additional information.

The Directors are required by relevant statutory provisions to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank and the Group for that year. The statutory provisions are in the Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988 and amendments thereto. The application of principal qualitative characteristics and appropriate accounting standards and regulatory requirements inclusive of specific disclosures would result in financial statements that convey a true and fair view of financial information and financial position.

The Directors are satisfied that the Bank and Group have the resources to continue in business for the foreseeable future and therefore, these financial statements are prepared on a going concern basis.

The financial statements for the year ended 31 December 2022 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 179 to 182.

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 196.

By Order of the Board,

MS N RANARAJA
COMPANY SECRETARY
Colombo
17 February 2023

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 2022 are prepared and presented in compliance with the requirements of the following:

- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka),
- Companies Act No. 07 of 2007,
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995,
- Banking Act No. 30 of 1988 (as amended),
- Listing Rules of the Colombo Stock Exchange,
- Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka (as amended from time to time), and
- Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka.

The formats used in the preparation of the financial statements and disclosures made comply with the formats prescribed by the Central Bank of Sri Lanka.

Financial statements are prepared in compliance with the Sri Lanka Financial Reporting Standards (SLFRS) issued by The Institute of Chartered Accountants of Sri Lanka, Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988 as amended and Directions issued thereunder relating to financial statements formats and disclosure of information.

The accounting policies used in the preparation of the financial statements are appropriate and are consistently applied by the Group. There are no departures from the prescribed accounting standards in their adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation. The Board of Directors and the Management of the Bank accept responsibility for the integrity and objectivity of these financial statements. The estimates and judgements relating to the financial statements were made on a prudent and reasonable basis, in order that the financial statements reflect a 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 2022, as required by the Banking Act Direction No. 11 of 2007, result of which is given on pages 189 to 191 in the Annual Report, the "Directors' Statement on Internal Control". External Auditors' Independent Assurance Report on the "Directors' Statement on Internal Control" is given on page 192 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 179 to 182.

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 56.2 to the financial statements in this Annual Report.
- all taxes, duties, levies and all statutory payments payable by the Group and the Bank and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Group and the Bank as at 31 December 2022 have been paid or were relevant provided for.

N H T I PERERA
DIRECTOR/CHIEF EXECUTIVE OFFICER

CHINTHIKA AMARASEKARA
CHIEF FINANCIAL OFFICER
Colombo
17 February 2023

INDEPENDENT AUDITORS' REPORT

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

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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 2022, 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 202 to 355 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 2022, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka ("Code of Ethics") that are related to our audit of financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Bank financial statements and the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the Bank's Financial Statements and the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITORS' REPORT

KPMG

Allowances for Expected Credit Losses

Refer to Note 4 (Use of judgements and estimates), Note 17 (impairment for loans and other losses), and Note 31 (Financial assets at amortised cost – Loans to and receivables from other customers) to these financial statements.

Risk Description	Our response
As disclosed in Note 31 to these financial statements, the Bank has recorded loans to and receivables from other customers of LKR 402,975 Mn as at 31 December 2022. High degree of complexity and judgments are involved in estimating individual and collective impairment of LKR 33,903 Mn as at that date. Allowance for expected credit losses is a key audit matter due to the significance of the loans to and receivables balance to the financial statements and the inherent complexity of the Bank's Expected Credit Loss (ECL) models used to measure ECL allowances. These models are reliant on data and a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk (SICR). SLFRS 9 Financial Instruments requires the Bank to measure ECLs on a forward-looking basis reflecting a range of economic conditions. Post-model adjustments are made by the Bank to address known ECL model limitations or emerging trends in the loan portfolios. We exercise significant judgement in challenging the economic scenarios used and the judgmental post model adjustments the Bank applies to the ECL results. Additional subjectivity and judgement have been introduced into the Bank's measurement of ECL due to the heightened uncertainty associated with the impact of the economic outlook to the Bank's customers, increasing our audit effort thereon. 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. Additionally, allowances for individually significant loans exceeding specific thresholds are individually assessed by the Bank. We exercise significant judgment in challenging the assessment of specific allowances based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the Bank in respect of the loans.	Our audit procedures for the allowances for ECL included: Testing key controls of the Bank in relation to: • Reconciliation of the data used in the ECL calculation process to gross balances recorded in the general ledger as well as source systems; • IT system controls for days past due, and non-performing loan classification. • Approvals for key assumptions *Assessing impairment for individually significant customers* Selecting a sample of larger customers where impairment indicators have been identified by management and assessed as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Bank as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions and in particular considering the potential implications of prevailing economic conditions). Obtaining management's assessment of the recoverability of these exposures (including individual impairment calculations) and assessed whether individual impairment provisions were appropriate. **This included the following procedures:** • Assessing the recoverability of the forecasted cash flows by comparing them to the historical performance of the customers and the expected future performance where applicable. • Assessing external collateral valuer's credentials and comparing external valuations to values used in management's impairment assessments. • Exercising our 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. • For a sample of customers loans which were not identified as displaying indicators or impairment by management, we reassessed the conclusions made by the management by reviewing the historical performance of the customers and formed our own view whether any impairment indicators were present. *Assessing the adequacy of collectively assessed provisions* We tested key controls of the Bank in relation to: • The ECL model governance and validation processes. • The assessment and approval of the forward-looking macroeconomic assumptions and scenario weightings, trends in the credit risk concentration of specific portfolios and our understanding of economic conditions. As part of this work we assessed the reasonableness of the Bank's considerations of the prevailing economic uncertainties.

INDEPENDENT AUDITORS' REPORT

Risk Description	Our response
The disclosures regarding the Bank's application of SLFRS 9 are key to explaining the key judgements and material inputs to the SLFRS 9 ECL results.	Our further audit procedures included; • Assessing the ongoing effectiveness of the SICR criteria and independently calculated the loans' stage. In addition, we assessed the reasonableness of the Bank's treatment to address ongoing economic crisis. • Challenging the key assumptions in the components of the Bank's post-model adjustments to the ECL allowance balance. This included assessing the requirement for additional allowances considering the Bank's ECL model data limitations, and estimation uncertainties particularly in light of the extreme volatility in economic scenarios caused by prevailing economic uncertainties. • Working with our own specialists, we assessed the reasonability of the adjustments made by the Bank to the forward looking macro-economic factors and assumptions used in the ECL model. • Assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the loan portfolios against the Bank's assessment. Assessing the appropriateness of the Bank's disclosures in the financial report using our understanding obtained from our testing and against the requirements of the Sri Lanka Accounting Standards.

New IT System and Controls Over Financial Reporting

Risk Description	Our response
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 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: • Assessing the governance and higher-level controls in place across the IT Environment, including the approach to Group policy design, review and awareness, and IT Risk Management practices. • Obtaining an understanding and testing operating effectiveness of the key controls operating over the information technology in relation to financial accounting and reporting systems, including system access and system change management, program development and computer operations. • Data integrity of key system reporting used by us in our audit to select samples and analyse data used by management to generate financial statements. • On sample basis, re-performed selected automated computations and compared our results with those from the system and the general Ledger;

INDEPENDENT AUDITORS' REPORT

KPMG

Risk Description	Our response
	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 Auditors' Report thereon.

Our opinion on the Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITORS' REPORT

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit.
We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence,' and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this Independent Auditors' Report is 3272.

CHARTERED ACCOUNTANTS
COLOMBO, SRI LANKA
17 February 2023

INCOME STATEMENT

For the year ended 31 December	Note	Page No.	BANK 2022 LKR '000	BANK 2021 LKR '000	GROUP 2022 LKR '000	GROUP 2021 LKR '000
Gross income	10	256	73,008,272	42,648,762	73,520,140	43,029,280
Interest income			67,460,357	36,599,000	67,464,328	36,599,512
Interest expenses			41,391,046	23,946,256	41,317,083	23,918,895
Net interest income	11	257	26,069,311	12,652,744	26,147,245	12,680,617
Fee and commission income			3,643,039	2,888,346	3,641,487	2,887,711
Fee and commission expenses			766,002	292,468	766,002	292,468
Net fee and commission income	12	259	2,877,037	2,595,878	2,875,485	2,595,243
Net (loss)/gain from trading	13	261	(213,103)	436,675	(213,103)	436,675
Net gain/(loss) from financial instruments at fair value through profit or loss	14	261	276,319	(247,268)	276,319	(247,268)
Net gains from derecognition of financial assets	15	262	99,112	1,391,008	99,112	1,391,008
Net other operating income	16	262	1,742,548	1,581,002	2,251,996	1,961,642
Total operating income			30,851,224	18,410,038	31,437,054	18,817,917
Impairment for loans and other losses	17	263	17,041,471	4,485,288	17,058,972	4,485,288
Net operating income			13,809,753	13,924,750	14,378,082	14,332,629
Operating expenses						
Personnel expenses	18	271	4,444,212	3,897,725	4,678,123	4,078,512
Depreciation and amortisation	19	273	1,124,666	1,023,851	1,188,433	1,074,173
Other expenses	20	273	4,548,101	3,459,642	4,478,732	3,400,862
Operating profit before taxes on financial services			3,692,774	5,543,532	4,032,794	5,779,082
Taxes on financial services	21	274	1,253,301	1,217,068	1,253,301	1,217,068
Operating profit after taxes on financial services			2,439,473	4,326,464	2,779,493	4,562,014
Share of profits of associate and joint venture			–	–	332,719	296,662
Profit before income tax			2,439,473	4,326,464	3,112,212	4,858,676
Income tax expense	22	275	(73,879)	1,104,601	70,301	1,193,565
Profit for the year			2,513,352	3,221,863	3,041,911	3,665,111
Profit attributable to:						
Equity holders of the Bank			2,513,352	3,221,863	2,932,475	3,548,938
Non-controlling interests			–	–	109,436	116,173
Profit for the year			2,513,352	3,221,863	3,041,911	3,665,111
Earnings per share						
Basic/diluted earnings per ordinary share (LKR)	23	278	6.75	10.14	7.88	11.17

The notes to the financial statements from pages 211 to 355 form part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	BANK		GROUP	
For the year ended 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Profit for the year	2,513,352	3,221,863	3,041,911	3,665,111
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 (FVTOCI debt instrument):				
Net change in fair value	1,060,332	(2,469,369)	1,060,332	(2,469,384)
Reclassified to income statement	(257,535)	(2,062,305)	(257,535)	(2,062,305)
Share of other comprehensive income of equity accounted joint venture and associate	–	–	440,917	61,748
Movement in hedging reserve:				
Cash flow hedges – effective portion of changes in fair value	20,807,094	673,546	20,807,094	673,546
Cash flow hedges – reclassified to income statement	(20,208,750)	(795,779)	(20,208,750)	(795,779)
Related deferred tax (Note 22.2)	(198,904)	1,142,242	(198,904)	1,142,242
Total other comprehensive income/(expenses) that are or may be reclassified subsequently to income statement	1,202,237	(3,511,665)	1,643,154	(3,449,932)
Items that will not be reclassified to income statement				
Gains/(Losses) on remeasurements of defined benefit liability/(asset)	325,828	(59,388)	332,442	(56,323)
Equity investments at FVTOCI – Net change in fair value	(4,505,992)	(35,606)	(4,494,947)	(35,599)
Share of other comprehensive (expenses)/income of equity accounted associate and joint venture	–	–	(1,067)	1,108
Related deferred tax (Note 22.2)	(155,492)	4,204	(157,477)	4,277
Total other comprehensive expenses on items that will not be reclassified to income statement	(4,335,656)	(90,790)	(4,321,049)	(86,537)
Other comprehensive expenses for the year, net of tax	(3,133,419)	(3,602,455)	(2,677,895)	(3,536,469)
Total comprehensive (expenses)/income for the year	(620,067)	(380,592)	364,016	128,642
Total comprehensive (expenses)/income attributable to:				
Equity holders of the Bank	(620,067)	(380,592)	254,238	12,173
Non-controlling interests	–	–	109,778	116,469
Total comprehensive (expenses)/income for the year	(620,067)	(380,592)	364,016	128,642

The notes to the financial statements from pages 211 to 355 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Page No.	BANK 2022 LKR '000	BANK 2021 LKR '000	GROUP 2022 LKR '000	GROUP 2021 LKR '000
Assets						
Cash and cash equivalents	26	284	16,122,565	10,688,255	16,126,635	10,690,873
Balances with Central Bank of Sri Lanka	27	284	9,030,868	9,359,241	9,030,868	9,359,241
Placements with banks	28	285	15,224,692	6,288,006	15,242,493	6,332,533
Derivative financial assets	29	285	20,473,544	280,235	20,473,544	280,235
Financial assets measured at fair value through profit or loss	30	288	1,429,149	218,875	1,429,149	218,875
Financial assets at amortised cost – Loans to and receivables from other customers	31	290	369,072,030	365,900,540	369,072,030	365,900,540
Financial assets at amortised cost – Debt and other instruments	32	295	50,947,926	26,674,962	50,947,926	26,674,962
Financial assets measured at fair value through other comprehensive income	33	298	63,319,060	54,329,436	63,319,060	54,333,429
Investments in subsidiaries	34	302	237,035	217,436	–	–
Investments in associate	35	303	33,169	35,270	35,394	35,608
Investments in joint venture	36	305	755,000	755,000	3,577,701	2,804,871
Investment property	37	307	9,879	9,879	439,973	469,841
Property, plant and equipment	38	308	3,198,553	3,237,124	3,389,441	3,389,102
Intangible assets and goodwill	39	312	2,198,042	2,227,577	2,375,055	2,408,816
Deferred tax assets	40	315	4,137,828	1,358,895	4,143,535	1,358,895
Other assets	41	317	9,737,079	3,924,505	9,920,180	3,998,987
Asset held for sale	42	319	–	–	–	–
Total assets			565,926,419	485,505,236	569,522,984	488,256,808
Liabilities						
Due to banks	43	320	15,857,994	3,844,701	15,857,994	3,844,701
Derivative financial liabilities	29	285	84,670	814,219	84,670	814,219
Financial liabilities at amortised cost – Due to depositors	44	320	370,314,026	319,861,013	369,746,855	319,362,372
Financial liabilities at amortised cost – Due to other borrowers	45	322	81,145,692	69,094,264	81,145,692	69,094,264
Debt securities in issue	46	322	16,304,115	16,297,256	16,304,115	16,297,256
Employee benefits	47	324	591,550	688,598	615,849	716,477
Current tax liabilities	48	332	2,479,562	951,645	2,575,008	1,031,557
Deferred tax liability	40	315	–	–	149,608	112,514
Other liabilities	49	332	10,027,872	6,580,166	10,322,400	6,831,147
Subordinated term debt	50	333	18,399,991	18,387,276	18,399,991	18,387,276
Total liabilities			515,205,472	436,519,138	515,202,182	436,491,783

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Page No.	BANK 2022 LKR '000	BANK 2021 LKR '000	GROUP 2022 LKR '000	GROUP 2021 LKR '000
Equity						
Stated capital	51	335	13,182,025	8,600,457	13,182,025	8,600,457
Statutory reserve	52	336	2,874,968	2,746,968	2,874,968	2,746,968
Retained earnings	53	336	22,600,898	22,091,649	26,731,857	25,831,589
Other reserves	54	337	12,063,056	15,547,024	11,225,802	14,268,853
Total equity attributable to equity holders of the Bank			50,720,947	48,986,098	54,014,652	51,447,867
Non-controlling interests	55	338	–	–	306,150	317,158
Total equity			50,720,947	48,986,098	54,320,802	51,765,025
Total equity and liabilities			565,926,419	485,505,236	569,522,984	488,256,808
Contingent liabilities and commitments	56	339	169,132,507	144,277,788	169,132,507	144,277,788
Net asset value per share, LKR			125.96	152.83	134.14	160.51

The notes to the financial statements from pages 211 to 355 form part of these financial statements.

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

Amarasekara

CHINTHIKA AMARASEKARA
CHIEF FINANCIAL OFFICER

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

For and on behalf of the Board of Directors,

J DURAIRATNAM
CHAIRMAN

THIMAL PERERA
DIRECTOR/CHIEF EXECUTIVE OFFICER

Colombo
17 February 2023

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 2021	7,682,465	2,583,968	5,882,811	(224,095)	13,779,839	19,652,169	49,357,157
Profit for the year	–	–	–	–	–	3,221,863	3,221,863
Other comprehensive expenses net of tax	–	–	(3,441,924)	(105,347)	–	(55,184)	(3,602,455)
Total comprehensive (expenses)/ income for the year	–	–	(3,441,924)	(105,347)	–	3,166,679	(380,592)
Transfers	–	163,000	–	–	–	(163,000)	–
Transfer of gains/(losses) on disposal/write-off of equity investments at fair value through other comprehensive income to retain earnings	–	–	(344,260)	–	–	344,260	–
Transactions with equity holders of the Bank, recognised directly in equity							
Forfeiture of unclaimed dividends	–	–	–	–	–	9,533	9,533
Final dividend for 2020 – Scrip	917,992	–	–	–	–	(917,992)	–
Total contributions from and distribution to equity holders	917,992	–	–	–	–	(908,459)	9,533
Balance as at 31 December 2021	8,600,457	2,746,968	2,096,627	(329,442)	13,779,839	22,091,649	48,986,098
Balance as at 1 January 2022	8,600,457	2,746,968	2,096,627	(329,442)	13,779,839	22,091,649	48,986,098
Adjustment on surcharge tax (Note 22.4)	–	–	–	–	–	(1,232,490)	(1,232,490)
Adjusted balance as at 1 January 2022	8,600,457	2,746,968	2,096,627	(329,442)	13,779,839	20,859,159	47,753,608
Profit for the year	–	–	–	–	–	2,513,352	2,513,352
Other comprehensive (expenses)/income, net of tax	–	–	(3,748,604)	444,849	–	170,336	(3,133,419)
Total comprehensive (expenses)/income for the year	–	–	(3,748,604)	444,849	–	2,683,688	(620,067)
Transfers	–	128,000	–	–	–	(128,000)	–
Transfer of gains/(losses) on disposal/write-off of equity investments at fair value through other comprehensive income to retain earnings	–	–	(180,213)	–	–	180,213	–
Transactions with equity holders of the Bank, recognised directly in equity							
Rights issue	3,620,001	–	–	–	–	(36,089)	3,583,912
Forfeiture of unclaimed dividends	–	–	–	–	–	3,494	3,494
Final dividend for 2021 – Scrip	961,567	–	–	–	–	(961,567)	–
Total contributions from and distribution to equity holders	4,581,568	–	–	–	–	(994,162)	3,587,406
Balance as at 31 December 2022	13,182,025	2,874,968	(1,832,190)	115,407	13,779,839	22,600,898	50,720,947

The notes to the financial statements from pages 211 to 355 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Attributable to the equity holders of the Bank									
		Statutory reserves	Other reserves							
	Stated capital LKR '000	Reserve fund LKR '000	Fair value reserve LKR '000	Exchange equalisation reserve LKR '000	Hedging reserve LKR '000	General reserve LKR '000	Retained earnings LKR '000	Total LKR '000	Non-controlling interests LKR '000	Total LKR '000
Group										
Balance as at 1 January 2021	7,682,465	2,583,968	4,439,846	103,054	(224,095)	13,779,839	23,061,084	51,426,161	282,589	51,708,750
Profit for the year	–	–	–	–	–	–	3,548,938	3,548,938	116,173	3,665,111
Other comprehensive (expense)/income net of tax	–	–	(3,440,331)	60,147	(105,347)	–	(51,234)	(3,536,765)	296	(3,536,469)
Total comprehensive (expense)/income for the year	–	–	(3,440,331)	60,147	(105,347)	–	3,497,704	12,173	116,469	128,642
Transfers	–	163,000	–	–	–	–	(163,000)	–	–	–
Transfer of gains/(losses) on disposal/write-off of equity investments at fair value through other comprehensive income to retain earnings	–	–	(344,260)	–	–	–	344,260	–	–	–
Transactions with equity holders of the Bank, recognised directly in equity										
Forfeiture of unclaimed dividends	–	–	–	–	–	–	9,533	9,533	–	9,533
Final dividend 2020 – Scrip	917,992	–	–	–	–	–	(917,992)	–	–	–
Dividend distributed to non-controlling interest by subsidiaries	–	–	–	–	–	–	–	–	(81,900)	(81,900)
Total contributions from and distribution to equity holders	917,992	–	–	–	–	–	(908,459)	9,533	(81,900)	(72,367)
Balance as at 31 December 2021	8,600,457	2,746,968	655,255	163,201	(329,442)	13,779,839	25,831,589	51,447,867	317,158	51,765,025
Balance as at 1 January 2022	8,600,457	2,746,968	655,255	163,201	(329,442)	13,779,839	25,831,589	51,447,867	317,158	51,765,025
Adjustment on surcharge tax (Note 22.4)	–	–	–	–	–	–	(1,274,906)	(1,274,906)	(34,986)	(1,309,892)
Adjusted balance at 1 January 2022	8,600,457	2,746,968	655,255	163,201	(329,442)	13,779,839	24,556,683	50,172,961	282,172	50,455,133
Profit for the year	–	–	–	–	–	–	2,932,475	2,932,475	109,436	3,041,911
Other comprehensive (expenses)/income, net of tax	–	–	(3,737,559)	440,917	444,849	–	173,556	(2,678,237)	342	(2,677,895)
Total comprehensive (expense)/income for the year	–	–	(3,737,559)	440,917	444,849	–	3,106,031	254,238	109,778	364,016
Transfers	–	128,000	–	–	–	–	(128,000)	–	–	–
Transfer of gains/(losses) on disposal/write-off of equity investments at fair value through other comprehensive income to retain earnings	–	–	(191,258)	–	–	–	191,258	–	–	–
Transactions with equity holders of the Bank, recognised directly in equity										
Rights issue	3,620,001	–	–	–	–	–	(36,089)	3,583,912	–	3,583,912
Forfeiture of unclaimed dividends	–	–	–	–	–	–	3,494	3,494	–	3,494
Change in holding through joint venture	–	–	–	–	–	–	47	47	–	47
Final dividend for 2021 – Scrip	961,567	–	–	–	–	–	(961,567)	–	–	–
Dividend distributed to non-controlling interest by subsidiaries	–	–	–	–	–	–	–	–	(85,800)	(85,800)
Total contributions from and distribution to equity holders	4,581,568	–	–	–	–	–	(994,115)	3,587,453	(85,800)	3,501,653
Balance as at 31 December 2022	13,182,025	2,874,968	(3,273,562)	604,118	115,407	13,779,839	26,731,857	54,014,652	306,150	54,320,802

The notes to the financial statements from pages 211 to 355 form part of these financial statements.

STATEMENT OF CASH FLOWS

		BANK		GROUP	
For the year ended 31 December	Note	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Cash flows from operating activities					
Interest receipts		53,603,227	29,236,733	53,608,427	29,237,450
Interest payments		(34,013,778)	(24,670,396)	(33,952,168)	(24,647,946)
Net commission receipts		3,683,160	2,755,472	3,683,160	2,755,472
Net trading income		28,469	159,859	28,469	159,859
Recoveries from loans previously written-off		162,518	66,380	162,518	66,380
Receipts from other operating activities		527,653	453,633	1,077,113	1,074,363
Payments on other operating activities		(5,308,678)	(3,049,870)	(5,044,500)	(3,049,870)
Cash payments to employees		(4,660,084)	(3,167,398)	(5,080,846)	(3,595,460)
Taxes on financial services		(1,173,413)	(1,295,997)	(1,173,413)	(1,295,997)
Operating cash flows before changes in operating assets and liabilities		12,849,074	488,416	13,308,760	704,251
(Increase)/decrease in operating assets:					
Balances with Central Bank/deposits held for regulatory or monetary control purposes		1,569,108	(4,457,488)	1,569,108	(4,457,488)
Financial assets at amortised cost – Loans to and receivables from other customers		29,673,313	(63,909,924)	29,673,313	(63,909,924)
Others		(6,847,527)	1,711,343	(6,880,994)	2,085,675
Increase/(decrease) in operating liabilities:					
Financial liabilities at amortised cost – Due to depositors		10,101,883	10,583,256	9,626,584	10,217,972
Negotiable certificates of deposit		(412,141)	(148,495)	(412,141)	(148,495)
Others		(991,234)	(1,978,684)	(1,058,272)	(1,981,879)
Net cash flows from/(used in) operating activities before income tax		45,942,476	(57,711,576)	45,826,358	(57,489,888)
Surcharge tax paid	22.4	(1,232,490)	–	(1,309,892)	–
Income tax paid	48	(1,531,378)	(1,621,286)	(1,630,622)	(1,681,790)
Net cash flows from/(used in) operating activities		43,178,608	(59,332,862)	42,885,844	(59,171,678)

STATEMENT OF CASH FLOWS

		BANK		GROUP	
For the year ended 31 December	Note	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Cash flows from investing activities					
Dividends received from investment in subsidiaries, joint venture, and associate	16	89,861	89,277	–	–
Dividends received from other investments		695,331	685,279	695,331	685,272
Interest received		7,634,028	8,319,018	7,709,136	8,344,267
Government securities – net		(30,362,319)	34,680,263	(30,362,319)	34,680,263
Proceeds from sale and redemption of securities		700,697	7,279,798	715,734	7,295,398
Purchase of financial investments		(1,342,486)	(6,888,634)	(1,359,957)	(6,888,634)
Purchase of property, equipment, intangibles and investment property	38 to 39	(1,050,400)	(1,534,126)	(1,114,992)	(1,538,703)
Proceeds from sale of equipment, investment property and others		12,469	39,513	12,469	45,099
Net cash flows (used in)/from investing activities		(23,622,819)	42,670,388	(23,704,598)	42,622,962
Cash flows from financing activities					
Redemption of debentures		-	(956,860)	-	(956,860)
Issue of new shares under rights issue	51	3,620,001	-	3,620,001	-
Borrowing, medium and long-term		4,834,232	35,207,755	4,834,232	35,207,755
Other borrowings – net		12,771,705	(8,210,119)	12,771,705	(8,210,119)
Repayment of borrowing, medium and long-term		(26,410,731)	(15,540,186)	(26,410,731)	(15,540,186)
Dividends paid		-	(506)	(85,800)	(89,399)
Net Cash flows (used in)/from financing activities		(5,184,793)	10,500,084	(5,270,593)	10,411,191
Net increase/(decrease) in cash and cash equivalents		14,370,996	(6,162,390)	13,910,653	(6,137,525)
Cash and cash equivalents at the beginning of year		16,976,261	23,138,651	17,458,475	23,160,931
Cash and cash equivalents at the end of year		31,347,257	16,976,261	31,369,128	17,023,406
Reconciliation of cash and cash equivalents with items reported in the statement of financial position					
Cash and cash equivalents	22.4	16,122,565	10,688,255	16,126,635	10,690,873
Placements with banks	48	15,224,692	6,288,006	15,242,493	6,332,533
		31,347,257	16,976,261	31,369,128	17,023,406

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 211 to 355 form part of these financial statements.

STATEMENT OF CASH FLOWS

RECONCILIATION OF PROFIT FOR THE YEAR TO OPERATING CASH FLOWS BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES

	Note	BANK		GROUP	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Profit before income tax		2,439,473	4,326,464	3,112,212	4,858,676
Add/(deduct) items not using (providing) cash:		18,605,282	5,508,670	18,342,253	5,267,182
Depreciation					
– Property plant and equipment and investment property	19	400,320	415,353	455,785	458,900
– Right-of-use assets	19	309,678	287,629	309,678	287,629
Amortisation –					
Intangible assets	19	414,668	320,869	422,970	327,644
Accretion of interest on right of use assets	11.1.2	141,899	137,425	141,899	137,425
Unrealised loss/(gain) on Trading securities	13	239,223	(37,946)	239,223	(37,946)
Net loss from financial instruments at fair value					
Contracts with commercial banks	14	(299,859)	217,548	(299,859)	217,548
Foreign exchange loss/(gain)	16,13	170,534	(340,140)	151,953	(341,501)
Impairment for loans and other losses	17	17,041,471	4,485,288	17,058,972	4,485,288
Share of profits of associate and joint venture		–	–	(332,719)	(296,662)
Provision for defined benefit plans	18	187,348	22,644	194,351	28,857
Deduct items reported under investing activities		(10,592,564)	(9,663,457)	(10,502,704)	(9,581,177)
Dividend income		(1,209,113)	(1,043,071)	(1,119,252)	(953,794)
Gains on sale of Government securities	15	(99,112)	(1,325,748)	(99,112)	(1,325,748)
Gain on sale of equity securities	15	–	(65,260)	–	(65,260)
Gain on sale of property, plant and equipment	16	(8,744)	13,807	(8,744)	1,696
Interest income from investments		(9,275,595)	(7,243,185)	(9,275,596)	(7,238,071)
Deduct changes in operating assets and liabilities:		2,396,883	316,739	2,356,999	159,570
Decrease/(increase) in account receivables		(4,885,553)	593,481	(5,028,509)	593,685
Increase/(decrease) in account payables		7,282,436	(276,742)	7,385,508	(434,115)
Operating cash flows before changes in operating assets and liabilities		12,849,074	488,416	13,308,760	704,251

The notes to the financial statements from pages 211 to 355 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting Entity

1.1 Corporate Information

DFCC Bank PLC ("Bank") is a limited liability public company incorporated and domiciled in Sri Lanka.

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

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

DFCC Bank PLC (DFCC) also obtained a commercial banking license from the Monetary Board of the Central Bank of Sri Lanka in terms of the Banking Act No. 30 of 1988, as amended, and accordingly upon the amalgamation now operates as a licensed commercial bank.

The registered office of the Bank is at 73/5, Galle Road, Colombo 3.

Total staff strength of the Bank and the Group on 31 December 2022 was as follow:

Group	2,097 (31 December 2021 – 2,308)
Bank	1,989 (31 December 2021 – 2,191)

1.2 Consolidated Financial Statements

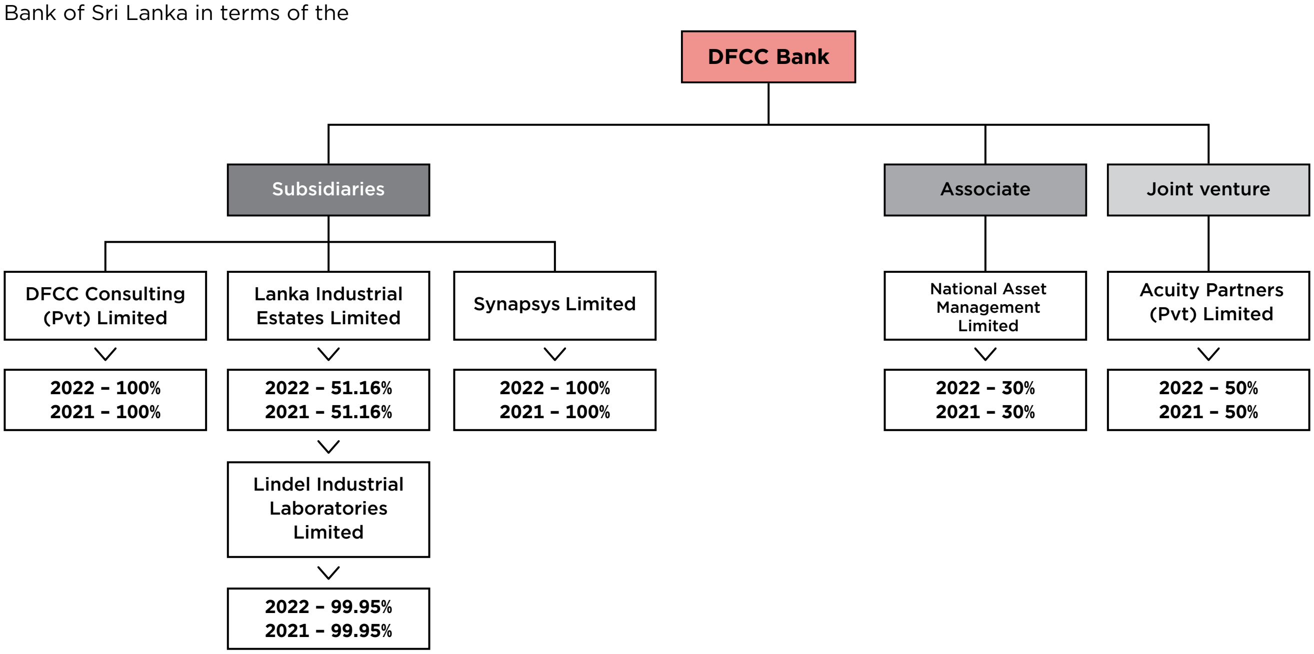
DFCC Bank PLC as the parent of subsidiaries under its control is required to present only the consolidated financial statements as per Sri Lanka Accounting Standard – SLFRS 10 on "Consolidated Financial Statements" and the proportionate share of the profit or loss and net assets of its Associates and 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.



NOTES TO THE FINANCIAL STATEMENTS

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 and its subsidiaries	Leasing of land and buildings to industrial enterprises.
Synapsys Limited	Information technology services and information technology enabled services.
Associate	
National Asset Management Limited and its subsidiaries	Management of Unit Trust and private portfolios.
Joint venture	
Acuity Partners (Pvt) Limited and its subsidiaries and joint ventures	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 2022 were authorised for issue by the Directors on 17 February 2023.

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).

Further, the tax liability arising from the surcharge tax Act No. 40 of 2022 has been accounted as recommended by the Statement of Alternative Treatment (SoAT) issued by The Institute of Chartered Accountants of Sri Lanka.

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 05 on pages 214 to 222.

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 202 and 203).
- a Statement of Financial Position providing information on the financial position of the Group and Bank as at the year end; (Refer page 204).
- a Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Group and Bank; (Refer pages 206 and 207).
- a Statement of Cash Flows providing information to the users, on the ability of the Group and Bank to generate cash and cash equivalents and the needs of the entity to utilise those cash flows; (Refer pages 208 and 210).
- Notes to the financial statements comprising accounting policies and other explanatory information. (Refer pages 211 to 355)

NOTES TO THE FINANCIAL STATEMENTS

The format used in the preparation and presentation of the financial statements 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	288
Derivative financial assets and derivative financial liabilities.	Fair value	29	285
Financial assets measured at fair value through other comprehensive income.	Fair value	33	298

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.	47	324
	Present value of the defined benefit gratuity obligation.	47	324

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 assessment carried out by the Board took into consideration the current economic developments in order to make projections for future economic conditions of the environment in which it operates. The main factors that cause uncertainties regarding the application of this principle relate to the unstable economic environment in the country.

Specifically, the high degree of uncertainty that characterises the internal economic environment led to deterioration in the creditworthiness of corporate and individuals, to an increase of non-performing loans and therefore to the recognition of significant impairment losses by the Bank and by the banking system in general. Based on the above and taking into account the Bank capital adequacy and the ability of the Bank to access the liquidity mechanisms, the Bank estimates that the conditions for the application of the going concern principle for the preparation of its financial statements are met.

2.5 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous year in the financial statements in order to enhance the understanding of the current year's financial statements and to enhance the inter year comparability.

The presentation and classification of the financial statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

3. Functional and Presentation Currency

These consolidated financial statements are presented in Sri Lankan Rupees, which is the Bank's functional currency. All amounts have been rounded to the nearest thousand, except when otherwise indicated.

There was no change in the Group's presentation and functional currency during the year under review.

NOTES TO THE FINANCIAL STATEMENTS

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.

Economic crisis

The economic crisis has impacted the customers, operations and Group performance. The present economic environment necessitated the Government to respond at unprecedented levels to protect the local economy and livelihoods. Uncertainties in the economy have 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 economic crisis 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	263
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	217
Determination of control over investees.	35, 36	303, 305
Derivative Assets	29	285

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, 31	263, 290
Determination of the fair value of financial instruments with significant unobservable inputs.	9.3.1	251
Measurement of defined benefit obligations: key actuarial assumptions.	47.2.2	329
Recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be utilised.	40	315
Impairment testing for Cash Generating Units (CGU) containing goodwill: key assumptions underlying recoverable amounts.	5.4	221
Recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.	56	339
Fair values of the assets held for sale: Determination of fair value less costs to sell on the basis of significant unobservable inputs.	42	319

5. Significant Accounting Policies

The significant accounting policies set out below have been applied consistently to all periods presented in the financial statements of the Group.

These accounting policies have been applied consistently by Group entitles.

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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.

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.

NOTES TO THE FINANCIAL STATEMENTS

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in Income Statement.

5.1.2 Subsidiaries

Details of the Bank's subsidiaries, how they are accounted in the financial statements and their contingencies are set out in Note 34 on pages 302 and 303.

5.1.3 Non-controlling Interests (NCI)

Details of non-controlling interests are given in Note 55 on page 338.

5.1.4 Loss of Control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in income statement. Any interest retained in the former subsidiary is measured at fair value when control is lost.

5.1.5 Interests in Equity-Accounted Investees

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

Details of the Bank's equity-accounted investees, how they are accounted in the financial statements and their contingencies are set out in Note 35 and 36 on pages 303 to 305.

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

NOTES TO THE FINANCIAL STATEMENTS

differences arising from the translation of the following items are recognised in OCI:

- equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- qualifying cash flow hedges to the extent that the hedges are effective

5.2.2 Foreign Operations

The Bank does not have any foreign operations that is a subsidiary, associate, joint venture or a branch. Therefore, there is no exchange differences recognised in other comprehensive income.

5.3 Financial Assets and Financial Liabilities

5.3.1 Recognition and Initial Measurement

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

5.3.2 Classification

5.3.2.1 Financial Assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

5.3.2.1.1 Business Model Assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether Management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's Management;

NOTES TO THE FINANCIAL STATEMENTS

- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

The Group's retail, small and medium enterprises and corporate banking business comprises primarily loans to customers that are held for collecting contractual cash flows. In the retail business the loans comprise mortgages, overdrafts, unsecured personal lending and credit card facilities. Sales of loans from these portfolios are very rare.

Certain debt securities are held by the Group Central Treasury in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The group considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows.

Certain other debt securities are held by the Group Central Treasury in separate portfolios to meet everyday liquidity needs. The Group Central Treasury seeks to minimise the costs of managing these liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual cash flows as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Group considers that these financial assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

5.3.2.1.2 Assessment of Whether Contractual Cash Flows are Solely Payments of Principal and Interest

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

Equity instruments have contractual cash flows that do not meet the SPPI criterion. Accordingly, all such financial assets are measured at FVTPL unless the FVOCI option is selected.

5.3.2.2 Financial Liabilities

On initial recognition, the Bank classifies financial liabilities, other than financial guarantees and loan commitments, into one of the following categories:

- Financial liabilities at amortised cost; and
- Financial liabilities at fair value through profit or loss

5.3.2.2.1 Financial Liabilities at Amortised Cost

Financial liabilities issued by the Bank that are not designated at fair value through profit or loss are recognised initially at fair value plus any directly attributable transaction costs, by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method. Deposit liabilities including savings deposits, current deposits,

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fixed/time deposits, call deposits, certificates of deposit and debentures are classified as financial liabilities measured at amortised cost.

The EIR amortisation is included in "Interest expense" in the Income Statement. Gains and losses too are recognised in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

5.3.2.2.2 Financial Liabilities at Fair Value Through Profit or Loss

Financial liabilities at fair value through profit or loss include derivative liabilities held for risk management purposes.

5.3.3 Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. Financial Liabilities are not reclassified as such reclassification are not permitted by SLFRS 9.

5.3.4 Derecognition

5.3.4.1 Financial Assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in income statement. Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

5.3.4.2 Financial Liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

5.3.5 Modifications of Financial Assets and Financial Liabilities

5.3.5.1 Financial Assets

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in income statement as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are

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amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

5.3.5.2 Financial Liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in income statement. 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 income statement. 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 income statement 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 263.

5.3.9 Designation at Fair Value Through Profit or Loss

On initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI or at FVTPL, if doing so eliminated or significantly reduces an accounting mismatch that would otherwise arise.

The Bank has not designated any financial asset upon initial recognition at fair value through profit or loss as at the reporting date.

5.4 Impairment of Non-Financial Assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognised in income statement. 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 no transactions that are affected by newly effective requirements.

7. Standards Issued but not yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Group has not early adopted the new and amended standards in preparing these consolidated financial statements.

7.1 A. Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases, the associated deferred tax asset and liabilities

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will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

The Bank and Group accounts for deferred tax on leases applying the "integrally linked" approach, resulting in a similar outcome to the amendments, except that the deferred tax impacts are presented net in the statement of financial position.

Under the amendments, the Bank and Group will recognise a separate deferred tax asset and a deferred tax liability. As at 31 December 2022, the taxable temporary difference in relation to the right-of-use asset is LKR 1,382 Mn (Note 38) and the deductible temporary difference in relation to the lease liability is LKR 1,512 Mn (Note 58), resulting in a net deferred tax asset of LKR 40 Mn (Note 40). Under the amendments, the Bank and Group will present a separate deferred tax liability of LKR 415 Mn and a deferred tax asset of LKR 455 Mn. There will be no impact on retained earnings on adoption of the amendments.

B. Other standards

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

- Classification of Liability as Current or Non-current (Amendments to LKAS 1)
- SLFRS 17 Insurance Contracts and amendments to SLFRS 17 Insurance Contracts
- Disclosure of Accounting Policies (Amendments to LKAS 1 and SLFRS Practice Statement 2)
- Definition of Accounting Estimates (Amendments to LKAS 8)
- Lease Liability in a Sale and Leaseback (Amendments to SLFRS 16)

8. Financial Risk Review

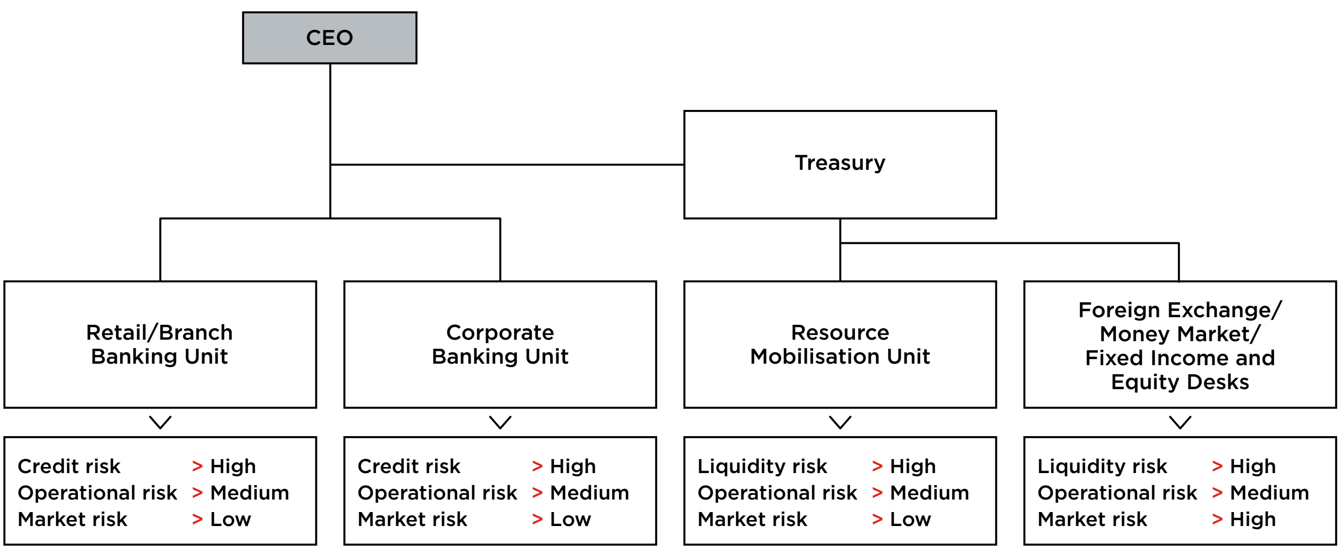
This note presents information about the Bank's exposure to financial risks and the Bank's management of capital.

8.1 Introduction and Overview

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

- credit risk
- liquidity risk
- market risk
- operational risk

The following chart provides a link between the Bank's business units and the principal risks that they are exposed to. The significance of risk is assessed within the context of the Bank as a whole and is measured based on allocation of the regulatory capital within the Bank.



NOTES TO THE FINANCIAL STATEMENTS

This note presents information about the Bank's exposure to each of the above risks, the objectives, policies and processes for measuring and managing such risk.

Risk Management Framework

The Board of Directors has the overall responsibility for the establishment and oversight of the Bank's risk management framework.

The Board Integrated Risk Management Committee (BIRMC) provides the Board, the assurance that risk management strategies, policies and processes are in place to manage events/outcomes that have the potential to impact significantly on earnings performance, reputation and capital.

Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, to monitor risk and to ensure to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank activities. The Bank through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Bank Audit Committee.

8.2 Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Bank's loans and advances to customers and other banks and investment in debt securities.

8.2.1 Settlement Risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. "Settlement risk" is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

8.2.2 Management of Credit Risk

The Board of Directors, BIRMC, and the Credit Committee are responsible for the oversight of credit risk. Management of credit risk includes the following;

1. Formulating credit policies in consultation with business units covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
2. Authority for establishing the authorisation structure for the approval and renewal of credit facilities is vested with the Board of Directors. Authorisation limits are allocated to business unit heads.
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.

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5. Developing and maintaining the Bank's processes for measuring ECL: This includes processes for:
   - initial approval, regular validation and back-testing of the models used;
   - determining and monitoring significant increase in credit risk; and
   - incorporation of forward-looking information.
6. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Bank Credit, which may require appropriate corrective action to be taken. These include reports containing estimates of Expected Credit Loss (ECL) allowances.
7. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to follow Bank credit policies and procedures and each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and Bank credit processes are undertaken by internal audit.

Broader level of credit risk management approaches as described in 1 to 7 above are revised periodically and strengthened as required in line with the regulatory requirements and economic environment. During the year, all relevant policies, guidelines and processes have been reviews and updated accordingly.

8.2.3 Credit Quality Analysis

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

Loans and advances to customers at amortised cost – gross carrying amount

As at 31 December	2022			
In LKR '000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Current	227,418,588	7,450,885	2,128,905	236,998,378
Overdue < 30 days	58,876,794	14,042,076	1,010,958	73,929,828
Overdue > 30 days	–	49,313,022	42,734,602	92,047,624
Total	286,295,382	70,805,983	45,874,465	402,975,830

As at 31 December	**2021**			
In LKR '000	**Stage1**	**Stage2**	**Stage3**	**Total**
Current	231,739,069	2,111,642	2,342,596	236,193,307
Overdue < 30 days	77,364,183	3,144,710	3,291,210	83,800,103
Overdue > 30 days	–	40,356,388	24,608,792	64,965,180
Total	309,103,252	45,612,740	30,242,598	384,958,590

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8.2.3.1 The following table shows an analysis of counterparty credit exposures arising from derivative transactions. Derivative transactions of the Bank are generally fully collateralised by cash. For further discussion of collateral and other credit enhancements:

As at 31 December 2022	Derivative type									
	Forward		SWAP		Spot		Cross currency SWAP		Total	
In LKR '000	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
Derivative financial assets (Note 1)	7,256,643	185,831	59,177,339	20,287,713	29,072	–	–	–	66,463,054	20,473,544
Derivative financial liabilities (Note 2)	7,111,189	(62,011)	38,912,009	(22,606)	29,123	(53)	–	–	46,052,321	(84,670)
Note 1										
Derivative financial assets by counterparty type										
With banks	1,014,500	4,098	59,177,339	20,287,713	29,072	–	–	–	60,220,911	20,291,811
With other customers	6,242,143	181,733	–	–	–	–	–	–	6,242,143	181,733
Total	7,256,643	185,831	59,177,339	20,287,713	29,072	–	–	–	66,463,054	20,473,544
Note 2										
Derivative financial liabilities by counterparty type										
With banks	998,553	(7,545)	38,912,009	(22,606)	29,123	(53)	–	–	39,939,685	(30,204)
With other customers	6,112,636	(54,466)	–	–	–	–	–	–	6,112,636	(54,466)
Total	7,111,189	(62,011)	38,912,009	(22,606)	29,123	(53)	–	–	46,052,321	(84,670)

As at 31 December 2021	Derivative type									
	Forward		SWAP		Spot		Cross currency SWAP		Total	
In LKR '000	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
Derivative financial assets (Note 1)	–	–	45,417,700	206,441	40,976	6	1,371,696	73,788	46,830,372	280,235
Derivative financial liabilities (Note 2)	–	–	45,690,089	(814,193)	40,996	(26)	–	–	45,731,085	(814,219)
Note 1										
Derivative financial assets by counterparty type										
With banks	–	–	45,417,700	206,441	40,976	6	1,371,696	73,788	46,830,372	280,235
With other customers	–	–	–	–	–	–	–	–	–	–
Total	–	–	45,417,700	206,441	40,976	6	1,371,696	73,788	46,830,372	280,235
Note 2										
Derivative financial liabilities by counterparty type										
With banks	–	–	45,690,089	(814,193)	40,996	(26)	–	–	45,731,085	(814,219)
With other customers	–	–	–	–	–	–	–	–	–	–
Total	–	–	45,690,089	(814,193)	40,996	(26)	–	–	45,731,085	(814,219)

NOTES TO THE FINANCIAL STATEMENTS

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	2022		2021	
	Gross loan balance LKR '000	Security value LKR '000	Gross loan balance LKR '000	Security value LKR '000
Stage 1				
Cash collateral	18,971,263	40,521,690	13,700,373	32,428,966
Property, plant and machinery	65,289,880	351,246,265	81,148,479	283,971,161
Treasury guarantee	9,851,579	12,920,891	9,761,892	14,054,807
Others	145,601,278	22,719,434	156,675,101	25,198,860
Unsecured	38,874,768	–	32,702,116	–
Total	278,588,768	427,408,280	293,987,961	355,653,794
Stage 2				
Cash collateral	1,674,779	3,004,663	2,008,907	3,077,989
Property, plant and machinery	19,821,329	82,770,318	13,269,267	46,147,047
Treasury guarantee	–	–	–	–
Others	37,821,508	6,130,047	19,935,954	3,934,887
Unsecured	4,513,543	–	3,305,529	–
Total	63,831,159	91,905,028	38,519,657	53,159,923
Stage 3				
Cash collateral	480,046	1,102,725	348,981	1,076,080
Property, plant and machinery	13,126,419	39,117,082	11,458,713	29,420,878
Treasury guarantee	1,084	1,860	1,169	2,298
Others	22,089,904	71,847	13,570,519	37,616
Unsecured	7,620,547	–	3,309,990	–
Total	43,318,000	40,293,514	28,689,372	30,536,872

The above analysis does not include balances relating to lease rentals receivables, as the Bank holds the absolute ownership of lease assets.

NOTES TO THE FINANCIAL STATEMENTS

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.

	BANK/GROUP	
As at 31 December	2022 LKR '000	2021 LKR '000
LTV ratio		
Stage 1		
Less than 50%	3,803,529	4,063,363
51%-70%	3,301,538	3,590,858
71%-90%	893,429	2,303,450
More than 90%	2,470,955	3,079,027
Total	10,469,451	13,036,698
Stage 2		
Less than 50%	1,018,064	798,948
51%-70%	1,122,642	899,574
71%-90%	573,291	472,597
More than 90%	817,611	368,958
Total	3,531,608	2,540,077
Stage 3		
Less than 50%	688,928	379,664
51%-70%	414,826	462,999
71%-90%	410,020	179,485
More than 90%	385,528	246,450
Total	1,899,302	1,268,598
Carrying amount – amortised cost	15,900,361	16,845,373

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.

NOTES TO THE FINANCIAL STATEMENTS

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

	2022				2021			
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Balance as at 1 January	2,202,668	1,989,584	14,865,798	19,058,050	1,305,740	1,065,570	12,951,966	15,323,276
Transfer to Stage 1	839,493	(665,794)	(173,699)	–	458,386	(310,328)	(148,058)	–
Transfer to Stage 2	(298,877)	418,169	(119,292)	–	(154,222)	406,248	(252,026)	–
Transfer to Stage 3	(73,938)	(259,735)	333,673	–	(53,608)	(142,167)	195,775	–
Net remeasurement of loss allowance	754,086	2,396,757	5,602,375	8,753,218	(386,947)	640,505	1,120,996	1,374,554
New financial assets originated or purchased	1,071,855	1,798,309	2,304,774	5,174,938	1,033,386	329,956	1,108,204	2,471,546
Write-off*			(46,612)	(46,612)	(67)	(200)	(213,315)	(213,582)
Foreign exchange and other movement			964,206	964,206	–	–	102,256	102,256
Balance as at 31 December	4,495,287	5,677,290	23,731,223	33,903,800	2,202,668	1,989,584	14,865,798	19,058,050

*The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2021 and that are still subject to enforcement actively is LKR 186 Mn (year 2022 – Nil).

Financial assets at amortised cost-debt and other instruments – ECL

	2022		2021	
	Stage 1 LKR '000	Total LKR '000	Stage 1 LKR '000	Total LKR '000
Balance at beginning	563,474	563,474	271,515	271,515
Transferred from FVOCI during the year	215,095	215,095	–	–
Transferred to other assets	(607,764)	(607,764)	–	–
Net remeasurement of loss allowance	1,785,267	1,785,267	291,959	291,959
Balance as at 31 December	1,956,072	1,956,072	563,474	563,474

Loan Commitments and financial guarantee contracts

	2022			2021		
	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	576,290	31,962	608,252	343,598	13,292	356,890
Net remeasurement of loss allowance	(56,865)	65,338	8,473	232,692	18,670	251,362
Balance as at 31 December	519,425	97,300	616,725	576,290	31,962	608,252

NOTES TO THE FINANCIAL STATEMENTS

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 time to recover from the current economic turbulence introduces significant estimation uncertainty in relation to the measurement of the Bank's allowance for expected credit losses. The consequences of the tax hike, inflation, high interest rate and high unemployment could result in significant adjustments to the allowance in future financial years.

Given current economic uncertainties and the judgement 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 2022 to a reasonably possible change in PDs, LGDs, and forward-looking information.

	Sensitivity effect on Statement of Financial Position Increase/(Decrease) in impairment provision				
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Sensitivity effect on Income Statement LKR '000
PD 1% increase across all age buckets	1,079,424	489,109	–	1,568,533	1,568,533
PD 1% decrease across all age buckets*	(1,073,020)	(489,107)	–	(1,562,127)	(1,562,127)
LGD 5% increase	330,835	682,733	628,797	1,642,365	1,642,365
LGD 5% decrease	(330,835)	(682,733)	(628,797)	(1,642,365)	(1,642,365)
Probability weighted economic scenarios					
– Worst case 4% decrease and best case 4% Increase	(228,959)	(122,813)	–	(351,772)	(351,772)
– Worst case 4% Increase and best case 1% decrease	34,116	47,360	–	81,476	81,476

* The PD/LGD decrease is capped to 0%, if applicable.

NOTES TO THE FINANCIAL STATEMENTS

8.2.6 Concentration of Credit Risk

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances, loan commitments, financial guarantees and investment securities is shown below:

In LKR '000	Loans and advances to customers		Investment in debt securities		Loan commitments and financial guarantees issued	
As at 31 December	2022	2021	2022	2021	2022	2021
Gross carrying amount	402,975,830	384,958,590	108,625,488	69,014,083	–	–
Amount committed/guaranteed	–	–	–	–	119,355,420	117,609,177
Concentration by sector						
Agriculture, forestry, and fishing	46,546,272	40,827,861	–	–	13,134,553	7,336,743
Manufacturing	78,732,730	68,451,049	–	–	22,662,992	21,669,988
Tourism	19,757,213	16,537,932	–	–	834,987	3,009,414
Transportation and storage	12,053,681	9,379,401	–	–	1,344,685	991,193
Construction	32,713,107	37,306,964	–	–	7,990,817	13,587,240
Infrastructure development	35,197,051	40,393,111	–	–	20,111,494	19,392,260
Wholesale and retail trade	50,128,157	51,206,160	–	–	23,038,508	28,818,181
Information technology and communication services	2,821,899	2,330,228	–	–	1,397,560	1,056,371
Financial services	15,565,468	20,393,853	763,635	879,281	5,406,814	5,302,922
Professional, scientific, and technical activities	3,300,176	3,289,367	–	–	550,583	398,058
Arts, entertainment, and recreation	1,004,770	1,016,926	–	–	114,684	159,239
Education	5,013,693	4,392,320	–	–	144,646	681,853
Health care, social services, and support services	7,296,365	6,107,068	–	–	608,148	690,845
Consumption	68,855,191	68,626,259	–	–	21,651,839	14,313,150
Lending to overseas entities	23,990,057	14,700,091	–	–	363,110	201,720
Government	–	–	107,861,853	68,134,802	–	–
Total	402,975,830	384,958,590	108,625,488	69,014,083	119,355,420	117,609,177

NOTES TO THE FINANCIAL STATEMENTS

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 (statutory minimum is currently 90%) 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	2022	2021
Statutory liquid assets (LKR '000)	122,283,753	124,519,853
Statutory liquid assets ratio (minimum requirement 20%)		
Total Bank Operations (%)	26.36	N/A
Domestic banking unit (%)	–	21.60
Offshore banking unit (%)	–	41.79
Liquidity coverage ratio (minimum requirement 90% in 2022 and 100% in 2021)		
All currencies (%)	202.34	136.18
Rupee only (%)	289.85	152.86

NOTES TO THE FINANCIAL STATEMENTS

8.3.3 Maturity Analysis for Financial Liabilities and Financial Assets

The following tables set out the remaining contractual maturities of the Bank's gross nominal (undiscounted) financial liabilities and financial assets.

As at 31 December 2022 BANK	Carrying amount LKR '000	Gross nominal amount LKR '000	Up to 3 months LKR '000	3 to 12 months LKR '000	1 to 3 years LKR '000	3 to 5 years LKR '000	More than 5 years LKR '000	Total LKR '000
Financial liability by type								
Non-derivative liabilities								
Due to banks	15,857,994	16,002,590	12,099,097	3,903,493	–	–	–	16,002,590
Financial liabilities at amortised cost – Due to depositors	370,314,026	371,179,461	102,958,526	178,524,740	31,799,574	40,851,098	17,045,523	371,179,461
Financial liabilities at amortised cost – Due to other borrowers	81,145,692	81,158,528	4,576,098	10,089,507	27,331,823	25,833,178	13,327,922	81,158,528
Debt securities issued	16,304,115	16,327,016	1,051,031	290,804	8,790,470	1,783,541	4,411,170	16,327,016
Other liabilities	8,101,155	8,847,080	6,165,628	302,682	764,257	604,676	1,009,837	8,847,080
Subordinated term debt	18,399,991	18,420,972	3,604,056	6,215,834	8,396,255	204,827	–	18,420,972
	510,122,973	511,935,647	130,454,436	199,327,060	77,082,379	69,277,320	35,794,452	511,935,647
Derivative liabilities								
Risk management:	84,670	–	–	–	–	–	–	–
Inflows	–	5,202,514	5,202,514	–	–	–	–	5,202,514
Outflow	–	5,290,398	5,290,398	–	–	–	–	5,290,398
Financial assets by type								
Non-derivative assets								
Cash and cash equivalents	16,122,565	16,122,565	16,122,565	–	–	–	–	16,122,565
Balances with Central Bank	9,030,868	9,030,868	9,030,868	–	–	–	–	9,030,868
Placements with banks	15,224,692	15,256,706	15,256,706	–	–	–	–	15,256,706
Financial assets measured at fair value through profit or loss	1,429,149	1,429,149	–	795,434	–	633,715	–	1,429,149
Financial assets at amortised cost – Loans to and receivables from other customers	369,072,030	372,625,730	71,881,473	78,147,256	96,627,094	56,313,580	69,656,327	372,625,730
Financial assets at amortised cost – Debt and other instruments	50,947,926	51,061,990	11,619,357	4,022,483	18,844,407	11,992,192	4,583,551	51,061,990
Financial assets measured at fair value through other comprehensive income	63,319,060	63,319,060	15,208,301	31,774,249	5,798,500	2,079,021	8,458,989	63,319,060
Other assets	7,791,475	7,791,475	2,076,431	203,126	5,274,666	104,057	133,195	7,791,475
	532,937,765	536,637,543	141,195,701	114,942,548	126,544,667	71,122,565	82,832,062	536,637,543
Derivative assets								
Risk management:	20,473,544	–	–	–	–	–	–	–
Inflows	–	48,456,875	3,068,125	2,269,437	18,155,500	18,155,500	6,808,313	48,456,875
Outflows	–	28,062,536	2,811,286	1,262,562	10,100,500	18,155,500	3,787,688	28,062,536

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

Documentary credit		5,629,169	2,041,986	3,587,183	–	–	–	5,629,169
Guarantees		26,029,465	25,365,762	663,703		–	–	26,029,465
Commitments for unutilised credit facilities		87,696,786	87,696,786	-	–	–	–	87,696,786
		119,355,420	115,104,534	4,250,886	–	–	–	119,355,420

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2021 BANK	Carrying amount LKR '000	Gross nominal amount LKR '000	Up to 3 months LKR '000	3 to 12 months LKR '000	1 to 3 years LKR '000	3 to 5 years LKR '000	More than 5 years LKR '000	Total LKR '000
Financial liability by type								
Non-derivative liabilities								
Due to banks	3,844,701	3,844,701	2,490,668	1,354,033	–	–	–	3,844,701
Financial liabilities at amortised cost – Due to depositors	319,861,013	327,681,290	81,601,821	130,346,356	25,433,646	22,937,555	67,361,912	327,681,290
Financial liabilities at amortised cost – Due to other borrowers	69,094,264	83,250,508	11,477,093	8,898,713	16,922,493	15,393,628	30,558,581	83,250,508
Debt securities in issue	16,297,256	24,840,225	475,186	857,065	4,940,183	9,715,044	8,852,747	24,840,225
Other liabilities	4,470,497	4,470,497	2,603,484	180,183	466,470	392,836	827,524	4,470,497
Subordinated term debt	18,387,276	23,616,937	27,223	446,151	11,221,832	11,606,585	315,146	23,616,937
	431,955,007	467,704,158	98,675,475	142,082,501	58,984,624	60,045,648	107,915,910	467,704,158
Derivative liabilities								
Risk management:	814,219	–	–	–	–	–	–	–
inflows	–	33,566,066	3,171,547	5,143,270	6,312,812	18,938,437	–	33,566,066
Outflows	–	34,594,980	3,832,680	5,547,300	6,303,750	18,911,250	–	34,594,980
Financial assets by type								
Non-derivative assets								
Cash and cash equivalents	10,688,255	10,688,255	10,688,255	–	–	–	–	10,688,255
Balances with Central Bank	9,359,241	9,359,241	9,359,241	–	–	–	–	9,359,241
Placements with banks	6,288,006	6,288,006	6,288,006	–	–	–	–	6,288,006
Financial assets measured at fair value through profit or loss	218,875	218,875	218,875	–	–	–	–	218,875
Financial assets at amortised cost – Loans to and receivables from other customers	365,900,540	481,668,878	61,273,808	67,029,941	93,803,084	128,363,162	131,198,883	481,668,878
Financial assets at amortised cost – Debt and other instruments	26,674,962	27,333,991	2,434,964	15,898,873	6,334,236	2,665,918	–	27,333,991
Financial assets measured at fair value through other comprehensive income	54,329,436	54,894,914	16,294,094	10,064,019	7,571,114	4,713,767	16,251,920	54,894,914
Other assets	2,855,254	2,855,254	2,572,622	95,529	45,210	85,755	56,138	2,855,254
	476,314,569	593,307,414	109,129,865	93,088,362	107,753,644	135,828,602	147,506,941	593,307,414
Derivative assets								
Risk management:	280,235	–	–	–	–	–	–	–
Inflows	–	3,758,040	3,758,040	–	–	–	–	3,758,040
Outflows	–	3,928,541	3,928,541	–	–	–	–	3,928,541

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

Documentary credit		21,246,261	13,770,000	7,437,935	38,326	–	–	21,246,261
Guarantees		28,293,247	26,424,315	1,868,932		–	–	28,293,247
Commitments for unutilised credit facilities		68,069,669	68,069,669	–	–	–	-	68,069,669
		117,609,177	108,263,984	9,306,867	38,326	–	–	117,609,177

NOTES TO THE FINANCIAL STATEMENTS

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

As at 31 December 2022 **GROUP**	Carrying amount LKR '000	Gross nominal amount LKR '000	Up to 3 months LKR '000	3 to 12 months LKR '000	1 to 3 years LKR '000	3 to 5 years LKR '000	More than 5 years LKR '000	Total LKR '000
Financial liability by type								
Non-derivative liabilities								
Due to banks	15,857,994	16,002,590	12,099,097	3,903,493	–	–	–	16,002,590
Financial liabilities at amortised cost – Due to depositors	369,746,855	370,958,560	102,958,526	178,303,839	31,799,574	40,851,098	17,045,523	370,958,560
Financial liabilities at amortised cost – Due to other borrowers	81,145,692	81,158,528	4,576,098	10,089,507	27,331,823	25,833,178	13,327,922	81,158,528
Debt securities issue	16,304,115	16,327,016	1,051,031	290,804	8,790,470	1,783,541	4,411,170	16,327,016
Other liabilities	8,288,066	9,033,991	6,088,655	566,566	764,257	604,676	1,009,837	9,033,991
Subordinated term debt	18,399,991	18,420,972	3,604,056	6,215,834	8,396,255	204,827	–	18,420,972
	509,742,713	511,901,657	130,377,463	199,370,043	77,082,379	69,277,320	35,794,452	511,901,657
Derivative liabilities								
Risk management	84,670	–	–	–	–	–	–	–
Inflows	–	5,202,514	5,202,514	–	–	–	–	5,202,514
Outflows	–	5,290,398	5,290,398	–	–	–	–	5,290,398
Financial Assets by type								
Non-derivative assets								
Cash and cash equivalents	16,126,635	16,126,635	16,126,635	–	–	–	–	16,126,635
Balances with Central Bank	9,030,868	9,030,868	9,030,868	–	–	–	–	9,030,868
Placements with banks	15,242,493	15,256,706	15,256,706	–	–	–	–	15,256,706
Financial assets measured at fair value through profit or loss	1,429,149	1,429,149	–	795,434		633,715	–	1,429,149
Financial assets at amortised cost – Loans to and receivables from other customers	369,072,030	372,625,730	71,881,473	78,147,256	96,627,094	56,313,580	69,656,327	372,625,730
Financial assets at amortised cost – Debt and other instruments	50,947,926	51,061,990	11,619,357	4,022,483	18,844,407	11,992,192	4,583,551	51,061,990
Financial assets measured at fair value through other comprehensive income	63,319,060	63,319,060	15,208,301	31,774,249	5,798,500	2,079,021	8,458,989	63,319,060
Other assets	7,957,934	7,957,934	2,076,429	369,587	5,274,666	104,057	133,195	7,957,934
	533,126,095	536,808,072	141,199,769	115,109,009	126,544,667	71,122,565	82,832,062	536,808,072
Derivative assets								
Risk management	20,473,544	–	–	–	–	–	–	–
Inflows	–	48,456,875	3,068,125	2,269,437	18,155,500	18,155,500	6,808,313	48,456,875
Outflows	–	28,062,536	2,811,286	1,262,562	10,100,500	10,100,500	3,787,688	28,062,536

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As at 31 December 2021 GROUP	Carrying amount LKR '000	Gross nominal amount LKR '000	Up to 3 months LKR '000	3 to 12 months LKR '000	1 to 3 years LKR '000	3 to 5 years LKR '000	More than 5 years LKR '000	Total LKR '000
Financial Liability by type								
Non-derivative liabilities								
Due to banks	3,844,701	3,844,701	2,490,668	1,354,033	–	–	–	3,844,701
Financial liabilities at amortised cost – Due to depositors	319,362,372	327,182,649	81,103,180	130,346,356	25,433,646	22,937,555	67,361,912	327,182,649
Financial liabilities at amortised cost – Due to other borrowers	69,094,264	83,250,508	11,477,093	8,898,713	16,922,493	15,393,628	30,558,581	83,250,508
Debt securities issued	16,297,256	24,840,225	475,186	857,065	4,940,183	9,715,044	8,852,747	24,840,225
Other liabilities	4,601,683	4,601,683	2,476,266	308,783	596,274	392,836	827,524	4,601,683
Subordinated term debt	18,387,276	23,616,937	27,223	446,151	11,221,832	11,606,585	315,146	23,616,937
	431,587,552	467,336,703	98,049,616	142,211,101	59,114,428	60,045,648	107,915,910	467,336,703
Derivative Liabilities								
Risk management:	814,219	–	–	–	–	–	–	–
Inflows	–	33,566,066	3,171,547	5,143,270	6,312,812	18,938,437	–	33,566,066
Outflows	–	35,594,980	3,832,680	5,547,300	6,303,750	18,911,250	–	34,594,980
Financial Assets by type								
Non-derivative assets								
Cash and cash equivalents	10,690,873	10,690,873	10,690,873	–	–	–	–	10,690,873
Balances with Central Bank	9,359,241	9,359,241	9,359,241	–	–	–	–	9,359,241
Placements with banks	6,332,533	6,332,533	6,332,533	–	–	–	–	6,332,533
Financial assets measured at fair value through profit or loss	218,875	218,875	218,875	–	–	–	–	218,875
Financial assets at amortised cost – Loans to and receivables from other customers	365,900,540	481,668,878	61,273,808	67,029,941	93,803,084	128,363,162	131,198,883	481,668,878
Financial assets at amortised cost – Debt and other instruments	26,674,962	27,333,991	2,434,964	15,898,873	6,334,236	2,665,918	–	27,333,991
Financial assets measured at fair value through other comprehensive income	54,333,429	54,894,914	16,294,094	10,064,019	7,571,114	4,713,767	16,251,920	54,894,914
Other assets	2,916,565	2,916,565	2,518,797	95,529	131,331	114,770	56,138	2,916,565
	476,427,018	593,415,870	109,123,185	93,088,362	107,839,765	135,857,617	147,506,941	593,415,870
Derivative assets								
Risk management:	280,235	–	–	–	–	–	–	–
Inflows	–	3,758,040	3,758,040	–	–	–	–	3,758,040
Outflows	–	3,928,541	3,928,541	–	–	–	–	3,928,541

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The amounts in the table above have been compiled as follows:

Type of financial instrument	Basis on which amounts are compiled
Non-derivative financial liabilities and financial assets	Undiscounted cash flows, which include estimated interest payments.
Issued financial guarantee contracts, and unrecognised loan commitments.	Earliest possible contractual maturity. For issued financial guarantee contracts the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.
Derivative financial liabilities and financial assets held for risk management purposes	Contractual undiscounted cash flows. The amounts shown are the gross nominal inflows and outflows for derivatives that have simultaneous gross settlement (e.g. forward exchange contracts and currency swaps) and the net amounts for derivatives that are net settled.
Trading derivative liabilities and assets forming part of the Group's proprietary trading operations that are expected to be closed out before contractual maturity.	Fair values at the date of the statement of financial position. This is because contractual maturities do not reflect the liquidity risk exposure arising from these positions. These fair values are disclosed in the "up to 3 months" column.
Trading derivative liabilities and assets that are entered into by the Bank with its customers	Contractual undiscounted cash flows. This is because these instruments are not usually closed out before contractual maturity and so the Group believes that contractual maturities are essential for understanding the timing of cash flows associated with these derivative positions.

The Bank's expected cash flows on some financial assets and financial liabilities vary significantly from the contractual cash flows. The principal differences are as follows:

- demand deposits from customers are expected to remain stable or increase;
- unrecognised loan commitments are not all expected to be drawndown immediately;

8.3.4 Liquidity Reserves

As part of the management of liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents, and debt securities issued by sovereigns, which can be readily sold to meet liquidity requirements. In addition, the Bank maintains agreed lines of credit with other banks and holds unencumbered assets eligible for use as collateral with central banks (these amounts are referred to as the "Bank's liquidity reserves").

The following table sets out the components of the Bank's liquidity reserves.

As at 31 December	2022 Carrying amount LKR '000	2022 Fair value LKR '000	2021 Carrying amount LKR '000	2021 Fair value LKR '000
Cash and cash equivalents	16,122,564	16,122,564	10,688,255	10,688,255
Balances with Central Bank of Sri Lanka	9,030,868	9,030,868	9,359,241	9,359,241
Placements with banks	15,224,692	15,224,692	6,288,006	6,288,006
Unencumbered debt securities issued by sovereigns	106,873,421	106,873,421	58,821,647	58,821,647
Total liquidity reserves	147,251,545	147,251,545	85,157,149	85,157,149

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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.

	Note	Encumbered		Unencumbered		
		Pledged as collateral LKR '000	Other* LKR '000	Available as collateral LKR '000	Other** LKR '000	Total LKR '000
31 December 2022						
Cash and cash equivalents	26	–	–	16,122,565	–	16,122,565
Balances with Central Bank of Sri Lanka	27	–	9,030,868	–	–	9,030,868
Placements with banks	28	–	–	15,224,692	–	15,224,692
Derivative financial assets	29	–	–	20,473,544	–	20,473,544
Financial assets measured at fair value through profit or loss	30	–	–	1,429,149	–	1,429,149
Financial assets at amortised cost – Loans to and receivables to customers	31	–	–	369,072,030	–	369,072,030
Financial assets at amortised cost – Debt and other instruments	32	–	–	50,947,926	–	50,947,926
Financial assets measured at fair value through other comprehensive income	33	2,547,500	–	60,771,560	–	63,319,060
Other Assets	41	–	–	–	7,791,475	7,791,475
Non-financial assets		–	–	–	12,515,110	12,515,110
Total assets		2,547,500	9,030,868	534,041,466	20,306,585	565,926,419
31 December 2021						
Cash and cash equivalents	26	–	–	10,688,255	–	10,688,255
Balances with Central Bank of Sri Lanka	27	–	9,359,241	–	–	9,359,241
Placements with banks	28	–	–	6,288,006	–	6,288,006
Derivative financial assets	29			280,235		280,235
Financial assets measured at fair value through profit or loss	30	–	–	218,875	–	218,875
Financial assets at amortised cost – Loans to and receivables to customers	31	–	–	365,900,540	–	365,900,540
Financial assets at amortised cost – Debt and other instruments	32	865,200	–	25,809,762	–	26,674,962
Financial assets measured at fair value through other comprehensive income	33	4,424,434	–	49,909,002	–	54,329,436
Other Assets	41	–	–	–	2,855,254	2,855,254
Non-financial assets		–	–	–	8,910,432	8,910,432
Total assets		5,289,634	9,359,241	459,090,675	11,765,686	485,505,236

*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.

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8.4 Market Risk

"Market risk" is the possibility of losses arising from changes in market variables such as interest rates, equity prices, foreign exchange rates, and credit spreads. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Bank's solvency while optimising the return on risk.

8.4.1 Management of Market Risk

The Bank separates its exposure to market risks between trading and non-trading portfolios. Trading portfolios are mainly include positions arising from market making and proprietary position taking, together with financial assets and financial liabilities that are managed on a fair value basis and non-trading portfolios from positions arising from financial investments measured at fair value through other comprehensive income (FVOCI) and financial investments at amortised cost and from derivatives held for risk management purposes.

Overall authority for market risk 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.

31 December 2022	Note	Carrying amount LKR '000	Market risk measure Trading portfolio LKR '000	Non-trading portfolio LKR '000
Assets subject to market risk				
Cash and cash equivalents	26	16,122,565		16,122,565
Placements with banks	28	15,224,692		15,224,692
Derivatives financial assets	29	20,473,544		20,473,544
Financial assets measured at fair value through profit or loss	30	1,429,149	1,398,145	31,004
Financial assets at amortised cost – Loans to and receivables from other customers	31	369,072,030		369,072,030
Financial assets at amortised cost – Debt and other instruments	32	50,947,926		50,947,926
Financial assets measured at fair value through other comprehensive income	33	63,319,060		63,319,060
Liabilities subject to market risk				
Due to banks	43	15,857,994		15,857,994
Derivatives financial liabilities	29	84,670		84,670
Financial liabilities at amortised cost – Due to depositors	44	370,314,026		370,314,026
Financial liabilities at amortised cost – Due to other borrowers	45	81,145,692		81,145,692
Debt securities in issue	46	16,304,115		16,304,115
Subordinated term debt	50	18,399,991		18,399,991

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31 December 2021	Note	Carrying amount LKR '000	Market risk measure Trading portfolio LKR '000	Non-trading portfolio LKR '000
Assets subject to market risk				
Cash and cash equivalents	26	4,606,253	–	4,606,253
Placements with banks	28	6,288,006	–	6,288,006
Derivatives financial assets	29	280,235	–	280,235
Financial assets measured at fair value through profit or loss	30	218,875	185,165	33,710
Financial assets at amortised cost – Loans to and receivables from other customers	31	365,900,540	–	365,900,540
Financial assets at amortised cost – Debt and other instruments	32	26,674,962	–	26,674,962
Financial assets measured at fair value through other comprehensive income	33	54,329,436	–	54,329,436
Liabilities subject to market risk				
Due to banks	43	3,349,836	–	3,349,836
Derivatives financial liabilities	29	814,219	–	814,219
Financial liabilities at amortised cost – Due to depositors	44	319,861,013	–	319,861,013
Financial liabilities at amortised cost – Due to other borrowers	45	69,589,129	–	69,589,129
Debt securities in issue	46	16,297,256	–	16,297,256
Subordinated term debt	50	18,387,276	–	18,387,276

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:

- It is assumed that, within the holding period it is possible to hedge or dispose of positions. 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.
- The calculated VaR does not reflect exposures that may arise on positions during the trading day.
- The calculations are based on 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

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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 macroeconomic events – e.g. periods of prolonged market liquidity reduced fungibility of currencies, natural disasters or other catastrophes, health pandemics, etc.

The analysis of scenarios and stress tests is reviewed by ALCO.

8.4.2.1 Equity Price Risk

Equity prices risk is a part of the 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 2022 LKR '000	Position as at 31 December 2021 LKR '000
Marked-to-market value of the total quoted equity portfolio	598,972	181,425
Value-at-risk (under 99% probability for a quarterly time horizon)	56.69%	36.83%
Maximum possible loss of value in the marked-to-market value of the portfolio as indicated by the VAR over a quarterly period	339,556	66,818
Unrealised gains in the trading equity portfolio reported in the fair value reserve	(200,202)	49,014

Equity price risk is quantified using the Value at Risk (VAR) approach based on the Historical Loss Method. Historical four-year portfolio returns is adopted to compute VAR as a measure of the equity prices risk exposure by the Bank. This VAR computation for the equity Trading portfolio considers a quarterly time horizon.

8.4.3 Exposure to Market Risks – Non-Trading Portfolios

Financial assets measured at fair value through other comprehensive income

Parameter	Position as at 31 December 2022 LKR '000	Position as at 31 December 2021 LKR '000
Marked-to-market value of the total quoted equity portfolio	8,171,584	12,337,187
Value-at-risk (under 99% probability for a quarterly time horizon)	37.37%	25.18%
Maximum possible loss of value in the marked-to-market value of the portfolio as indicated by the VAR over a quarterly period	3,053,434	3,106,503
Unrealised gains in the equity portfolio reported in the fair value reserve	(2,271,901)	2,419,120

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.

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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 as a result of changes in market interest rates.

Duration analysis as at 31 December 2022

Portfolio	Face value LKR '000	Marked-to market value LKR '000	Modified Duration	Interpretation of duration
Government Securities measured at FVPL/LKR Bills	885,607	795,433	0.35	Portfolio value will decline approximately by 0.35% as a result of 1% increase in the interest rates.
Government Securities measured at FVOCI/LKR Bills and Bonds	61,169,207	54,926,057	0.55	Portfolio value will decline approximately by 0.55% as a result of 1% increase in the interest rates.
Government Securities measured at FVOCI/Sovereign Bonds	Nil	Nil	Nil	

Market risk exposure for interest rate risk in the FVPL Rupee portfolio as at 31 December 2022 is depicted by modified duration of 0.35%. Market risk exposure for interest rate risk in the FVOCI Rupee portfolio as at 31 December 2022 is depicted by modified duration of 0.55%.

This level of interest rate risk exposure in the Rupee FVPL and FVOCI portfolios can be interpreted as a possible potential loss in the marked-to-market value amounting to LKR 2.79 Mn and LKR 302 Mn respectively, as at 31 December 2022.

Market risk exposure for interest rate risk in the FVOCI US Dollar portfolio as at 31 December 2022 is Nil.

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 three months there are net asset sensitive positions.

The interest rate risk exposure as at 31 December 2022 is quantified based on the assumed change in the interest rates for each time period and is given in table below:

31 December 2022	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
Cash and cash equivalents	1,566,636	–	–	–	–
Placements with banks	13,018,678	2,206,014	–	–	–
Financial assets measured at fair value through profit or loss	–	–	795,433	–	–
Financial assets at amortised cost – Loans to and receivables from other customers	139,846,895	95,477,247	31,372,076	35,969,173	54,804,395
Financial assets at amortised cost – Debt and other instruments	1,745,942	9,889,773	2,339,275	1,650,345	37,278,663
Financial assets measured at fair value through other comprehensive income	3,797,959	11,490,644	13,510,430	18,263,819	7,863,205
	159,976,110	119,063,678	48,017,214	55,883,337	99,946,263

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31 December 2022	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
Due to banks	13,763,582	2,094,412	–	–	–
Financial liabilities at amortised cost – Due to depositors	88,920,831	62,265,263	77,026,884	89,260,266	42,999,820
Financial liabilities at amortised cost – Due to other borrowers	2,735,001	5,933,047	3,394,560	5,221,804	63,861,280
Debt securities in issue	–	1,007,125	296,990	–	15,000,000
Subordinated term debt	–	3,567,232	–	6,223,229	8,609,530
	105,419,414	74,867,079	80,718,434	100,705,299	130,470,630
Net rate sensitive assets (liabilities)	54,556,696	44,196,599	(32,701,220)	(44,821,962)	(30,524,367)
Assumed change in interest rates (%)	0.50	1.00	1.50	2.00	
Impact	272,783	405,135	(367,889)	(448,220)	
Total net impact if interest rates increase				(138,189)	
Total net impact if interest rates decline				138,189	

31 December 2021	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
Cash and cash equivalents	844,731	–	–	–	–
Placements with banks	6,288,006	–	–	–	–
Financial assets at amortised cost – Loans to and receivables from customers	246,322,818	18,918,758	23,714,679	14,306,803	54,326,519
Financial assets at amortised cost – Debt and other instruments	297,302	2,605,484	13,030,998	2,323,072	8,418,106
Financial assets measured at fair value through other comprehensive income	4,379,590	12,358,991	5,786,131	4,595,256	14,655,679
	258,132,447	33,883,233	42,531,808	21,225,131	77,400,304
Due to banks	–	1,105,860	–	1,105,860	–
Financial liabilities at amortised cost – Due to depositors	111,704,790	51,549,556	57,791,338	74,085,686	12,556,723
Financial liabilities at amortised cost – Due to other borrowers	5,117,887	6,606,257	5,116,823	3,621,298	49,126,864
Debt securities in issue	–	–	–	–	16,297,256
Subordinated term debt	–	–	–	–	18,387,276
	116,822,677	59,261,673	62,908,161	78,812,844	96,368,119
Net rate sensitive assets (liabilities)	141,309,770	(25,378,440)	(20,376,353)	(57,587,713)	(18,967,815)
Assumed change in interest rates (%)	0.50	1.00	1.50	2.00	
Impact	706,549	(232,636)	(229,234)	(575,877)	
Total net impact if interest rates increase				(331,198)	
Total net impact if interest rates decline				331,198	

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.

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8.4.4.2 Interest Rate Benchmark Reform

Overview

A fundamental reform of major interest rate benchmarks is being undertaken globally, replacing some interbank offered rate (IBORs) with alternative nearly risk free rates (referred to as "IBOR reform"). The Bank has exposure to certain IBORs on its financial instruments that are being reformed as part of these market-wide initiatives.

The main risks to which the Bank has been exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use IBOR curves and revision of operational controls related to the reform and regulatory risks. Financial risk is predominantly limited to interest rate risk.

The Asset and Liability Management Committee (ALCO) and Treasury Department of DFCC Bank PLC is working on its transition to alternative rates. The objectives of this task include evaluating the extent to which loans advanced, loan commitments, liabilities and derivatives reference IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. It provides periodic reports to ALCO and Central Treasury to support the management of interest rate risk and works closely with the Group Operational Risk Committee to identify operational and regulatory risks arising from IBOR reform.

The Bank is in the process of applying a policy to require that retail products, such as its residential mortgage portfolio, are amended in a uniform way, and bespoke products, such as loans and advances to corporates, are amended in bilateral negotiations with the counterparties.

As at 31 December 2022, IBOR reform in respect of currencies to which the Bank has exposure is in the process of reforming. The table below sets out the IBOR rates that the group had exposure to, the new benchmark rates to which these exposures have or are being transitioned.

Currency	Benchmark before reform	Benchmark after reform	Status
GBP	GBP LIBOR	SONIA	In progress
USD	USD LIBOR	SOFR	In progress
EURO	EONIA	€STR	In progress
EURO	EURIBOR	€STR	In progress

Exposures subject to benchmark reform as at 31 December 2022

The table below shows the Group's exposure to interest rate benchmarks subjects to IBOR reform. These are financial instruments that contractually reference an IBOR benchmark planned to transition to an risk free rate, and have contractual maturity date beyond the planned IBOR cessation date.

	Financial instruments to be transferred to risk free rate	
	USD Libor	
	USD Mn	LKR Mn
Non-derivative financial assets		
Loans and advances to customers	132	48,021
Non-derivative financial liabilities		
Borrowings	20	7,162

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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 2022, DFCC carried a USD equivalent net open/unhedged "long" position of LKR 1,901 Bn. The impact of exchange rate risk is given below:

	Amount
Net exposure – USD equivalent	5,235,640
Value of position in LKR '000	1,901,113
Exchange rate (USD/LKR) as at 31 December 2022	363.11
Possible potential loss to Bank – LKR '000	
– If Exchange rate (USD/LKR) depreciates by 1%	(19,011)
– If exchange rate depreciates by 10%	(190,111)
– If exchange rate depreciates by 15%	(285,167)

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 2022 are as follows:

	Risk-weighted assets LKR '000	Quantified possible exposure LKR '000
Interest rate risk	4,181,448	522,681
Equity price risk	1,097,176	137,147
Foreign exchange and gold risk	3,113,024	389,128
Total	8,391,648	1,048,956

8.5 Operational Risk

"Operational risk" is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology, and infrastructure, and from external factors other than credit, market and liquidity risks-e.g. those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, Bank's policy requires compliance with all applicable legal and regulatory requirements.

The following are included in the process of the operational risk management in the Bank.

a. Monitoring of the Key Risk Indicators (KRIs) for the departments/ functions under the defined threshold limits using a traffic light system. Develop Risk and Control Self-Assessments to identify the risk exposure of all processes.

b. Operational risk incident reporting system and the independent analysis of the incidents by the IRMD, and recognise necessary improvements in the systems, processes and procedures.

c. Analyse downtime of the critical systems, attrition information, exit interview comments and complaints to identify operational risks and recommend mitigating controls. The key findings of the analysis are evaluated at the ORMC and the BIRMC meetings in an operational risk perspective.

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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.

8.6 Capital Management

The Bank manages its capital at Bank and Group level considering both regulatory requirement and risk exposures. Its regulatory capital position is analysed by the BIRMC on a quarterly basis and recommendations and decisions are made accordingly. The Group capital management goals are as follows:

a. Ensure regulatory minimum capital adequacy requirements are not compromised.
b. Bank to maintains its international and local credit ratings and to ensure that no downgrading occurs as a result of deterioration of risk capital of the Bank other than in an extreme change in external operating environment.
c. Ensure capital impact of business decisions including strategic business plans are properly assessed and taken in to consideration.
d. Ensure capital consumption by business actions are adequately priced.
e. Optimizing ROE

Central Bank of Sri Lanka sets and monitors regulatory capital requirement on both consolidated and solo basis. 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, are 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 systemically 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.

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8.6.1 Key Regulatory Ratios – Capital Adequacy

31 December	2022		2021	
Item	Bank	Group	Bank	Group
Regulatory capital (LKR '000)				
Common equity Tier 1	36,818,873	36,381,997	34,259,288	34,265,838
Tier 1 capital	36,818,873	36,381,997	34,259,288	34,265,838
Total capital	48,004,800	47,574,241	47,968,017	47,974,567
Regulatory capital ratios (%)				
Common equity Tier 1 capital ratio	10.09	9.94	9.31	9.28
minimum requirement -7.0%				
Tier 1 capital ratio	10.09	9.94	9.31	9.28
minimum requirement -8.5%				
Total capital ratio	13.15	12.99	13.03	13.00
minimum requirement - 12.5%				

Basel III computation of capital ratios

31 December	2022		2021	
Item	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
Common equity Tier 1 (CET 1) capital after adjustments	36,818,873	36,381,997	34,259,288	34,265,838
Common equity Tier 1 (CET 1) capital	52,778,734	56,909,693	46,687,119	50,436,550
Equity capital (stated capital)/assigned capital	13,182,025	13,182,025	8,600,457	8,600,457
Reserve fund	2,874,968	2,874,968	2,746,968	2,746,968
Published retained earnings/(accumulated retained losses)	22,600,898	26,731,857	22,091,649	25,831,589
Published accumulated other comprehensive income (OCI)	341,004	341,004	(531,794)	(522,303)
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	15,959,861	20,527,696	12,427,831	16,170,712
Goodwill (net)	–	156,226	–	156,226
Intangible assets (net)	2,198,042	2,218,827	2,227,577	2,252,589
Investment in capital of banks and financial institutions	13,761,819	18,152,643	10,200,254	13,761,897
Others	–	–	–	–

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31 December	2022		2021	
Item	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
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	11,185,927	11,192,244	13,708,729	13,708,729
Tier 2 Capital	11,185,927	11,192,244	13,708,729	13,708,729
Qualifying Tier 2 Capital instruments	7,039,040	7,039,040	10,511,268	10,511,268
Revaluation gains	–	–	–	–
Loan Loss Provisions	4,146,887	4,153,204	3,197,461	3,197,461
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	36,818,873	36,381,997	34,259,288	34,265,838
Total Tier 1 capital	36,818,873	36,381,997	34,259,288	34,265,838
Total capital	48,004,800	47,574,241	47,968,017	47,974,567
Total Risk Weighted Assets (RWA)				
RWAs for credit risk	331,750,969	332,256,324	339,260,886	339,722,423
RWAs for market risk	8,391,648	8,391,648	10,005,925	10,005,925
RWAs for operational risk	24,960,191	25,491,894	18,909,993	19,380,488
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	10.09	9.94	9.31	9.28
of which: Capital Conservation Buffer (%)	2.50	2.50	2.50	2.50
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 (%)	10.09	9.94	9.31	9.28
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer and Surcharge on D-SIBs) (%)	13.15	12.99	13.03	13.00
of which: Capital Conservation Buffer (%)	2.50	2.50	2.50	2.50
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

NOTES TO THE FINANCIAL STATEMENTS

9. Fair Values of Financial Instruments

Accounting Policy

See accounting policy in Note 5.3.7.

9.1 Valuation Models

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like government securities, interest rate and currency swaps that use mostly observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, government securities and simple over the counter derivatives like forward exchange contracts and interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes that a third party market participant would take them into account in pricing a transaction.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and management uses judgement to select the most appropriate point in the range.

9.2 Valuation Framework

The established control framework with respect to the measurement of fair values, includes an oversight which is independent of front office management. Treasury Middle Office has overall responsibility for independently verifying the results of trading and investment operation.

NOTES TO THE FINANCIAL STATEMENTS

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 2022	Note	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial assets					
Derivative financial assets	29				
Forward foreign exchange contracts		–	20,473,544	–	20,473,544
Financial assets measured at fair value through profit or loss	30				
Government of Sri Lanka Treasury Bills and Bonds		795,433	–	–	795,433
Equity securities – quoted		598,972	–	–	598,972
Units in unit trusts – quoted		3,740	–	–	3,740
Units in unit trusts – unquoted		–	31,004	–	31,004
Financial assets measured at fair value through other comprehensive income	33				
Government of Sri Lanka Treasury Bills and Bonds		54,926,057	–	–	54,926,057
Sri Lanka sovereign bonds		–	–	–	–
Equity shares – quoted		8,171,584	–	–	8,171,584
Equity shares – unquoted		–	–	221,419	221,419
		64,495,786	20,504,548	221,419	85,221,753
Financial liabilities					
Derivative financial liabilities					
Forward foreign exchange contracts	29	–	84,670	–	84,670
		–	84,670	–	84,670

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As at 31 December 2021	**Note**	**Level 1 LKR '000**	**Level 2 LKR '000**	**Level 3 LKR '000**	**Total LKR '000**
Financial assets					
Derivative financial assets	29				
Forward foreign exchange contracts		–	280,235	–	280,235
Financial assets measured at fair value through profit or loss	30				
Equity securities – quoted		181,425	–	–	181,425
Units in unit trusts – quoted		3,740	–	–	3,740
Units in unit trusts – unquoted		–	33,710	–	33,710
Financial assets measured at fair value through other comprehensive income	33				
Government of Sri Lanka Treasury Bills and Bonds		40,780,663	–	–	40,780,663
Sri Lanka sovereign bonds		994,984	–	–	994,984
Equity shares – quoted		12,337,187	–	–	12,337,187
Equity shares – unquoted		–	–	216,602	216,602
		54,297,999	313,945	216,602	54,828,546
Financial liabilities					
Derivative financial liabilities	29				
Forward foreign exchange contracts		–	814,219	–	814,219
		–	814,219	–	814,219

As 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.

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9.3.1 Valuation Techniques and Significant Unobservable Inputs

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values for financial instruments in the statement of financial position, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Unquoted equity shares	Net asset approach: The fair value is determining based on the net assets value of the unquoted equity share	Net asset value per share	The estimated fair value would increase/(decrease) if the adjusted net asset value per share were higher/(lower)

9.3.2 Transfers between Levels 1 and 2

There were no transfers from Level 1 to 2 or Level 2 to Level 1 in 2022 and no transfers in either direction in 2021.

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	
	2022 LKR '000	2021 LKR '000
Balance at 1 January	216,602	213,810
Purchased during the year	–	–
Gain included in OCI		
– Net change in fair value (unrealised)	4,817	2,792
Balance at 31 December	221,419	216,602

NOTES TO THE FINANCIAL STATEMENTS

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 2022.

9.3.3.3 Sensitivity Analysis

For the fair values of equity securities, reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects:

	OCI, net of tax	
As at 31 December 2022	**Increase LKR '000**	**Decrease LKR '000**
Equity securities		
Adjusted net assets value (5% movement)	11,071	(11,071)

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.

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.

For certain financial instruments, the Group may use data that is not readily observable in current markets. If we use unobservable market data, then more judgement is exercised to determine fair value depending on the significance of the unobservable input to the overall valuation. Generally, unobservable inputs are derived from other relevant market data and compare them to observed transaction prices where available.

When establishing the fair value of a financial instrument using a valuation technique, the Group considers valuation adjustments in determining the fair value. The Group may apply adjustments (such as bid/offer spreads, credit valuation adjustments and funding valuation adjustments – refer Note 29 Derivative Financial Instruments) to reflect the Group's assessment of factors that market participants would consider in setting fair value.

NOTES TO THE FINANCIAL STATEMENTS

9.4 Financial Instruments not Measured at Fair Value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised:

A. Bank

As at 31 December 2022	Note	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Fair value LKR '000	Carrying amount LKR '000
Assets						
Cash and cash equivalents	26	–	16,122,565	–	16,122,565	16,122,565
Balances with Central Bank of Sri Lanka	27	–	9,030,868	–	9,030,868	9,030,868
Placements with banks	28	–	15,224,692	–	15,224,692	15,224,692
Financial assets at amortised cost – Loans to and receivables from other customers	31	–	–	339,333,283	339,333,283	369,072,030
Financial assets at amortised cost – Debt and other instruments	32	37,049,928	2,607,280	240,533	39,897,741	50,947,926
Other assets				7,791,475	7,791,475	7,791,475
Total		37,049,928	42,985,405	347,365,291	427,400,624	468,189,556
Liabilities						
Due to banks	43	–	15,857,994	–	15,857,994	15,857,994
Financial liabilities at amortised cost – Due to depositors	44	–	–	361,987,182	361,987,182	370,314,026
Financial liabilities at amortised cost – Due to other borrowers	45	–	–	81,145,692	81,145,692	81,145,692
Debt securities in issue	46	–	11,786,903	–	11,786,903	16,304,115
Other liabilities		–	–	8,101,155	8,101,155	8,101,155
Subordinated term debt	50	–	15,010,515	–	15,010,515	18,399,991
		–	42,655,412	451,234,029	493,889,441	510,122,973

As at 31 December 2021	Note	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Fair value LKR '000	Carrying amount LKR '000
Assets						
Cash and cash equivalents	26	–	10,688,255	–	10,688,255	10,688,255
Balances with Central Bank of Sri Lanka	27	–	9,359,241	–	9,359,241	9,359,241
Placements with banks	28	–	6,288,006	–	6,288,006	6,288,006
Financial assets at amortised cost – Loans to and receivables from other customers	31	–	–	348,256,773	348,256,773	365,900,540
Financial assets at amortised cost – Debt and other instruments	32	24,847,144	1,315,778	–	26,162,922	26,674,962
Other assets		–	–	2,855,254	2,855,254	2,855,254
Total		24,847,144	27,651,280	351,112,027	403,610,451	421,766,258

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2021	Note	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Fair value LKR '000	Carrying amount LKR '000
Liabilities						
Due to banks	43	–	3,349,836	–	3,349,836	3,349,836
Financial liabilities at amortised cost – Due to depositors	44	–	–	319,604,601	319,604,601	319,861,013
Financial liabilities at amortised cost – Due to other borrowers	45	–	–	69,589,129	69,589,129	69,589,129
Debt securities in issue	46	–	14,932,065	–	14,932,065	16,297,256
Other liabilities		–	–	4,470,497	4,470,497	4,470,497
Subordinated term debt	50	–	16,580,539	–	16,580,539	18,387,276
		–	34,862,440	393,664,227	428,526,667	431,955,007

B. Group

As at 31 December 2022	Note	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Fair value LKR '000	Carrying amount LKR '000
Assets						
Cash and cash equivalents	26	–	16,126,635	–	16,126,635	16,126,635
Balances with Central Bank of Sri Lanka	27	–	9,030,868	–	9,030,868	9,030,868
Placements with banks	28	–	15,242,493	–	15,242,493	15,242,493
Financial assets at amortised cost – Loans to and receivables from other customers	31	–	–	339,333,283	339,333,283	369,072,030
Financial assets at amortised cost – Debt and other instruments	32	37,049,928	2,607,280	240,533	39,897,741	50,947,926
Other assets				7,957,904	7,957,904	7,957,904
Total		37,049,928	43,007,276	347,531,720	427,588,924	468,377,856
Liabilities						
Due to banks	43	–	15,857,994	–	15,857,994	15,857,994
Financial liabilities at amortised cost – Due to depositors	44	–	–	369,746,855	369,746,855	369,746,855
Financial liabilities at amortised cost – Due to other borrowers	45	–	–	81,145,692	81,145,692	81,145,692
Debt securities in issue	46	–	16,304,115	–	16,304,115	16,304,115
Other liabilities		–	–	8,288,066	8,288,066	8,288,066
Subordinated term debt	50	–	–	18,399,991	18,399,991	18,399,991
		–	32,162,109	475,580,604	509,742,713	509,742,713

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2021	Note	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Fair value LKR '000	Carrying amount LKR '000
Assets						
Cash and cash equivalents	26	–	10,690,873	–	10,690,873	10,690,873
Balances with Central Bank of Sri Lanka	27	–	9,359,241	–	9,359,241	9,359,241
Placements with banks	28	–	6,332,533	–	6,332,533	6,332,533
Financial assets at amortised cost – Loans to and receivables from other customers	31	–	–	348,256,773	348,256,773	365,900,540
Financial assets at amortised cost – Debt and other instruments	32	24,346,886	1,315,778	–	25,662,664	26,674,962
Other assets		–		2,916,565	2,916,565	2,916,565
Total		24,346,886	27,698,425	351,173,338	403,218,649	421,874,714
Liabilities						
Due to banks	43	–	3,349,836	–	3,349,836	3,349,836
Financial liabilities at amortised cost – Due to depositors	44	–	–	319,105,960	319,105,960	319,362,372
Financial liabilities at amortised cost – Due to other borrowers	45	–	–	69,589,129	69,589,129	69,589,129
Debt securities in issue	46	–	16,297,256	–	16,297,256	16,297,256
Other liabilities		–	–	4,601,683	4,601,683	4,601,683
Subordinated term debt	50	–	–	16,580,539	16,580,539	18,387,276
		–	19,647,092	409,877,311	429,524,403	431,587,552

Given below is the basis adopted by the Bank/Group in order to establish the fair values of the financial instruments.

9.4.1 Cash and Cash Equivalents and Placements with Banks

Carrying amounts of cash and cash equivalents and placements with banks approximates their fair value as these balances have a remaining maturity of less than three months from the reporting date.

9.4.2 Loans to and Receivables from Other Customers – Lease Rentals Receivable

The estimated fair value of lease rentals receivable is the present value of future cash flows expected to be received from such finance lease facilities calculated based on current interest rates for similar type of facilities.

9.4.3 Loans to and Receivables from Other Customers – Other Loans

	Composition %
Floating rate loan portfolio	77
Fixed rate loans	23
– With remaining maturity less than one year	6
– Others	17

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.

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Based on the results of the fair value computed on the lease rentals receivable, it is estimated that the fair value of the other loans at fixed interest rates with maturity of more than one year is not materially different to its carrying value as at the reporting date.

9.4.4 Financial Assets at Amortised Cost – Debt and Other Instruments

Fair value of the fixed rate debentures are based on prices quoted in the Colombo Stock Exchange, where there is an active market for quoted debentures.

Where there is no active market, fair value of the fixed rate debentures has been determined by discounting the future cash flows by the interest rates derived with reference to Government Treasury Bond rates with adjustments to risk premiums at the time of investment.

9.4.5 Due to Banks

The carrying value of amounts due to banks approximates their fair value as these balances have a remaining maturity of less than one year approximate their fair value.

The others are repriced either monthly, quarterly or semi annually and rates are revised in line with changes in market rates. Hence, the carrying value of these borrowings approximate the fair value.

9.4.6 Due to Depositors

The carrying value of deposits with a remaining maturity of less than one year approximates the fair value.

Fair values of deposits with a remaining maturity of more than one year is estimated using discounted cash flows applying current interest rates offered for deposits of similar remaining maturities.

The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the reporting date and the savings account balances are repriced frequently to match with the current market rates, therefore the demand and saving deposits carrying amounts are reasonable approximation to the fair values as at the reporting date.

9.4.7 Due to Other Borrowers

This consists of borrowings sourced from multilateral and bilateral institutions. 70% of these borrowing are repriced either monthly, quarterly or semi-annually and rates are revised in line with changes in market rates. Hence the carrying value of these borrowings approximates the fair value.

The others at fixed rates which relates to borrowings on credit lines are based on interest rates which are specific to each refinancing arrangement and as such there are no comparable market rates. Hence, the fair value approximates the carrying value.

9.4.8 Debt Securities in Issue

Debts issued comprise the LKR debentures. The LKR debentures are fair valued by reference to current Government Treasury Bond rates with a risk premium.

10. Gross Income

	BANK		GROUP	
For the year ended 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Interest income (Note 11.1)	67,460,357	36,599,000	67,464,328	36,599,512
Fee and commission income (Note 12.1.1)	3,643,039	2,888,346	3,641,487	2,887,711
Net (loss)/gain from trading (Note 13)	(213,103)	436,675	(213,103)	436,675
Net gain/(loss) from financial instruments at fair value through profit or loss (Note 14)	276,319	(247,268)	276,319	(247,268)
Net gain from derecognition of financial assets (Note 15)	99,112	1,391,008	99,112	1,391,008
Net other operating income (Note 16)	1,742,548	1,581,002	2,251,996	1,961,642
	73,008,272	42,648,762	73,520,140	43,029,280

NOTES TO THE FINANCIAL STATEMENTS

11. Net Interest Income

Accounting Policy

Effective Interest Rate

Interest income and expenses 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.

For the financial asset that has become credit impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

11.1 Composition

	BANK		GROUP	
For the year ended 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Interest income (Note 11.1.1)	67,460,357	36,599,000	67,464,328	36,599,512
Interest expenses (Note 11.1.2)	(41,391,046)	(23,946,256)	(41,317,083)	(23,918,895)
Net interest income	26,069,311	12,652,744	26,147,245	12,680,617

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11.1.1 Interest Income

For the year ended 31 December	BANK 2022 LKR '000	BANK 2021 LKR '000	GROUP 2022 LKR '000	GROUP 2021 LKR '000
Placements with banks	559,190	306,823	563,162	307,335
Financial assets measured at fair value through profit or loss	25,694	294	25,694	294
Financial assets at amortised cost – Loans to and receivables from banks	111,038	83,608	111,037	83,608
Financial assets at amortised cost – Loans to and receivables from other customers (Note 11.1.1.1)	58,052,403	29,277,833	58,052,403	29,277,833
Financial assets at amortised cost – Debt and other instruments	4,397,052	2,312,359	4,397,052	2,312,359
Financial assets measured at fair value through other comprehensive income	4,314,980	4,618,083	4,314,980	4,618,083
Total interest income	67,460,357	36,599,000	67,464,328	36,599,512

11.1.1.1 Interest Income from loans to and receivables from other customers includes modifications made to loans due to moratorium/debt concessionary schemes implemented by the Government/Bank as a measure to support the recovery of businesses/customers affected by economic crisis. There is no material modification loss or gain due to modification to the original terms and conditions of the loan during the year ended 31 December 2022.

11.1.2 Interest Expenses

For the year ended 31 December	BANK 2022 LKR '000	BANK 2021 LKR '000	GROUP 2022 LKR '000	GROUP 2021 LKR '000
Due to banks	521,361	635,452	521,361	635,452
Financial liabilities at amortised cost – Due to depositors	33,314,183	17,309,634	33,240,219	17,282,273
Financial liabilities at amortised cost – Due to other borrowers	3,389,930	1,738,349	3,389,930	1,738,349
Debt securities in issue	4,023,673	4,125,396	4,023,674	4,125,396
Interest expense on lease liabilities (Note 58.3)	141,899	137,425	141,899	137,425
Total interest expenses	41,391,046	23,946,256	41,317,083	23,918,895

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 2022 LKR '000	BANK 2021 LKR '000	GROUP 2022 LKR '000	GROUP 2021 LKR '000
Financial assets measured at amortised cost (Note 25)	468,189,556	421,766,258	468,377,886	421,874,714
Financial assets measured at FVOCI (Note 25)	63,319,060	54,329,436	63,319,060	54,333,429
Total	531,508,616	476,095,694	531,696,946	476,208,143
Financial liabilities measured at amortised cost (Note 25)	510,122,973	431,955,007	509,742,713	431,587,552

11.1.3 Interest Income from Government Securities – Bank/Group

For the year ended 31 December	2022 LKR '000	2021 LKR '000
Financial assets measured at fair value through profit or loss	25,694	294
Financial assets at amortised cost – Debt and other instruments	4,327,593	2,296,146
Financial assets measured at fair value through other comprehensive income	4,314,980	4,618,083
	8,668,267	6,914,523

12. Net Fee and Commission Income

Accounting Policy

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised as the related services are performed. When a loan commitment is not expected to result in the draw down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of SLFRS 9 and partially in the scope of SLFRS 15. If this is the case, then the Group first applies SLFRS 9 to separate and measure the part of the contract that is in the scope of SLFRS 9 and then applies SLFRS 15 to the residual.

Fees for guarantees and trade related commissions are recognised on a straight-line basis over the period of the contract. Other fees and commission expense relate mainly to transaction and service fees, which are expensed, as the services are received.

12.1 Composition

	BANK		GROUP	
For the year ended 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Fee and commission income (Note 12.1.1)	3,643,039	2,888,346	3,641,487	2,887,711
Fee and commission expenses	(766,002)	(292,468)	(766,002)	(292,468)
Net fee and commission income	2,877,037	2,595,878	2,875,485	2,595,243

NOTES TO THE FINANCIAL STATEMENTS

12.1.1 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	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Loans and advances	611,997	919,868	611,997	919,868
Credit cards	947,624	460,772	947,624	460,772
Trade and remittances	1,325,237	713,443	1,325,237	713,443
Customer accounts	281,298	286,648	281,298	286,648
Guarantees	340,983	424,178	340,983	424,178
Others (management, consulting and other fees)	135,900	83,437	134,348	82,802
Total fee and commission income	3,643,039	2,888,346	3,641,487	2,887,711

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.	

NOTES TO THE FINANCIAL STATEMENTS

13. Net (Loss)/Gain from Trading

Accounting Policy

Results arising from trading activities include all gains and losses from realised and unrealised fair value changes, related capital gains and losses, dividend income from trading assets and trading liabilities and foreign exchange differences.

For the year ended 31 December	BANK 2022 LKR '000	BANK 2021 LKR '000	GROUP 2022 LKR '000	GROUP 2021 LKR '000
Foreign exchange from banks and other customers	(11,024)	236,496	(11,024)	236,496
Government securities				
Net marked to market gain/(loss)	9,994	–	9,994	–
Net capital gain/(loss)	11,800	(703)	11,800	(703)
Equities				
Net marked to market (loss)/gain	(249,217)	37,946	(249,217)	37,946
Net capital gain	16,669	160,561	16,669	160,561
Dividend income	8,675	2,375	8,675	2,375
	(213,103)	436,675	(213,103)	436,675

14. Net Gain/(Loss) from Financial Instruments at Fair Value Through Profit or Loss

Accounting Policy

The Bank has non-trading derivatives held for risk management purposes (e.g., forward foreign exchange purchase or sale contracts) that do not form part of qualifying hedge relationship, that are mandatorily fair valued through profit or loss. In respect of such financial instruments, all realised and unrealised fair value changes and foreign exchange differences are included.

14.1 Net Gain from Financial Instruments Mandatorily Measured at FVTPL other than those Included in "Net Trading Income"

For the year ended 31 December	BANK 2022 LKR '000	BANK 2021 LKR '000	GROUP 2022 LKR '000	GROUP 2021 LKR '000
Forward exchange fair value changes				
– Contracts with commercial banks	299,859	(217,548)	299,859	(217,548)
– Contract with CBSL	(20,835)	(2,332)	(20,835)	(2,332)
Loss on financial assets fair value through profit or loss equity securities	(2,705)	(27,388)	(2,705)	(27,388)
	276,319	(247,268)	276,319	(247,268)

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.

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15. Net Gains from Derecognition of Financial Assets

Accounting Policy

"Net gains from derecognition of financial assets" comprise realised gains less losses related to debt instruments measured at FVOCI and financial assets measured at amortised cost as per SLFRS 9.

	BANK		GROUP	
For the year ended 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Fair value through profit or loss				
Gain on sale of equity securities	–	65,260	–	65,260
Fair value through other comprehensive income				
Gain on sale of Government securities	99,112	1,325,748	99,112	1,325,748
	99,112	1,391,008	99,112	1,391,008

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 received by way of cash or scrip is recognised when the right to receive dividend is established. Dividend income from subsidiaries and joint venture is recognised when the Bank's right to receive the dividend is established.

Gains and Losses on Disposal of Assets

Net gains and losses of a revenue nature arising from the disposal of property, plant and equipment and other non-current assets including investments in subsidiaries, joint ventures and associates are accounted for, in the statement of profit or loss after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

NOTES TO THE FINANCIAL STATEMENTS

Foreign Exchange Gain/(Loss)

Foreign currency positions are revalued at each reporting date. Gains and losses arising from changes in fair value are included in the income statement in the period in which they arise.

	BANK		GROUP	
For the year ended 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Financial assets measured at fair value through other comprehensive income				
Dividend income	1,110,577	951,419	1,110,577	951,419
Dividend income from subsidiaries, joint venture and associate	89,861	89,277	–	–
Net gain from repurchase transactions	451,755	369,894	451,755	369,894
Premises rental income	–	–	383,792	329,545
Gain/(loss) on sale of property, plant and equipment	8,744	(13,807)	8,744	(1,696)
Foreign exchange gain	(159,510)	103,644	(140,929)	105,005
Recovery of loans written-off	162,518	66,380	162,518	66,380
Others	78,603	14,195	275,539	141,095
	1,742,548	1,581,002	2,251,996	1,961,642

17. Impairment for Loans and Other Losses

Accounting Policy

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of “”investment grade” other than the investment in government debt instruments. The Group does not apply the low credit risk exemption to any other financial instruments.

Individually Assessed Loans and Advances and Amortised Cost Debt Instruments

These are exposures, where evidence of impairment exists and those that are individually significant meriting individual assessment for objective evidence of impairment and computation of impairment allowance. The factors considered in determining that the exposures are individually significant include –

- the size of the loan; and
- the number of loans in the portfolio.

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For all loans and amortised cost debt instruments that are considered individually significant, Bank assesses on a case by case basis, whether there is any objective evidence of impairment. The criteria used by the Bank to determine that there is such objective evident include –

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Impairment allowance on loans and advances and other financial instruments measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Collective Assessment

This includes all loans and advances of smaller value where there is no evidence of impairment and those individually assessed for which no evidence of impairment has been specifically identified on an individual basis.

These loans and advances are grouped together as per Basel Guidelines and product level according to their credit risk characteristics for the purpose of calculating an estimated collective impairment.

In making an assessment of whether an investment in debt instrument is credit-impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as "lender of last resort" to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

The Bank manages credit quality using a three stage approach which is in line with SLFRS 9.

12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognised are referred to as "Stage 1 financial instruments". Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognised but that are not credit-impaired are referred to as "Stage 2 financial instruments". Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as "Stage 3 financial instruments".

Significant Increase in Credit Risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's

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historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where appropriate for changes in prepayment expectations).

The Bank considers an exposure to have significant increase in credit risk (SICR) when the contractual payment of a customer are more than 30 days past due in accordance with rebuttable presumption in SLFRS 9, or other qualitative indicators reveal that there had been SICR.

Impact Due to Ongoing Economic Crisis

The ongoing economic crisis in the country meant that there are industries and customers who had got impacted resulting in an increase in risk of default although customers may yet be servicing the loans. Significant Increase in Credit Risk (SICR) has been determined based on various measures of the customer's current financial position, future earning capacity and sectors in which the customers operate etc. Facilities are categorized into risk categories (identifying risk elevated industries). SICR is then determined based on the resulting risk categorization and specific indicators based on the evaluations. Facilities have been stressed tested and required overlays have been made.

Generating the Term Structure of PD

The Bank collects performance and default information about its credit risk exposures analysed by type of product and borrower.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining Whether Credit Risk has Increased Significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date.

Credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgement and relevant historical experiences.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured at 12-month ECL.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- 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).
- All credit facilities listed in section 07 of Directive No. 13 of 2021 issued by Central Bank of Sri Lanka on adoption of Sri Lanka Accounting Standards SLFRS 9 – "Financial Instruments".

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.

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- the assessment of the external rating agencies indicates a default grading of the borrower; or
- all credit facilities listed in section 07 of Directive No. 13 of 2021 issued by Central Bank of Sri Lanka on adoption of Sri Lanka Accounting Standard SLFRS 09 – "Financial Instruments".

Financial Instruments

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and based on data developed internally and obtained from external sources

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

Incorporation of Forward-Looking Information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL using a variety of external actual and forecasted information.

The Bank formulates a base case view of the future direction of relevant economic variables as well as a representative range (Best Case and Worst Case) of other possible forecast scenarios.

This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by both local and international sources. The base case represents a most-likely outcome. The other scenarios represent more optimistic and more pessimistic outcomes.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables credit risk and credit losses.

The economic variables used by the Bank based on the statistical significance include the followings:

Unemployment rate	Base case scenario along with two other scenarios has been used (Best Case and Worst Case)
Interest rate	
GDP growth rate	
Inflation rate	
Exchange rate	

Modified Financial Assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 5.3.4.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as "forbearance activities") to maximise collection opportunities and minimise the risk of default. Loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. The Bank's Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Bank's forbearance activity, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance

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action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/to have SICR or the PD is considered to have decreased such that it falls within the 12-month PD ranges for the asset to be considered Stage 1.

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

When discounting future cash flows, the following discount rates are used:

- financial assets other than purchased or originated credit-impaired (POCI) financial assets and lease receivables: the original effective interest rate or an approximation thereof;
- POCI assets: a credit-adjusted effective interest rate;
- lease receivables: the discount rate used in measuring the lease receivable;
- undrawn loan commitments: the effective interest rate, or an approximation thereof, that will be applied to the financial asset resulting from the loan commitment; and
- financial guarantee contracts issued: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

ECL for exposures in Stage 1 are calculated by multiplying the 12-month PD by LGD and EAD.

Lifetime ECL are calculated by multiplying the lifetime PD by LGD and EAD.

The methodology for estimating PDs is discussed above under the heading "Generating the term structure of PD".

NOTES TO THE FINANCIAL STATEMENTS

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery, costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios and, for lending collateralised by property, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are Grouped on the basis of shared risk characteristics, which may include:

- instrument type;
- credit risk grade;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- client segment.

The Groupings are subject to regular review to ensure that exposures within a particular Group remain appropriately homogeneous.

Restructured Financial Assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Purchase of Credit-Impaired (Poci) Financial Assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition.

Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

NOTES TO THE FINANCIAL STATEMENTS

Reversals of Impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written-back by reducing the loan impairment allowance accordingly. The write-back is recognised in the income statement.

Renegotiated Loans

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as up-to-date loans for measurement purposes once a minimum number of payments required have been received.

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired. The carrying amounts of loans that have been classified as renegotiated retain this classification until it is upgraded.

Financial Guarantee Contracts Held

The Group assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Group considers when making this assessment:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Group determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Group considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Group determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets'. The Group presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial instruments'.

Presentation of allowance for ECL in the statement of financial position loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in fair value reserve.

Regulation Issued by Central Bank of Sri Lanka ("CBSL")

During the year the CBSL issued circular relating to moratorium/debt relief/credit support to customers and industries schemes offered by the Government to support recovery of the economy. These circulars have an impact on Recognition of Interest Income, stage-wise classification of facilities and computation of expected credit loss.

NOTES TO THE FINANCIAL STATEMENTS

Composition

For the year ended 31 December	BANK 2022 LKR '000	BANK 2021 LKR '000	GROUP 2022 LKR '000	GROUP 2021 LKR '000
Financial assets at amortised cost – Loans to and receivables from other customers	13,928,156	3,846,100	13,928,156	3,846,100
Financial assets at amortised cost – Debt and other instruments	1,785,267	291,959	1,785,267	291,959
Other assets	1,165,107		1,165,107	
Financial assets measured at fair value through other comprehensive income	137,570	56,673	137,570	56,673
Loan commitments and financial guarantee contracts	8,473	251,362	8,473	251,362
Other debts and investments	34,397	39,194	34,397	39,194
Reversal of provision made on investment in subsidiaries	(17,499)	–	–	–
	17,041,471	4,485,288	17,058,972	4,485,288

Impairment Charge to the Income Statement

For the year ended 31 December 2022	Note	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Impairment charge		3,311,294	4,843,726	9,109,444	17,264,464
Transfer to other stages/Impairment reversals due to the recoveries		(1,018,675)	(1,156,020)	(1,161,613)	(3,336,308)
Financial assets at amortised cost – Loans to and receivables from other customers	31.1.4	2,292,619	3,687,706	7,947,831	13,928,156
Financial assets at amortised cost – Debt and other instruments	32.5		1,785,267		1,785,267
Other assets	41.1.2		1,165,107		1,165,107
Financial assets measured at fair value through other comprehensive income	33.5	137,570			137,570
Loan commitments and financial guarantee contracts	56.1.1	(56,865)	65,338		8,473
		2,373,324	6,703,418	7,947,831	17,024,573
Other debts					34,397
Investment in subsidiaries	34.1				(19,600)
Investment in associate	35				2,101
Total impairment charge – Bank					17,041,471
Investment in subsidiaries/associate					17,499
Total impairment charge – Bank/Group					17,058,972

NOTES TO THE FINANCIAL STATEMENTS

Impairment Charge for International Sovereign Bond and Sri Lanka Development Bond

The Bank's total exposure to foreign currency denominated matured and ongoing investments are presented in Note 32 and 41. The main uncertainties regarding the estimations for the recoverability of the Bank's total exposure relate to the debt service capacity of the Government of Sri Lanka , which, in turn, is affected by the development of the prevailing macroeconomic environment as well as by the levels of liquidity of the Government and the outcome of the Debt restructuring negotiations with the International Monetary Fund (IMF) and the resultant comprehensive debt restructuring program. Due to the uncertainties relating to the above, the Bank has used significant judgement using the information available as at reporting date to estimate to recoverable value. Accordingly an impairment charge has been recognized.

For the year ended 31 December 2021	Note	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Financial assets at amortised cost – Loans to and receivables from other customers	31.1.4	896,995	924,214	2,024,891	3,846,100
Financial assets at amortised cost – Debt and other instruments	32.4	291,959	–	–	291,959
Financial assets measured at fair value through other comprehensive income	33.5	56,673	–	–	56,673
Loan commitments and financial guarantee contracts	56.1.1	232,692	18,670	–	251,362
		1,478,319	942,884	2,024,891	4,446,094
Other debts					39,194
Total impairment charge - Bank/Group					4,485,288

18. Personnel Expenses

Accounting policy in Note 47.

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

		BANK		GROUP	
For the year ended 31 December	Note	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Salaries and other benefits		3,835,013	3,498,482	4,039,967	3,651,774
Contributions to defined benefit plans	18.1.1	187,348	22,644	194,351	28,857
Contributions to defined contribution plans	18.1.2	421,851	376,599	443,805	397,881
		4,444,212	3,897,725	4,678,123	4,078,512

NOTES TO THE FINANCIAL STATEMENTS

18.1.1 Contributions to Defined Benefit Plans

For the year ended 31 December	Note	BANK 2022 LKR '000	BANK 2021 LKR '000	GROUP 2022 LKR '000	GROUP 2021 LKR '000
Funded pension liability					
Current service cost		38,673	53,371	38,673	53,371
Interest on obligation		242,304	254,459	242,304	254,459
Expected return on pension assets		(243,074)	(243,743)	(243,074)	(243,743)
Past service cost	18.1.1.1	–	(176,254)	–	(176,254)
		37,903	(112,167)	37,903	(112,167)
Unfunded pension liability					
Interest on obligation		5,322	5,379	5,322	5,379
		5,322	5,379	5,322	5,379
Unfunded end of service gratuity liability					
Current service cost		87,812	71,336	90,872	75,280
Interest on obligation		56,311	46,738	60,254	49,007
Past service cost		–	11,358	–	11,358
		144,123	129,432	151,126	135,645
Total contribution to defined benefit plans		187,348	22,644	194,351	28,857

18.1.1.1 Past Service Cost

The Bank reassessed the pension fund liability taking in to consideration the retirement age revision under the "Minimum Retirement Age of Workers Act No. 28 of 2021". This reassessment resulted in a net reversal of liability which was immediately reversed to the statement of profit or loss as it is considered as a change to the plan in compliance with the Sri Lanka Accounting Standard "LKAS 19- Employee Benefits".

18.1.2 Contributions to Defined Contribution Plans

For the year ended 31 December	BANK 2022 LKR '000	BANK 2021 LKR '000	GROUP 2022 LKR '000	GROUP 2021 LKR '000
Employer's contribution to Employees' Provident Fund	351,543	313,786	369,220	330,907
Employer's contribution to Employees' Trust Fund	70,308	62,813	74,585	66,974
Total defined contribution plans	421,851	376,599	443,805	397,881

19. Depreciation and Amortisation

Accounting policy in Note 38 and 39.

	BANK		GROUP	
For the year ended 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Depreciation				
– Investment property	–	–	33,864	23,670
– Property, plant and equipment (Note 38.1)	400,320	415,353	421,921	435,230
– Right-of-use assets (Note 38.1)	309,678	287,629	309,678	287,629
Amortisation				
– Intangible assets (Note 39.1)	414,668	320,869	422,970	327,644
	1,124,666	1,023,851	1,188,433	1,074,173

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.

	BANK		GROUP	
For the year ended 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Directors' emoluments	20,445	18,135	22,613	19,019
Auditors' remuneration				
Audit fees and expenses	5,624	4,890	6,526	5,748
Audit related fees and expenses	3,821	2,622	3,821	2,849
Fees for non-audit services	180	2,457	332	2,457
Professional and legal expenses	3,807	174	3,807	174
Premises, equipment and establishment expenses	2,772,494	1,848,282	2,772,494	1,848,282
Other overhead expenses	1,741,730	1,583,082	1,669,139	1,522,333
	4,548,101	3,459,642	4,478,732	3,400,862

Directors emolument include fees paid to Non-Executive Directors. Remuneration paid to Executive Directors are included under salaries and other benefits in Note 18.1.

NOTES TO THE FINANCIAL STATEMENTS

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. Value added tax rate was revised from 15% to 18% effective from 01 January 2022.

Social Security Contribution Levy (SSCL)

SSCL on financial services is calculated in accordance with social security contribution Levy Act, No. 25 of 2022. SSCL is chargeable on the value addition at 2.5% effective from 01 October 2022 onwards.

21.1 Composition

	BANK		GROUP	
For the year ended 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Value Added Tax on financial services (Note 21.1.1)	1,209,964	1,217,068	1,209,964	1,217,068
Social security contribution levy	42,268	–	42,268	–
Change in estimates related to prior years				
– Debt repayment levy	1,685	–	1,685	–
– Nation Building Tax	(616)	–	(616)	–
Total	1,253,301	1,217,068	1,253,301	1,217,068

21.1.1 Value Added Tax on Financial Services

	BANK		GROUP	
For the year ended 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Current year	1,235,451	1,218,859	1,235,451	1,218,859
Change in estimates related to prior years	(25,487)	(1,791)	(25,487)	(1,791)
Total	1,209,964	1,217,068	1,209,964	1,217,068

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.

The Inland Revenue (Amendment) Act No. 45 of 2022 was certified by the Speaker on 19 December 2022. The standard rate of Income Tax has been increased to 30% from 24% w.e.f. 1 October 2022. The increase in income tax rate to 30% in mid-year has resulted in two tax rates being applicable for the Year of Assessment 2022/23. The Bank/Group has computed the current tax payable on a pro rata basis (i.e. 50% for first six months and balance 50% for second six months) for the Year of Assessment 2022/23.

As per Part I : Sec. (I) of the Gazette notification issued on 25 October 2022 under Inland revenue Act No. 24 of 2017, Sub section (2) and (3) of Section 66 , the impairment charges of Stage 3 credit facilities classified as per the Sri Lanka Accounting Standards (SLFRS 9) have been considered as allowable deduction (after adjusting for specifications given under Sec 1 of Schedule 1 of the said Gazette notification).

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred Taxation

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Temporary differences in relation to right-of-use-asset and lease liability are regarded as a net package (ROA asset) for the purpose of recognising deferred tax.

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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 asset/liability have been computed at the revised income tax rate of 30%.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

22.1 Amount Recognised in Income Statement

	BANK		GROUP	
For the year ended 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Current tax expense				
Current year	3,136,881	1,741,715	3,251,658	1,816,547
Change in estimates related to prior years	(77,431)	(181,283)	(77,431)	(184,967)
	3,059,450	1,560,432	3,174,227	1,631,580
Economic service charge write-off	–	–	–	52
	3,059,450	1,560,432	3,174,227	1,631,632
Deferred tax expense				
Origination/(reversal) of deferred tax liability (Note 40.1)	38,321	(214,723)	77,869	(201,649)
Origination of deferred tax asset (Note 40.2)	(3,171,650)	(241,108)	(3,181,795)	(236,418)
	(3,133,329)	(455,831)	(3,103,926)	(438,067)
Tax (reversal)/expense on continuing operations	(73,879)	1,104,601	70,301	1,193,565

The Group has considered the relevant provisions of the Inland Revenue Act No. 24 of 2017 and amendments thereto when computing the current and deferred tax assets/liabilities.

NOTES TO THE FINANCIAL STATEMENTS

22.2 Amount Recognised in OCI

For the year ended 31 December	BANK 2022 LKR '000	BANK 2021 LKR '000	GROUP 2022 LKR '000	GROUP 2021 LKR '000
Items that are or may be reclassified subsequently to income statement				
Movement in fair value reserve [fair value through other comprehensive income (FVOCI) debt instruments]	(45,409)	1,125,356	(45,409)	1,125,356
Cash flow hedges	(153,495)	16,886	(153,495)	16,886
	(198,904)	1,142,242	(198,904)	1,142,242
Items that will not be reclassified to income statement				
Gain on remeasurement of defined benefit liability – Gratuity (Note 47.1.1.2)	(38,296)	4,204	(40,281)	4,277
Gain on remeasurement of defined benefit liability – Pension fund (Note 47.1.2.1, 47.1.2.2)	(52,962)	–	(52,962)	–
Equity investments at FVTOCI – Net change in fair value (Note 33.2)	(64,234)	–	(64,234)	–
	(155,492)	4,204	(157,477)	4,277
Total deferred tax expense recognised in OCI	(354,396)	1,146,446	(356,381)	1,146,519

22.3 Reconciliation of Effective Tax Rate with Income Tax Rate

For the year ended 31 December	BANK 2022 %	BANK 2022 LKR '000	BANK 2021 %	BANK 2021 LKR '000	GROUP 2022 %	GROUP 2022 LKR '000	GROUP 2021 %	GROUP 2021 LKR '000
Tax using 24%, 30% tax rate on profit before tax (PBT)	27.00*	658,658	24.00	1,038,351	27.00*	840,297	24.00	1,166,082
Adjustment in respect of current income tax of prior periods	(3.17)	(77,431)	(4.19)	(181,283)	(2.49)	(77,431)	(3.81)	(184,967)
Non-deductible expenses	216.07	5,270,934	45.23	1,956,691	167.76	5,267,252	40.87	1,985,958
Allowable deductions	(108.85)	(2,655,381)	(27.16)	(1,175,102)	(85.44)	(2,705,444)	(24.85)	(1,207,496)
Dividend income	(13.42)	(327,350)	(5.46)	(236,032)	(10.52)	(327,350)	(4.80)	(236,032)
Tax incentives	(2.55)	(62,109)	(4.27)	(184,591)	(2.24)	(69,631)	(3.75)	(184,591)
Taxable timing difference from capital allowances on assets	3.33	81,180	4.73	204,713	2.61	81,180	4.16	204,713
Tax losses from prior year	–	–	–	–	(0.22)	(6,724)	–	–
Taxed at different rates	7.01	170,949	3.18	137,685	5.53	172,077	1.81	87,913
Current tax expense	125.42	3,059,450	36.06	1,560,432	101.99	3,174,226	33.63	1,631,580

*Average of applicable income tax rates of 24% and 30% applicable for the year of assessment 2022/23.

NOTES TO THE FINANCIAL STATEMENTS

22.4 Surcharge Tax

A one off surcharge tax of LKR 1,232 Mn was paid by the Bank (Group – LKR 1,275 Mn), calculated at 25% of the taxable income for the year of assessment 2020/21 and was directly set off against the opening equity in line with the Statement of Alternative Treatment (SoAT) on accounting for the surcharge tax issued by The Institute of Chartered Accountants of Sri Lanka.

The impact of the surcharge tax under the Surcharge Tax Act is given below:

	BANK LKR '000	GROUP LKR '000
Profit after tax for the year ended 31 December 2020	2,388,035	2,846,785
Surcharge tax levied under Surcharge Tax Act	(1,232,490)	(1,274,906)
Comparable profit for the year ended 31 December 2020	1,155,545	1,571,879

23. Earnings per Share

Accounting Policy

The Group presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

23.1 Basic Earnings per Share

	BANK		GROUP	
For the year ended 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Profit attributable to equity holders of the Bank (LKR '000)	2,513,352	3,221,863	2,932,475	3,548,938
Weighted average number of ordinary shares	372,172,073	317,816,374	372,172,073	317,816,374
Basic earnings per ordinary share – LKR	6.75	10.14	7.88	11.17

23.2 Weighted Average Number of Ordinary Shares for Basic Earnings per Share

	Outstanding number of shares		Weighted average number of shares	
For the year ended 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Number of shares in issue at beginning	320,522,436	305,997,250	320,522,436	305,130,164
Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2021, 2020	16,325,421	14,525,186	13,060,337	12,686,210
Rights issue	65,818,199	–	38,589,300	–
Weighted average number of ordinary shares for basic earnings per ordinary share calculation	402,666,056	320,522,436	372,172,073	317,816,374

NOTES TO THE FINANCIAL STATEMENTS

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 2.00 per share which is to be satisfied in the form of allotment of new ordinary shares for the year ended 31 December 2022. (The Bank approved a final dividend of LKR 3.00 per share for the year ended 31 December 2021 and this was satisfied in the form of allotment of new ordinary shares).

	BANK	
For the year ended 31 December	**2022**	**2021**
Dividend per share (LKR)	2.00	3.00

Compliance with Section 56 and 57 of Companies Act No. 7 of 2007

As required by Section 56 of the Companies Act No. 7 of 2007 the Board of Directors of the Company satisfied the solvency test in accordance with Section 57, subject to relevant regulatory adherence, prior to declaring the final dividend. A statement of solvency duly completed and signed by the Directors on 17 February 2023 have been audited by Messrs KPMG.

Dividend Declared During the Year

	BANK	
For the year ended 31 December	**2022 LKR '000**	**2021 LKR '000**
Final scrip dividend declared – LKR 2.00 per share (2021 – LKR 3.00)	961,567	917,992
	961,567	917,992

NOTES TO THE FINANCIAL STATEMENTS

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 2022	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	–	–	16,122,565	16,122,565
Balances with Central Bank of Sri Lanka	27	–	–	9,030,868	9,030,868
Placements with banks	28	–	–	15,224,692	15,224,692
Derivative financial assets	29	20,473,544	–	–	20,473,544
Financial assets measured at fair value through profit or loss	30	1,429,149	–	–	1,429,149
Financial assets at amortised cost – Loans to and receivables from other customers	31	–	–	369,072,030	369,072,030
Financial assets at amortised cost – Debt and other instruments	32	–	–	50,947,926	50,947,926
Financial assets measured at fair value through other comprehensive income	33	–	63,319,060	–	63,319,060
Other assets	41	–	–	7,791,475	7,791,475
Total financial assets		21,902,693	63,319,060	468,189,556	553,411,309
Financial liabilities					
Due to banks	43	–	–	15,857,994	15,857,994
Derivative financial liabilities	29	84,670	–	–	84,670
Financial liabilities at amortised cost – Due to depositors	44	–	–	370,314,026	370,314,026
Financial liabilities at amortised cost – Due to other borrowers	45	–	–	81,145,692	81,145,692
Debt securities issued	46	–	–	16,304,115	16,304,115
Other liabilities	49	–	–	8,101,155	8,101,155
Subordinated term debt	50	–	–	18,399,991	18,399,991
Total financial liabilities		84,670	–	510,122,973	510,207,643

NOTES TO THE FINANCIAL STATEMENTS

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
–	–	16,126,635	16,126,635
–	–	9,030,868	9,030,868
–	–	15,242,493	15,242,493
20,473,544	–	–	20,473,544
1,429,149	–	–	1,429,149
–	–	369,072,030	369,072,030
–	–	50,947,926	50,947,926
–	63,319,060	–	63,319,060
–	–	7,957,934	7,957,934
21,902,693	63,319,060	468,377,886	553,599,639
–	–	15,857,994	15,857,994
84,670	–	–	84,670
–	–	369,746,855	369,746,855
–	–	81,145,692	81,145,692
–	–	16,304,115	16,304,115
–	–	8,288,066	8,288,066
–	–	18,399,991	18,399,991
84,670	–	509,742,713	509,827,383

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2021	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	–	–	10,688,255	10,688,255
Balances with Central Bank of Sri Lanka	27	–	–	9,359,241	9,359,241
Placements with banks	28	–	–	6,288,006	6,288,006
Derivative financial assets	29	280,235	–	–	280,235
Financial assets measured at fair value through profit or loss	30	218,875	–	–	218,875
Financial assets at amortised cost – Loans to and receivables from other customers	31	–	–	365,900,540	365,900,540
Financial assets at amortised cost – Debt and other instruments	32	–	–	26,674,962	26,674,962
Financial assets measured at fair value through other comprehensive income	33	–	54,329,436	–	54,329,436
Other assets	41	–	–	2,855,254	2,855,254
Total financial assets		499,110	54,329,436	421,766,258	476,594,804
Financial liabilities					
Due to banks	43	–	–	3,844,701	3,844,701
Derivative financial liabilities	29	814,219	–	–	814,219
Financial liabilities at amortised cost – Due to depositors	44	–	–	319,861,013	319,861,013
Financial liabilities at amortised cost – Due to other borrowers	45	–	–	69,094,264	69,094,264
Debt securities issued	46	–	–	16,297,256	16,297,256
Other liabilities	49	–	–	4,470,497	4,470,497
Subordinated term debt	50	–	–	18,387,276	18,387,276
Total financial liabilities		814,219	–	431,955,007	432,769,226

NOTES TO THE FINANCIAL STATEMENTS

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
–	–	10,690,873	10,690,873
–	–	9,359,241	9,359,241
–	–	6,332,533	6,332,533
280,235	–	–	280,235
218,875	–	–	218,875
–	–	365,900,540	365,900,540
–	–	26,674,962	26,674,962
–	54,333,429	–	54,333,429
–	–	2,916,565	2,916,565
499,110	54,333,429	421,874,714	476,707,253
–	–	3,844,701	3,844,701
814,219	–	–	814,219
–	–	319,362,372	319,362,372
–	–	69,094,264	69,094,264
–	–	16,297,256	16,297,256
–	–	4,601,683	4,601,683
–	–	18,387,276	18,387,276
814,219	–	431,587,552	432,401,771

NOTES TO THE FINANCIAL STATEMENTS

26. Cash and Cash Equivalents

Accounting Policy

Cash and cash equivalents include cash in hand, demand placements with banks and highly liquid financial assets with original maturities within three months or less from the date of acquisition that are subject to an insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments. These items are brought to financial statements at face values or the gross values, where appropriate.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Statement of Cash Flows

The statement of cash flows has been prepared by using the "Direct Method" of preparing cash flows in accordance with the Sri Lanka Accounting Standard – LKAS 7 on "Statement of Cash Flows". A reconciliation of the profit for the year to operating cash flows before changes in operating assets and liabilities is also presented for comparability.

	BANK		GROUP	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Cash in hand	8,950,160	6,102,551	8,950,300	6,102,691
Balances with banks	7,172,405	4,585,704	7,176,335	4,588,182
	16,122,565	10,688,255	16,126,635	10,690,873

26.1 Analysis by Currency

	BANK		GROUP	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Cash in hand	8,950,160	6,102,551	8,950,300	6,102,691
Held in local currency	8,798,108	6,082,002	8,798,248	6,082,142
Held in foreign currency	152,052	20,549	152,052	20,549
Balances with banks	7,172,405	4,585,704	7,176,335	4,588,182
Local banks	–	–	3,930	2,478
Foreign banks	7,172,405	4,585,704	7,172,405	4,585,704
	16,122,565	10,688,255	16,126,635	10,690,873

27. Balances with Central Bank of Sri Lanka

Accounting Policy

Balances with Central Banks are carried at amortised cost in the statement of financial position.

	BANK		GROUP	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Statutory balances with Central Bank of Sri Lanka	9,030,868	9,359,241	9,030,868	9,359,241

As required by the provisions of Section 93 of Monetary Law Act, a minimum cash balance is maintained with the Central Bank of Sri Lanka. The minimum cash reserve requirement on rupee deposit liabilities is prescribed as a percentage of rupee deposit liabilities. The percentage is varied from time to time. Applicable minimum ratio was increased to 4% with effect from 1 September 2021. There are no reserve requirements for deposit liabilities of the Foreign Currency Banking Unit and foreign currency deposit liabilities in the Domestic Banking Unit.

NOTES TO THE FINANCIAL STATEMENTS

28. Placements with Banks

See accounting policies in Note 5.3.

As at 31 December	BANK 2022 LKR '000	BANK 2021 LKR '000	GROUP 2022 LKR '000	GROUP 2021 LKR '000
Central Bank of Sri Lanka	3,877,932	787,108	3,877,932	787,108
Bank of Ceylon	–	4,500,734	–	4,500,734
Pan Asia Bank PLC	–	1,000,164	–	1,000,164
Commercial Bank of Ceylon PLC	–	–	17,801	44,527
Nations Trust Bank	1,816,155	–	1,816,155	–
National Development Bank PLC	3,299,218	–	3,299,218	–
National Bank Of Ras Ai Khaimah	6,231,387	–	6,231,387	–
Total	15,224,692	6,288,006	15,242,493	6,332,533

29. Derivative Financial Assets/Liabilities

Accounting Policy

Derivative assets held-for-risk management purposes include all derivative assets that are not classified as trading assets and are measured at fair value in the Statement of Financial Position.

Policy Applicable Generally to Hedging Relationships

The Group designates certain derivatives held-for-risk management as well as certain non derivative financial instruments as hedging instruments in qualifying hedging relationships.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both on inception of the hedging relationship and on an ongoing basis, of whether the hedging instrument is expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80 – 125%. For a cash flow hedge of a forecast transaction, the Group makes an assessment of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

29.1 Cash Flow Hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in the hedging reserve is reclassified from OCI to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the income statement and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a Central Counterparty (CCP) by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated. If the hedged cash flows are no longer expected to occur, then the Group immediately reclassifies the amount in the hedging reserve from OCI to profit or loss. For terminated hedging relationships, if the hedged cash flows are still expected to occur, then the amount accumulated in the hedging reserve is not reclassified until the hedged cash flows affect profit or loss; if the hedged cash flows are expected to affect profit or loss in multiple reporting periods, then the Group reclassifies the amount in the hedging reserve from OCI to profit or loss on a straight line basis.

The Bank uses cross currency swaps (CCS) to hedge the interest rate risk and exchange rate risk arising from a floating rate borrowing denominated in foreign currencies. The hedging relationship is designated as cash flow hedge since the Bank is expecting to hedge the variability arise by the

NOTES TO THE FINANCIAL STATEMENTS

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

	BANK		GROUP	
As at 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Instrument type				
Interest rate and foreign exchange				
Cross currency swap	–	73,788	–	73,788
Foreign exchange				
Forward foreign exchange contracts – Currency swaps	20,287,713	206,441	20,287,713	206,441
– Other	185,831	6	185,831	6
	20,473,544	280,235	20,473,544	280,235

NOTES TO THE FINANCIAL STATEMENTS

29.4.2 Liabilities

	BANK		GROUP	
As at 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Instrument type				
Foreign exchange				
Forward foreign exchange contracts – Currency swaps	22,606	814,193	22,606	814,193
– Other	62,064	26	62,064	26
	84,670	814,219	84,670	814,219

29.4.3 Hedge Accounting

Hedging instruments Foreign currency risk	**Line item in the statement of financial position**	**2022**		**2021**	
		Asset/ (liabilities) LKR '000	**Amount set off in the income statements LKR '000**	**Asset/ (liabilities) LKR '000**	**Amount set off in the income statements LKR '000**
Fair value hedge					
Hedge of foreign exchange risk arising from foreign currency denominated long term liabilities using FX forwards.	Derivative assets (liabilities) held-for-risk management purposes	(11,651)	1,280	112,412	1,330
Cashflow hedge					
Hedge of foreign exchange risk arising from foreign currency denominated long term liabilities using FX forwards.	Derivative assets/(liabilities) held-for-risk management purposes	20,266,803	(20,208,750)	(357,466)	107,177

In arriving the derivative asset, fair value of the derivative asset credit value adjustment have been considered.

The amount relating to items designated as hedged items were as follow:

Line item in the statement of financial position in which the hedged items are included.	**2022**		**2021**	
	Carrying amount of liability LKR '000	**Amount set off in the income statement LKR '000**	**Carrying amount of liability LKR '000**	**Amount set off in the income statement LKR '000**
Due to other customers	–	–	–	–
Due to other borrowers	51,198,510	(20,207,470)	30,419,376	108,507
	51,198,510	(20,207,470)	30,419,376	108,507

NOTES TO THE FINANCIAL STATEMENTS

Following table summarises the impact on the line items in income statement.

Impact on income statements	2022 Balance before the hedging adjustment LKR '000	2022 Hedging adjustment LKR '000	2022 Balance after the hedging adjustment LKR '000	2021 Balance before the hedging adjustment LKR '000	2021 Hedging adjustment LKR '000	2021 Balance after the hedging adjustment LKR '000
Foreign exchange gain/(loss) (Note 13)	(20,218,494)	20,207,470	(11,024)	345,003	108,507	236,496
Forward exchange fair value changes – Contracts with commercial banks and other customers (Note 14)	298,579	1,280	299,859	(109,041)	(108,507)	(217,548)
Interest income	67,486,641	(26,284)	67,460,357	36,813,258	(214,258)	36,599,000
Interest expense	41,417,330	(26,284)	41,391,046	24,160,514	(214,258)	23,946,256

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/GROUP 2022 Fair value LKR '000	BANK/GROUP 2021 Fair value LKR '000
Quoted equity securities	30.1	598,972	181,425
Quoted units in Unit Trust	30.2	3,740	3,740
Unquoted units in Unit Trust	30.3	31,004	33,710
Treasury Bills		795,433	–
		1,429,149	218,875

NOTES TO THE FINANCIAL STATEMENTS

30.1 Quoted Equity Securities – Bank/Group

As at 31 December	31 December 2022			31 December 2021		
	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	45,000
Hayleys PLC	997,096	101,500	67,802	600,000	64,452	78,000
Lanka Tiles PLC	721,393	74,155	33,256	141,793	10,969	15,596
Kelani Cables PLC	87,450	23,179	22,715	87,450	23,179	42,829
ACL Cables PLC	800,000	85,673	56,080	–	–	–
Sunshine Holdings PLC	1,000,000	51,403	34,800	–	–	–
Hayleys Fabric PLC	1,842,168	60,074	41,633	–	–	–
Hela Apparel Holdings PLC	4,000,000	54,157	34,000	–	–	–
Expolanka Holdings PLC	110,000	24,082	20,048	–	–	–
Agstar PLC	4,000,000	74,238	61,600	–	–	–
Royal Ceramic Lanka PLC	500,000	20,563	14,150	–	–	–
Lank IOC PLC	1,050,000	230,150	212,888	–	–	–
		799,174	598,972		132,411	181,425

30.2 Quoted Units in Unit Trust – Bank/Group

As at 31 December	2022			2021		
	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

	2022			2021		
	Number of units	**Cost LKR '000**	**Fair value LKR '000**	**Number of units**	**Cost LKR '000**	**Fair value LKR '000**
NAMAL Growth Fund	155,000	1,539	22,541	155,000	1,539	23,909
National Equity Fund	250,000	2,657	8,463	250,000	2,657	9,801
		4,196	31,004	–	4,196	33,710

NOTES TO THE FINANCIAL STATEMENTS

31. 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".

	BANK		GROUP	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Gross loans and receivables	402,975,830	384,958,590	402,975,830	384,958,590
Allowance for impairment (Note 31.1.4)	(33,903,800)	(19,058,050)	(33,903,800)	(19,058,050)
Net loans and receivables	369,072,030	365,900,540	369,072,030	365,900,540
Gross loans and receivables				
Stage 1	286,295,382	309,103,252	286,295,382	309,103,252
Stage 2	70,805,983	45,612,740	70,805,983	45,612,740
Stage 3	45,874,465	30,242,598	45,874,465	30,242,598
	402,975,830	384,958,590	402,975,830	384,958,590
Allowance for impairment				
Stage 1	4,495,287	2,202,668	4,495,287	2,202,668
Stage 2	5,677,290	1,989,584	5,677,290	1,989,584
Stage 3	23,731,223	14,865,798	23,731,223	14,865,798
	33,903,800	19,058,050	33,903,800	19,058,050
Net loans and receivables	369,072,030	365,900,540	369,072,030	365,900,540

NOTES TO THE FINANCIAL STATEMENTS

31.1 Analysis

31.1.1 By Product

As at 31 December	BANK 2022 LKR '000	BANK 2021 LKR '000	GROUP 2022 LKR '000	GROUP 2021 LKR '000
Overdrafts	54,838,518	46,132,702	54,838,518	46,132,702
Trade finance	42,210,283	39,875,578	42,210,283	39,875,578
Lease rentals receivable (Note 31.1.1.1)	17,237,903	23,761,600	17,237,903	23,761,600
Credit cards	5,552,272	3,669,701	5,552,272	3,669,701
Pawning	9,619,908	5,970,069	9,619,908	5,970,069
Staff loans	2,722,811	2,656,268	2,722,811	2,656,268
Term loans	270,698,863	262,211,144	270,698,863	262,211,144
Asset back notes	95,272	681,528	95,272	681,528
Gross loans and receivables	402,975,830	384,958,590	402,975,830	384,958,590

Repayment deferral packages offered to customers

The Bank has offered various forms of assistance to customers to counteract the impact of economic crisis on the ability of customers to meet their loan obligations, 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 31.1.4 for details of the impact of deferrals when determining if there has been a Significant Increase in Credit Risk (SICR).

31.1.1.1 Lease Rentals Receivable

	BANK 2022 LKR '000	BANK 2021 LKR '000	GROUP 2022 LKR '000	GROUP 2021 LKR '000
Gross investment in leases:				
Lease rentals receivable				
– within one year	9,837,439	12,061,658	9,837,439	12,061,658
– one to five years	10,307,437	16,285,235	10,307,437	16,285,235
	20,144,876	28,346,893	20,144,876	28,346,893
Less: Deposit of rentals	11,430	12,442	11,430	12,442
Unearned income on rentals receivable				
– within one year	1,787,982	2,485,233	1,787,982	2,485,233
– one to five years	1,107,561	2,087,618	1,107,561	2,087,618
	17,237,903	23,761,600	17,237,903	23,761,600

NOTES TO THE FINANCIAL STATEMENTS

31.1.2 By Currency

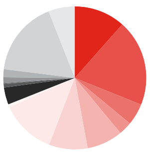
	BANK		GROUP	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Sri Lankan Rupee	329,382,371	337,111,155	329,382,371	337,111,155
United States Dollar	72,398,864	46,979,020	72,398,864	46,979,020
Great Britain Pound	970,884	702,306	970,884	702,306
Australian Dollar	45,966	19,307	45,966	19,307
Euro	177,745	146,802	177,745	146,802
Gross loans and receivables	402,975,830	384,958,590	402,975,830	384,958,590

31.1.3 By Industry

	BANK		GROUP	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Agriculture, forestry and fishing	46,546,272	40,827,861	46,546,272	40,827,861
Manufacturing	78,732,730	68,451,049	78,732,730	68,451,049
Tourism	19,757,213	16,537,932	19,757,213	16,537,932
Transportation and storage	12,053,681	9,379,401	12,053,681	9,379,401
Construction	32,713,107	37,306,964	32,713,107	37,306,964
Infrastructure development	35,197,051	40,393,111	35,197,051	40,393,111
Wholesale and retail trade	50,128,157	51,206,160	50,128,157	51,206,160
Information technology and communication services	2,821,899	2,330,228	2,821,899	2,330,228
Financial services	15,565,468	20,393,853	15,565,468	20,393,853
Professional, scientific and technical activities	3,300,176	3,289,367	3,300,176	3,289,367
Arts, entertainment and recreation	1,004,770	1,016,926	1,004,770	1,016,926
Education	5,013,693	4,392,320	5,013,693	4,392,320
Health care, social services and support services	7,296,365	6,107,068	7,296,365	6,107,068
Consumption	68,856,876	68,626,259	68,856,876	68,626,259
Lending to overseas entities	23,988,372	14,700,091	23,988,372	14,700,091
Gross loans and receivables	402,975,830	384,958,590	402,975,830	384,958,590

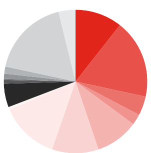
NOTES TO THE FINANCIAL STATEMENTS

ANALYSIS BY INDUSTRY – 2022



- Agriculture, forestry and fishing **11.55%**
- Manufacturing **19.54%**
- Tourism **4.90%**
- Transportation and storage **2.99%**
- Construction **8.12%**
- Infrastructure development **8.73%**
- Wholesale and retail trade **12.44%**
- Information technology and communication services **0.70%**
- Financial services **3.86%**
- Professional, scientific and technical activities **0.82%**
- Arts, entertainment and recreation **0.25%**
- Education **1.24%**
- Health care, social services and support services **1.81%**
- Consumption **17.09%**
- Lending to overseas entities **5.95%**

ANALYSIS BY INDUSTRY – 2021



- Agriculture, forestry and fishing **10.61%**
- Manufacturing **17.78%**
- Tourism **4.30%**
- Transportation and storage **2.44%**
- Construction **9.69%**
- Infrastructure development **10.49%**
- Wholesale and retail trade **13.30%**
- Information technology and communication services **0.61%**
- Financial services **5.30%**
- Professional, scientific and technical activities **0.85%**
- Arts, entertainment and recreation **0.26%**
- Education **1.14%**
- Health care, social services and support services **1.59%**
- Consumption **17.83%**
- Lending to overseas entities **3.82%**

31.1.4 Movements in Impairment During the Year

	BANK/GROUP	
As at 31 December	**2022 LKR '000**	**2021 LKR '000**
Stage 1		
Balance at beginning	2,202,668	1,305,740
Charge to income statement	2,292,619	896,995
Write-off during the year	–	(67)
Balance as at 31 December	4,495,287	2,202,668
Stage 2		
Balance at beginning	1,989,584	1,065,570
Charge to income statement	3,687,706	924,214
Write-off during the year	–	(200)
Balance as at 31 December	5,677,290	1,989,584
Stage 3		
Balance at beginning	14,865,798	12,951,966
Charge to income statement	7,947,831	2,024,891
Effect of foreign currency movement	964,206	102,856
Write-off during the year	(46,612)	(213,315)
Other movements	–	(600)
Balance as at 31 December	23,731,223	14,865,798
Total impairment	33,903,800	19,058,050

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 judgments and associated assumptions have been made with the context of the impact of the ongoing economic crisis 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. The high degree of uncertainty that characterizes the internal economic environment will lead to deterioration in the creditworthiness of corporate and individuals, to increase non-performing loans. These factors are considered in estimating the impairment provisions during the year. However the extent of expected credit deterioration will depend on the recovery process adopted by the government and the response of the economy to such recovery actions. Accordingly the bank's ECL estimates are inherently uncertain and as a result, actual results may differ from these estimates.

NOTES TO THE FINANCIAL STATEMENTS

Judgement/Assumption	Description	Considerations for the year ended 31 December 2022/21
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 economic crisis, various moratorium schemes have been offered to eligible customers. When customer is provided assistance, an assessments have been carried out based on the discussions with the customers on the future business cashflows, financial position, the sectors in which the businesses operate, and ability to recommence loan repayments at the end of the moratorium/debt concessionary period to conclude whether there is a SICR.
Measuring both 12-month and lifetime credit losses	The probability of default (PD), loss given default (LGD) and exposure at default (EAD) credit risk parameters used in determining ECL are point-intime measures reflecting the relevant forward looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio’s point-in-time sensitivity.	The PD, EAD and LGD models are subject to the Bank’s policy on impairment model that stipulates periodic model monitoring, periodic revalidation and the approval procedures and authorities according to model materiality.
		There were no material changes to the policies during the year ended 31 December 2022. 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.
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 2022, the base case assumptions have been updated to reflect the rapidly evolving situation with respect to economic crisis by using the economic forecast.

NOTES TO THE FINANCIAL STATEMENTS

Judgement/Assumption	Description	Considerations for the year ended 31 December 2022/21
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 economic crisis. In addition to the base case forecast which reflects the negative economic consequences of economic crisis, greater weighting has been (80%) 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 economic crisis.
	The uncertainty associated with the economic crisis 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 economic crisis overlays) which add to the modelled ECL provision have been made for risks particular for risk elevated sectors identified by the Bank.

32. Financial Assets at Amortised Cost – Debt and Other Instruments

Accounting Policy

See accounting policies in Notes 5.3 and 17.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE FINANCIAL STATEMENTS

	BANK/GROUP					
	2022			2021		
As at 31 December	Stage 1 LKR '000	Stage 2 LKR '000	Total LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Total LKR '000
Sri Lanka Government Securities						
Government of Sri Lanka Treasury Bills	1,732,529	–	1,732,529	10,703,280	–	10,703,280
Government of Sri Lanka Treasury Bonds	44,821,353	–	44,821,353	6,100,721	–	6,100,721
Sri Lanka developments bonds		370,671	370,671	4,902,802	–	4,902,802
Government of Sri Lanka sovereign bonds (Note 32.1)	–	5,215,810	5,215,810	4,652,352	–	4,652,352
Other Investments						
Quoted debentures (Note 32.4)	763,635	–	763,635	879,281	–	879,281
Allowance for Impairment on financial assets at amortised cost – Debt and other instruments (Note 32.5)	(163)	(1,955,909)	(1,956,072)	(563,474)	–	(563,474)
Total	47,317,354	3,630,572	50,947,926	26,674,962	–	26,674,962

32.1 Government of Sri Lanka Sovereign Bonds

	BANK/GROUP
	2022 LKR '000
Balance at beginning	4,652,352
Transfer From fair value through other comprehensive income	1,738,665
Coupon accrual/ discount amortisation	712,719
Matured and cash received	(374,683)
Transfers to other assets (Matured)	(5,036,528)
Exchange gain	3,523,285
Balance as at 31 December	5,215,810

32.1.1 Sri Lanka Government Securities

This includes International Sovereign Bonds (ISBs) and foreign currency denominated Sri Lanka Development Bonds (SLDBs). As per the Interim Policy regarding the servicing of Sri Lanka's External Public Debt issued by Ministry of Finance on 12 April 2022, the Sri Lankan Government has suspended normal debt servicing of all ISBs and foreign currency denominated SLDBs which fall within the category of Affected Debts (as defined in the said Policy) for an interim period pending an orderly and consensual restructuring of those obligations in a manner consistent with an economic adjustment programme supported by the IMF.

As explained above, based on the Interim Policy regarding the servicing of Sri Lanka's External Public Debt issued by Ministry of Finance on 12 April 2022, all ISBs and foreign currency denominated SLDBs which fall within the category of Affected Debts have been classified under Stage 2 due to suspension of normal debt servicing for an interim period.

NOTES TO THE FINANCIAL STATEMENTS

32.2 By Collateralisation

As at 31 December	BANK/GROUP 2022 LKR '000	2021 LKR '000
Pledged as collateral	–	865,200
Unencumbered	52,903,998	26,373,236
	52,903,998	27,238,436

32.3 By Currency

As at 31 December	BANK/GROUP 2022 LKR '000	2021 LKR '000
Sri Lankan Rupee	47,317,517	17,683,282
United States Dollar	5,586,481	9,555,154
	52,903,998	27,238,436

32.4 Quoted Debentures Bank/Group

	2022		2021	
As at 31 December	Number of debentures	Cost of investment LKR '000	Number of debentures	Cost of investment LKR '000
LB Finance PLC	–	–	1,155,200	116,344
People's Leasing and Finance PLC	2,500,000	272,217	2,500,000	272,217
Singer (Sri Lanka) PLC	2,500,000	273,380	2,500,000	273,380
Lanka Orix Leasing Company PLC	2,000,000	218,038	2,000,000	217,340
Total investments in quoted debentures - Bank/Group		763,635		879,281

32.5 Movement in Impairment During the Year

As at 31 December	BANK/GROUP 2022 LKR '000	2021 LKR '000
Stage	Stage 2	Stage 1
Balance at beginning	563,474	271,515
Transferred from FVOCI during the year (Note 33.5)	215,095	–
Transferred to other assets (Note 41.1.2)	(607,764)	–
Charge to income statement (Note 17)	1,785,267	291,959
Balance as at 31 December	1,956,072	563,474

NOTES TO THE FINANCIAL STATEMENTS

The Bank's total exposure to unmatured ISBs and SLDBs are presented in Note 32.1. The main uncertainties regarding the estimations for the recoverability of the Bank's total exposure relate to the debt service capacity of the Government of Sri Lanka, which, in turn, is affected by the development of the prevailing macroeconomic environment as well as by the levels of liquidity of the Government and the outcome of the debt restructuring negotiations with the International Monetary Fund (IMF) and the resultant comprehensive debt restructuring programme. Due to the uncertainties relating to the above, the Bank has used significant judgement using the information available as at reporting date to estimate the recoverable value. Accordingly an impairment charge has been recognised based on the expected recoverable value.

32.3.1 Reclassifications of Financial Instrument

Considering the unprecedented changes in the macro-economic conditions, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has decided to issue the "Statement of Alternative Treatment (SoAT) on Reclassification of Debt Portfolio". This SoAT will provide a temporary practical expedient to permit the entities to reclassify the debt portfolio measured at Fair Value through Other Comprehensive Income (FVTOCI) to amortised cost.

The Bank used this option to reclassify long term debt instruments subsequent to the initial recognition. The fair value of the debt portfolio reclassified during year 2022 and remaining as at 31 December 2022 amounted to LKR 16.07 Bn. and cumulative fair value loss thereon amounted to LKR 4.5 Bn. (net of tax LKR 3.6 Bn.).

33. 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.

	BANK		GROUP	
As at 31 December	2022 Fair value LKR '000	2021 Fair value LKR '000	2022 Fair value LKR '000	2021 Fair value LKR '000
Equity Securities				
Quoted (Note 33.1)	8,171,584	12,337,187	8,171,584	12,337,187
Unquoted (Note 33.2)	221,419	216,602	221,419	220,595
	8,393,003	12,553,789	8,393,003	12,557,782
Government securities				
Government of Sri Lanka Treasury bills	46,559,930	19,516,720	46,559,930	19,516,720
Government of Sri Lanka Treasury bonds	8,366,127	21,263,943	8,366,127	21,263,943
Government of Sri Lanka sovereign bonds	–	994,984	–	994,984
	54,926,057	41,775,647	54,926,057	41,775,647
Total	63,319,060	54,329,436	63,319,060	54,333,429

NOTES TO THE FINANCIAL STATEMENTS

33.1 Quoted Ordinary Shares

As at 31 December	2022			2021		
	Number of ordinary shares	Cost* LKR '000	Fair value LKR '000	Number of ordinary shares	Cost* LKR '000	Fair value LKR '000
Banks, Finance and Insurance						
Commercial Bank of Ceylon PLC - voting	141,453,570	8,808,942	7,100,969	136,272,121	8,400,125	10,806,379
Commercial Bank of Ceylon PLC - non-voting	292,541	23,631	12,082	281,246	22,787	20,250
National Development Bank PLC	3,372,735	494,971	107,928	3,168,904	480,711	218,337
		9,327,544	7,220,979		8,903,623	11,044,966
Chemicals and Pharmaceuticals						
Chemical Industries (Colombo) PLC - voting	393,750	5,611	33,469	991,600	14,131	64,454
Chemical Industries (Colombo) PLC - non-voting	630,000	6,301	35,028	1,557,600	15,577	76,478
		11,912	68,497		29,708	140,932
Construction and Engineering						
Access Engineering PLC	1,600,000	39,527	17,120	2,143,499	52,953	68,378
		39,527	17,120		52,953	68,378
Diversified Holdings						
Hayleys PLC	643,330	58,854	43,746	273,330	17,988	35,533
Hemas Holdings PLC	1,392,933	100,977	78,562	1,392,933	100,977	93,187
John Keells Holdings PLC	1,976,482	284,563	267,319	1,601,482	235,877	240,222
Melstacorp Ltd	2,069,940	90,053	95,631	2,069,940	90,053	116,124
		534,447	485,258		444,895	485,066
Hotels and Travels						
John Keells Hotels PLC	290,200	3,199	4,788	2,395,322	26,406	35,211
Investment Trusts						
Ceylon Guardian Investment Trust PLC	75,702	2,941	4,754	76,799	2,984	7,987
Ceylon Investment PLC	174,825	5,740	5,455	180,011	5,910	9,649
		8,681	10,209		8,894	17,636

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December	2022			2021		
	Number of ordinary shares	Cost* LKR '000	Fair value LKR '000	Number of ordinary shares	Cost* LKR '000	Fair value LKR '000
Manufacturing						
ACL Cables PLC	–	–	–	1,000,000	42,721	100,250
Ceylon Grain Elevators PLC	148,997	9,197	11,994	148,997	9,197	18,140
Royal Ceramics Lanka PLC	500,000	29,224	14,150	–	–	–
Teejay Lanka PLC	775,000	31,678	24,568	1,075,000	43,941	47,730
Tokyo Cement Company (Lanka) PLC – voting	1,570,000	97,985	51,810	1,570,000	97,985	93,886
Tokyo Cement Company (Lanka) PLC – non-voting	1,695,025	69,335	44,070	1,695,025	69,335	84,243
Hayleys Fabric PLC	2,000,000	79,828	45,200	2,000,000	79,828	82,400
Swisstek Ceylon PLC	109,998	3,371	1,727	494,196	15,144	22,733
Haycarb PLC	500,000	50,920	28,800	500,000	50,919	38,400
JAT Holdings PLC	101,200	2,732	1,255	101,200	2,732	2,176
Agstar PLC	1,808,385	31,703	27,849	–	–	–
		405,973	251,423		411,802	489,958
Power and Energy						
Lanka IOC PLC	360,000	72,419	72,990	–	–	–
Vallibel Power Erathna PLC	6,400,000	39,783	40,320	6,400,000	39,783	55,040
		112,202	113,310		39,783	55,040
Total quoted ordinary shares - Bank		10,443,485	8,171,584		9,918,064	12,337,187
Commercial Bank of Ceylon PLC – Equity Adjustment	–	1,454,863	–	–	1,454,863	–
Total quoted ordinary shares – Group		11,898,348	8,171,584		11,372,927	12,337,187

Transfer of gain or (losses) on disposal/write-off of equity investments at fair value through other comprehensive income to retained earning for the year ended 31 December 2022 is LKR 180.2 Mn.

Sector classification and fair value per share are based on the list published by Colombo Stock Exchange, as at the reporting date.

* Cost is reduced by write-off of diminution in value other than temporary in respect of Investments .

** During the year 2010, the status of the investment in equity capital of Commercial Bank of Ceylon PLC changed from an associate to investment security. At the time of change, carrying value of the Group including cumulative post acquisition reserves was considered as the cost of the investment.

NOTES TO THE FINANCIAL STATEMENTS

33.2 Unquoted Ordinary Shares

As at 31 December	2022			2021		
	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	194,722	9,184	918	192,940
Lanka Clear (Private) Limited	100,000	1,000	23,312	100,000	1,000	20,277
Lanka Financial Services Bureau Limited	200,000	2,000	–	200,000	2,000	–
Samson Reclaim Rubber Limited	116,700	–	–	116,700	–	–
Society for Worldwide Interbank Financial Telecommunication	6	3,385	3,385	6	3,385	3,385
Sun Tan Beach Resorts Limited	9,059,013	–	–	9,059,013	–	–
The Video Team (Private) Limited	30,000	–	–	30,000	–	–
Total unquoted ordinary shares – Bank		7,303	221,419		7,303	216,602
Agrithmics (Private) Limited	–	–	–	380,240	4,000	3,993
Total unquoted ordinary shares – Group		7,303	221,419		11,303	220,595

*Cost is reduced by write off of diminution in value other than temporary in respect of Investments.

33.3 Government of Sri Lanka Treasury Bills and Treasury Bonds – By Collateralisation

	BANK		GROUP	
As at 31 December	2022 Fair value LKR '000	2021 Fair value LKR '000	2022 Fair value LKR '000	2021 Fair value LKR '000
Pledged as collateral	2,547,500	4,424,434	2,547,500	4,424,434
Unencumbered	60,771,560	49,905,002	60,771,560	49,908,995
	63,319,060	54,329,436	63,319,060	54,333,429

33.4 Government of Sri Lanka Treasury Bills and Treasury Bonds – By Currency

	BANK		GROUP	
As at 31 December	2022 Fair value LKR '000	2021 Fair value LKR '000	2022 Fair value LKR '000	2021 Fair value LKR '000
Sri Lankan Rupee	63,319,060	53,334,452	63,319,060	53,338,445
United States Dollar	–	994,984	–	994,984
	63,319,060	54,329,436	63,319,060	54,333,429

NOTES TO THE FINANCIAL STATEMENTS

33.5 Movement in Impairment During the Year

As at 31 December	BANK/GROUP 2022 Fair value LKR '000	BANK/GROUP 2021 Fair value LKR '000
Stage 01		
Balance at beginning	77,525	20,852
Charge to income statement	137,570	56,673
Transferred to financial assets at amortised cost (Note 32.5)	(215,095)	–
Balance as at 31 December	–	77,525

34. Investments in Subsidiaries

Accounting Policy

"Subsidiaries" are entities controlled by the Group. The Group "controls" an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.
The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Bank's investments in subsidiaries are stated at cost less impairment losses. Reversals of impairment losses are recognised in the income statement, if there has been a change in the estimates used to determine the recoverable amount of the investment.

As at 31 December	Holdings	Number of shares	2022 Cost LKR '000	2022 Market value*/ Directors' valuation LKR '000	2021 Cost LKR '000	2021 Market value*/ Directors' valuation LKR '000
Unquoted						
DFCC Consulting (Pvt) Limited	100%	500,000	5,000	82,417	5,000	62,830
Lanka Industrial Estates Limited	51.16%	204,230,000	97,035	320,637	97,035	332,167
Synapsys Limited	100%	31,216,649	135,000	195,726	135,000	126,127
			237,035	598,780	237,035	521,124
Less: Allowance for impairment (Note 34.1)**			–	–	19,600	19,600
			237,035	598,780	217,435	501,524

NOTES TO THE FINANCIAL STATEMENTS

34.1 Movements in Impairment Allowance

As at 31 December	2022 LKR '000	2021 LKR '000
Balance at beginning	19,600	19,600
Reversal to income statement (Note 17)	(19,600)	–
Balance as at 31 December	–	19,600

*Market value is arrived by using the audited/reviewed financial statements as at the reporting date.

**Allowance for impairment is for the investment in Synapsys Limited. Based on the internal assessment carried out, the Board is of the view no provision is required.

35. 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.

	BANK		GROUP	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
National Asset Management Limited (Ownership 30%)				
Balance at beginning	35,270	35,270	35,608	31,699
Share of profit after tax	–	–	745	3,826
Share of other comprehensive (expenses)/income	–	–	(959)	83
Impairment charge to income statement (Note 17)	(2,101)	–	–	–
Balance as at 31 December	33,169	35,270	35,394	35,608

NOTES TO THE FINANCIAL STATEMENTS

35.1 Summarised Financial Information of Associates

As at 31 December	2022 LKR '000	2021 LKR '000
Percentage ownership interest (%)	30	30
Non-current assets	25,597	94,057
Current assets	134,014	37,847
Non-current liabilities	(21,351)	(4,135)
Current liabilities	(20,330)	(9,125)
Net assets (100%)	117,930	118,644
Group's share of net assets (30%)	35,379	35,593
Goodwill on acquisition	15	15
Adjusted Group's share of net assets (30%)	35,394	35,608

For the year ended 31 December	2022 LKR '000	2021 LKR '000
Revenue	42,207	81,346
Profit after tax (100%)	2,483	12,752
Other comprehensive (expenses)/income (100%)	(3,197)	278
Total comprehensive (expenses)/income (100%)	(714)	13,030
Group's share in profit	745	3,826
Group's share in other comprehensive (expenses)/income	(959)	83
Group's share in total comprehensive (expenses)/income	(214)	3,909
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.

NOTES TO THE FINANCIAL STATEMENTS

36. 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.

36.1 Investments in Joint Venture – Bank

As at 31 December	2022 Cost of Investment LKR '000	2021 Cost of Investment LKR '000
Acuity Partners (Pvt) Limited (ownership 50%)	755,000	755,000
	755,000	755,000

36. 2 Investment in Joint Venture – Group

As at 31 December	2022 LKR '000	2021 LKR '000
Share of identifiable asset and liabilities of joint venture as at the beginning of the year	2,989,559	2,633,950
Share of unrealised profit on disposal of investments*	(184,688)	(184,688)
Balance at beginning	2,804,871	2,449,262
Share of profit net of tax	331,974	292,836
Share of other comprehensive income	440,856	62,773
Group's share of net assets – 50%	3,577,701	2,804,871

NOTES TO THE FINANCIAL STATEMENTS

The following table summarises the financial information of Acuity Partners (Pvt) Ltd as included in its own financial statements, adjusted for fair value adjustments at acquisition and differences in accounting policies. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in Acuity Partners (Pvt) Ltd.

For the year ended 31 December	2022 LKR '000	2021 LKR '000
Percentage ownership interest (%)	50	50
Revenue	1,628,136	1,362,055
Expenses	(1,425,657)	(810,903)
Share of profit of equity accounted investees	955,115	662,654
Income tax expense	(344,664)	(269,192)
Profit after tax (100%)	812,930	944,614
Other comprehensive income (100%)	1,961,384	270,437
Total comprehensive income (100%)	2,774,314	1,215,051
Profit attributable to equity holders	663,947	585,672
Other comprehensive income attributable to equity holders	881,920	125,546
Total comprehensive income attributable to equity holders	1,545,867	711,218
Group's share in profit (50%)	331,974	292,836
Group's share in other comprehensive income (50%)	440,960	62,773
Group's share in total comprehensive income (50%)	772,934	355,609
Current assets	14,248,784	8,643,153
Non-current assets	14,351,970	13,770,952
Current liabilities	(13,723,115)	(10,174,719)
Non-current liabilities	(3,003,876)	(3,100,309)
Total net assets	11,873,763	9,139,077
Non controlling interest	(4,348,985)	(3,159,959)
Net assets attributable to equity holders	7,524,778	5,979,118

As at 31 December	2022 LKR '000	2021 LKR '000
Group's share of net assets (50%) - before consolidation adjustment	3,762,389	2,989,559
Share of unrealised profit on disposal investment*	(184,688)	(184,688)
Group's share of net assets 50%	3,577,701	2,804,871
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 Bank has neither contingent liabilities nor capital and other commitments towards its joint venture company.

*This is the elimination of 50% of the profits on disposal of subsidiary to joint venture Company during the year 2010.

NOTES TO THE FINANCIAL STATEMENTS

37. 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 follows:

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	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Cost				
Balance at beginning	9,879	9,879	702,884	555,230
Acquisition	–	–	105,018	147,654
Transferred to property, plant and equipment	–	–	(101,022)	–
Cost as at 31 December	9,879	9,879	706,880	702,884
Less: Accumulated Depreciation				
Balance at beginning	–	–	233,043	209,373
Charge for the year	–	–	33,864	23,670
Accumulated depreciation as at 31 December	–		266,907	233,043
Carrying amount as at 31 December	9,879	9,879	439,973	469,841

NOTES TO THE FINANCIAL STATEMENTS

37.1 Details of Investment Properties

As at 31 December 2022	Buildings sq. ft.	Extent of land Perches*	Number of building	Cost LKR '000	Accumulated depreciation/ impairment LKR '000	Net Book value LKR '000	Fair value LKR '000	Date of valuation
4 A, 4th Cross Lane, Borupana, Ratmalana	–	20.0	–	2,600	–	2,600	25,000	31.12.2020
259/30, Kandy Road, Bambarakelle, Nuwara-Eliya	–	93.5	–	7,279	–	7,279	93,500	19.09.2021
Bank				9,879	–	9,879	118,500	
Pattiwila Road, Sapugaskanda, Makola	482,150	21,920	18	697,001	266,907	430,094	8,052,000	31.03.2022
Group				706,880	266,907	439,973	8,170,500	

* 1 perch - 25.2929 m2 ; 1sq.ft = 0.0929 m2

The fair value of investment property as at 31 December 2022 situated at Pattiwila Road, Sapugaskanda, Makola was based on market valuations carried out on 31 March 2022 by Mr G. W. G. Abeygunawardene, Chartered Valuation Surveyor 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.

37.2 Amounts Recognised in Profit or Loss

Rental income from investment property of Group for 2022 – LKR 385 Mn (2021 – LKR 329 Mn)

Operating expenses on investment property of Group for 2022 – LKR 72 Mn (2021 - LKR 57 Mn)

38. Property, Plant and Equipment

Accounting Policy

Recognition and Measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the income statement.

Subsequent Costs

Subsequent expenditure is capitalised only when its probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance costs are expensed as incurred.

Capital Work-in-Progress

There are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost. Capital work-in-progress would be transferred to the relevant asset when it is available for use i.e. When it is in the location and condition necessary for it to be capable of operating in the manner intended by the Management. Capital work-in-progress is stated at cost less any accumulated impairment losses.

Depreciation

Items of property, plant and equipment are depreciated from the month they are available-for-use up to the month of disposal. Depreciation is calculated to write-off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Land is not depreciated.

NOTES TO THE FINANCIAL STATEMENTS

The estimated useful lives for the current and comparative periods of significant items of property, plant and equipment are as follows:

	Years
Buildings	20-40
Office equipment and motor vehicles	3-5
Fixtures and fittings	10

Derecognition

The carrying amount of property and equipment is de-recognised on disposal or when non future economic benefits are expected from its use of the gain or loss arising from the de-recognition (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the income statement.

Reclassification to Investment Property

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified accordingly. Any gain arising on this remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in OCI and presented in the revaluation reserve. Any loss is recognised in profit or loss.

38.1 Reconciliation of Carrying Amount – Bank

	Land and building LKR '000	Improvements to leasehold Lands LKR '000	Right of use asset LKR '000	Office equipment LKR '000	Furniture and fittings LKR '000	Motor vehicles LKR '000	Total 31 December 2022 LKR '000	Total 31 December 2021 LKR '000
Cost at beginning	1,104,318	12,008	2,020,881	2,791,554	1,457,061	265,830	7,651,652	7,197,009
Acquisitions	9,190	63	431,461	196,542	63,020	–	700,276	548,870
Less: Disposals	–	–	116,321	37,949	1,913	14,506	170,689	94,227
Cost as at 31 December	1,113,508	12,071	2,336,021	2,950,147	1,518,168	251,324	8,181,239	7,651,652
Accumulated depreciation at beginning	287,207	1,594	736,393	2,267,386	890,777	231,171	4,414,528	3,790,407
Depreciation for the year	22,928	1,755	309,678	262,370	93,462	19,805	709,998	702,982
Less: Accumulated depreciation on disposals	–	–	92,442	33,963	929	14,506	141,840	78,861
Accumulated depreciation as at 31 December	310,135	3,349	953,629	2,495,793	983,310	236,470	4,982,686	4,414,528
Carrying value as at 31 December	803,373	8,722	1,382,392	454,354	534,858	14,854	3,198,553	3,237,124

NOTES TO THE FINANCIAL STATEMENTS

38.1.1 List of Freehold Land and Building

	Number of buildings in land holdings	Building sq. ft.	Extent of land Perches*	Cost LKR '000	Accumulated depreciation LKR '000	Carrying value LKR '000
73/5, Galle Road, Colombo 3	1	57,190	106.61	86,475	80,798	5,677
5, Deva Veediya, Kandy	1	4,600	12.54	16,195	8,282	7,913
73, W A D Ramanayake Mawatha, Colombo 2	1	37,528	45.00	197,269	141,764	55,505
No. 454, Main Street, Negombo	1	19,087	29.00	170,325	42,197	128,128
No. 77, Colombo Road, Kurunegala	1	31,459	30.00	643,244	37,094	606,150
Bank				1,113,508	310,135	803,373
Pattiwila Road, Sapugaskanda, Makola	1	27,824	102.20	414,175	224,605	189,570
Group				1,527,683	534,740	992,943

* 1 perch = 25.2929m2; 1 sq ft = 0.0929m2

38.1.2 Market Value of Properties

	LKR Mn	Date of valuation
73/5, Galle Road, Colombo 3	1,905	31.12.2020
5, Deva Veediya, Kandy	140	31.12.2020
73, W A D Ramanayake Mawatha, Colombo 2	878	31.12.2020
No. 454, Main Street, Negombo	318	20.10.2021
No. 77, Colombo Road, Kurunegala	600	31.12.2020

Valued by Mr A A M Fathihu – Former Government Chief Valuer and Mr R W M S B Rajapakse. Fellow Member of the Institute of Valuers of Sri Lanka.

38.1.3 Fully Depreciated Property, Plant and Equipment – Bank

The initial cost of fully depreciated property, plant & equipment, which are still in use as at the reporting date is as follows:

As at 31 December	2022 LKR '000	2021 LKR '000
Land and buildings	231,536	210,679
Office equipment	1,926,544	1,505,311
Furniture and fittings	590,257	528,209
Motor vehicles	152,341	166,337
	2,900,678	2,410,536

NOTES TO THE FINANCIAL STATEMENTS

38.2 Reconciliation of Carrying Amount – GROUP

	Land and building LKR '000	Improvements to leasehold lands LKR '000	Right of use asset LKR '000	Office equipment LKR '000	Furniture and fittings LKR '000	Motor vehicles LKR '000	Work-in-progress LKR '000	Total 31 December 2022 LKR '000	Total 31 December 2021 LKR '000
Cost at beginning	1,466,425	12,008	2,022,981	2,849,517	1,469,023	287,346	400	8,107,700	7,682,069
Acquisitions	61,258	62	431,461	203,998	64,008	–	–	760,787	540,987
Less: Disposals	–	–	116,321	37,949	1,913	14,506	–	170,689	115,356
Cost as at 31 December	1,527,683	12,070	2,338,121	3,015,566	1,531,118	272,840	400	8,697,798	8,107,700
Accumulated depreciation at beginning	503,085	1,594	738,493	2,314,603	907,569	253,254	–	4,718,598	4,095,050
Depreciation for the year	31,655	1,755	309,678	274,747	93,959	19,805	–	731,599	722,859
Less: Accumulated depreciation on disposals	–	–	92,442	33,963	929	14,506	–	141,840	99,311
Accumulated depreciation as at 31 December	534,740	3,349	955,729	2,555,387	1,000,599	258,553	–	5,308,357	4,718,598
Carrying amount as at 31 December	992,943	8,721	1,382,392	460,179	530,519	14,287	400	3,389,441	3,389,102

38.3 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.

38.4 Acquisition of Property, Plant and Equipment During the Year

During the financial year, the Bank and Group acquired property, plant and equipment to the aggregate value of LKR 700 Mn and LKR 760 Mn respectively (2021 – LKR 549 Mn and LKR 540 Mn respectively). Cash payments amounting to LKR 243 Mn and LKR 304 Mn respectively (2021 – LKR 354 Mn and LKR 347 Mn respectively) were made during the year for purchase of property plant and equipment by the Bank and Group.

38.5 Disposal of Property, Plant and Equipment During the Year

During the financial year, the Bank and Group disposed of property, plant and equipment to the aggregate value of LKR 170 Mn and LKR 170 Mn respectively (2021 – LKR 42 Mn and LKR 63 Mn respectively). Gain/(loss) on disposal of Property, Plant and Equipment is disclosed in Note 16 to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

38.6 Capitalisation of Borrowing Costs

There were no capitalised borrowing costs relating to the acquisition of property, plant and equipment during the year (2021 – Nil).

38.7 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 48 Mn.

38.8 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 2022. 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.

38.9 Property, Plant and Equipment Pledged as Security

None of the property, plant or equipment have been pledged as security as at the reporting date.

38.10 Permanent Fall in Value of Property, Plant and Equipment

There has been no permanent fall in value of property, plant and equipment which require an impairment provision in the Financial Statements.

38.11 Temporarily Idle Property, Plant and Equipment

There are no temporarily idle property, plant or equipment as at the reporting date.

38.12 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.

39. 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.

NOTES TO THE FINANCIAL STATEMENTS

Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in income statement. Goodwill is not amortised.

The estimated useful lives for current and comparative periods are as follows:

Computer software	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.

		BANK		GROUP	
As at 31 December	**Note**	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Computer Software	39.1	2,180,341	2,184,327	2,201,128	2,209,340
Software under development	39.2	17,701	43,250	17,701	43,250
Goodwill on consolidation	39.3	–	–	156,226	156,226
Total		2,198,042	2,227,577	2,375,055	2,408,816

39.1 Computer Software

	BANK		GROUP	
As at 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Cost at beginning	3,915,726	2,340,025	3,963,296	2,371,335
Acquisitions	410,682	1,728,191	414,758	1,744,451
Disposals	–	(243)	–	(243)
Written off during the year	–	(152,247)	–	(152,247)
Cost as at 31 December	4,326,408	3,915,726	4,378,054	3,963,296
Accumulated amortisation at beginning	1,731,399	1,530,078	1,753,956	1,545,860
Amortisation for the period	414,668	320,869	422,970	327,644
Less: Write-off	–	(119,548)	–	(119,548)
Less: Accumulated depreciation on disposal	–	–	–	–
Accumulated amortisation as at 31 December	2,146,067	1,731,399	2,176,926	1,753,956
Carrying amount as at 31 December	2,180,341	2,184,327	2,201,128	2,209,340

NOTES TO THE FINANCIAL STATEMENTS

39.2 Software Under Development

As at 31 December	BANK 2022 LKR '000	BANK 2021 LKR '000	GROUP 2022 LKR '000	GROUP 2021 LKR '000
Cost at beginning	43,250	903,105	43,250	903,105
Addition to work-in-progress	61,514	332,845	61,514	332,845
Transfers/adjustments	(87,063)	(1,192,700)	(87,063)	(1,192,700)
Cost as at 31 December	17,701	43,250	17,701	43,250

39.3 Goodwill on Consolidation

As at 31 December	GROUP 2022 LKR '000	GROUP 2021 LKR '000
DFCC Vardhana Bank PLC	146,603	146,603
Lanka Industrial Estates Limited	9,623	9,623
	156,226	156,226

In accordance with the provisions of part VIII of the Companies Act, DFCC Vardhana Bank PLC (DVB) has been amalgamated with DFCC Bank PLC with effect from 1 October 2015. The amalgamation between two entities is considered as a common control transaction, as DFCC Bank continues to control the operations of DVB after amalgamation. Thus the results of amalgamation of two entities are economically the same before and after the amalgamation as the entity will have identical net assets. Therefore DFCC will continue to record carrying values including the remaining goodwill that resulted from the original acquisition of DVB in the consolidated financial status.

There were no impairment losses recognised in goodwill as at 31 December 2022.

39.4 Assessment of Impairment of Intangible Assets

The Board of Directors has assessed the potential impairment loss of intangible assets as at 31 December 2022. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date.

39.5 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.

39.6 Intangible Assets Pledged as Security

None of the Intangible assets have been pledged as security as at the reporting date.

39.7 Acquisition of Intangible Assets During the Year

During the financial year, the Bank and Group acquired intangible assets to the aggregate value of LKR 411 Mn and LKR 415 Mn respectively (2021 – LKR 1.7 Bn and LKR 1.7 Bn respectively). Cash payments amounting to LKR 411 Mn and LKR 415 Mn respectively (2021 – LKR 868 Mn and LKR 880 Mn) were made for purchase intangible assets by the Bank and Group respectively, during the year.

39.8 Amount of Contractual Commitments for the Acquisition of Intangible Assets

There are no contractual commitments for the acquisition of Intangible Assets as at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

40. Deferred Taxation

See accounting policy in Note 22.

As at 31 December	Note	BANK 2022 LKR '000	BANK 2021 LKR '000	GROUP 2022 LKR '000	GROUP 2021 LKR '000
Deferred tax liability/asset					
Deferred tax liability	40.1	–	–	149,608	112,514
Deferred tax asset	40.2	4,137,828	1,358,895	4,143,535	1,358,895
Net deferred tax liability/asset		4,137,828	1,358,895	3,993,927	1,246,381

40.1 Deferred Tax Liability

As at 31 December	BANK 2022 LKR '000	BANK 2021 LKR '000	GROUP 2022 LKR '000	GROUP 2021 LKR '000
Balance at beginning	436,271	1,776,350	551,487	1,878,492
Recognised in income statement	38,321	(214,723)	77,869	(201,649)
Recognised in other comprehensive income	212,066	(1,125,356)	212,066	(1,125,356)
	686,658	436,271	841,422	551,487
Transferred from deferred tax asset	(686,658)	(436,271)	(691,814)	(438,973)
	–	–	149,608	112,514

40.2 Deferred Tax Asset

As at 31 December	BANK 2022 LKR '000	BANK 2021 LKR '000	GROUP 2022 LKR '000	GROUP 2021 LKR '000
Balance at beginning	1,795,166	1,532,401	1,797,868	1,539,720
Effect of foreign currency movement	–	567	–	567
Recognised in income statement	3,171,650	241,108	3,181,795	236,418
Recognised in other comprehensive income	(142,330)	21,090	(144,315)	21,163
	4,824,486	1,795,166	4,835,348	1,797,868
Offset against deferred tax liability	(686,658)	(436,271)	(691,814)	(438,973)
	4,137,828	1,358,895	4,143,535	1,358,895

NOTES TO THE FINANCIAL STATEMENTS

40.3 Recognised Deferred Tax Assets and Liabilities

	BANK				GROUP			
	2022		2021		2022		2021	
As at 31 December	Temporary difference LKR '000	Tax effect LKR '000	Temporary difference LKR '000	Tax effect LKR '000	Temporary difference LKR '000	Tax effect LKR '000	Temporary difference LKR '000	Tax effect LKR '000
Assets								
Gratuity liability and actuarial gains on defined benefit plans	551,933	165,580	625,673	150,162	576,237	172,871	632,557	151,814
Right-of-use asset	136,597	40,979	81,744	19,618	136,597	40,979	81,744	19,618
Short-term employment benefits	410,987	123,296	–	–	410,987	123,296	2,200	528
Cross currency SWAP	–	–	433,475	104,034	–	–	433,475	104,034
Expected credit loss – loans to and receivable from banks and other customers	11,084,350	3,325,305	6,338,966	1,521,352	11,096,254	3,328,876	6,341,142	1,521,874
Expected credit loss – Debt and other instruments	3,897,753	1,169,326	–	–	3,897,753	1,169,326	–	–
	16,081,630	4,824,486	7,479,858	1,795,166	16,117,828	4,835,348	7,491,118	1,797,868
Liabilities								
Property, equipment and software	786,913	236,074	746,335	179,120	1,138,733	341,620	1,024,807	245,954
Finance leases	550,747	165,224	863,847	207,323	550,747	165,224	863,848	207,323
Fair value through other comprehensive income financial assets	317,457	95,237	207,616	49,828	317,457	95,237	207,616	49,828
Equity investments at FVOCI – Unquoted Shares	214,113	64,234	–	–	214,113	64,234	–	–
Funded pension liability and actuarial gains on defined benefit plans	254,760	76,428	–	–	254,760	76,428	–	–
Cross currency SWAP	164,870	49,461	–	–	164,870	49,461	–	–
Undistributed profits of the group	–	–	–	–	164,060	49,218	201,592	48,382
	2,288,860	686,658	1,817,798	436,271	2,804,740	841,422	2,297,863	551,487

40.4 Change of the Income tax rate from 24% to 30%

The Bank and the Group applied the revised income tax rate of 30% in line with the Inland Revenue Amendment Act No. 45 of 2022 to calculate the deferred tax assets/liabilities as at 31 December 2022. Accordingly, the net deferred tax asset as at 31 December 2022 includes an increase of LKR 1,358 Mn which resulted a net reversal to the income statement of LKR 516 Mn and reversal to the other comprehensive income of LKR 842 Mn respectively.

NOTES TO THE FINANCIAL STATEMENTS

41. Other Assets

See accounting policy in Note 5.3.

As at 31 December	BANK 2022 LKR '000	BANK 2021 LKR '000	GROUP 2022 LKR '000	GROUP 2021 LKR '000
Financial assets				
Refundable deposits	16,004	16,104	16,004	21,273
Receivable from Government of Sri Lanka (Note 41.1)	5,075,029	722,087	5,075,029	722,087
Other receivables	1,132,243	876,002	1,299,897	932,470
Clearing account balances	1,567,004	1,240,735	1,567,004	1,240,735
Due from subsidiaries (Note 41.2)	1,195	326	–	–
	7,791,475	2,855,254	7,957,934	2,916,565
Non financial assets				
Advances and prepayments	1,690,844	953,128	1,707,486	966,299
Defined benefit asset (Note 47.1.2)	254,760	116,123	254,760	116,123
	1,945,604	1,069,251	1,962,246	1,082,422
	9,737,079	3,924,505	9,920,180	3,998,987

41.1 Receivable from Government of Sri Lanka

As at 31 December	BANK 2022 LKR '000	BANK 2021 LKR '000	GROUP 2022 LKR '000	GROUP 2021 LKR '000
Matured government security receivables (Note 41.1.1)	5,064,704	–	5,064,704	–
Provision made for matured government security receivables	(1,772,871)	–	(1,772,871)	–
Reimbursement of additional interest paid on Special Deposit Accounts (SDA)	176,497	5,373	176,497	5,373
Interest differential on special senior citizen fixed deposit	1,326,057	289,299	1,326,057	289,299
Interest subsidy on credit lines	280,642	427,415	280,642	427,415
	5,075,029	722,087	5,075,029	722,087

41.1.1 Matured Government Security Receivables

This includes matured International Sovereign Bonds (ISBs) and foreign currency denominated Sri Lanka Development Bonds (SLDBs) together with matured coupon interest receivables. As per the Interim Policy regarding the servicing of Sri Lanka's External Public Debt issued by Ministry of Finance on 12 April 2022, the Sri Lankan Government has suspended normal debt servicing of all ISBs and foreign currency denominated SLDBs which fall within the category of Affected Debts (as defined in the said Policy) for an interim period pending an orderly and consensual restructuring of those obligations in a manner consistent with an economic adjustment program supported by the IMF.

NOTES TO THE FINANCIAL STATEMENTS

41.1.2 Movement in Impairment During the Year

	BANK/GROUP	
As at 31 December	2022 LKR '000	2021 LKR '000
Balance at beginning	–	–
Transferred from financial assets at amortized cost (Note 32.5)	607,764	–
Charge to income statement	1,165,107	–
Balance as at 31 December	1,772,871	–

The Bank's total exposure to matured ISBs and SLDBs are presented in Note 41.1.1. The main uncertainties regarding the estimations for the recoverability of the Bank's total exposure relate to the debt service capacity of the Government of Sri Lanka, which, in turn, is affected by the development of the prevailing macroeconomic environment as well as by the levels of liquidity of the Government and the outcome of the debt restructuring negotiations with the International Monetary Fund (IMF) and the resultant comprehensive debt restructuring programme. Due to the uncertainties relating to the above, the Bank has used significant judgement using the information available as at reporting date to estimate the recoverable value. Accordingly an impairment charge has been recognised.

41.2 Due from Subsidiaries

	BANK	
As at 31 December	2022 LKR '000	2021 LKR '000
DFCC Consulting (Pvt) Limited	1,195	326
	1,195	326

NOTES TO THE FINANCIAL STATEMENTS

42. 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	**2022 LKR '000**	**2021 LKR '000**
Balance at beginning	–	19,600
Proceeds from disposal	–	(19,600)
Balance as at 31 December	–	–

Assets held for sale is an internally developed intangible asset owned by Synapsys Limited, a subsidiary of the group was disposed during the year 2021.

NOTES TO THE FINANCIAL STATEMENTS

43. Due to Banks

See accounting policy in Note 5.3.

These represent call money borrowings, credit balances in nostro accounts and borrowings from banks. Subsequent to initial recognition, these are measured at amortised cost using the EIR method. Interest paid/payable on these borrowings is recognised in income statement.

	BANK		GROUP	
As at 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Borrowing – Foreign banks	5,482,735	3,844,677	5,482,735	3,844,677
– Local banks	10,375,259	24	10,375,259	24
	15,857,994	3,844,701	15,857,994	3,844,701

The maturity analysis of due to banks is given in Note 8.3.3 on pages 232 to 235.

44. Financial Liabilities at Amortised Cost – Due to Depositors

See accounting policy in Note 5.3.2.2.1.

	BANK		GROUP	
As at 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Total amount due to depositors	370,314,026	319,861,013	369,746,855	319,362,372

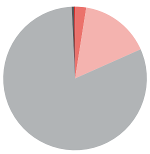
44.1 Analysis

44.1.1 By Product

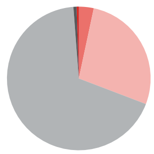
	BANK		GROUP	
As at 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Demand deposits (current accounts)	9,271,387	10,711,384	9,271,372	10,711,319
Savings deposits	58,660,062	87,793,979	58,598,138	87,738,119
Fixed deposits	299,582,500	217,532,081	299,077,268	217,089,365
Certificates of deposit	1,976,859	2,328,082	1,976,859	2,328,082
Other deposits	823,218	1,495,487	823,218	1,495,487
	370,314,026	319,861,013	369,746,855	319,362,372

NOTES TO THE FINANCIAL STATEMENTS

DEPOSIT MIX – BANK (2022)



DEPOSIT MIX – BANK (2021)



44.1.2 By Currency

	BANK		GROUP	
As at 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Sri Lankan Rupee	303,304,575	276,343,061	302,775,531	275,882,547
United States Dollar (USD)	57,211,715	36,305,548	57,173,588	36,267,421
Great Britain Pound (GBP)	4,259,917	2,991,998	4,259,917	2,991,998
Others	5,537,819	4,220,406	5,537,819	4,220,406
	370,314,026	319,861,013	369,746,855	319,362,372

44.1.3 By Institution/Customers

	BANK		GROUP	
As at 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Deposits from banks	511,753	312,334	511,753	312,334
Deposits from finance companies	2,519,909	855,667	2,519,909	855,667
Deposits from other customers	367,282,364	318,693,012	366,715,193	318,194,371
	370,314,026	319,861,013	369,746,855	319,362,372

The maturity analysis of deposits from customers is given in Note 8.3.3 on pages 232 to 235.

NOTES TO THE FINANCIAL STATEMENTS

45. Financial Liabilities at Amortised Cost – Due to Other Borrowers

See accounting policy in Note 5.3.2.2.1.

	BANK		GROUP	
As at 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Repayable in foreign currency				
Borrowing sourced from				
Multilateral Institutions	1,694,928	1,368,442	1,694,928	1,368,442
Bilateral Institutions	60,381,293	37,762,938	60,381,293	37,762,938
	62,076,221	39,131,380	62,076,221	39,131,380
Repayable in Rupees				
Borrowing sourced from				
Multilateral Institutions	13,478,389	17,293,198	13,478,389	17,293,198
Bilateral Institutions	696,690	797,559	696,690	797,559
Central Bank of Sri Lanka – refinance loans (secured)	1,748,182	7,153,951	1,748,182	7,153,951
Securities sold under repurchase (Repo) agreements	3,146,209	4,718,176	3,146,209	4,718,176
	19,069,470	29,962,884	19,069,470	29,962,884
	81,145,692	69,094,264	81,145,692	69,094,264

45.1 Assets Pledged as Security

As at 31 December	**2022 LKR '000**	**2021 LKR '000**
Assignment in terms of Section 88 A of the Monetary Law of Loans refinanced by Central Bank	557,933	7,969,456

46. Debt Securities in Issue

See accounting policy in Note 5.3.2.2.1.

NOTES TO THE FINANCIAL STATEMENTS

46.1 Debt Securities at Amortised Cost Issued by Bank

Year of issuance		Face value LKR '000	Interest rate %	Repayment terms	Issue date	Maturity date	BANK/GROUP 31 December 2022 LKR '000	BANK/GROUP 31 December 2021 LKR '000
Debenture issue	– Listed (LKR)							
		3,804,760	13.50	5 Years	28 Mar 19	28 Mar 24	4,187,527	4,184,948
		1,784,070	13.75	7 Years	28 Mar 19	28 Mar 26	1,965,315	1,964,604
		4,411,170	13.90	10 Years	28 Mar 19	28 Mar 29	4,860,926	4,860,180
	– Unlisted (LKR)	5,000,000	11.00	5 years	12 Jun 20	12 Jun 25	5,290,347	5,287,524
		15,000,000					16,304,115	16,297,256
Due after one year							16,304,115	16,297,256
							16,304,115	16,297,256

46.2 Carrying values are the discounted amounts of principal and interest.

46.3 There were no debt securities in issue designated as FVTPL.

46.4 The Bank/Group did not have any defaults of principal or interest or other breaches with repect to its debt securities during the years ended 31 December 2022.

46.5 Debt securities in issue – Listed debentures

Debenture category	Interest payable frequency	Applicable interest rate %	Interest rate of comparative government securities (Gross) p.a. %	Balance as at 31 December 2022 LKR '000	Market price Highest	Market price Lowest	Market price Lowest	Yield last traded %
Fixed rate								
2019/2024	Annually	13.50	26.65	4,187,527	N/T	N/T	N/T	N/A
2019/2026	Annually	13.75	27.16	1,965,315	N/T	N/T	N/T	N/A
2019/2029	Annually	13.90	26.45	4,860,926	N/T	N/T	N/T	N/A
Unlisted								
2020/2025	Annually	11.00	28.74	5,290,347	N/T	N/T	N/T	N/A
				16,304,115				

N/T – Not traded
N/A – Not applicable

NOTES TO THE FINANCIAL STATEMENTS

46.6 Debt Securities at Amortised Cost – by Maturity

	BANK/GROUP	
As at 31 December	2022 LKR '000	2021 LKR '000
Payable within one year	–	–
payable after one year	16,304,115	16,297,256

As at 31 December	31 December 2022 LKR '000	31 December 2021 LKR '000
Other ratios		
Debt to equity ratio (times)	2.51	1.85
Interest cover (times)	1.47	2.26
Liquid asset ratio (%)	26.36	21.12

47. Employee Benefits

Accounting policy

A. Defined Contribution Plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expenses in profit or loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

This provides for a lump sum payment on termination of employment by resignation, retirement at the age of 57-60 years or death while in service. Lump sum payment is by an outside agency to which contributions are made.

All employees of the Bank are members of the Mercantile Service Provident Society and the Employees' Trust Fund Board to which the Bank contributes 15% and 3% respectively of such employee's consolidated salary.

Other subsidiary companies of the Group contribute to the Employees' Provident Fund and Employees' Trust Fund in the range of 12% – 15% and 3% respectively.

Contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

B. Defined Benefit Plans (DBPS)

A defined benefit plan is a post-employment benefit plan other than a Defined Contribution Plan as defined in the Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

Pension Liability Arising from Defined Benefit Obligations

Description of the Plan and Employee Groups Covered

The Bank established a trust fund in May 1989, for payment of pension which operates the pension scheme approved by the Commissioner General of Inland Revenue. The fund of the scheme is managed by trustees appointed by the Bank and is separate from the Bank. The scheme provides for payment of pension to retirees, spouse and minor children of deceased retirees based on pre-retirement salary. All members of the permanent staff who joined prior to 1 May 2004 are covered by this funded pension scheme subject to fulfilment of eligibility conditions prescribed by the Bank.

The scheme was amended on 31 August 1998 and the amended plan will apply to all members of the permanent staff who joined the Bank on or after this date and prior to 1 May 2004. The amendment reduced the scope of the benefit in the interest of long-term sustainability of the pension plan as advised by the independent actuary. The defined benefit pension plan does not permit any post-retirement increases in pension nor any other benefit (e.g., medical expenses reimbursement).

Funding Arrangement

The Bank's contributions to the Trust Fund are made annually based on the recommendation of an independent

NOTES TO THE FINANCIAL STATEMENTS

actuary. The employees make no contributions to qualify for the basic pension, which is therefore a non-contributory benefit to the employees.

Eligible employees who desire to provide for the payment of pension to spouse and minor children, who survive them are however, required to contribute monthly, an amount based on a percentage of gross emoluments, excluding bonus, if they joined the Bank on or after 31 August 1998 and prior to 1 May 2004.

Recognition of Actuarial Gains and Losses

The net Actuarial gains or losses arising in a financial year is due to increases or decreases in either the present value of the promised pension benefit obligation or the fair value of pension assets. The causes for such gains or losses include changes in the discount rate, differences between the actual return, and the expected return on pension assets and changes in the estimates of actual employee turnover, mortality rates, and increases in salary.

The Group recognises the total actuarial gains and losses that arise in calculating the Group's obligation in respect of the plan in other comprehensive income and the expense under personnel expenses in the income statement during the period in which it occurs.

Recognition of Past Service Cost

Past service cost arises when a defined benefit plan is introduced for the first time or subsequent changes are made to the benefits payable under an existing defined benefit plan. Group will recognise past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent the benefits are already vested following the introduction of or changes to a defined benefit plan, the Group will recognise past service cost immediately.

Provision for end of Service Gratuity Liability under a Defined Benefit Plan

Description of the Plan and Employee Groups Covered

The Group provides for the gratuity payable under the Payment of Gratuity Act No. 12 of 1983 as amended for all employees who do not qualify under the pension scheme. Therefore, this applies to employees recruited to the permanent cadre on or after 1 May 2004 on tenured or fixed term contract employment in the Bank. The subsidiary companies, which do not have a non-contributory pension scheme provide for the gratuity payable under the Payment of Gratuity Act No. 12 of 1983 for all employees. The promised benefit is half a month pre-termination salary for each completed year of service, provided a minimum qualifying period of five years is served prior to termination of employment.

The Group however, recognises the liability by way of a provision for all employees in tenured employment from the date they joined the permanent cadre, while fixed term employees liability is recognised only if the fixed term contract of service provides for unbroken service of five years or more either singly or together with consecutive contracts.

Funding Arrangement

The Bank and the subsidiaries adopt a pay-as-you-go method whereby the employer makes a lump-sum payment only on termination of employment by resignation, retirement at the age of 57-60 years or death while in service.

Recognition of Actuarial Gains and Losses

The Group recognises the total actuarial gains and losses in the other comprehensive income during the period in which it occurs.

Recognition of Past Service Cost

Since end of service gratuity defined benefit is a statutory benefit, the recognition of past service cost will arise only if the Payment of Gratuity Act No. 12 of 1983 is amended in future to increase the promised benefit on termination of employment. In such event, the Bank will adopt the accounting policy currently used for defined benefit pension plan.

When the benefit of a plan change or plan curtailed the resulting change in benefit that relate to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Bank recognises gain or loss on the settlement of a defined plan when settlement occurs.

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.

NOTES TO THE FINANCIAL STATEMENTS

Funding Arrangement

The Bank and the subsidiaries adopt a pay-as-you-go method whereby the employer makes a lump-sum payment only on termination of employment by resignation, retirement at the age of 57-60 years or death while in service.

Recognition of Actuarial Gains and Losses

The Group recognises the total actuarial gains and losses in the other comprehensive income during the period in which it occurs.

Recognition of Past Service Cost

Since end of service gratuity defined benefit is a statutory benefit, the recognition of past service cost will arise only if the Payment of Gratuity Act No. 12 of 1983 is amended in future to increase the promised benefit on termination of employment. In such event, the Bank will adopt the accounting policy currently used for defined benefit pension plan. When the benefit of a plan change or plan curtailed the resulting change in benefit that relate to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Bank recognises gain or loss on the settlement of a defined plan when settlement occurs.

47.1 Composition

	BANK		GROUP	
As at 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Unfunded defined benefit plans (Note 47.1.1)	591,550	688,598	615,849	716,477
	591,550	688,598	615,849	716,477

47.1.1 Unfunded Defined Benefit Plans

	BANK		GROUP	
As at 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Defined benefit – unfunded pension (Note 47.1.1.1)	39,612	62,923	39,612	62,923
– unfunded end of service gratuity (Note 47.1.1.2)	551,938	625,675	576,237	653,554
	591,550	688,598	615,849	716,477

NOTES TO THE FINANCIAL STATEMENTS

47.1.1.1 Unfunded Pension Liability

As at 31 December	BANK/GROUP 2022 LKR '000	BANK/GROUP 2021 LKR '000
Balance at beginning	62,923	63,556
Interest on obligation	5,322	5,379
Benefits paid	(6,993)	(6,995)
Actuarial experience loss	1,075	983
Gain due to changes in assumptions	(22,715)	–
Present value of defined benefit pension obligations	39,612	62,923

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 retire and survivor.

47.1.1.2 Unfunded end of Service Gratuity

As at 31 December	BANK 2022 LKR '000	BANK 2021 LKR '000	GROUP 2022 LKR '000	GROUP 2021 LKR '000
Balance at beginning	625,675	519,313	653,554	547,236
Current service cost	87,812	71,336	90,872	75,280
Interest on obligation	56,311	46,738	60,257	49,007
Benefits paid	(90,212)	(40,588)	(94,183)	(43,780)
Actuarial experience (gain)/loss	(10,548)	17,518	(17,163)	14,453
Gain/Loss due to changes in assumptions	(117,100)	–	(117,100)	–
Past service cost	–	11,358	–	11,358
Present value of defined benefit pension obligations	551,938	625,675	576,237	653,554

47.1.2 Funded Pension Liability/(Asset)

As at 31 December	Note	BANK/GROUP 2022 LKR '000	BANK/GROUP 2021 LKR '000
Present value of defined benefit pension obligations	47.1.2.1	1,699,403	2,692,271
Fair value of pension assets	47.1.2.2	(1,954,163)	(2,808,394)
Defined benefit asset/(liability)		(254,760)	(116,123)

As per LKAS 19 - "Employee Benefits" if a plan is in surplus, then the amount recognised as an asset in the statement of financial position is limited to the "asset ceiling". The asset ceiling is the present value of any economic benefits available to the entity in the form of a refund or a reduction in future contributions. By analysing all the future economic benefits available to the DFCC Pension Fund, the independent actuary Mr Piyal S Goonetilleke of Piyal S Goonetilleke & Associates, has estimated the asset ceiling as at 31 December 2022 to be LKR 254.76 Mn in his report dated 23 January 2023.

NOTES TO THE FINANCIAL STATEMENTS

47.1.2.1 Movement in Defined Pension Obligation

As at 31 December	BANK/GROUP 2022 LKR '000	2021 LKR '000
Present value of defined benefit pension obligations at the beginning	2,692,271	2,827,321
Current service cost	38,673	53,371
Interest on obligation	242,304	254,459
Benefits paid	(198,575)	(219,780)
Actuarial experience loss/(gain)	14,142	(46,846)
Gain/Loss due to changes in assumptions	(1,089,412)	–
Past service cost	–	(176,254)
Present value of defined benefit pension obligations	1,699,403	2,692,271

47.1.2.2 Movement in Pension Assets

As at 31 December	BANK/GROUP 2022 LKR '000	2021 LKR '000
Pension assets at the beginning	2,808,394	2,767,072
Expected return on pension assets	243,074	243,743
Employer's contribution	–	105,092
Benefits paid	(198,575)	(219,780)
Adjustment on assets ceiling	(1,072,799)	–
Actuarial experience gain/(loss)	174,069	(87,733)
Pension assets	1,954,163	2,808,394

47.1.2.3 Plan Assets Consist of the following:

As at 31 December	BANK/GROUP 2022 LKR '000	2021 LKR '000
Debentures	195,563	195,563
Treasury bills	1,041,657	–
Balances with banks	9,006	–
Fixed deposits	1,819,243	2,630,703
Others	(38,506)	(17,872)
	3,026,963	2,808,394

NOTES TO THE FINANCIAL STATEMENTS

47.1.2.4 The Expected Benefit Pay Out in the Future Years to the Defined Benefit Obligation – Bank

	Unfunded pension liability*	Unfunded end of service gratuity*	Funded pension liability*
	31 December 2022 LKR '000	31 December 2022 LKR '000	31 December 2022 LKR '000
Within next 12 months	6,995	36,527	202,643
Between 2 and 5 years	27,980	330,367	938,412
Beyond 5 years	34,975	1,127,885	1,772,090

* Based on expected benefits pay-out in next 10 years

47.2 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 2022.

47.2.1 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.

47.2.2 Principal Actuarial Assumptions

	31 December 2022		31 December 2021	
	Pension benefit (%)	End of service gratuity (%)	Pension benefit (%)	End of service gratuity (%)
Discount rate per annum				
Pre-retirement	17.5	17.5	9	9
Post-retirement	17.5	Not applicable	9	Not applicable
Future salary increases per annum	15	15	8.5	8.5
Expected rate of return on pension assets	17.5	–	9	–
Actual rate of return on pension assets	15.3	–	5.6	–
Mortality	UP 1984 mortality table	RP-2000 mortality table	UP 1984 mortality table	RP-2000 mortality table
Retirement age	57-60 years	60 years	57-60 years	57-60 years

NOTES TO THE FINANCIAL STATEMENTS

	31 December 2022		31 December 2021	
	Pension benefit (%)	End of service gratuity (%)	Pension benefit (%)	End of service gratuity (%)
Normal form of payment:	lump sum commuted pension payment followed by reduced pension for 10 years (25% reduction) (for new entrants recovery period is 15 years	lump sum	lump sum commuted pension payment followed by reduced pension for 10 years (25% reduction) (for new entrants recovery period is 15 years)	lump sum
Turnover rate –				
Age				
20	10.0	10.0	10.0	10.0
25	10.0	10.0	10.0	10.0
30	10.0	10.0	10.0	10.0
35	7.5	7.5	7.5	7.5
40	5.0	5.0	5.0	5.0
45	2.5	2.5	2.5	2.5
50/55	1.0	1.0	1.0	1.0

The principal actuarial assumptions in the current year have changed from previous year as presented in the Note 47.2.2. The discount rate is the yield rate on 31 December 2022 with a term equalling the estimated period for which all benefit payments will continue. This period is approximately 19.14 years for pension and 12.5 years for end of service gratuity. The differences in the discount rates for pension and end of service gratuity reflect the differences in the estimated period for benefit payments will continue.

Principal Actuarial Assumptions – Group

The subsidiaries have used discount rates of 17% – 18.5% and the salary increment rate ranging 6% – 10.36%.

The differences in the rate of future annual salary increases reflect the remaining working life of participants for each plan.

NOTES TO THE FINANCIAL STATEMENTS

47.2.3 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 statement	Effect on defined benefit obligation
	Increase/ (decrease) LKR '000	Increase/ (decrease) LKR '000
Funded pension liability		
Discount rate		
1%	94,822	(94,822)
-1%	(105,775)	105,775
Salary increment rate		
1%	(29,665)	29,665
-1%	27,916	(27,916)
Unfunded pension liability*		
Discount rate		
1%	1,654	(1,654)
-1%	(1,804)	1,804
Unfunded end of service gratuity		
Discount rate		
1%	48,519	(48,519)
-1%	(54,279)	54,279
Salary increment rate		
1%	(55,054)	55,054
-1%	49,866	(49,866)

*Salary increment not applicable for ex-employee

47.3 Historical Information

As at	31 December 2022 LKR '000	31 December 2021 LKR '000	31 December 2020 LKR '000	31 December 2019 LKR '000	31 December 2018 LKR '000
Present value of the defined benefit obligation	1,699,403	2,692,271	2,827,321	2,594,387	2,503,310
Fair value of plan assets	(1,954,163)	(2,808,394)	(2,767,072)	(2,725,572)	(2,646,527)
(Surplus)/deficit in the plan	(254,760)	(116,123)	60,249	(131,185)	(143,217)

NOTES TO THE FINANCIAL STATEMENTS

48. Current Tax Liabilities

Accounting policy in Note 22.

		BANK		GROUP	
As at 31 December	**Note**	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Balance at beginning		951,645	1,012,645	1,031,557	1,081,864
Provision for the year	22.1	3,136,881	1,741,715	3,251,658	1,816,547
Reversal of over provision	22.1	(77,431)	(181,283)	(77,431)	(184,967)
Self-assessment payments		(1,531,379)	(1,621,286)	(1,630,622)	(1,681,790)
Withholding tax/other credits		(154)	(146)	(154)	(97)
Balance as at 31 December		2,479,562	951,645	2,575,008	1,031,557

49. Other Liabilities

Provisions are recognised when it is probable that an outflow of economic benefit will be required to settle a current legal or constructive obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation.

		BANK		GROUP	
As at 31 December	**Note**	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Financial liabilities					
Prior year's dividends		31,056	34,371	31,056	34,371
Security deposit for leases		–	–	174,515	137,218
Lease liabilities	58.3	1,512,565	1,366,231	1,512,565	1,366,231
Account payables		6,547,076	3,052,020	6,569,930	3,063,863
Due to Subsidiaries	49.2	10,458	17,875	–	–
		8,101,155	4,470,497	8,288,066	4,601,683
Non-financial liabilities					
Accruals		885,993	898,549	933,325	936,105
Prepaid loan and lease rentals		13,014	35,868	73,299	118,107
Provision for loan commitments and financial guarantee contracts	56.1.1	616,725	608,252	616,725	608,252
Other provisions	49.1	410,985	567,000	410,985	567,000
		1,926,717	2,109,669	2,034,335	2,229,464
		10,027,872	6,580,166	10,322,400	6,831,147

NOTES TO THE FINANCIAL STATEMENTS

49.1 Other Provisions

Other provisions includes benefit payable to employees.

	BANK		GROUP	
As at 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Balance at 1 January	567,000	340,650	567,000	340,650
Provisions for the financial year	573,288	567,000	573,288	567,000
Provisions used during the year	(682,837)	(302,671)	(682,837)	(302,671)
Provisions reversed during the year	(46,466)	(37,979)	(46,466)	(37,979)
Balance as at 31 December	410,985	567,000	410,985	567,000

49.2 Due to Subsidiaries

	BANK	
As at 31 December	**2022 LKR '000**	**2021 LKR '000**
Synapsys Limited	10,458	17,875
	10,458	17,875

50. 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.

						BANK/GROUP	
	Face value LKR '000	**Interest rate %**	**Repayment terms**	**Issued date**	**Maturity date**	**31 December 2022 LKR '000**	**31 December 2021 LKR '000**
Listed debentures							
Issued by Bank	6,043,140	12.75	7 Years	9 November 2016	9 November 2023	6,144,475	6,141,043
	4,086,530	13.00	7 Years	29 March 2018	29 March 2025	4,478,704	4,476,516
	2,913,470	12.60	5 Years	29 March 2018	29 March 2023	3,188,231	3,185,665
	4,318,000	9.00	5 Years	23 October 2020	23 October 2025	4,380,599	4,376,240
	205,000	9.25	7 Years	23 October 2020	25 October 2027	207,982	207,812
	17,566,140					18,399,991	18,387,276

NOTES TO THE FINANCIAL STATEMENTS

50.1 Subordinated Term Debt – Listed Debentures

Debenture category	Interest payable frequency	Applicable interest rate %	Interest rate of comparative government securities (Gross) p.a. %	Balance as at 31 December 2022 LKR '000	Market price		
					Highest	Lowest	Last traded
Fixed rate							
2016–2023	Annually	12.75	26.12	6,144,475	N/T	N/T	N/T
2018–2025	Annually	13.00	27.77	4,478,704	N/T	N/T	N/T
2018–2023	Annually	12.60	25.51	3,188,231	N/T	N/T	N/T
2020–2025	Annually	9.00	28.02	4,380,599	N/T	N/T	N/T
2020–2027	Annually	9.25	26.85	207,982	N/T	N/T	N/T
				18,399,991			

N/T – Not traded.

Debt equity ratio, interest cover and liquid asset ratio is given in Note 46.5.

50.2 Subordinated Liabilities by Maturity

As at 31 December	BANK/GROUP 2022 LKR '000	2021 LKR '000
Payable within one year	9,332,706	–
Payable after one year	9,067,285	18,387,276
Total	18,399,991	18,387,276

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 2022.

The maturity analysis of subordinated liabilities is given in Note 8.3.3 on pages 232 to 235.

NOTES TO THE FINANCIAL STATEMENTS

51. Stated Capital

Accounting Policy

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets.

	Number of ordinary voting shares		BANK/GROUP	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Balance at beginning	320,522,436	305,997,250	8,600,457	7,682,465
Rights issue of ordinary voting shares	65,818,199	–	3,620,001	–
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares	16,325,421	14,525,186	961,567	917,992
Balance as at 31 December	402,666,056	320,522,436	13,182,025	8,600,457

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.

51.1 At the Extraordinary General Meeting held on 30 March 2022, shareholders approved a resolution to issue ordinary shares by way of a rights issue to the existing shareholders of the Bank in the proportion of 12 shares for every 37 shares held as at the end of trading on 04 April 2022 at an issue price of LKR 55/- per share. Accordingly, Bank raised LKR 3.6 Bn through the issue of 65,818,199 shares.

51.1.1 Disclosures Regarding the Utilisation of Funds as per the Objectives Stated in the Rights Issue Circular

Objective No.	Objective as per Circular	Amount allocated as per circular LKR	Proposed Date of utilization as per circular	Amount allocated upon the receipts of proceeds LKR(A)	% of Total Proceeds	Amount utilized as at 31.12.2022 in LKR (B)	% of utilization against allocation (B/A)	Clarification if not fully utilized including where the funds are invested (whether lent to related parties etc.)
1	Further Strengthen the Equity Base of the Bank and there by Improve Capital Adequacy Ratios in line with Basel III Guidelines of the Central Bank of Sri Lanka.	3.620 Bn	By 31 December 2022	3.620 Bn	100	3.620 Bn	100	N/A
2	Support the Bank's Asset Growth.	3.620 Bn	Over the period of twelve months from the date of allotment.	3.620 Bn	100	3.620 Bn	100	N/A

NOTES TO THE FINANCIAL STATEMENTS

52. Statutory Reserves

Reserve Fund

As at 31 December	BANK/GROUP 2022 LKR '000	2021 LKR '000
Balance at beginning	2,746,968	2,583,968
Transfers	128,000	163,000
Balance as at 31 December	2,874,968	2,746,968

Five percent of profit after tax is transferred to the reserve fund as per Direction issued by Central Bank of Sri Lanka under Section 76 (j) (1) of the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 33 of 1995.

53. Retained Earnings

	BANK		GROUP	
As at 31 December	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Balance at beginning	22,091,649	19,652,169	25,831,589	23,061,084
Surcharge tax paid (Note 22.4)	(1,232,490)	–	(1,274,906)	–
Profit for the year	2,513,352	3,221,863	2,932,475	3,548,938
Other comprehensive income/(expense) net of tax	170,336	(55,184)	173,556	(51,234)
Transfers to statutory reserves	(128,000)	(163,000)	(128,000)	(163,000)
Dividends	(961,567)	(917,992)	(961,567)	(917,992)
Forfeiture of unclaimed dividends	3,494	9,533	3,494	9,533
Disposal of equity investments	180,213	344,260	191,258	344,260
Rights issue expenses	(36,089)	–	(36,089)	–
Change in holding through joint venture	–	–	47	–
Balance as at 31 December	22,600,898	22,091,649	26,731,857	25,831,589

This represents cumulative net earnings, inclusive of final dividend approved amounting to LKR 805 Mn.

The balance is retained and reinvested in the business of the Bank.

NOTES TO THE FINANCIAL STATEMENTS

54. Other Reserves

BANK

As at 31 December 2022	Fair value reserve LKR '000	Hedging reserve LKR '000	General reserve LKR '000	Total LKR '000
Balances at beginning	2,096,627	(329,442)	13,779,839	15,547,024
Movements/transfers	(3,928,817)	444,849	–	(3,483,968)
Balances at the end of the year	(1,832,190)	115,407	13,779,839	12,063,056

BANK

As at 31 December 2021	Fair value reserve LKR '000	Hedging reserve LKR '000	General reserve LKR '000	Total LKR '000
Balances at the beginning of the year	5,882,811	(224,095)	13,779,839	19,438,555
Movements/transfers	(3,786,184)	(105,347)	–	(3,891,531)
Balances at the end of the year	2,096,627	(329,442)	13,779,839	15,547,024

GROUP

As at 31 December 2022	Fair value reserve LKR '000	Exchange equalisation reserve LKR '000	Hedging reserve LKR '000	General reserve LKR '000	Total LKR '000
Balances at the beginning of the year	655,255	163,201	(329,442)	13,779,839	14,268,853
Movements/transfers	(3,928,817)	440,917	444,849	–	(3,043,051)
Balances at the end of the year	(3,273,562)	604,118	115,407	13,779,839	11,225,802

GROUP

As at 31 December 2021	Fair value reserve LKR '000	Exchange equalisation reserve LKR '000	Hedging reserve LKR '000	General reserve LKR '000	Total LKR '000
Balances at the beginning of the year	4,439,846	103,054	(224,095)	13,779,839	18,098,644
Movements/transfers	(3,784,591)	60,147	(105,347)	–	(3,829,791)
Balances at the end of the year	655,255	163,201	(329,442)	13,779,839	14,268,853

NOTES TO THE FINANCIAL STATEMENTS

54.1 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.

54.2 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.

54.3 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.

55. Non-Controlling Interests

Accounting Policy

Non-controlling interests (NCI) are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

The following table summarises the information relating to each of the Group's subsidiaries that has material NCI, before any intra-group eliminations:

	Lanka Industrial Estates Limited	
As at 31 December	**2022 LKR '000**	**2021 LKR '000**
Non-current assets	610,942	603,302
Current assets	479,907	448,489
Non-current liabilities	(182,398)	(132,590)
Current liabilities	(281,668)	(269,873)
Net assets*	626,783	649,328
Net assets attributable to NCI – 48.84%	306,150	317,158
Revenue	531,262	417,170
Profit	224,050	237,844
Other comprehensive Income	701	606
Total comprehensive income	224,751	238,450
Profit allocated to NCI – 48.84%	109,436	116,173
Other comprehensive expense allocated to NCI	342	296
Cash flows from operating activities	96,008	278,058
Cash flows from investment activities	(1,885)	(79,856)
Cash flows from financing activities	(175,661)	(167,677)
Net increase in cash and cash equivalents	(81,538)	30,525

* See Note 34

NOTES TO THE FINANCIAL STATEMENTS

56. 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 56.1 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.

56.1 Contingent Liabilities and Commitments

	BANK		GROUP	
As at 31 December	**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Guarantees issued to –				
Banks in respect of indebtedness of customers of the Bank	21,081	610,343	21,081	610,343
Companies in respect of indebtedness of customers of the Bank	14,922,120	16,294,669	14,922,120	16,294,669
Principal collector of customs (duty guarantees)	1,444,286	847,262	1,444,286	847,262
Shipping guarantees	1,893,163	2,652,244	1,893,163	2,652,244
Documentary credit	5,629,169	21,246,261	5,629,169	21,246,261
Performance bonds	7,748,815	7,888,729	7,748,815	7,888,729
Forward exchange contracts	49,480,528	25,881,741	49,480,528	25,881,741
Commitments in ordinary course of business – Commitments for unutilised credit facilities	87,696,786	68,069,669	87,696,786	68,069,669
Capital expenditure approved by the Board of Directors				
Contracted	281,509	426,512	281,509	426,512
Not contracted	15,050	360,358	15,050	360,358
	169,132,507	144,277,788	169,132,507	144,277,788

NOTES TO THE FINANCIAL STATEMENTS

56.1.1 Movement in Impairment During the year

As at 31 December	BANK/GROUP 2022 LKR '000	2021 LKR '000
Stage 1		
Balance at beginning	576,290	343,598
Charge to income statement	(56,865)	232,692
Balance as at 31 December	519,425	576,290
Stage 2		
Balance at beginning	31,962	13,292
Charge to income statement	65,338	18,670
Balance as at 31 December	97,300	31,962
Total	616,725	608,252

Classified under other liabilities in Note 49 on page 332.

56.2 Litigation Against the Bank

56.2.1 A client has instituted an action against five defendants including DFCC Bank PLC (Bank) in the District Court of Kurunegala, claiming that a property mortgaged by him to the Bank had been unlawfully transferred to a third party under the parate process, and also claiming LKR 6 Mn as damages from the Bank. The Bank is defending the actions before the District Court.

56.2.2 There are three actions instituted in the District Court of Kandy and one action instituted in District Court of Negambo and another action in District Court of Moratuwa, where third parties are claiming ownership of properties acquired by the Bank under recovery action. The Bank is defending the actions before the respective District Courts.

56.2.3 There is one action instituted in the District Court of Bandarawela, where a third party is claiming ownership of a property mortgaged to the Bank. The Bank is defending the action before the District Court.

56.2.4 There is one action instituted in the District court of Teldeniya, where a third party is claiming ownership of a property mortgaged to the Bank. The Bank is defending the actions before the District Court of Teldeniya.

56.2.5 A client instituted an action in the District court of Matara claiming damages from the Bank claiming that as the loan was not disbursed in a lump sum but in installments based on the client's progress as such his business went into decline and he suffered losses. The Bank is defending the action before the District Court of Matara.

56.2.6 An action is instituted in the Labour Tribunal by one ex-employee of the Bank, claiming compensation from the Bank. The action has been laid by the President of the Labour Tribunal since the DC trial has commenced.

56.2.7 An action has been instituted in Galle High Court (Appeal case against the order received in favour of the Bank through the Labour Tribunal Galle) against the Bank by an ex-employee.

56.2.8 One of the Directors of a company against which there are several legal actions instituted by the Bank are pending, has instituted an action in the District Court of Colombo where the said Director is claiming damages from the Bank. The Bank is defending the action before the District Court.

NOTES TO THE FINANCIAL STATEMENTS

56.2.9 There an action instituted in the District Court of Galle where a customer is claiming damages against the bank. The Bank is defending the action before the District Court.

There are no material litigations that are pending against the Group.

56.3 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.

57. Related Parties

The Group's related parties include associate, subsidiaries, trust established by the Bank for post-employment retirement plan, joint venture, Key Management Personnel, close family members of Key Management Personnel and, 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 – "Related Party Disclosures", other than, transactions that the Key Management Personnel (KMP) have availed under schemes uniformly applicable to all staff at concessionary rates.

57.1 Parent and Ultimate Controlling Party

The Bank does not have an identifiable parent of its own.

57.2 Transaction with Key Management Personnel

57.2.1 Key Management Personnel

Key Management Personnel are the Board of Directors of the Bank including Chief Executive, Vice President – Strategic Planning, Chief Risk Officer, Chief Financial Officer, Chief Operating Officer, and Senior Vice President – Treasury and Investment Banking for the purpose of Sri Lanka Accounting Standard – LKAS 24 on "Related Party Disclosures".

57.2.2 Compensation of Directors and Other Key Management Personnel

		BANK		GROUP	
For the year ended 31 December		**2022 LKR '000**	**2021 LKR '000**	**2022 LKR '000**	**2021 LKR '000**
Number of persons		16	16	18	18
Short-term employment benefits		133,670	186,061	156,317	206,349
Post-employment benefits	– Pension*	1,534	(4,935)	1,534	(4,935)
	– Others	15,481	20,467	15,922	20,957
		150,685	201,593	173,773	222,371

*In year 2021 The Bank reassessed the pension fund liability taking in to consideration the retirement age revision under the "Minimum Retirement age of workers Act No 28 of 2021". This reassessment resulted in net reversal of liability which was immediately reversed to the statement of profit or loss as it is considered as a change to the plan in compliance with the Sri Lanka Accounting Standard "LKAS 19-Employee Benefits".

NOTES TO THE FINANCIAL STATEMENTS

57.2.3 Other Transactions with Key Management Personnel and their Close Family Members

57.2.3.1 Statement of financial position – Bank

As at 31 December	2022		2021	
	Number of KMPs	LKR '000	Number of KMPs	LKR '000
Assets				
Financial assets at amortised cost – Loans to and receivables from other customers	16	71,882	15	24,280
		71,882		24,280
Liabilities				
Financial liabilities at amortised cost – Due to depositors	28	481,686	30	522,858
Financial liabilities at amortised cost – Due to other borrowers	–	–	1	8,151
Debt securities in issue	–	–	1	7,292
		481,686		538,301
Contingent liabilities and commitments		32,222		19,087

Income statement – Bank

For the year ended 31 December	2022 LKR '000	2021 LKR '000
Interest income	3,316	1,374
Interest expense	46,213	29,418
Fee and commission income	114	8
Net gain on trading	58	–
Net gains from derecognition of financial assets	7	–
Net other operating income	3,991	–

NOTES TO THE FINANCIAL STATEMENTS

57.3 Transaction with Entities in which Directors of the Bank have Significant Influence

Statement of Financial Position – Bank

As at 31 December	2022 LKR '000	2021 LKR '000
Assets		
Financial assets at amortised cost – Loans to and receivables from other customers	1,570,813	1,708,164
	1,570,813	1,708,164
Liabilities		
Financial liabilities at amortised cost – Due to depositors	1,040,219	289,185
	1,040,219	289,185
Contingent liabilities and commitments	2	–

Income Statement – Bank

For the year ended 31 December	2022 LKR '000	2021 LKR '000
Interest income	307,847	147,842
Interest expenses	101,138	31,295
Fee and commission income	6,167	4,157
Other operating expenses	621	–
Net other operating income	231	–

57.4 Transaction with Group Entities

The Group entities include the subsidiaries, associate and joint venture of the Bank.

57.4.1 Transactions with Subsidiaries

Statement of Financial Position – Bank

As at 31 December	2022 LKR '000	2021 LKR '000
Assets		
Other assets	56,872	34,145
	56,872	34,145
Liabilities		
Financial liabilities at amortised cost- Due to depositors	556,332	530,534
Financial liabilities at amortised cost- Due to other borrowers	10,458	17,875
	566,790	548,409
Contingent liabilities and commitments	–	12,442

NOTES TO THE FINANCIAL STATEMENTS

Income Statement – Bank

For the year ended 31 December	2022 LKR '000	2021 LKR '000
Interest expense	74,030	30,182
Fee and commission income	305	495
Net other operating income	90,890	89,503
Other operating expenses net of reimbursements	228,610	145,339

Other Transactions – Bank

For the year ended 31 December	2022 LKR '000	2021 LKR '000
Payments made for purchase of computer software	14,647	33,460

57.4.2 Transactions with Joint Venture

Statement of financial position – Bank

As at 31 December	2022 LKR '000	2021 LKR '000
Assets		
Financial assets at amortised cost – Loans to and receivables from other customers	208,513	769,978
	208,513	769,978
Liabilities		
Financial liabilities at amortised cost – Due to depositors	888	526
	888	526
Contingent liabilities and commitments	1,057,090	–

Income Statement – Bank

For the year ended 31 December	2022 LKR '000	2021 LKR '000
Interest income	138,439	34,240
Fee and commission income	143	336

NOTES TO THE FINANCIAL STATEMENTS

57.4.3 Transactions with Associate

Statement of Financial Position – Bank

As at 31 December	2022 LKR '000	2021 LKR '000
Liabilities		
Financial liabilities at amortised cost – Due to depositors	29	28
	29	28

Income Statement – Bank

For the year ended 31 December	2022 LKR '000	2021 LKR '000
Fee and commission income	2	1

57.5 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	2022 LKR '000	2021 LKR '000
Contribution prepaid/(payable) as at beginning	116,123	(60,249)
Contribution due for the financial year recognised as expense in income statement	(37,904)	(64,088)
Recognition of actuarial gain in the other comprehensive income	176,541	135,368
Contribution paid by the Bank	–	105,092
Contribution prepaid/(payable)(Note 47.1.2)	254,760	116,123

During the year 2022, DFCC Bank has carried out transactions related to sale of Treasury Bills amounting to LKR 2.82 Bn with DFCC Bank Pension Fund at the prevailing market rates.

NOTES TO THE FINANCIAL STATEMENTS

57.6 Transactions with Government of Sri Lanka (GOSL) and its Related Entities

Entities related to the Government of Sri Lanka (GOSL) by virtue of their aggregate shareholdings has the power to participate in the financial and operating policy decision of the Bank and by extension to participate in the financial and operating policy decisions of the Bank. However, in fact this power was not exercised.

Paragraph 25 of Sri Lanka Accounting Standard Related Party Disclosure – LKAS 24 has exempted DFCC Bank from the normally applicable disclosure requirements on transactions with GOSL – related entities. In making use of this exemption the Board has determined that the limited disclosure required under paragraph 26 of LKAS 24 is only required to be made for transaction that are individually significant because of their size although these transactions were undertaken on normal market terms in the ordinary course of business and there was no requirement to disclose the transactions to regulatory or supervisory authorities or require shareholder approval.

Individually Significant Transactions Included in the Statement of Financial Position – Bank

As at 31 December	2022 LKR '000	2021 LKR '000
Statement of Financial Position – Bank		
Assets		
Balances with Central Bank of Sri Lanka	9,030,868	9,359,241
Placements with banks	3,877,932	5,287,842
Financial assets measured at fair value through profit or loss	795,433	–
Financial assets at amortised cost – Loans to and receivables from other customers	13,017,874	14,187,006
Financial assets at amortised cost – Debt and other instruments	50,459,792	26,071,232
Financial assets measured at fair value through other comprehensive income	54,926,057	41,775,647
Other assets	5,075,029	–
	137,182,985	96,680,968
Liabilities		
Financial liabilities at amortised cost – Due to depositors	2,329,204	2,625,289
Financial liabilities at amortised cost – Due to other borrowers	17,676,413	26,651,792
Debt securities in issue	5,414,492	7,258,964
Subordinated term debt	10,770,137	6,640,301
	36,190,246	43,176,346
Commitments		
Undrawn credit facilities	–	3,739
Forward exchange contracts	52,444,224	31,915,049

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December	2022 LKR '000	2021 LKR '000
Income Statement – Bank		
Interest income	10,568,707	10,713,278
Interest expense	3,754,452	3,711,162
Fee and commission income	643	10,140
Net gain from trading	–	58,890
Net gains/(loss) from derecognition of financial assets	11,440	(728)
Net other operating income	856	–
Impairment charge	2,950,374	291,749

There are no other transactions that are collectively significant with Government related entities.

57.7 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.

57.8 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.

58. 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.

NOTES TO THE FINANCIAL STATEMENTS

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from the Bank's internal records (weighted average cost of funds) to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments:
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term Leases and Leases of Low-value Assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a Lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to

NOTES TO THE FINANCIAL STATEMENTS

ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies SLFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in SLFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

58.1 Leases as Lessee (SLFRS 16)

The Bank leases a number of branch and office premises. The leases typically run for a period of 2-10 years, with an option to renew the lease after that date. For some leases, payments are renegotiated to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

There were no identifiable assets that were sub-let by the Bank to its subsidiary during the year.

Information about leases for which the Bank is a lessee is presented below.

58.2 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 38).

	BANK/GROUP	
	Branch and office premises	
As at 31 December	2022 LKR '000	2021 LKR '000
Balance at 1 January	1,284,488	1,372,264
Additions to right-of-use assets	431,461	208,766
Depreciation charge for the year	(309,678)	(287,629)
Derecognition of right-of-use assets	(23,878)	(8,913)
Balance at 31 December	1,382,393	1,284,488

See Note 8.3.3 for maturity analysis of lease liabilities as at 31 December 2022.

58.3 Lease Liability

	BANK/GROUP	
As at 31 December	2022 LKR '000	2021 LKR '000
Balance at the beginning	1,365,052	1,333,069
Interest charged during the year	141,899	137,425
Payment to lease creditors	(360,025)	(273,136)
Termination of operating lease agreements during the year	(4,242)	(41,072)
Additions/renewals of operating lease agreements during the year	369,881	208,766
Balance as at 31 December	1,512,565	1,365,052

NOTES TO THE FINANCIAL STATEMENTS

58.4 The future minimum lease payments under non-cancellable operating leases.

As at 31 December	2022 LKR '000	2021 LKR '000
Maturity analysis – Contractual undiscounted cash flows		
Less than one year	359,546	308,913
Between one and five years	1,282,197	1,066,105
More than five years	616,747	449,765
Total undiscounted lease liabilities at 31 December	2,258,490	1,824,783
Total discounted lease liabilities at 31 December	1,512,565	1,366,231

Refer Note 49.

58.5 Amounts Recognised in Income Statement

For the year ended 31 December	2022 LKR '000	2021 LKR '000
Leases under SLFRS 16		
Interest on lease liabilities	141,899	137,380
Expenses relating to short-term leases	–	635
Depreciation charge for the year	309,678	287,629
	451,577	425,644

58.6 Amounts Recognised in Statement of Cash Flows

For the year ended 31 December	2022 LKR '000	2021 LKR '000
Lease rentals	360,025	273,136
Advances and other expenses	36,428	38,625
Total cash outflow for leases	396,453	311,761

58.7 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.

NOTES TO THE FINANCIAL STATEMENTS

59. 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.

59.1 Basis for Segmentation

The Group has the following five strategic divisions, which are reportable segments. These divisions offer different products and services, and are managed separately based on the Group's management and internal reporting structure.

Corporate Banking	Loans, deposits and other transactions and balances with corporate customers
Retail Banking	Loans, deposits and other transactions and balances with retail customers
Treasury	Funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short term placements and corporate and government debt securities
Other	Revenue and expenses attributable to the incorporated business segments of industrial estate management, unit trust management, stock brokering and consultancy services are included in the column for others.

Segment performance is evaluated based on operating profits or losses which are measured differently from operating profits or losses in the consolidated financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

The Group's Management Committee reviews internal management reports from each division at least monthly.

59.2 Information about Reportable Segments

Information related to each reportable segment is set out below. Segment profit before tax, as included in internal management reports reviewed by the Group's Management Committee, is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate within the same industries. Inter-segment pricing is determined on an arm's length basis. Eliminations are the consolidation adjustments for inter company transactions, dividend and dividend payable attributable to minority shareholders.

NOTES TO THE FINANCIAL STATEMENTS

	31 December 2022				
	Corporate Banking LKR '000	Retail Banking LKR '000	Treasury LKR '000	Other LKR '000	Total LKR '000
External revenue					
Interest income	22,385,937	34,462,091	10,196,988	77,936	67,122,952
Net fees and commission income	848,149	2,661,823	133,066	–	3,643,038
Net gain from trading	–	–	(213,103)	–	(213,103)
Net loss from financial instruments at fair value through profit or loss	–	–	276,319	–	276,319
Net gain from derecognition of financial assets	–	–	99,112	–	99,112
Net other operating income	62,043	88,181	292,246	875,019	1,317,489
Income from external customers	23,296,129	37,212,095	10,784,628	952,955	72,245,807
Inter segment revenue	–	–	–	(441,086)	(441,086)
Total segment revenue	23,296,129	37,212,095	10,784,628	511,869	71,804,721
Interest expense	(6,943,643)	(27,503,740)	(6,943,663)	–	(41,391,046)
Impairment for loans and other losses	(4,713,793)	(6,914,600)	(2,950,374)	(17,499)	(14,596,266)
Net operating income	11,638,693	2,793,754	890,591	494,370	15,817,408
Profit from operations	–	–	–	–	2,779,493
Share of profits of associate and joint venture	–	–	–	–	332,719
Income tax expense	–	–	–	–	70,301
Non-controlling interests	–	–	–	–	109,436
Equity holders of the Bank	–	–	–	–	2,932,475
Segment assets	153,349,786	208,906,129	170,872,250	1,008,643	534,136,808
Segment liabilities	66,602,856	303,560,345	131,943,287	558,889	502,665,377
Information on cash flows					
Cash flows from operating activities	–	–	–	–	42,885,844
Cash flows from investing activities	–	–	–	–	(23,704,596)
Cash flows from financing activities	–	–	–	–	(5,270,594)
Net cash flows generated during the year	–	–	–	–	13,910,653
Capital expenditure:	–	–	–	–	
Property, plant and equipment	–	123,551	–	144,689	268,240
Intangible assets	–	–	–	414,668	414,668

NOTES TO THE FINANCIAL STATEMENTS

31 December 2021				
Corporate Banking LKR '000	Retail Banking LKR '000	Treasury LKR '000	Other LKR '000	Total LKR '000
10,763,221	18,019,188	7,326,793	27,874	36,137,076
699,542	1,521,866	277,544	–	2,498,952
–	–	436,675	–	436,675
–	–	(247,268)	–	(247,268)
–	–	1,391,008	–	1,391,008
(7,864)	11,187	1,587,957	692,814	2,284,094
11,454,899	19,552,241	10,772,709	720,688	42,500,537
–	–	–	(340,170)	(340,170)
11,454,899	19,552,241	10,772,709	380,518	42,160,367
(4,950,856)	(13,081,820)	(5,913,580)	–	(23,946,256)
(1,952,671)	(2,183,984)	(348,633)	–	(4,485,288)
4,551,372	4,286,436	4,510,496	380,518	13,728,822
–	–	–	–	4,562,014
–	–	–	–	296,662
–	–	–	–	1,193,565
–	–	–	–	116,173
–	–	–	–	3,548,938
151,763,379	206,758,053	107,370,344	918,772	466,810,548
80,363,703	238,542,183	109,392,843	471,289	428,770,018
–	–	–	–	(59,171,678)
–	–	–	–	42,622,962
–	–	–	–	10,411,191
–	–	–	–	(6,137,525)
–	–	–	–	–
147	339,118	839	10,433	350,537
–	868,337	–	145,037	1,013,374

NOTES TO THE FINANCIAL STATEMENTS

59.3 Reconciliations of Information on Reportable Segments to the Amounts Reported in the Financial Statements

	2022 LKR '000	2021 LKR '000
Revenue		
Total revenue for reportable segments	72,245,807	42,500,537
Unallocated amounts	1,715,419	868,913
Elimination of inter-segment revenue	(441,086)	(340,170)
Consolidated revenue	73,520,140	43,029,280
Net operating income		
Total net operating income for reportable segments	15,817,408	13,728,822
Unallocated amounts	(1,513,285)	576,446
Elimination of inter-segment adjustments	73,959	27,361
Consolidated net operating income	14,378,082	14,332,629

	2022 LKR '000	2021 LKR '000
Assets		
Total assets for reportable segments	534,136,808	466,810,548
Other unallocated amounts	35,386,176	21,446,260
Consolidated total assets	569,522,984	488,256,808
Liabilities		
Total liabilities for reportable segments	502,665,377	428,770,018
Other unallocated amounts	12,536,805	7,721,765
Consolidated total liabilities	515,202,182	436,491,783

60. 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;

60.1 First and Final Dividend

The Directors have approved the payment of a first and final dividend of LKR 2.00 per share in the form of a scrip dividend, for the financial year ended 31 December 2022. The Board of Directors confirms 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.

NOTES TO THE FINANCIAL STATEMENTS

60.2 Proposed Debenture Issue

The Board of Directors decided to issue up to eighty million (80,000,000) Basel III compliant, subordinated, listed, rated, unsecured, redeemable debentures with a non-viability conversion option, each at an issue price (par value) of LKR 100 with a term up to seven years subject to obtaining all necessary regulatory and other approvals.

61. 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 2022	**BANK**	**GROUP**	**BANK**	**GROUP**
	LKR '000	**LKR '000**	**LKR '000**	**LKR '000**
Income statement				
Net gain from trading	436,675	436,675	844,898	844,898
Net other operating income	1,581,002	1,961,642	1,172,778	1,553,419
Statement of Financial Position				
Due to banks	3,844,701	3,844,701	3,349,836	3,349,836
Financial liabilities at amortised cost – Due to other borrowers	69,024,264	69,094,264	69,589,129	69,589,129

62. Directors' Responsibility

Accounting Policy

The Board of Directors of the Bank is responsible for the preparation and presentation of these financial statements. Please refer page 195 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 – Classification of financial assets and financial liabilities	280 – 283
1.1.2	Other Disclosures		
	i. Special disclosures about financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.	Not designated Principal accounting policies: Note 5.3.9 – Designation at fair value through profit or loss Notes to the financial statements: Note 08 – Financial risk review	221 222 – 247
	ii. Reclassifications of financial instruments from one category to another.	Principal accounting policies: Note 5.3.3 – Reclassification of financial assets	219
	iii. Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Notes to the financial statements: Note 45.1 – Assets pledged as security	322
	iv. Reconciliation of the allowance account for credit losses by class of financial assets.	Note the financial statements: Note 31.1.4 – Movement in impairment during the year	293
	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	256 – 279
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	257 – 259
	ii. Fee income and expense.	Notes to the financial statements: Note 12 – Net fee and commission income	259 – 260
	iii. Amount of impairment losses by class of financial assets.	Notes to the financial statements: Note 17 – Impairment for loans and other losses	263 – 271
	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	257 – 259
1.3	Other Disclosures	Principal accounting policies:	
1.3.1	Accounting policies for financial instruments.	Note 5.3 – Financial assets and Financial liabilities	217 – 221
1.3.2	Information on hedge accounting.	Notes to the financial statements: Note 29 – Derivative financial assets/liabilities	285 – 288

OTHER DISCLOSURES

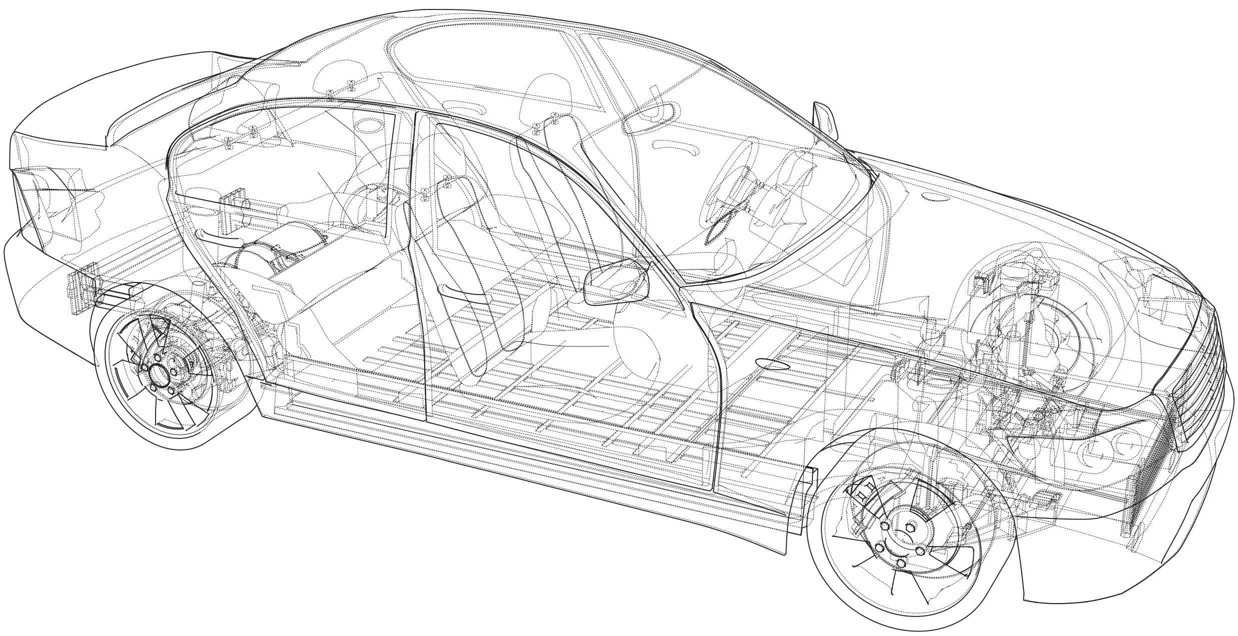
Disclosure Requirements		Description	Page No.
1.3.3	Information about the fair values of each class of financial asset and financial liability, along with:		
	i. Comparable carrying amounts.	Notes the financial statements: Notes 9.1 to 9.4.8 – Fair values of financial instruments	248 – 256
	ii. Description of how fair value was determined.	Notes to the financial statements: Note 9 – Fair values of financial instruments	248 – 256
	iii. The level of inputs used in determining fair value.	Notes to the financial statements: Notes 9.1 – Valuation models	248
	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 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	255 – 256
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	222 – 247
2.1.2	Management's objectives, policies, and processes for managing those risks.	Notes to the financial statements: Note 8 – Financial risk review	222 – 247
2.1.3	Changes from the prior period.	Notes to the financial statements: Note 61 – Comparative figures	355
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	222 – 247
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	 224 - 225 226 – 227
	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	 224 – 225 226 – 227 227 – 229
	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	226 – 227
	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)	223 – 231

OTHER DISCLOSURES

Disclosure Requirements	Description	Page No.
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	232 – 236
b. Description of approach to risk management.	Notes to the financial statements: Note 8 – Financial risk review	231 – 237
c. For other disclosures, please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Notes to the financial statements: Note 8.3 – Liquidity risk (Financial risk review)	231 – 237
iii. Market Risk		
a. A sensitivity analysis of each type of market risk to which the entity is exposed.	Notes to the financial statements: Note 8.4 – Market risk financial risk review)	238 – 243
b. Additional information, if the sensitivity analysis is not representative of the entity's risk exposure.	None	
c. For other disclosures, please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Notes to the financial statements: Note 8.4 – Market risk financial risk review)	238 – 243
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)	244 – 247
v. Equity Risk in the Banking Book		
a. Qualitative Disclosures		
• Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.	Notes to the financial statements: Note 8.4.2.1 – Equity price risk	240
• Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.	Note 5.1.1 to 5.1.7 – Basis of consolidation Note 34 – Investments in subsidiaries Note 35 – Investments in associates Note 36 – Investments in joint venture	215 302 – 303 303 – 304 305 – 306
b. Quantitative Disclosures		
• Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.	Notes to the financial statements: Note 30 – Financial assets measured at fair value through profit or loss Note 33 – Financial assets measured at fair value through other comprehensive income	288 – 289 298 – 302
• The types and nature of investments. The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period.	Notes to the financial statements: Note 13 – Net (loss)/gain from trading Note 15 – Net gains from derecognition of financial assets Note 16 – Net other operating income	261 262 262

OTHER DISCLOSURES

Disclosure Requirements		Description	Page No.
	vi. Interest Rate Risk in the Banking Book		
	a. Qualitative Disclosures	Notes to the financial statements: Note 8 – Financial risk review	222 – 247
	• Nature of interest rate risk in the banking book (IRRBB) and key assumptions.		
	b. Quantitative Disclosures	Notes to the financial statements: Note 8 – Financial risk review Note 8.4.4.1 – Potential impact on NII due to change in market interest rates	222 – 247 241 – 242
	• The increase/(decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).		
2.2.3	Information on concentrations of risk.	Notes to the financial statements: Note 8 – Financial risk review	222 – 247
3.	Other Disclosures		
3.1	Capital		
3.1.1	Capital Structure		
	i. Qualitative Disclosures.	Notes to the financial statements: Note 8.6.1 – Key regulatory ratios – capital adequacy	245 – 247
	Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.		
	ii. Quantitative Disclosure	Notes to the financial statements: Note 8.6.1 – Key regulatory ratios – capital adequacy	245 – 247
	a. The amount of Tier 1 capital, with separate disclosure of: • Paid-up share capital/common stock • Reserves • Non-controlling interests in the equity of subsidiaries • Innovative instruments • Other capital instruments • Deductions from Tier 1 capital b. The total amount of Tier 2 and Tier 3 capital c. Other deductions from capital d. Total eligible capital		
3.1.2	Capital adequacy		
	i. Qualitative Disclosures	Notes to the financial statements: Note 8.6 – Capital management	245 – 247
	A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.		
	ii. Quantitative Disclosures		
	a. Capital requirements for credit risk, market risk and operational risk	Notes to the financial statements: Note 8.6 – Capital management	245 – 247
	b. Total and Tier 1 capital ratio	Notes to the financial statements: Note 8.6.1 – Key regulatory ratios – capital adequacy	246



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

Item	Amount (LKR '000)			
	31 December 2022		31 December 2021	
	Total un-weighted value	Total weighted value	Total un-weighted value	Total weighted value
Total stock of High-Quality Liquid Assets (HQLA)	102,328,524	101,602,039	70,028,983	69,396,761
Total adjusted level 1A assets	99,703,368	99,703,368	68,764,540	68,764,540
Level 1 assets	99,703,368	99,703,368	68,764,540	68,764,540
Total adjusted level 2A assets	1,674,550	1,423,368	–	–
Level 2A assets	1,674,550	1,423,368	–	–
Total adjusted level 2B assets	950,605	475,303	1,264,443	632,221
Level 2B assets	950,605	475,303	1,264,443	632,221
Total cash outflows	504,176,303	89,429,231	489,106,855	82,706,774
Deposits	272,209,694	24,203,659	216,527,162	19,537,298
Unsecured wholesale funding	106,359,474	53,600,766	101,848,746	44,806,790
Secured funding transactions	4,092,627	–	2,386,304	–
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	117,507,661	7,617,961	161,230,438	11,248,480
Additional requirements	4,006,846	4,006,846	7,114,205	7,114,205
Total cash inflows	54,047,087	39,216,666	45,460,680	31,747,827
Maturing secured lending transactions backed by collateral	22,184,855	21,240,548	18,586,621	17,283,217
Committed facilities	–	–	–	–
Other inflows by counterparty which are maturing within 30 Days	24,533,688	17,898,106	19,302,269	12,796,237
Operational deposits	7,172,519	–	4,613,190	–
Other cash inflows	156,025	78,013	2,958,599	1,668,373
Liquidity coverage Ratio (%) (Stock of high quality liquid assets/ total net cash outflows over the Next 30 calendar days) *100		202.34		136.18

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 – LKR only

Item	Amount (LKR'000)			
	31 December 2022		31 December 2021	
	Total un-weighted value	Total weighted value	Total un-weighted value	Total weighted value
Total stock of High-Quality Liquid Assets (HQLA)	100,501,922	100,026,619	63,872,699	63,211,781
Total adjusted level 1A assets	99,551,317	99,551,317	62,550,864	62,550,864
Level 1 assets	99,551,317	99,551,317	62,550,864	62,550,864
Total adjusted Level 2A assets	–	–	–	–
Level 2A assets	–	–	–	–
Total adjusted level 2B assets	950,605	475,303	1,321,835	660,918
Level 2B assets	950,605	475,303	1,321,835	660,918
Total cash outflows	407,234,696	61,192,078	423,205,152	68,030,524
Deposits	242,096,752	21,192,364	198,578,248	17,742,407
Unsecured wholesale funding	62,200,762	30,953,525	74,994,769	33,888,212
Secured funding transactions	4,092,627	–	2,386,304	–
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	95,675,249	5,876,882	141,111,240	10,265,313
Additional requirements	3,169,306	3,169,306	6,134,592	6,134,592
Total cash inflows	32,372,540	26,682,614	34,756,791	26,797,017
Maturing secured lending transactions backed by collateral	20,794,949	19,850,642	15,156,024	13,852,619
Committed facilities	–	–	–	–
Other inflows by counterparty which are maturing within 30 Days	11,421,566	6,753,960	17,020,316	11,654,172
Operational deposits	–	–	–	–
Other cash inflows	156,025	78,013	2,580,452	1,290,226
Liquidity coverage Ratio (%) (Stock of high quality liquid assets/ total net cash outflows over the Next 30 calendar days) *100		289.85		152.86

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

Maturity of Assets and Liabilities

As at 31 December 2022	Up to 1 month LKR '000	1-3 months LKR '000	3-6 months LKR '000
Financial assets			
Cash and cash equivalents	16,122,565	–	–
Balances with Central Bank of Sri Lanka	9,030,868	–	–
Placement with banks	11,202,407	4,022,285	–
Derivative financial assets	20,473,544	–	–
Financial assets measured at fair value through profit or loss	–	–	795,434
Financial assets at amortised cost – Loans to and receivables from other customers	23,967,594	44,360,180	31,882,504
Financial assets at amortised cost – Debt and other instruments	1,745,661	9,759,633	2,371,958
Financial assets measured at fair value through other comprehensive income	3,717,657	11,490,644	13,510,430
Other assets	2,056,844	19,592	91,545
Total financial assets	88,317,140	69,652,334	48,651,871
Financial liabilities			
Due to banks	11,954,501	3,903,493	–
Derivative financial liabilities	84,670	–	–
Financial liabilities at amortised cost – Due to depositors	33,038,328	69,852,202	82,296,428
Financial liabilities at amortised cost – Due to other borrowers	1,862,870	2,700,393	2,555,979
Debt securities in issue	–	1,028,128	294,729
Other liabilities	5,770,066	362,616	75,273
Subordinated term debt	–	3,583,075	–
Total financial liabilities	52,710,435	81,429,907	85,222,409
Total net financial assets/(liabilities)	35,606,705	(11,777,573)	(36,570,538)
Contingencies			
Guarantees	16,387,487	–	–
Shipping guarantees	–	1,229,460	632,593
Performance bonds	7,748,815	–	–
Forward contracts	2,740,603	(5,688,538)	(755,520)
Documentary credit	–	2,041,986	449,934
Total contingencies	26,876,905	(2,417,092)	327,007
Commitments			
Commitments in ordinary course of business – Commitments for unutilised credit facilities	87,696,786	–	–
Capital commitments	293,579	1,000	–
Total commitments	87,990,365	1,000	–
Total commitments and contingencies	114,867,270	(2,416,092)	327,007

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

6-12 months LKR '000	1-3 years LKR '000	3-5 years LKR '000	Over 5 years LKR '000	Total LKR '000
–	–	–	–	16,122,565
–	–	–	–	9,030,868
–	–	–	–	15,224,692
–	–	–	–	20,473,544
–	–	633,715	–	1,429,149
46,264,751	96,627,094	56,313,580	69,656,327	369,072,030
1,650,524	18,844,407	11,992,192	4,583,551	50,947,926
18,263,819	5,798,500	2,079,021	8,458,989	63,319,060
111,576	5,274,666	104,057	133,195	7,791,475
66,290,670	126,544,667	71,122,565	82,832,062	553,411,309
–	–	–	–	15,857,994
–	–	–	–	84,670
95,814,357	31,704,690	40,565,243	17,042,778	370,314,026
7,533,527	27,331,823	25,833,178	13,327,922	81,145,692
–	8,786,545	1,783,541	4,411,172	16,304,115
129,041	518,832	425,091	820,236	8,101,155
6,215,834	8,396,255	204,827	–	18,399,991
109,692,759	76,738,145	68,811,880	35,602,108	510,207,643
(43,402,089)	49,806,522	2,310,685	47,229,954	43,203,666
–	–	–	–	16,387,487
31,110	–	–	–	1,893,163
–	–	–	–	7,748,815
2,472,326	20,540,444	21,712,235	8,458,978	49,480,528
3,137,249	–	–	–	5,629,169
5,640,685	20,540,444	21,712,235	8,458,978	81,139,162
–	–	–	–	87,696,786
1,980	–	–	–	296,559
1,980	–	–	–	87,993,345
5,642,665	20,540,444	21,712,235	8,458,978	169,132,507

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

As at 31 December 2021	Up to 1 month LKR '000	1-3 months LKR '000	3-6 months LKR '000
Financial assets			
Cash and cash equivalents	10,688,255	–	–
Balances with Central Bank of Sri Lanka	9,359,241	–	–
Placement with banks	6,288,006	–	–
Derivative financial assets	280,235	–	–
Financial assets measured at fair value through profit or loss	–	218,875	–
Financial assets at amortised cost – Loans to and receivables from other customers	19,762,579	40,601,431	20,955,765
Financial assets at amortised cost – Debt and other instruments	21,840	2,297,571	13,032,325
Financial assets measured at fair value through other comprehensive income	4,162,207	12,116,150	5,478,870
Other assets	1,276,976	1,295,646	2,199
Total financial assets	51,839,339	56,529,673	39,469,159
Financial liabilities			
Due to banks	651,098	1,344,705	–
Derivative financial liabilities	814,219	–	–
Financial liabilities at amortised cost – Due to depositors	19,848,588	60,836,584	67,139,390
Financial liabilities at amortised cost – Due to other borrowers	5,256,334	6,702,141	5,158,220
Debt securities in issue	462,419	–	696,868
Other liabilities	2,290,428	313,056	69,543
Subordinated term debt	–	–	446,151
Total financial liabilities	29,323,086	69,196,486	73,510,172
Total net financial assets/(liabilities)	22,516,253	(12,666,813)	(34,041,013)
Contingencies			
Guarantees	17,752,274	–	–
Shipping guarantees		783,312	1,324,288
Performance bonds	7,888,729	–	–
Forward contracts	(3,753,104)	1,421,553	(3,100,086)
Documentary credit	4,876,000	8,894,000	7,303,935
Total contingencies	26,763,899	11,098,865	5,528,137
Commitments			
Commitments in ordinary course of business – Commitments for unutilised credit facilities	68,069,669	–	–
Capital commitments	627,175	8,868	118,891
Total commitments	68,696,844	8,868	118,891
Total commitments and contingencies	94,460,743	11,107,733	5,647,028

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

6-12 months LKR '000	1-3 years LKR '000	3-5 years LKR '000	Over 5 years LKR '000	Total LKR '000
–	–	–	–	10,688,255
–	–	–	–	9,359,241
–	–	–	–	6,288,006
–	–	–	–	280,235
–	–	–	–	218,875
44,920,936	90,002,792	56,926,693	92,730,344	365,900,540
2,323,072	6,334,236	2,665,918	–	26,674,962
4,536,581	7,286,765	4,520,387	16,228,476	54,329,436
93,330	45,210	85,755	56,138	2,855,254
51,873,919	103,669,003	64,198,753	109,014,958	476,594,804
1,848,898	–	–	–	3,844,701
–	–	–	–	814,219
58,139,727	24,144,409	22,426,559	67,325,756	319,861,013
3,109,848	16,211,212	14,959,466	17,697,043	69,094,264
160,197	3,789,061	6,777,540	4,411,171	16,297,256
110,640	466,470	392,836	827,524	4,470,497
–	9,334,999	8,401,222	204,904	18,387,276
63,369,310	53,946,151	52,957,623	90,466,398	432,769,226
(11,495,391)	49,722,852	11,241,130	18,548,560	43,825,578
–	–	–	–	17,752,274
544,644	–	–	–	2,652,244
–	–	–	–	7,888,729
–	6,758,895	12,229,512	12,324,971	25,881,741
134,000	38,326	–	–	21,246,261
678,644	6,797,221	12,229,512	12,324,971	75,421,250
–	–	–	–	68,069,669
31,936	–	–		786,870
31,936	–	–	–	68,856,539
710,580	6,797,221	12,229,512	12,324,971	144,277,788

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

Maturity Gap Analysis of Foreign Currency Denominated Financial Assets and Financial Liabilities – USD

As at 31 December 2022	Up to 1 month USD '000	1-3 months USD '000	3-6 months USD '000
Total assets	63,622	52,837	25,752
Total liabilities	28,949	40,466	31,110
Total net financial assets/(liabilities)	34,673	12,371	(5,358)

As at 31 December 2021	Up to 1 months USD '000	1-3 months USD '000	3-6 months USD '000
Total assets	35,472	36,214	28,742
Total liabilities	45,665	30,808	35,744
Total net financial assets/(liabilities)	(10,193)	5,406	(7,002)

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

6-12 months USD '000	1-3 years USD '000	3-5 years USD '000	Over 5 years USD '000	Total USD '000
19,989	50,798	26,250	26,108	265,356
84,920	76,282	74,921	37,952	374,600
(64,931)	(25,484)	(48,671)	(11,844)	(109,244)

6-12 months USD '000	1-3 years USD '000	3-5 years USD '000	Over 5 years USD '000	Total USD '000
52,844	38,269	59,706	53,548	304,795
50,561	89,108	88,319	67,018	407,223
2,283	(50,839)	(28,613)	(13,470)	(102,428)

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

Sensitivity of Financial Assets and Financial Liabilities

BANK As at 31 December 2022	Up to 1 month LKR '000	1-3 months LKR '000	3-6 months LKR '000
Financial assets			
Cash and cash equivalents	1,566,636	–	–
Balances with Central Bank of Sri Lanka	–	–	–
Placements with banks	13,018,678	2,206,014	–
Derivative financial assets	–	–	–
Financial assets measured at fair value through profit or loss	–	–	795,433
Financial assets at amortised cost – Loans to and receivables from other customers	139,846,895	95,477,247	31,372,076
Financial assets at amortised cost – Debt and other Instruments	1,745,943	9,889,773	2,339,275
Financial assets measured at fair value through other comprehensive income	3,797,959	11,490,644	13,510,430
Other assets			
Total financial assets	159,976,111	119,063,678	48,017,214
Financial Liabilities			
Due to banks	13,763,582	2,094,412	–
Derivative financial liabilities	–	–	–
Financial liabilities at amortised cost – Due to depositors	88,920,831	62,265,263	77,026,884
Financial liabilities at amortised cost – Due to other borrowers	2,735,001	5,933,047	3,394,560
Debt securities in issue	–	1,007,125	296,990
Other liabilities	–	–	–
Subordinated term debt	–	3,567,232	–
Total Financial liabilities	105,419,414	74,867,079	80,718,434
Interest rate sensitivity gap	54,556,697	44,196,599	(32,701,220)

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

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
–	–	–	–	14,555,929	16,122,565
–	–	–	–	9,030,868	9,030,868
–	–	–	–	–	15,224,692
–	–	–	–	20,473,544	20,473,544
–	–	–	–	633,716	1,429,149
35,969,173	26,025,656	20,603,728	8,175,011	11,602,244	369,072,030
1,650,345	18,746,848	11,992,192	4,583,550	–	50,947,926
18,263,819	5,783,110	2,080,095	–	8,393,003	63,319,060
				7,791,475	7,791,475
55,883,337	50,555,614	34,676,015	12,758,561	72,480,779	553,411,309
–	–	–	–	–	15,857,994
–	–	–	–	84,670	84,670
89,260,266	17,039,675	25,900,229	59,916	9,840,962	370,314,026
5,221,804	24,879,605	25,933,748	13,047,927	–	81,145,692
–	8,804,760	1,784,070	4,411,170	–	16,304,115
–	–	–	–	8,101,155	8,101,155
6,223,229	8,404,530	205,000	–	–	18,399,991
100,705,299	59,128,570	53,823,047	17,519,013	18,026,787	510,207,643
(44,821,962)	(8,572,956)	(19,147,032)	(4,760,452)	54,453,992	

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

BANK **As at 31 December 2021**	**Up to 1 month** **LKR '000**	**1-3 months** **LKR '000**	**3-6 months** **LKR '000**
Financial assets			
Cash and cash equivalents	844,731	–	–
Balances with Central Bank of Sri Lanka	–	–	–
Placements with banks	6,288,006	–	–
Derivative financial assets	–	–	–
Financial assets measured at fair value through profit or loss	–	–	–
Financial assets at amortised cost – Loans to and receivables from other customers	246,322,818	18,918,758	23,714,679
Financial assets at amortised cost – Debt and other Instruments	265,131	2,605,943	13,018,250
Financial assets measured at fair value through other comprehensive income	4,411,761	12,358,532	5,798,879
Other assets	–	–	–
Total financial assets	258,132,447	33,883,233	42,531,808
Financial liabilities			
Due to banks	–	1,105,860	–
Derivative financial liabilities	–	–	–
Financial liabilities at amortised cost – Due to depositors	111,704,790	51,549,556	57,791,338
Financial liabilities at amortised cost – Due to other borrowers	5,117,887	6,606,257	5,116,823
Debt Securities in issue	–	–	–
Other liabilities	–	–	–
Subordinated term debt	–	–	–
Total financial liabilities	116,822,677	59,261,673	62,908,161
Interest rate sensitivity gap	141,309,770	(25,378,440)	(20,376,353)

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

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
–	–	–	–	9,843,524	10,688,255
–	–	–	–	9,359,241	9,359,241
–	–	–	–	–	6,288,006
–	–	–	–	280,235	280,235
–	–	–	–	218,875	218,875
14,306,803	22,814,215	20,240,169	11,272,135	8,310,963	365,900,540
2,345,808	6,854,024	1,585,806	–	–	26,674,962
4,572,520	7,370,764	4,244,869	3,018,322	12,553,789	54,329,436
–	–	–	–	2,855,254	2,855,254
21,225,131	37,039,003	26,070,844	14,290,457	43,421,881	476,594,804
1,105,860	–	–	–	1,632,981	3,844,701
–	–	–	–	814,219	814,219
74,085,686	10,929,857	1,586,363	40,503	12,172,920	319,861,013
3,621,298	18,045,813	16,614,127	13,972,059	–	69,094,264
–	–	11,886,086	4,411,170	–	16,297,256
–	–	–	–	4,470,497	4,470,497
–	9,777,746	8,609,530	–	–	18,387,276
78,812,844	38,753,416	38,696,106	18,423,732	19,090,617	432,769,226
(57,587,713)	(1,714,413)	(12,625,262)	(4,133,275)	24,331,264	

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

Key Regulatory Ratios

Item	31 December 2022		31 December 2021	
	BANK	GROUP	BANK	GROUP
Regulatory capital (LKR '000)				
Common equity Tier 1	36,818,873	36,381,997	34,259,288	34,265,838
Tier 1 capital	36,818,873	36,381,997	34,259,288	34,265,838
Total capital	48,004,800	47,574,241	47,968,017	47,974,567
Regulatory capital ratios (%)				
Common equity Tier 1 capital ratio (Minimum requirement -7.00%))	10.09	9.94	9.31	9.28
Tier 1 capital ratio (Minimum requirement 8.50%)	10.09	9.94	9.31	9.28
Total capital ratio (Minimum requirement 12.50%)	13.15	12.99	13.03	13.00
Computation of leverage ratio – Bank				
Tier 1 capital	36,818,873	36,381,997	34,259,288	34,265,838
Total exposures	621,004,625	620,033,354	518,666,776	517,675,471
On-Balance sheet items (excluding securities financing transactions, but including collateral)	527,140,776	526,169,505	469,824,183	468,832,878
Derivative exposures	68,966,546	68,966,546	17,703,013	17,703,013
Securities financing transaction exposures	2,467,643	2,467,643	2,972,983	2,972,983
Other Off-Balance sheet exposures	22,429,660	22,429,660	28,166,597	28,166,597
Basel III leverage ratio (%) (Tier 1/Total exposure)	5.93	5.87	6.61	6.62
Computation of net stable funding ratio				
Total available stable funding	438,464,296	N/A	377,765,097	N/A
Required stable funding – On balance sheet assets	341,855,944	N/A	301,861,759	N/A
Required stable funding – Off balance sheet items	4,629,317	N/A	6,692,019	N/A
Total required stable funding	346,485,261	N/A	308,553,778	N/A
Net stable funding ratio (%)	126.55	N/A	122.43	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 2022		31 December 2021	
	BANK LKR '000	GROUP LKR '000	BANK LKR '000	GROUP LKR '000
Common equity Tier 1 (CET1) capital after adjustments	36,818,873	36,381,997	34,259,288	34,265,838
Common equity Tier 1 (CET1) capital	52,778,734	56,909,693	46,687,119	50,436,550
Equity capital (stated capital)/assigned capital	13,182,025	13,182,025	8,600,457	8,600,457
Reserve fund	2,874,968	2,874,968	2,746,968	2,746,968
Published retained earnings/(accumulated retained losses)	22,600,898	26,731,857	22,091,649	25,831,589
Published accumulated Other Comprehensive Income (OCI)	341,004	341,004	(531,794)	(522,303)
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	15,959,861	20,527,696	12,427,831	16,170,712
Goodwill (net)	–	156,226	–	156,226
Intangible assets (net)	2,198,042	2,218,827	2,227,577	2,252,589
Investment in capital of banks and financial institutions	9,204,363	13,589,480	8,841,360	12,403,003
Others	4,557,456	4,563,163	1,358,894	1,358,894
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	11,185,927	11,192,244	13,708,729	13,708,729
Tier 2 capital	11,185,927	11,192,244	13,708,729	13,708,729
Qualifying Tier 2 capital instruments	7,039,040	7,039,040	10,511,268	10,511,268
Revaluation gains	–	–	–	–
Loan loss provisions	4,146,887	4,153,204	3,197,461	3,197,461
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	36,818,873	36,381,997	34,259,288	34,265,838
Total Tier 1 capital	36,818,873	36,381,997	34,259,288	34,265,838
Total capital	48,004,800	47,574,241	47,968,017	47,974,567

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

Item	31 December 2022		31 December 2021	
	BANK	GROUP	BANK	GROUP
Total risk weighted assets (RWA) (LKR '000)				
RWAs for credit risk	331,750,969	332,256,324	339,260,886	339,722,423
RWAs for market risk	8,391,648	8,391,648	10,005,925	10,005,925
RWAs for operational risk	24,960,191	25,491,894	18,909,993	19,380,488
CET1 capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on d-sibs) (%)	10.09	9.94	9.31	9.28
of which: capital conservation buffer (%)	2.50	2.50	2.50	2.50
of which: countercyclical buffer (%)	–	–	–	–
of which: capital surcharge on d-sibs (%)	–	–	–	–
Total Tier 1 capital ratio (%)	10.09	9.94	9.31	9.28
Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on d-sibs) (%)	13.15	12.99	13.03	13.00
of which: capital conservation buffer (%)	2.50	2.50	2.50	2.50
of which: countercyclical buffer (%)	–	–	–	–
of which: capital surcharge on d-sibs (%)	–	–	–	–

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

Credit Risk under Standardised Approach – Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

Asset Class	As at 31 December 2022					
	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] %
Bank						
Claims on Central Government and CBSL	143,916,614	53,183,986	143,916,614	4,180,549	726,114	0
Claims on foreign sovereigns and their Central Banks	–	–	–	–	–	0
Claims on public sector entities	12,761,124	3,739	–	1,870	1,870	100
Claims on official entities and multilateral development banks	–	–	–	–	–	0
Claims on banks exposures	19,004,404	8,710,665	19,004,404	300,229	6,248,007	32
Claims on financial institutions	8,749,330	–	8,749,330	–	6,141,995	70
Claims on corporates	199,602,404	28,193,439	163,826,635	16,177,194	176,517,585	98
Retail claims	120,592,703	7,349,735	120,592,703	6,172,750	99,476,195	78
Claims secured by residential property	13,062,046	–	13,062,046	–	4,571,716	35
Claims secured by commercial real estate	2,607,521	–	2,607,521	–	2,607,521	100
Non-performing assets (NPAs) (i)	22,105,677	–	22,105,677	–	26,504,249	120
Higher-risk categories	459,798	–	459,798	–	1,149,495	250
Cash items and other assets	16,756,381	85,797,195	16,756,381	–	7,806,222	47
Total	559,618,002	183,238,759	511,081,109	26,832,592	331,750,969	
Group						
Claims on Central Government and CBSL	143,916,614	53,183,986	143,916,614	4,180,549	726,114	0
Claims on foreign sovereigns and their Central Banks	–	–	–	–	–	0
Claims on public sector entities	12,761,124	3,739	–	1,870	1,870	100
Claims on official entities and multilateral development banks	–	–	–	–	–	0
Claims on banks exposures	19,061,688	8,710,665	19,061,688	300,229	6,271,309	32
Claims on financial institutions	8,749,330	–	8,749,330	–	6,141,995	70
Claims on corporates	199,365,369	28,193,439	163,589,599	16,177,194	176,280,550	98
Retail claims	120,592,703	7,349,735	120,592,703	6,172,750	99,476,195	78
Claims secured by residential property	13,062,046	–	13,062,046	–	4,571,716	35
Claims secured by commercial real estate	2,607,521	–	2,607,521	–	2,607,521	100
Non-performing assets (NPAs) (i)	22,105,677	–	22,105,677	–	26,504,249	120
Higher-risk categories	499,675	–	499,675	–	1,249,189	250
Cash items and other assets	17,379,848	85,797,195	17,379,848	–	8,425,616	48
Total	560,101,595	183,238,759	511,564,701	26,832,592	332,256,324	

Note:

(i) NPAs – As per Banking Act Directions on Classification of loans and advances, income recognition and provisioning

(ii) RWA density – Total RWA/exposures post CCF and CRM.

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights

BANK

Description	Amount (LKR '000) as at 31 December 2022 (Post CCF and CRM)			
Asset classes / Risk weight	0%	20%	35%	50%
Claims on Central Government and CBSL	144,466,591	3,630,572	–	–
Claims on foreign sovereigns and their Central Banks	–	–	–	–
Claims on public sector entities	–	–	–	–
Claims on official entities and multilateral development banks	–	–	–	–
Claims on banks exposures	–	11,670,983	–	7,439,679
Claims on financial institutions	–	–	–	5,214,671
Claims on corporates	–	1,570,762	–	4,459,266
Retail claims	9,568,024	–	–	–
Claims secured by residential property	–	–	13,062,046	–
Claims secured by commercial real estate	–	–	–	–
Non-performing assets (NPAs)	–	–	–	698,554
Higher-risk categories	–	–	–	–
Cash items and other assets	8,950,160	–	–	–
Total	162,984,775	16,872,317	13,062,046	17,812,170

GROUP

Description	Amount (LKR '000) as at 31 December 2022 (Post CCF and CRM)			
Asset classes / Risk weight	0%	20%	35%	50%
Claims on central Government and CBSL	144,466,591	3,630,572	–	–
Claims on foreign sovereigns and their Central Banks	–	–	–	–
Claims on public sector entities	–	–	–	–
Claims on official entities and multilateral development banks	–	–	–	–
Claims on banks exposures	–	11,688,784	–	7,479,162
Claims on financial institutions	–	–	–	5,214,671
Claims on corporates	–	1,570,762	–	4,459,266
Retail claims	9,568,024	–	–	–
Claims secured by residential property	–	–	13,062,046	–
Claims secured by commercial real estate	–	–	–	–
Non-performing assets (NPAs)	–	–	–	698,554
Higher-risk categories	–	–	–	–
Cash items and other assets	8,954,231	–	–	–
Total	162,988,846	16,890,118	13,062,046	17,851,653

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

Amount (LKR '000) as at 31 December 2022 (Post CCF and CRM)					
60%	75%	100%	150%	>150%	Total credit exposures amount
–	–	–	–	–	148,097,163
–	–	–	–	–	–
–	–	1,870	–	–	1,870
–	–	–	–	–	–
–	–	193,971	–	–	19,304,633
–	–	3,534,659	–	–	8,749,330
–	–	173,973,800	–	–	180,003,828
3,324,864	65,565,153	48,307,412	–	–	126,765,453
–	–	–	–	–	13,062,046
–	–	2,607,521	–	–	2,607,521
–	–	11,911,425	9,495,698	–	22,105,677
–	–	–	–	459,798	459,798
–	–	7,806,222	–	–	16,756,382
3,324,864	65,565,153	248,336,880	9,495,698	459,798	537,913,701

Amount (LKR '000) as at 31 December 2022 (Post CCF and CRM)					
60%	75%	100%	150%	>150%	Total credit exposures amount
–	–	–	–	–	148,097,163
–	–	–	–	–	–
–	–	1,870	–	–	1,870
–	–	–	–	–	–
–	–	193,971	–	–	19,361,917
–	–	3,534,659	–	–	8,749,330
–	–	173,736,765	–	–	179,766,793
3,324,864	65,565,153	48,307,412	–	–	126,765,453
–	–	–	–	–	13,062,046
–	–	2,607,521	–	–	2,607,521
–	–	11,911,425	9,495,698	–	22,105,677
–	–	–	–	499,675	499,675
–	–	8,425,617	–	–	17,379,848
3,324,864	65,565,153	248,719,240	9,495,698	499,675	538,397,293

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

Market Risk under Standardised Measurement Method

Item	31 December 2022 RWA amount BANK LKR '000	31 December 2022 RWA amount GROUP LKR '000
(a) RWA for interest rate risk	522,681	522,681
General interest rate risk	522,681	522,681
(i) Net long or short position	522,681	522,681
(ii) Horizontal disallowance	–	–
(iii) Vertical disallowance	–	–
(iv) Options	–	–
Specific interest rate risk		
(b) RWA for equity	137,147	137,147
(i) General equity risk	74,871	74,871
(ii) Specific equity risk	62,276	62,276
(c) RWA for foreign exchange and gold	389,128	389,128
Capital charge for market risk [(a) + (b) + (c)] * CAR	8,391,648	8,391,648

Operational Risk Under Basic Indicator Approach/The Standardised Approach/ The Alternative Standardised Approach

Business lines	Capital charge factor	Fixed factor	Gross Income (LKR '000) as at 31 December 2022		
			1st year	2nd year	3rd year
BANK					
The basic indicator approach	15%		30,754,816	17,111,682	14,533,979
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%				

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF BANKING ACT DIRECTION NO. 01 OF 2016, CAPITAL REQUIREMENTS UNDER BASEL III

Business lines	Capital charge factor	Fixed factor	Gross Income (LKR '000) as at 31 December 2022		
			1st year	2nd year	3rd year
Retail brokerage	12%				
Retail banking	12%	0.035			
Commercial banking	15%	0.035			
Capital charges for operational risk (LKR '000)					
The basic indicator approach	3,120,024				
The standardised approach					
The alternative standardised approach					
Risk weighted amount for operational risk (LKR '000)					
The basic indicator approach	24,960,191				
The standardised approach					
The alternative standardised approach					
GROUP					
The basic indicator approach	15%		31,340,648	17,519,559	14,869,527
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	3,186,487				
The standardised approach					
The alternative standardised approach					
Risk weighted amount for operational risk (LKR '000)					
The basic indicator approach	25,491,894				
The standardised approach					
The alternative standardised approach					

MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

Description of the Capital Instrument (Bank Only)	Stated capital	Subordinated Term-debt (2016 – Type B)
Issuer	DFCC Bank PLC	DFCC Bank PLC
Unique Identifier (e.g., ISIN or Bloomberg identifier for private placement)	LK0055N00000	C-2367
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
Par value of instrument (LKR)	10	100
Perpetual or dated	Perpetual	Dated
Original maturity date, if applicable	N/A	9 November 2023
Amount recognised in regulatory capital (in LKR '000 as at 31 December 2022)	13,182,025	1,208,628
Accounting classification (Equity/liability)	Equity	Liability
Issuer call subject to prior supervisory approval		
Optional call date, contingent call dates and redemption amount (LKR '000)	N/A	N/A
Subsequent Call Dates, if Applicable	N/A	N/A
Coupons/Dividends		
Fixed or Floating Dividend/Coupon	Floating dividend	Fixed coupon
Coupon rate and any related index (%)	N/A	12.75 p.a
Non-cumulative or cumulative	Non-cumulative	Non-cumulative
Convertible or nonconvertible	Non-convertible	Non-convertible
If Convertible, conversion trigger (s)	N/A	N/A
If Convertible, fully or partially	N/A	N/A
If Convertible, mandatory or optional	N/A	N/A
If Convertible, conversion rate	N/A	N/A

MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

Subordinated Term-debt (2018 – Type A)	Subordinated Term-debt (2018 – Type B)	Subordinated Term-debt (2020 – Type A)	Subordinated Term-debt (2020 – Type B)
DFCC Bank PLC	DFCC Bank PLC	DFCC Bank PLC	DFCC Bank PLC
C-2393	C-2394	C-2458	C-2457
26 March 2018	26 March 2018	23 October 2020	23 October 2020
100	100	100	100
Dated	Dated	Dated	Dated
29 March 2023	29 March 2025	23 October 2025	23 October 2027
582,694	2,451,918	2,590,800	205,000
Liability	Liability	Liability	Liability
N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A
Fixed coupon	Fixed coupon	Fixed coupon	Fixed coupon
12.6 p.a	13 p.a	9 p.a	9.25 p.a
Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
Convertible	Convertible	Convertible	Convertible
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
Fully	Fully	Fully	Fully
Mandatory	Mandatory	Mandatory	Mandatory
Based on the simple average of the daily Volume Weighted Average Price (VWAP) of an ordinary voting shares during the three months (0-3) period, immediately preceding the date of the trigger event.	Based on the simple average of the daily Volume Weighted Average Price (VWAP) of an ordinary voting shares during the three months (0-3) period, immediately preceding the date of the trigger event.	Based on the simple average of the daily Volume Weighted Average Price (VWAP) of an ordinary voting shares during the three months (0-3) period, immediately preceding the date of the trigger event.	Based on the simple average of the daily Volume Weighted Average Price (VWAP) of an ordinary voting shares during the three months (0-3) period, immediately preceding the date of the trigger event.

TEN YEAR SUMMARY

LKR Mn	2014	2015	For the 9 months ended 31 December 2015	For the year ended 31 December 2016	2017
	Based on LKAS 39				
BANK					
Operating results					
Total income	10,481	10,394	10,036	26,754	35,942
Profit before income tax	3,211	3,771	1,589	4,414	5,792
Income tax expense	623	531	521	1,125	1,377
Profit after tax	2,587	3,240	1,068	3,289	4,415
Statement of financial position					
Assets					
Cash and short-term funds	4,245	2,296	9,859	13,745	21,355
Loans to and receivables from banks and other customers	62,575	73,933	160,548	185,872	213,704
Financial investments	25,609	29,909	71,233	84,675	91,330
Investment in associate, joint venture and subsidiary companies	6,659	6,648	823	902	957
Other assets	1,853	1,826	3,688	4,919	5,761
Total assets	100,941	114,612	246,151	290,112	333,107
Liabilities					
Due to depositors	16,630	22,485	110,891	140,514	193,308
Due to other borrowers	45,262	46,346	87,379	97,291	84,607
Other liabilities	1,639	1,686	5,062	6,457	7,316
Equity	37,410	44,095	42,819	45,850	47,877
Total equity and liabilities	100,941	114,612	246,151	290,112	333,107
Return on equity (Profit after tax) (%)*	10.6	12.8	5.0	10.99	13.4
Return on total assets (Profit before tax) (%)*	3.0	3.5	1.0	1.30	1.48
Earnings per share (LKR)	9.76	12.22	4.03	12.41	16.65
Market value per share (LKR)	143.9	202.8	168.1	122.50	124.00
Price earnings ratio (times)	14.7	16.6	41.7	9.87	7.45
Earnings yield (%)	6.8	6.0	2.4	10.13	13.43
Dividend per share (LKR)	5.50	6.00	2.5	4.5	5.0
Dividend cover (times)	2.0	2.2	0.7	4.96	3.70
Gross dividend (LKR Mn)	1,325	1,458	1,591	663	1,193
Liquid assets to liabilities (as specified in the Banking Act No. 30 of 1998), (%)	77	48	22	27	27
Number of employees	477	495	1445	1,642	1,770

* After eliminating fair value reserve

Based on SLFRS 09

	2018	2019	2020	2021	2022
	39,154	43,297	43,300	42,649	73,008
	4,233	2,989	3,398	4,326	2,439
	1,464	915	1,010	1,105	(74)
	2,768	2,074	2,388	3,222	2,513
	17,307	14,282	28,040	26,336	40,378
	249,691	272,818	306,062	365,901	369,072
	97,165	108,170	120,932	81,223	115,696
	957	978	1,008	1,008	1,025
	9,788	8,649	9,035	11,038	39,755
	374,908	404,897	465,077	485,505	565,926
	242,238	247,787	310,027	319,861	370,314
	82,614	102,910	97,406	107,623	131,708
	6,210	6,720	8,287	9,035	13,183
	43,846	47,480	49,357	48,986	50,721
	374,908	404,897	465,077	485,505	565,926
	7.6	7.6	5.6	7.1	5.1
	0.80	0.78	0.79	0.92	0.46
	10.44	7.14	7.83	10.14	6.75
	93.00	91.90	65.30	60.00	32.00
	8.91	12.87	8.34	5.92	4.74
	11.23	7.77	11.99	16.90	21.10
	3.5	3.0	3.0	3.0	2.0
	2.09	2.04	2.62	3.51	2.61
	1,325	928	913	918	962
	24	27	35	21	26
	1,860	2,076	2,072	2,191	1,989

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

A- (lka) credit rating from
Fitch Ratings Lanka Limited.

Annual General Meeting (AGM)

The AGM will be held
at the "Auditorium" of the Bank,
No. 73/5, Galle Road,
Colombo 3,
on 30 March 2023 at 10.00am.

For any Clarification on this Report please write to:

The Company Secretary
DFCC Bank PLC
No. 73/5, Galle Road,
Colombo 3, Sri Lanka or
Email to: info@dfccbank.com

Company Secretary

Ms N Ranaraja

Auditors

KPMG
Chartered Accountants

VAT Registration Number

409000088-7000

Registered Office

73/5, Galle Road,
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Fax: +94 11 244 0376
Email: info@dfccbank.com
Website: www.dfcc.lk

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