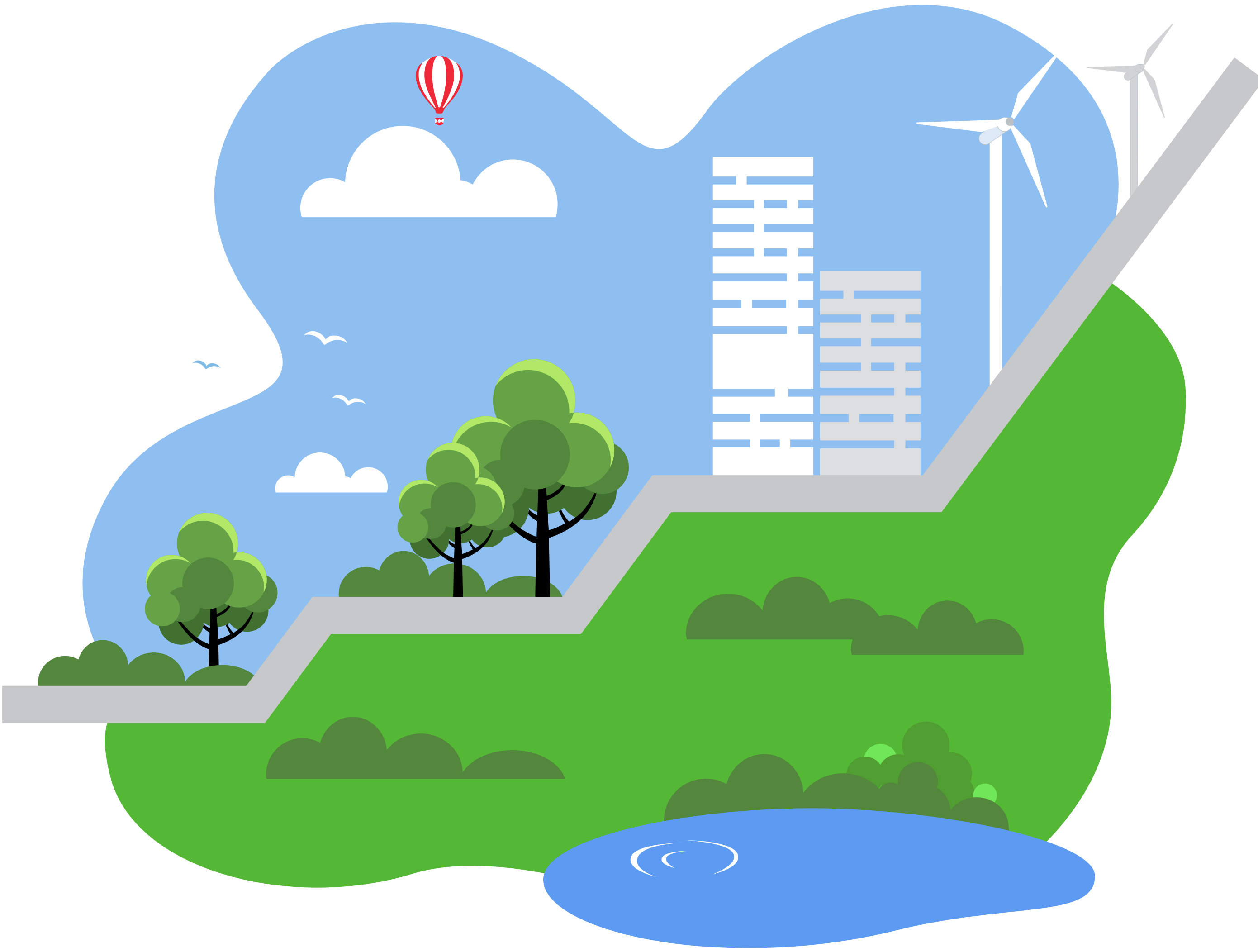
DFCC BANK

Keep Growing

ANNUAL REPORT 2023



Sustainable Growth, Financial Strength

Sustainable Growth, Financial Strength

In the year under review, we made remarkable progress on two fronts. We achieved the best financial results ever in an economy still recovering from an extreme crisis. DFCC faced daunting challenges on so many fronts, but the Bank overcame them with flexibility and innovation. Despite trying circumstances, the Bank did not waver in its commitment to the sustainable development of the nation, both in the environmental and social spheres. These two events are indeed inter-related. Our commitment to national sustainability has driven our growth and sustainability.

DFCC BANK
Keep Growing

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Introduction

ABOUT THE REPORT

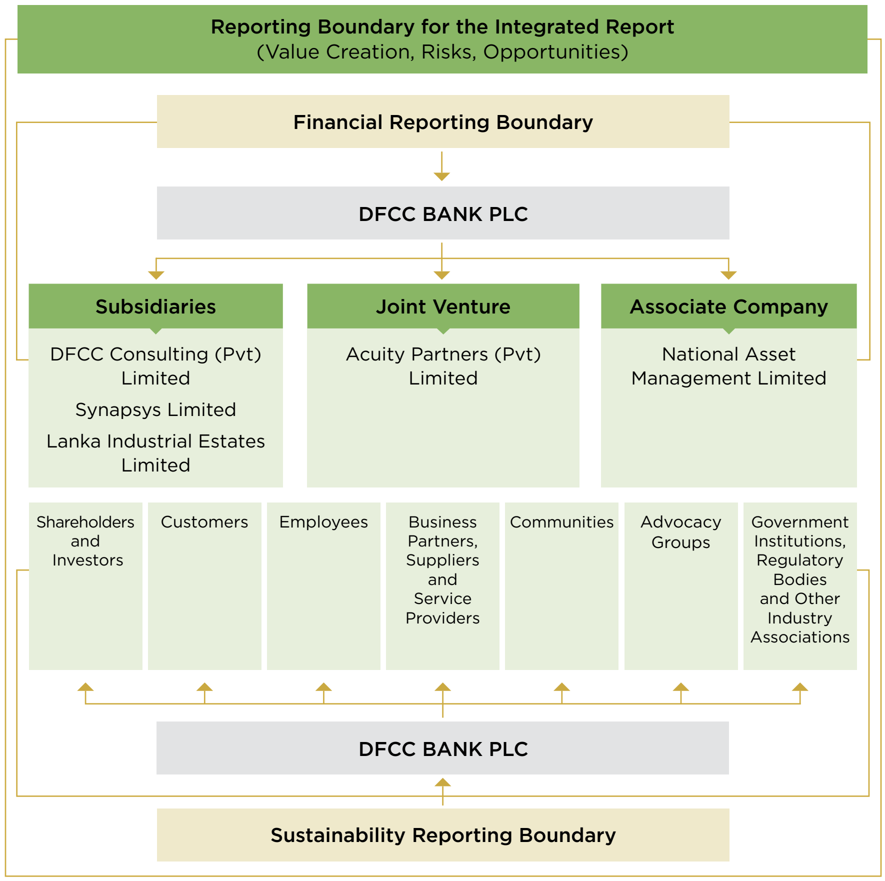
GRI 2-1, 2, 3, 4, 5, 3-1

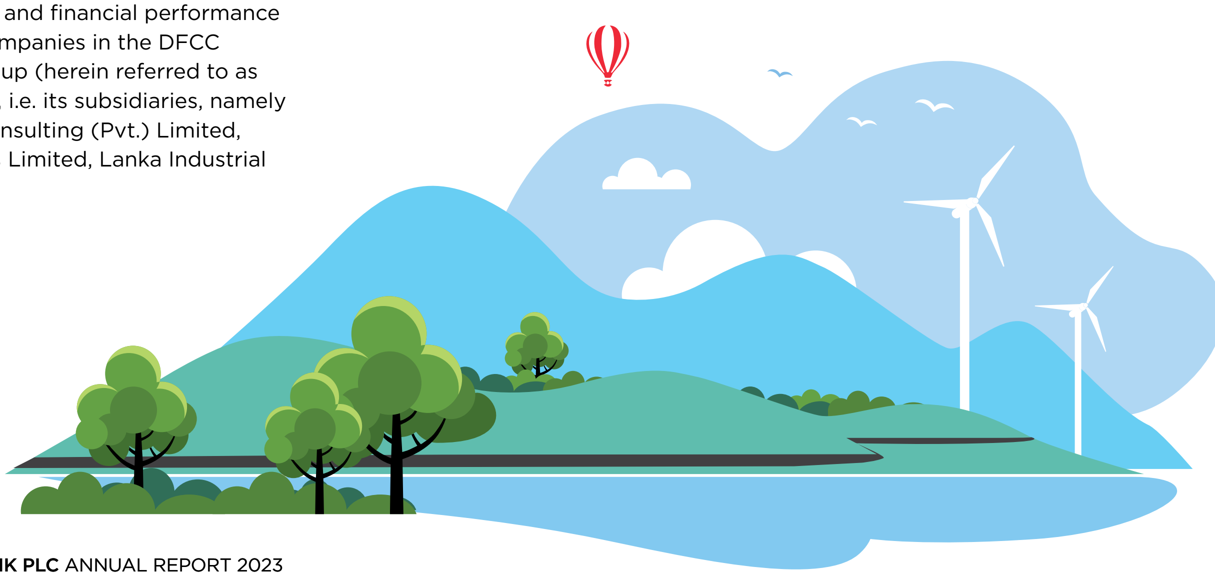
Scope and Boundary

The DFCC Bank Annual Report 2023 (herein referred to as "the Report" or "the Annual Report") is the Bank's 11th Integrated Report and presents a concise yet holistic picture of the Bank's strategies, goals, governance, and operations from 1 January 2023 to 31 December 2023 which is the financial year of the Bank's reporting.

The scope and boundary of this report mainly cover the core banking activities of DFCC Bank PLC (herein referred to as "DFCC Bank", "DFCC" or "Bank") while presenting both financial and non-financial aspects of the Bank's performance. Accordingly, this Annual Report reflects the Bank's integrated approach to management, ensuring that different functions are not in isolated silos but are integrated. In line with global trends, the Bank increasingly focuses on sustainability, which the Report emphasises. Non-financial factors that impact the Bank's ability to create value, such as social and environmental impacts, are therefore given prominence in the Report. The Report brings out the Bank's value creation in the short, medium, and long-term. The Bank's overall strategy and that of its separate divisions are given prominence in the Report. In addition, an overview and financial performance of the companies in the DFCC Bank Group (herein referred to as "Group"), i.e. its subsidiaries, namely DFCC Consulting (Pvt.) Limited, Synapsys Limited, Lanka Industrial Estates Limited, Joint Venture – Acuity Partners (Pvt) Limited and Associate Company – National Asset Management Limited are presented in this Report. (details given on page 134). The respective entities have been duly identified where applicable.

This Report is in accordance with the boundaries of our Financial Statements and includes DFCC Bank and its subsidiaries. Stakeholders and entities to be included in this Annual Report are decided based on the <IR> Framework discussed below:





Reporting Frameworks

Integrated reporting

- The International Integrated Reporting <IR> Framework of the International Financial Reporting Standards (IFRS) Foundation.
- Smart Integrated Reporting Methodology™.

Sustainability reporting

- Global Reporting Initiative (GRI) standards – "In Accordance with the GRI Standards", issued by the Global Sustainability Standards Board.
- Guidelines on Environmental, Social and Governance (ESG) Reporting issued by the Colombo Stock Exchange (CSE).
- The United Nations Sustainable Development Goals (UN SDGs).
- Banking Act Direction No. 05 of 2022 on Sustainable Finance Activities of Licensed Banks.
- Sustainable Banking Principles of the Sustainable Banking Initiative of the Sri Lanka Banks' Association (SLBA-SBI).

Financial reporting

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

Governance, compliance and risk reporting

- Code of Best Practice for Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka.
- Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka, issued by the Central Bank of Sri Lanka and any amendments thereto.
- 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.
- Companies Act No. 07 of 2007 and amendments thereto.
- Listing Rules of the Colombo Stock Exchange (CSE).
- Securities and Exchange Commission of Sri Lanka (SEC) Act No. 19 of 2021, including directives and circulars.
- Directions issued by the Central Bank of Sri Lanka and the Basel Capital Accord (III).
- Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka.

The guiding principles in integrated reporting have been considered in preparing and presenting the Report. This includes material risks, opportunities, and outcomes attributable to or associated with the operating environment (pages 152 and 178), our value creation model (pages 44 and 45), capitals (pages 70 to 150) and corporate governance (pages 179 to 198) etc.

Sustainability must be supported by governance frameworks, systems, and procedures. This is depicted in the governance section of the Report. Risks and opportunities are featured throughout the Report, while a section is dedicated to the risk management process.

Value Creation

DFCC's value creation process is captured and clearly articulated in its business model on pages 44 and 45.

The model describes inputs and outputs regarding capitals and their growth/transformation. The value derived by the Bank and delivered to stakeholders is described under outcomes, while the ultimate outcome is described under impact. The entire process is placed within the context of the operating environment and governance structures.

The Eight Capitals

The IFRS Foundation recognises six distinct but interrelated capitals:

Financial, Manufactured, Natural, Human, Intellectual, and Social Relationship. Integrated Reporting is based on the understanding that future cash flows and other conceptions of value depend on a wide range of capitals, interactions, activities, causes and effects, and relationships other than those directly associated with changes in financial capital. The organisation's operations create value for itself and its stakeholders. During value creation, capital is consumed, developed, and transformed.

As provided in paragraphs 2.17 and 2.18 of the Integrated Reporting <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 regarding the Bank's value creation process.

Capitals described in this Annual Report:

Financial Capital

Institutional Capital

Investor Capital

Customer Capital

Employee Capital

Business Partner Capital

Social Capital

Natural Capital

The relationships and interconnections between the various capitals will be brought out in the Report. Reporting on the multiple products, services, activities, and operations will be placed appropriately within the capitals.

Materiality

According to the principles of integrated reporting, a matter is considered to be material if it substantively affects the ability of an organisation to create value in the short, medium, and long-term. Materiality is largely industry-specific but is also organisation-specific. Identification of material matters is interwoven with the identification of risks and opportunities featured throughout the Report.

DFCC's strategies, governance, plans, and operations are guided by integrated thinking and materiality matters. Financial and non-financial factors are considered and are given appropriate importance.

Ascertainment of material matters requires input from all key divisions of the Bank and must consider all stakeholder groups' perspectives. The process must also be placed in the context of the operating environment.

Precautionary Principle

We use the Precautionary Principle as a social and environmental decision-making guideline. The salient points of the Principle are:

- 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.
- Increasing public participation in decision-making.

All previous Integrated Annual Reports including the most recent report for the financial year 2022 are available for viewing and downloading on the bank's website – www.dfcc.lk.

While there are no restatements, certain reclassifications relating to the financial statements are reported in the Notes to the Financial Statements (page 243 to 390). With regard to the GHG emission calculation of the Bank, we have decided to change the base year from 2022 to 2023 as the emission figures have been verified by an accredited external verification body.

Forward-looking Statements

This Report includes forward-looking statements relating to the likely future financial position and results of the Bank's operations. By their very nature, these statements involve elements of risk and uncertainty as they relate to events and depend on circumstances that may or may not occur in the future.

Looking Forward

The last few years have been highly turbulent, politically, economically, and socially. The current environment is still somewhat fluid. Given this backdrop, it is imperative to take a forward-looking view. We cannot foresee the future, but we attempt to present the most probable scenario as we see it.

Combined Assurance

The mandatory independent review of the financial statements, including the notes to the accounts, has been provided by external auditors – Messrs KPMG Sri Lanka, Chartered Accountants. Their opinion is given on pages 227 to 233.

Further, independent assurance on the following presented in this report has been provided by Messrs Ernst & Young, Sri Lanka (EY).

- Independent assurance on the DFCC Bank's reporting adherence to the GRI standards (page 423 to 424)
- Independent assurance on DFCC Bank's reporting adherence to the Integrated Reporting <IR> Framework (page 425 and 426)

Board Responsibility Statement

The Board of Directors of DFCC Bank PLC confirms that the 2023 Annual Report has been prepared and presented in accordance with the <IR> Framework and acknowledges its responsibility for ensuring the integrity of this integrated report. Accordingly, the Board is satisfied with the presentation of information with regard to the Bank's strategy and value creation addresses material matters relevant to the Bank and its stakeholders. The Board has considered the completeness of the information presented in the report based on the combined assurance process outlined above.

Signed on behalf of the Board,

N H T I Perera
Director/Chief Executive Officer

Feedback

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

Registered office

73/5, Galle Road,
Colombo 3,
Sri Lanka
Phone: +94 11 244 2442
Email: info@dfccbank.com
Website: www.dfcc.lk

ABOUT DFCC BANK

GRI 2-6

Vision

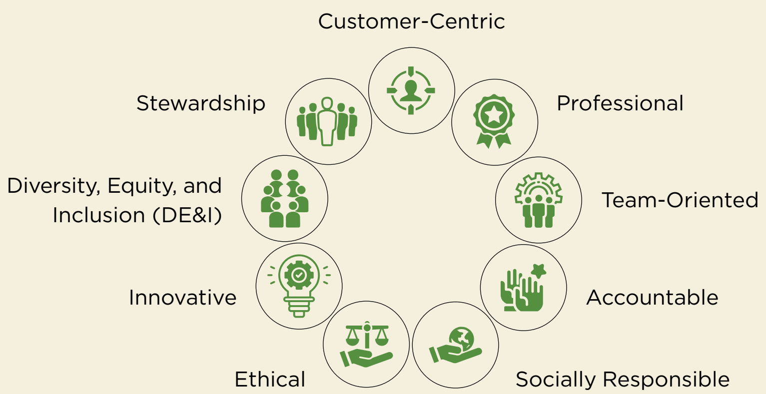
To be the leading financial solutions provider, sustainably developing individuals and businesses.

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

DFCC Bank PLC ensures that its employees are committed towards enhancing the lives of people by being:



DFCC functioned as a development bank for the first six decades of its existence, primarily contributing to balanced regional and sectoral development. The Sri Lankan banking sector witnessed a significant advancement with the introduction of groundbreaking products and services. This pioneering effort has snowballed into industry-wide adoption of digitisation.

Diversity, Equity, and Inclusion (DE&I), and Stewardship are new values recognised in 2022. DFCC Bank takes a comprehensive perspective on DE&I to include not only the traditional criteria of race, religion, and gender but diversity of personalities as well.

Sustainability

The next stage in the Bank's evolution was a significant shift towards sustainability. In common with much of the industry globally, DFCC has eschewed a near-sighted focus on the bottom line, realising that sustainability is the path to ensure long-term profitability. The Bank has aligned its strategies with the triple bottom line. It has set itself the ambitious goal of becoming completely carbon-neutral by 2030.

DFCC has established itself as a premier lender for renewable energy projects such as waste-to-energy, solar, wind, and hydropower.

Ethics and Integrity

DFCC has a strict code of ethics and integrity, which is scrupulously followed in all its business practices. It is integral to interactions with all stakeholders, including employees, customers, and business partners. The Bank also has strict safeguards against corruption.

Product and Service Portfolio

The Bank provides extensive products and services, including corporate banking, retail and SME banking, MSME banking, treasury and investment banking, international trade, remittances, credit cards, bancassurance, and institutional business development. The breadth of its range naturally implies that it must service an extremely diverse customer base, from large corporations to micro-enterprises to individuals from all walks of life. This, in turn, has meant that the Bank has had to develop great agility in its systems, processes, and customer experience.

LIABILITY PRODUCTS

- DFCC WINNER Savings Account
- DFCC Xtreme Money Market Account
- DFCC GARUSARU For Senior Citizens
- DFCC JUNIOR Children's Savings Account
- DFCC JUNIOR PLUS
- DFCC Teen
- DFCC Investment Planner
- DFCC Green Deposit
- DFCC Fixed Deposit

PRODUCT PROPOSITIONS

- DFCC Prestige
- DFCC SALARY PLUS
- DFCC SalaryPartner
- DFCC Pinnacle
- DFCC Aloka
- DFCC FREELANCER For world class you!
- DFCC Pinnacle JUNIOR

DIGITAL PRODUCTS AND SERVICES

- DFCC CHATZ Omni-Channel Digital Assistant from DFCC Bank
- DFCC iCONNECT
- DFCC Virtual Wallet
- DFCC Online Banking
- DFCC MySpace
- DFCC Alerts (SMS)
- (Digital channels – ATMs, CRMs, CHDMS, Pay&Go Machines)
- eStatements
- MTeller

ASSET PRODUCTS

- DFCC Housing Loans
- DFCC Personal Loans
- DFCC Leasing
- DFCC රන්වරම රන් භාණ්ඩ උකස් සේවාව
- DFCC Ethera Saviya Loan Scheme
- DFCC KrushiBala

OTHER PRODUCTS

- DFCC Credit Cards
- Bancassurance
- Special Deposit Accounts

Digitalisation

Digitalisation provides a major boost to the Bank and permeates almost all the Bank's products and services. It provides a pathway to better customer service, greater efficiency, higher quality, and timely information. The entire range of customers, from large corporations to small SMEs, are embracing digitalisation today.

Reach

The Bank has an island-wide network spanning 139 branches and 5,500 ATMs via the LankaPay ATM network. This is in addition to online banking and mobile banking, and "DFCC Myspace", which provides access to customers on the move. More details of the network are provided on page 112. Future expansion of the physical network is expected to be downplayed in favour of expanding the digital channels.

139 Branches

5,500 ATMs

Gender and SMEs

The Bank has consistently prioritised advancing women's economic empowerment. Despite women being underrepresented in the labour force and undervalued for their economic contributions, approximately 25% of Small and Medium Enterprises (SMEs) are owned by women, indicating significant potential within this sector.

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.

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.

2023
DFCC Bank becomes the first Sri Lankan entity accredited by the Green Climate Fund (GCF).

DFCC GROUP STRUCTURE

DFCC BANK
Keep Growing

SUBSIDIARIES	JOINT VENTURE	ASSOCIATE COMPANY

SUBSIDIARIES

DFCC Consulting (Pvt) Limited

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

Number: +94 11 244 2442

Countries operating in: Sri Lanka

Country of incorporation: Sri Lanka

Incorporation date: 9 September 2004

Principal activity: Consultancy

Synapsys Ltd.

Address: 540, Nawala Road, Rajagiriya, Sri Lanka

Number: +94 11 288 0770

Countries operating in: Sri Lanka

Country of incorporation: 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

Country of incorporation: Sri Lanka

Incorporation date: 12 March 1992

Principal activity: Operating an industrial estate

JOINT VENTURE

A joint venture of DFCC Bank and HNB

Acuity Partners (Pvt) Limited

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

Number: +94 11 220 6206

Countries operating in: Sri Lanka

Country of incorporation: 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

Country of incorporation: Sri Lanka

Incorporation date: 28 September 1990

Principal activity: Licensed unit trust and investment management

HIGHLIGHTS

GROUP LKR Mn Year ended 31 December	2023	2022	2021	2020	2019
Operating Results					
Total income	107,442	75,471	43,029	43,604	43,648
Profit before tax	12,508	3,112	4,859	3,944	3,308
Tax expense	3,850	70	1,194	1,097	1,008
Profit attributable to equity holders of the bank	8,485	2,932	3,549	2,745	2,214
Statement of Financial Position					
Assets					
Cash and short-term funds	45,765	40,400	26,383	28,063	14,326
Loans to and receivables from banks and other customers	348,767	369,072	365,901	306,062	272,818
Financial investments	204,738	115,696	81,226	120,932	108,171
Investments in associate and joint venture	4,439	3,613	2,840	2,481	2,096
Other assets	41,359	40,755	11,907	9,829	9,500
Total assets	645,068	569,536	488,257	467,367	406,911
Liabilities					
Due to depositors	406,585	369,746	319,362	309,566	247,458
Due to other borrowers	150,200	131,707	107,623	97,406	102,910
Other liabilities	15,908	13,762	9,507	8,686	7,117
Total liabilities	572,693	515,215	436,492	415,658	357,485
Equity					
Total equity attributable to equity holders of the bank	71,984	54,015	51,448	51,426	49,163
Non-controlling interests	392	306	317	283	263
Total equity and liabilities	645,068	569,536	488,257	467,367	406,911
Return on equity (Profit after tax) (%)*	13.95	5.60	7.45	6.16	5.32
Return on total assets (Profit before tax) (%)*	2.06	0.59	1.02	0.91	0.59
Earnings per share (LKR)	20.3	7.88	11.17	9.00	7.62
Net asset value per share (LKR)	170.60	134.14	160.51	168.06	161.62
Common Equity Tier I capital ratio (%) (Basel III)	12.46	9.94	9.28	10.82	11.33
Tier I capital ratio (%) (Basel III)	12.46	9.94	9.28	10.82	11.33
Total capital ratio (%) (Basel III)	14.48	12.99	13.00	15.75	15.78

*After eliminating fair value reserve.

GREEN CLIMATE FUND

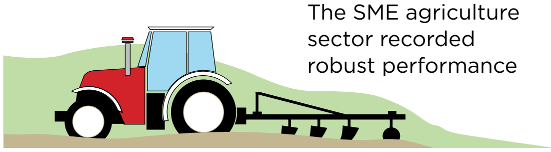
DFCC was accredited by the **Green Climate Fund** enabling the financing of climate friendly products in Sri Lanka.

Launch of *"Aduwenakota Aduwena"* leasing product which encourages customers who would otherwise have been deterred by declining interest rates, take on leases.

Introduction of structured housing loans which gives the customer several repayment options.

Launch of the *"Ethera Saviya"* scheme for migrant workers.

DFCC investment planner was introduced, which caters to customers' long-term financial needs.



The SME agriculture sector recorded robust performance

The Payments and Cash management proposition and the electronic banking platform iConnect was voted Market Leader for the third consecutive year by Euromoney Magazine.

Our business has entered new markets such as Italy, Cyprus, Hong Kong, Australia and the U.K.

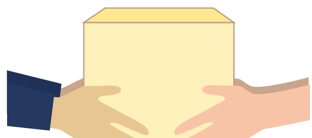
The Bank acquired over 800,000 new customers during the year

Over 85,000 training hours were delivered to over 24,000 staff participants.

"Flourish Beyond" Programme introduced for senior citizens to enhance their physical and cognitive capabilities.

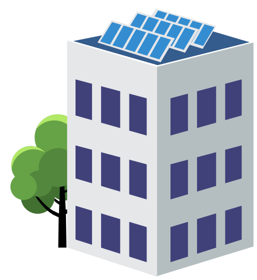
The ***Samata* English programme** was conducted in three districts benefitting 81 students.

Community Kitchen Programmes were conducted in 11 districts serving over 4,500 people.



Dry rations packs were distributed to over 800 families affected by floods.

A **rooftop solar system** was installed at Head office with a capacity of 17,000 kwh which amounts to 27% of total electricity consumption.



Partnered with Sri Lanka Navy to establish a **mangrove nursery** at Naval detachment in Kalpitiya.

Beach clean-up programme was organised to commemorate World Environment Day 2023.

Recognition

AWARDS AND ACCOLADES

Category	Awards	Project	Institution	Month
1. topweb.lk	Certificate of Excellence	DFCC Bank corporate website	LK Domain Registry	January 2023
2. Category 2, Environmental Development	Merit	Biogas for Dairy Farmers	Association of Development Financing Institutions in Asia and the Pacific (ADFIAP)	February 2023
3. Category 7, Local Economic Development	Merit	Foreign Income Development		
4. Process Improvement Lean Six Sigma Project	Gold Award	DFCC Leasing	Sri Lanka Association for the Advancement of Quality and Productivity (SLAAQP) Awards 2022	February 2023
5. Connected Product and Service	Merit	DFCC Virtual Wallet Hybrid Mobile Banking App	Digital Excellence Awards 2023 organised by Federation of Information Technology Industry Sri Lanka (FITIS)	February 2023
6. Bank of the Year for Financial Inclusivity Category C	Merit	DFCC Digital Banking	Lanka pay, Techinnovation Awards 2023	March 2023
7. Bank of the Year for Excellence in Customer Convenience Category C	Merit	DFCC Digital Banking		March 2023
8. Best Management Practices Excellence Award	Top 5	Sustainability/Corporate	The Institute of Chartered Professional Managers of Sri Lanka	March 2023
9. Banking	Winner	Sustainability/Corporate		
10. Digital Marketing – Creative	Silver Award	Digital Marketing	12th ACEF Asian Leaders Awards	April 2023
11. Company with Great Managers	Winner	Human Capital	Great Managers Awards 2023	May 2023
12. Best Social Media Content – YouTube	Gold Award	DFCC Bank Avurudu Hallmark YouTube video 2023	12th ACEF Asian Leaders Awards	July 2023
13 Business Today Top – 30 (2022/23)	Position – 26	DFCC Bank, Corporate	Business Today Magazine	November 2023
14. Sri Lanka's Most Valuable and Most Strongest Brands Top 100 2023	Position – 21	DFCC Bank, Corporate Brand	Brand Finance, Sri Lanka	December 2023
15. Best Banking Process Sri Lanka 2023	Winner	eKYC (electronic-know-your-customer) technology implementation.	13th Global Banking and Finance Awards	December 2023
16. Green Brand of the Year 2023	Merit	DFCC Bank Sustainability	SLIM Brand Excellence Award 2023	December 2023
17. CMA Excellence in Integrated Reports Awards 2023	Next Best Ten Integrated Annual Report Award	Integrated Reporting	Institute of Certified Management Accountants of Sri Lanka (CMA)	October 2023



DFCC BANK

DFCC Bank PLC
wins
Best Banking Process
Sri Lanka 2023
DFCC BANK
Keep Growing
Finance




SRI LANKA | 4.0

CMA
EXCELLENCE IN INTEGRATED

GREEN BRAND
OF THE YEAR 2023
MERIT

MERIT
WINNER
BANKING CATEGORY
BEST MANAGEMENT PRACTICES
COMPANY AWARDS 2023
CPM
SLIM
BRAND EXCELLENCE
Green Brand of the Year - 2023
DFCC BANK

KEY EVENTS OF THE YEAR

DFCC's Accreditation approved and announced at the 36th Green Climate Fund Board Meeting held from the 10-13 July 2023 in Songdo Incheon, South Korea

Press Conference held in Colombo to announce the Bank's Accreditation by the Green Climate Fund

Empowering Women Entrepreneurs DFCC Bank *Aloka* Powers WCIC Prathibhabhisheka Women Entrepreneur Awards 2022

DFCC Bank Adds Acceptance for JCB International Cards at DFCC ATMs via LankaPay

DFCC Bank Hosts a Power Breakfast with the Global ICC Chair in a Bid to Empower Trade Customers

Innovative Thinkers Recognised at DFCC Agile Design Thinking Awards 2023

Launch of DFCC Pinnacle Junior

Launch of the DFCC Pinnacle Mastercard Credit Card

DFCC Bank Breaks New Ground as Sri Lanka's 1st Bank in the Metaverse with DFCC Galaxy


DFCC Bank Unveils MySpace Self Banking Kiosk at MAS Intimates Thurulie


DFCC Bank Celebrates International Customer Service Week 2023 with Multiple Initiatives and an Inter Region Staff Quiz Night


DFCC *Aloka* Financial Literacy Forums Empower Female Entrepreneurs


DFCC Bank's Mangrove Restoration with Sri Lanka Navy under the Bank's flagship environmental Programme "Life to Marine"

DFCC "*Samata* English" CSR initiative continues supporting youth with English Language and Soft Skills Training across the country

DFCC Read The Way Programme - Fostering Educational Enrichment by providing Books to deserving Schools

First Workshop under "Flourish Beyond" Programme for Senior Citizens

DFCC Bank Cricket Team Clinches 2023 Championship Title in Mercantile Division C League

Long distance Cycling Ride from DFCC Head Office to Panadura

Leadership

MESSAGE FROM THE CHAIRMAN

GRI 2-11, 22

Dear shareholders,

Defying all expectations and displaying the remarkable ability to make a turnaround despite challenging circumstances, the Sri Lankan economy showed a gradual improvement starting from the second half of the year. Major financial institutions in Sri Lanka have demonstrated commendable financial results, displaying adaptability and resilience in a dynamic landscape despite economic fluctuations, shifting market conditions, and adverse global conditions. DFCC Bank, too, has been part of this upward trajectory displayed by the industry.

Global Challenges

Global growth has slowed to a dismal 3.0% in 2023, likely to dip to 2.9% in 2024. According to the International Monetary Fund (IMF), advanced economies are expected to slow down to 1.5% in 2023 and 1.4% in 2024. This spells further unwelcome news for countries such as Sri Lanka, which depend on exports to advanced economies.

The Ukraine conflict and the eruption of tensions in Gaza have added to an already adverse global economic outlook. Escalation of the situation in the region can drive up oil prices and freight charges.

Sustainability has been ingrained into our ethos for many years, extending to many aspects of our performance. Environmental and social considerations form integral parts of the credit application screening process.

Performance Highlights

We ended 2023 on a high note, with assets soaring by 13.17% to LKR 640 Bn as at 31 December 2023. Deposit base surged to LKR 407 Bn but the Loan book contracted to LKR 395 Bn, causing the excess funds to be channelled to investments. CASA ratio improved to 23.79%. These factors helped the Bank achieve the highest-ever profit after tax of LKR 7.2 Bn. In terms of other key indicators, the net assets value per share climbed to LKR 160.54 from last year's LKR 125.96. The Tier I and Total Capital ratios comfortably exceeded minimum requirements at 11.49% and 13.51%, respectively. However, in line with the deterioration in credit quality witnessed across the industry, our impaired loans (Stage 3) ratio increased to 7.03% from 4.36% in 2022, with Stage 3 provision cover reducing to 49.31% from 51.73% in 2022.

Sri Lankan Economy

Though the Sri Lankan economy stabilised towards the latter part of the year, showing a positive growth of 1.6% in the third quarter of 2023, continued volatility in the external situation, unfavourable exchange rates, and the ban on the import of vehicles presented significant challenges during the course of the year. The contraction of the economy by 7.9% during the first half of 2023 due to issues flowing from the previous years delayed the anticipated rebound, leading to considerable turmoil while contributing to the overall uncertainty about the future.

Apart from global economic shifts, the Sri Lankan economy has faced additional challenges, mainly due to the depreciation of the Sri Lankan Rupee and the shortage of foreign currency during the early part of the year. Other notable impacts on the economy include El Niño-induced extreme weather events, including floods and droughts, leading to crop failures. Smallholders, lacking resources, have been particularly vulnerable to such events. Reduced disposable incomes stemming from inflation, higher exchange rates, and taxes have exacerbated a widespread issue: diminished demand across the business community.

Some sectors estimate a substantial 30-40% decline in demand. The SME sector, for instance, heavily reliant on subcontracting from larger garment players, has suffered significantly. With reduced demand, major businesses in the industry fulfil orders independently, leaving little for SMEs. While DFCC and the banking sector have provided support through loan restructuring and extended terms, there are limits to mitigating the impact of a substantial demand downturn.

On a positive note, the disbursement of the second tranche of the International Monetary Fund (IMF) Extended Fund Facility, along with funds from the Asian Development Bank (ADB), the World Bank (WB), and other international donor organisations, is expected to bolster Sri Lanka's foreign currency reserves in the upcoming year. In December 2023, Sri Lanka's foreign exchange reserves exceeded USD 4 Bn, with tourism earnings contributing USD 2 Bn to the national treasury.

Sector Performance and Resilience

It is heartening to note that the banking sector has remained resilient despite all the headwinds. The sector has not defaulted on any of its commitments, though some delays may have occurred. It was also able to meet the demand for short-term lending. Due to the depressed economic conditions, there was reduced demand for credit, leading the sector to be saddled with high levels of liquidity. The sector could make the required provisions for the investments in International Sovereign Bonds (ISBs) pending proposed debt structuring without endangering capital adequacy. Though this situation was not healthy from a broad economic perspective, it temporarily helped the sector tide over the situation. Regarding DFCC's performance, despite the lacklustre condition of the economy, we have been able to record high profits, adequate liquidity, and robust capital adequacy. From an overall perspective, our reliance has always been on prudent management of limited resources and allocating resources where they were most needed.

Remittances

Since the liberalisation of the economy in the late 1970s, the gap between our imports and exports has been filled by remittances from expatriate workers. However, in recent years, the economy has encountered a significant setback as expatriates turned to informal channels to send their savings home. This has exerted upward pressure on the exchange rate. In response, DFCC and several other banks made concerted efforts to attract these remitters back to the formal banking sector. To achieve this, substantial incentives and concessions, such as loans unavailable in the informal sector, have been granted. We are delighted to report significant successes in the latter half of 2023, with remittances flowing back into banks, resulting in various positive outcomes, including loan repayments and improved liquidity.

As per the Central Bank of Sri Lanka (CBSL), Sri Lankan migrant workers have remitted a cumulative total of USD 5.4 Bn during the first 11 months of 2023. During the year up to November, over 275,000 Sri Lankans had sought job opportunities abroad, potentially enhancing foreign exchange inflows.

Sustainability

Sustainability has been ingrained into our ethos for many years, extending to many aspects of our performance. Environmental and social considerations form integral parts of the credit application screening process. We can assert with confidence that sustainability awareness permeates all levels and aspects of our operations, not just limited to senior management. The Bank rejects any funding proposal that poses social or environmental harm. Our focus on sustainability, coupled with established systems and procedures, has yielded tangible benefits.

DFCC's accreditation by the Green Climate Fund (GCF) marks a significant milestone. GCF's endorsement holds particular significance in the prevailing financial and economic landscape. This accreditation enables access to concessional funding for climate projects of up to USD 250 Mn in value. Following this accreditation, numerous foreign institutions have expressed interest in providing financing. However, given the country's downgrade, these offers come at relatively high interest rates, and thus far, we have not accepted them. Nonetheless, the fact that these offers have been extended in the current economic climate is a point of pride. We are confident that, given the time, we can secure funding on more favourable terms.

Role of the Board

The Board of Directors played a pivotal role during these challenging times, adopting a proactive stance rather than a conservative "wait and see" approach. While exercising caution, the Board remained receptive to seizing opportunities as they arose. Simultaneously, we prioritised consolidation over immediate performance. Directors meticulously assessed management proposals, making necessary adjustments while endorsing promising ideas fostering close coordination between the Board and the senior management.

Governance

We have implemented modernised and robust governance frameworks and processes, aligning them with international standards, notably those set by the UN. Regular policy reviews and adjustments, particularly in human resources, are conducted to ensure adherence to these standards. Our governance protocols are strictly followed and upheld by a "zero exception" policy that surpasses regulatory requirements. Notably, we have already implemented enhancements mandated by the SEC/CSE ahead of schedule, highlighting our commitment to exceeding regulatory expectations.

Challenges Ahead

Technology remains foremost among the Bank's priorities, given the evolving business and technological landscape, coupled with changing customer preferences and perceptions. Incorporating third-party technology is imperative despite legitimate concerns. Our robust infrastructure notwithstanding, there is a need for new payment and card systems.

With an attrition rate of approximately 20%, recruiting and training new staff has become essential, albeit with caution, to preserve our Company culture. Maintaining and instilling the DFCC culture in recruits is crucial to prevent dilution. While progress has been made, particularly at lower levels, more effort is required in the coming years to rebuild staff and culture, emphasising a service-oriented mindset.

Sector-wise, we prioritise the tea sector, especially supporting smallholders and tea factories. Women's banking is another focal point, boasting one of the highest growth rates. Many rural women entrepreneurs still rely on informal money lenders, presenting an opportunity to integrate them into the formal sector.

Acknowledgements

During these challenging times, our achievements are a testament to the collective efforts of our stakeholders. The unwavering support of the Board and the Chief Executive has been invaluable in navigating obstacles. Our dedicated employees deserve recognition for their unwavering commitment to their roles. Oversight from the Central Bank has played a pivotal role in our success. Additionally, we express gratitude to our loyal customers for their continued trust and confidence. Each stakeholder's contribution has been instrumental in guiding us through adversity and ultimately achieving success, highlighting our collaborative approach's strength to face and overcome challenges together.

J Durairatnam
Chairman

19 February 2024

CHIEF EXECUTIVE'S REVIEW

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It is truly gratifying to note that the year under review counts among the most successful in DFCC Bank's recent history, especially in terms of outstanding overall financial performance and profitability. While we must acknowledge that the prevailing high-interest rates of government securities and bonds was a contributory factor towards this achievement, the respective business lines have also recorded a commendable performance. Nevertheless, there remain several challenges that need to be addressed.

Performance Highlights

In 2023, our performance was outstanding. Our topline grew by 42.59% to LKR 107 Bn driven by a 12.26% growth in interest earning assets to LKR 542 Bn and income from fund-based operations rising to LKR 97 Bn from LKR 70 Bn in 2022. Despite a 10.66% rise in interest bearing liabilities, our average cost of funds decreased to 9.29%, boosting the net interest margin to 5.18%. This, combined with improved asset quality resulting in impairment provisions being contained at LKR 14 Bn and operational efficiencies leading to a lower cost-to-income ratio of 29.41%, contributed to profit before tax and profit after tax reaching LKR 10.96 Bn and LKR 7.2 Bn, respectively for the year. In terms of profitability, both Return on Assets (ROA) and Return on Equity (ROE) improved to 1.82% and 12.19% respectively, and Earnings Per Share reached an all time high of LKR 17.27.

Our focused sustainability journey commenced in 2020 with the engagement of external consultants tasked with formulating targets, plans, and a roadmap.

Our cost of acquiring funds remains notably higher than that of many competitors, stemming from our heritage as a development bank. As a result, our retail customer base is comparatively limited, leading to a lower CASA ratio in contrast to traditional retail banks. Over the past 12-18 months, addressing this shortfall has been a primary focus, resulting in significant strides towards expanding our customer base and attracting new clients for Current and Savings Accounts. The Bank has prioritised the growth of junior accounts, which are inherently of a long duration, thereby offering long-term financial stability and low-cost funding. The outcomes of this emphasis are expected to materialise in the forthcoming years.

The persistent high rate of impairment poses yet another obstacle to our advancement. With the lasting effects of the financial crisis, numerous businesses, particularly small and medium enterprises (SMEs), continue to face significant challenges. The Bank has made every effort to ease their burdens through restructuring and extending payment deadlines. However, the decrease in interest rates during the latter half of 2023 has significantly reduced net interest margins. Deposits are now being held for more extended periods, over 24 months, while loans are being re-priced at a much faster pace.

Previously accessible low-cost foreign funding has now diminished due to negative perceptions stemming from Sri Lanka's sovereign default and adverse ratings by international rating agencies. However, the disbursement of the second IMF tranche, along with funding from international funding agencies, has alleviated the most urgent concerns currently facing the nation. Managing costs remains a continuous priority, particularly as many of our IT procurements are denominated in foreign currencies.

Focusing on People – Our Foremost Asset

The ongoing economic challenges and uncertainties, coupled with the escalating cost of living, have triggered the migration of our well-trained and qualified staff overseas. This has intensified competition among banks to retain their existing human resources, particularly at the mid and junior levels. Despite the implementation of advanced technology, the banking industry relies on high-quality human resources to effectively leverage such technology. Continuous upgrading of employees' knowledge and skills is imperative.

With the easing of the pandemic, there has been a shift back to face-to-face training where appropriate, especially for new recruits, as physical training is deemed more effective in integrating them into the organisational culture. Presently, our training programmes are conducted by internal staff and occasional external resources. However, we are contemplating partnerships with reputable local and regional institutions for enhanced training opportunities.

The Bank extends its gratitude to our employees for their unwavering commitment and diligence, without which our accomplishments would have been unattainable. They have remained steadfast during challenging times, including power cuts, fuel shortages, limited public transport, and soaring inflation, which could have significantly impacted their personal lives. Despite the crisis, we successfully maintained operations across all branches. Moreover, the Bank has prioritised its obligations to its employees, regularly reviewing and adjusting remuneration. In November 2023, staff members received a substantial market-based salary adjustment, reflecting our commitment to fair pay and employee centricity.

IT and Digitalisation

Technology has always been a focal point for the Bank. The teething issues encountered with the new system implemented in late 2021 have been resolved. Our end-of-day and end-of-month processes have been streamlined to 3-4 hours, positioning us ahead of many industry peers.

Significant strides have been made in enhancing security. Substantial investments have been directed towards information and IT security, including the introduction of new systems and reinforcement of existing ones to bolster security measures. In today's landscape, security breaches pose a major concern across all sectors, particularly within financial institutions. We adhere to all requisite standards and employ specialised personnel to assess our systems and pinpoint vulnerabilities. Moreover, the Bank has established a dedicated Security Steering Committee, which includes an external consultant, to oversee information security matters.

Digitalisation has not only enhanced the value proposition for our customers but has also significantly boosted the efficiency of our staff while concurrently reducing environmental impact by minimising travel requirements. With services like ATMs, CDMs, and Digital Wallets, over 90% of transactions are now conducted digitally. DFCC's digital applications are cutting-edge, with our online banking platform consistently receiving awards. The Bank has been recognised as a market leader in payment and cash management systems and has garnered praise for providing top-notch service in this regard. These accolades are particularly gratifying as they reflect our customer-centric approach. We remain attentive to the needs of more traditional customers who may not be tech-savvy; they are always welcome to visit our branches. Our corporate banking application has gained traction among larger organisations, while efforts are underway to expand penetration among SMEs.

The Lanka Money Transfer platform, a proprietary system developed by DFCC, is utilised by seven other financial institutions for money transfers. Additionally, our wholly owned subsidiary, Synapsys, a key technological partner of the Bank, among many other innovations has created a margin trading solution that numerous institutions have adopted. These initiatives underscore our capabilities and contributions to the wider industry. DFCC is also prioritising innovative technology domains, recognising the growing significance of big data in banking. A dedicated team comprising specialists in data sciences, data management, analytics, and related applications is actively engaged. Moreover, the Bank operates a data warehouse that plays a significant role in customer segmentation, data analytics and MIS.

Despite the strides made in digitalisation, we remain vigilant and proactive. Several systems, including personal Internet banking, corporate internet banking, mobile wallets, and applications, are undergoing substantial revamping, and are slated for implementation in mid-2024. These enhancements are poised to enhance customer convenience and usability significantly. Furthermore, investments are being made in a new switch, which will serve as the backbone for all transactions.

Customer-Centricity

Customer service and customer-centricity remain at the heart and soul of DFCC Bank's ethos, permeating all aspects of its operations. We are dedicated to instilling this mindset in our staff and in every facet of our product and service development and in back-office departments such as Trade Services and Credit Services. Through several off-site brainstorming sessions involving a diverse group of staff, we initiated a process of reimagining, discarding the status quo, and embracing fresh perspectives. The outcome has been a significant leap forward in fostering a culture of customer-centricity across the organisation, culminating in the launch of a comprehensive organisation-wide culture shift programme aimed at enhancing customer service and centricity. Scheduled to commence in 2024, this programme will be an ongoing endeavour driven by continuous customer feedback and a steadfast commitment to viewing things from the Customer's perspective. Through all this, we aspire to become one of the most customer-centric organisations by 2025.

Credit Risk Management

We have strengthened the risk management function by setting up recovery hubs, which are geographically distributed. These would work with distressed customers, helping them restructure loans and obtain various other concessions. Impairment is a significant concern for the Bank, and the Recovery Hubs will help to alleviate this and more importantly work closely with our distressed customers as they navigate through the economic challenges confronting them, offering support and guidance along their path to recovery.

Sustainability

Our focused sustainability journey commenced in 2020 with the engagement of external consultants tasked with formulating targets, plans, and a roadmap. DFCC has embraced a strategic approach to sustainability across various sectors, including education, environment, elderly, and entrepreneurship. Supporting governance structures have been established, including the Executive Sustainability Management Committee responsible for monitoring implementation of plans under the sustainability strategy and reviewing progress on initiatives such as paper reduction and energy efficiency. Our ambitious environmental goals include zero internal paper usage by 2024 and achieving carbon neutrality by 2030.

A significant milestone this year was our accreditation by the Green Climate Fund (GCF), making us the first Sri Lankan entity to receive such recognition. This achievement followed a rigorous process spanning many years. GCF funding will support large-scale climate mitigation and adaptation projects at national level in line with Sri Lanka's commitments and priorities. Currently the Bank is working on proposals for large scale rooftop solarisation and the electrification of public transport and three wheelers, and adaptation projects in fisheries and agriculture. However, there can be a considerable time lag before these projects materialise as they must be backed by extensive studies and analysis and must undergo a thorough evaluation by the GCF. The gestation period for these projects is estimated to be two to three years.

Looking Ahead

We are likely to encounter numerous obstacles in replicating the financial performance of 2023 in the coming year and beyond. High impairments persist and are expected to remain so until the economy fully recovers. The margins we derive from the Government Securities market will be depressed due to reduced interest rates. Although lending is gradually gaining momentum, we anticipate a further boost with additional reductions in interest rates.

We are also committed to expanding our reach among junior accounts, youth, and salaried individuals. There is considerable potential among women, particularly women entrepreneurs, a segment we have actively pursued. Educational sessions on enhancing business practices have been conducted for them. Additionally, our partnership with Doc990, offers our female customers free online medical consultations. Moreover, our collaboration provides special benefits for customers of *Aloka*, resulting in high levels of customer acceptance and engagement.

Acknowledgements

I extend my sincere gratitude to our committed employees who, despite personal challenges, have tirelessly supported the Bank's operations, enabling us to meet our objectives. Appreciation is also extended to our Chairman, Board of Directors, and authorities from the Central Bank of Sri Lanka, including the Governing Board and the Monetary Policy Board, for their invaluable guidance. Lastly, heartfelt thanks are extended to our customers, the foundation of our existence, for their unwavering trust and support. Through their continued faith in us, we will navigate challenges and strive for excellence.

N H T I Perera
Chief Executive Officer

19 February 2024

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 for 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.

Expertise

Banking, Management and International Trade

Other Current Appointments

Listed companies: Non-Executive Director of Asian Hotels and Properties PLC.

Others: Non-Executive Director of Ceylinco Life Insurance Ltd., Assetline Finance Limited and Enviro Solutions (Pvt) 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, Commercial Bank of Qatar, Barclays Bank PLC, UAE and at Hatton National Bank PLC. 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.

Expertise

Banking, Finance and Auditing.

Other Current Appointments

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

Others: Non-Executive Chairman of Acuity Partners (Pvt) Limited, Lanka Industrial Estates Limited and DFCC Consulting (Pvt) Limited.

Non-Executive Director of Synapsys Limited.

Board Member of Association of Development Financing Institutions in Asia and the Pacific (ADFIAP).

Ms V J Senaratne

Non-Executive Director

(Member of the Board since July 2015)

Skills and Experience

Ms Senaratne has over 46 years of professional experience and is well versed in litigation, commercial law, conveyancing, and company secretarial practices. She was an Alternate Director of Melstacorp PLC and Distilleries Company of Sri Lanka PLC. She was the Company Secretary of Sri Lanka Insurance Corporation PLC and Melstarcorp PLC, 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.

Expertise

Legal and Secretarial

Other Current Appointments

Listed companies: Chief Legal Officer and Company Secretary of Distilleries Company of Sri Lanka PLC.

Others: Non-Executive Director of Paradise Resort Pasikudah (Pvt) Limited, Amethyst Leisure Limited and DCSL Breweries Lanka Limited.

Company Secretary of Periceyl (Pvt) Limited and Melsta Health (Private) Limited.

Ms L K A H Fernando

Independent Non-Executive Director

(Member of the Board since November 2017)

Skills and Experience

Ms Fernando started her career at Kreston MNS & Co, a correspondent firm of Grant Thornton International – Sri Lanka Division, a firm of Chartered Accountants and counts over 30 years of professional and commercial experience in auditing, finance, and management.

She is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, a Fellow Member of the Institute of Certified Management Accountants of Sri Lanka and, a Fellow Member of the Association of Chartered Accountants (UK).

Expertise

Finance, Audit and Management

Other Current Appointments

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

Others: Non-Executive Director of UML Heavy Equipment Ltd., Unimo Enterprises Ltd., Finergreen Rajarata (Pvt) Ltd., Padiyapelella Hydropower Ltd., Powergen One (Pvt) Ltd., Rajarata Sustainable Development (Pvt) Ltd., Finergreen Ridiyagama (Pvt) Ltd., Finergreen Gannoruwa (Pvt) Ltd., Finergreen Mattala (Pvt) Ltd., PAP SPGM Solar (Pvt) Ltd., PAP MHPL Solar (Pvt) Ltd., PAP EGSS Solar (Pvt) Ltd., PAP PTS Solar (Pvt) Ltd. and R-E-D Capital Asia (Pvt) Ltd. Partner of A & T Associates.

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 of the State Ministry of Defence, Acting Director General of Sri Lanka Customs, Director General of the Department of Public Enterprise and Ministry of Finance, Additional Secretary to the Ministry of Higher Education and Highways, Additional Secretary to the Ministry of Environment and Acting Director General of the Gems and Jewellery Authority. He has also served as Director of Sri Lanka Samurdhi Authority, Sri Lanka Customs and the 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 the generation of power by the 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 was a member of the Committee appointed to investigate unscheduled power interruptions in June 2022.

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

Expertise

Management and Environmental Planning

Other Current Appointments

Listed companies: None

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

Deputy Director General (Administration and Finance) of the South Asian Center for Teacher Development (SACTD)

Ms H M N S Gunawardana

Independent 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 of the Central Bank of Sri Lanka. She has thereafter held several senior public service positions, including Legal Advisor at the Department of Fiscal Policy and Economic Affairs, Senior Assistant Secretary (Legal) at the Ministry of Finance, and Director General of the Legal Affairs Department of the General Treasury. As Project Director, she has led the Fiscal Reforms Project, 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 Hotel PLC and Capital City Corporate Services (Pvt) Ltd., as a Government Nominee Director of Information and Communication Technology Agency of Sri Lanka (ICTA), and DFCC Bank PLC. She has also served as a Consultant, CHEC Port City (Colombo) (Pvt) Limited and as a Senior Policy Consultant at UNDP. She has undergone 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.

Expertise

Investment and Corporate Law, and Privatising and Restructuring

Other Current Appointments

Listed companies: Non-Executive Director of Haycarb PLC

Others: In-House Legal Counsel – Capital City Law, Colombo.

Group Legal Consultant – International Distillers Limited.

Member of the Company Law Advisory Commission of Sri Lanka

Executive Committee member 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 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 the Chairman of the Board Audit and Compliance Committee. He 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.

Expertise

Finance, Audit and Management

Other Current Appointments

Listed companies: Non-Executive Director of Trans Asia Hotels PLC and Chairman of the Audit Committee and Non–Executive Director of Ceylon Tobacco Company PLC.

Others: Audit Committee Chairman of MAS Holdings.

Trustee of the Gamini Corea Trust and SLINTEC Endowment Trust Fund

Founder/Owner of Avastha Financial Advisory Services

Co-Founder of Kalyana SL Guarantee Ltd., a mental health advocacy group.

N Vasantha Kumar

Independent Non-Executive Director

(Member of the Board since September 2021)

Skills and Experience

Mr Vasantha Kumar counts over 40 years of experience in banking, having been with ANZ Grindlays Bank for over 22 years and thereafter at People's Bank for over 18 years. During his service at People's Bank, he was 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., Alliance Finance PLC Dhaka Bangladesh, Lanka Financial Services Bureau Ltd., and the Credit Information Bureau of Sri Lanka. He is a Past President of the 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.

Expertise

Banking, Management, Treasury and Investment Banking

Other Current Appointments

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

Others: Non-Executive Chairman of Safe Capital (Pvt) Ltd.

Non-Executive Director of Wealth Management (Pvt) Ltd.

Executive 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 Joint Managing Director of both Renuka Hotels PLC and Renuka City Hotel 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.

Expertise

Business Management, Human Resources and Marketing

Other Current Appointments

Listed companies: Joint Managing Director/Executive Director of Renuka City Hotel PLC and Renuka Hotels PLC and Non–Executive Director of Cargo Boat Development Company PLC.

Others: Non-Executive 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 counts nearly two decades of experience as a lawyer, having been in active practice in criminal law, public law and in fundamental rights both in the appellate courts and original courts. He joined 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. He currently serves as the Chief Legal Officer of the LOLC Group and serves as Director in several LOLC Group Companies.

He served as the Chairperson of the Corporate Lawyer's Committee of the Bar Association of Sri Lanka from 2021 to 2022.

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

Expertise

Legal

Other Current Appointments

Listed companies: Chief Legal Officer of LOLC Holdings PLC.

Others: Non-Executive Chairman of Sierra Development Limited

Non-Executive Director of Gal Oya Plantation Limited, Fortigrains Private Limited (Singapore), Fortigrains Lanka Private Limited, Ceylon Nano – Diagnostic (Pvt) Ltd., LOLC Asset Holdings Limited, Leapstitch Apparel (Pvt) Ltd., LOLC Geo Technologies (Pvt) Ltd., Browns Agri Solutions (Private) Limited, Browns Properties (Private) Limited and LOLC (Philippine) Corporation.

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 audit and advisory platforms and has served as an audit partner for various publicly listed clients and senior advisory partner for many of Ernst & Young, Sri Lanka's largest clients. He served as an 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, Central Industries PLC and Lanka Tours and Travels (Pvt) Ltd.

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

Expertise

Management, Finance and Audit

Other Current Appointments

Listed companies: None

Others: Executive 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., Dedunu Properties Ruhunu (Pvt) Ltd and Ranmin Eco Projects (Pvt) Ltd.

Non-Executive Director of Matara Entrepreneur Services (Pvt) Ltd.

Member of The Ranmin Rainbow Trust (Gte) 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, Notary Public and Commissioner of Oaths and holds a Bachelor of Law (LLB) from the University of Colombo. She is an Associate of the Chartered Institute of Management Accountants (CIMA), UK.

Expertise

Legal and Finance

Other Current Appointments

Listed companies: 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

Prins Perera
Senior Vice President
Treasury and Investment Banking

Renuka Amarasinghe
Chief Recoveries Officer
Head of Recoveries

Sohantha Wijesingha
Senior Vice President
Corporate Banking

Vindya Solangaarachchi
Senior Vice President
Chief Information Officer

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 Sales and Bancassurance

Dushan Weerakoon
Vice President
PFS Central Processing

Gaminda Fernando
Vice President
Administrative Services

Jayan Fernando
Vice President
Head of Internal Audit

Jayangani Perera
Vice President
Branch Credit Management

Kelum Perera
Vice President
Regional Manager

Malake Herath
Vice President
Corporate Banking

Mangala Senaratna
Vice President
Corporate Banking

Neil De Rose
Vice President
Regional Manager

Nilmini Gunaratne
Vice President
Head of Marketing and Sustainability

Nimali Ranaraja
Vice President
Company Secretary
Secretary to the Board

Niroshini Wettasinha
Vice President
Head of Legal

Nishan Weerasooriya
Vice President
System Implementation Group

Pavithra Dias

Vice President
Operations

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
SME and General Insurance

Shera Hassen

Vice President
Head of Pinnacle, Branch Banking
Planning and Implementation

Thejaka Perera

Vice President
Litigation and Legal Recoveries

Thilani Punyawansa

Vice President
Chief Compliance Officer

Vidarsha Dharmasena

Vice President
Strategic Planning

Wajira Punchihewa

Vice President
Branch Network Operations

Amanthi Balasooriya Dahanayake
Vice President
Credit Services

Anuradha De Silva
Vice President
Branch Manager – Galle

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

Charith Rodrigo
Vice President
Integrated Risk Management and Asset and Liability Management

Dhananjaya Nandasiri
Vice President
Branch Manager – Matara

Dinesh Jebamani
Vice President
Digital Strategy

Iresha Kumbukage
Vice President
Credit Risk Management

Jayanath Liyanage
Vice President
Acquired Asset and Recoveries

Lakmal Rajasekara
Vice President
Branch Manager – Kurunegala

Manouri Liyanage
Vice President
Legal – Business Operations

Nalin Karunatileka
Vice President
Sustainability and Consulting

Ravi Dassanayake
Vice President
Strategic Investments and Subsidiaries

Sajith Peduruhewa
Vice President
Chief Information
Security Officer

Samathri Kariyawasam
Vice President
General Legal

Sanjeewa Dannangoda
Vice President
IT Infrastructure and Operations

Shan Heenkenda
Vice President
Employee Relations
and Subsidiaries

Subhashi Cooray
Vice President
Refinance Payments and
Settlements

Terrence Etugala
Vice President
Regional Manager

Udana Siriratna
Vice President
PFS Recoveries

Strategy Report

OUR VALUE CREATION MODEL

DFCC Bank operates within a multifaceted ecosystem involving a broad spectrum of stakeholders; namely, its customers, shareholders, employees, regulators, the Government, communities, and the environment. The Bank's actions wield a substantial and far-reaching impact on these stakeholders, determined by the Bank's approach to managing its operations.

With a view to maximising the range of benefits accruing to its stakeholders, DFCC Bank utilises and enhances various forms of resources encompassing financial, customer, employee, intellectual, social, and natural capitals. These resources undergo continuous refinement and augmentation through the Bank's operations, producing results and impacts that yield considerable value for all stakeholders.

The Bank's activities recorded on its balance sheet, such as loans and investments, create financial value for both its shareholders and customers. Additionally, these activities play a pivotal role in fostering economic expansion and advancement across a broad range of segments in the country, thereby contributing towards the overall welfare of society.

VISION, MISSION, VALUES

OPERATING ENVIRONMENT

STAKEHOLDERS AND MATERIALITY

STRATEGY

INPUTS

FINANCIAL CAPITAL

The Bank's robust book value signifies its profitability and exceptional asset quality.

Pages 70 to 91.

INSTITUTIONAL CAPITAL

The Bank possesses a wide-ranging aggregate of knowledge-driven assets, encompassing tangible and intangible resources under its ownership and control. It also has the institutional knowledge that has been built up over decades.

Pages 93 to 98.

INVESTOR CAPITAL

Through its steadfast commitment to sound governance and ethical business practices, the Bank has strengthened its bonds with a devoted base of investors.

Pages 99 to 103.

CUSTOMER CAPITAL

The Bank has garnered trust and loyalty by prioritising customers at the heart of all its operations, earning a strong reputation for reliability and customer centricity.

Pages 104 to 120.

EMPLOYEE CAPITAL

Comprises a team of seasoned professionals possessing advanced skills in a diverse range of disciplines and driven by a profound dedication to providing exceptional service. Their knowledge, skills, and competencies are constantly being upgraded through training.

Pages 121 to 130.

BUSINESS PARTNER CAPITAL

Cultivating and sustaining enduring alliances with local and global business counterparts, multilateral and bilateral institutions, correspondent banks, and suppliers, to strengthen the Bank's strategic position.

Pages 131 to 135.

SOCIAL CAPITAL

Demonstrating a meaningful commitment to the community through several targeted Sustainability initiatives that positively impact the lives and livelihood of intended recipients. Notably, our social commitments included establishing community kitchens in schools within economically disadvantaged communities, in an efficient and timely manner.

Pages 136 to 141.

NATURAL CAPITAL

Focused on the conservation and enrichment of the natural resources within communities and the nation at large, ensuring their qualitative and quantitative preservation and development in a sustainable manner.

Pages 142 to 150.

ACTIVITIES

DIGITAL TRANSFORMATION AND INNOVATION

Enhancing customer convenience by digitalising systems, processes, delivery methods, and communication channels, and introducing the T24 Core Banking System for expanded capabilities and product offerings.

ENHANCING CUSTOMER – CENTRICITY

Elevating customer service standards through staff training and development, tailored solutions catering to diverse customer segments, digitalisation, and an unwavering commitment to customer satisfaction.

AMPLIFYING BRAND PRESENCE

Elevating brand recognition through exclusive offers, engagement events, targeted marketing campaigns, and robust communication across digital platforms, such as the internet, email, and social media, aimed at specified audiences for maximum impact.

PROMOTING SUSTAINABILITY

Executing initiatives aligned with the UN Sustainable Development Goals (SDGs) focused on social progress, environmental conservation, and uplifting communities. Eg. Beach Cleaning Sessions, *Samata* English, Reachout to Senior Citizens, Promoting Recycling, etc

ENHANCING STAFF INVOLVEMENT

Encouraging and organising staff cycling and walking events regularly, promoting health/ wellness, fostering a balanced lifestyle, and nurturing a vibrant social atmosphere among employees to ensure their peak intellectual, emotional, and physical well-being.

Several activities carried out by the Bank contribute significant value to itself, as well as its stakeholders, though these are not reflected on the balance sheet. Such activities mainly comprise a wide range of sustainability initiatives and projects, which are carefully planned to align with the Bank's Sustainability Strategy and cross cutting 6E Themes, and implementation is closely and consistently monitored to ensure maximum impact. The Bank's investment in such endeavours elevates its reputation and brand resonance across a multitude of stakeholders, consequently fostering a heightened level of customer loyalty and trust.

Taking a broader viewpoint, DFCC Bank's actions have a wide-ranging and manifold impact across its stakeholders and operational environment. Through the sustainable and responsible management of its operations, the Bank is in a position to amass and enrich its array of tangible and intangible resources, thereby generating enduring value for all stakeholders in the long-term.

A diverse range of factors having a significant impact on these elements encompass: trends within the operational landscape (pages 46 to 48), robust governance (pages 179 to 198), adept risk management protocols (pages 152 to 178), timely and meaningful engagement with stakeholders and their expectations (pages 54 to 61), significance (pages 54 to 61), strategic objectives (pages 49 to 53), and the ongoing evaluation and appraisal of the Bank's performance.

STEWARDSHIP

MONITORING AND EVALUATION

OUTPUTS

- Growth in assets for 2023 – 13%
- Growth in deposits for 2023 – 9.97%
- Increase in overseas remittances 2023 – 300%
- Percentage of selected transactions processed digitally – 87.7%
- Proposed dividend: cash LKR 3 per share, scrip LKR 2 per share
- Accreditation by the Green Climate Fund
- Focus on the reduction of avoidable expenditure
- Improve responsiveness to the needs of customers across various segments through a high-tech and highly skilled Contact Centre and development of relevant products
- Improved brand recognition and resonance among broader audiences
- Sales-driven, customer-centric culture
- Enhanced profitability at customer level
- Broaden the customer base to include a wide spectrum of customers
- Proactively monitor early warnings to step up risk measurement
- Dedicated SME customer management
- Branch rationalisation and digitalisation leading to customer centricity
- Customer feedback
- Building a socially responsible brand, and ensuring its visibility
- Faster and efficient processes for improved productivity
- Enabling employees to engage in more rewarding, value-adding work, and moving away from labour-intensive, repetitive and iterative tasks
- Increased awareness and responsibility towards communities and the environment
- Improved employee well-being across the emotional and physical aspects
- Reaching and serving customers through an Islandwide branch network of 139 branches, 134 ATMs, and 92 CRMs

OUTCOMES

VALUE DERIVED BY THE BANK

- Sustainable growth in the financial position
- Being proactive and resilient to changes in the operating environment
- Improved cost effectiveness across all fronts
- Improved staff productivity and efficiency
- Strong brand value
- Customer loyalty
- Improved prospects of receiving foreign funding through GCF and other foreign lenders
- A loyal and satisfied team that is enthusiastic and customer-centric

VALUE DELIVERED TO STAKEHOLDERS

- Innovative, clearly targeted banking services and products for customers
- Improved customer centricity through improved systems and processes and staff training
- Benefit to national economy though enhanced overseas remittances and reduction in the use of unofficial channels
- On-time payments for goods and services provided by suppliers
- Increased focus on remuneration, training and development, as well as welfare of employees
- Greater financial inclusion
- Reduction in the Bank's environmental footprint
- Uplifting of communities through sustainability initiatives
- Financing of projects with greater adherence to stipulated environmental standards, in addition to creating greater economic value

IMPACT

Steer the Bank towards strengthening its position as the leading financial solutions provider by sustainably developing individuals and businesses.

OPERATING ENVIRONMENT

Global Economic Outlook

Following an evaluation of current issues, emerging trends, and potential scenarios, the prospects for a significant worldwide economic revival in 2024 seem unpromising, though dire predictions of a global economic downturn have become muted in recent months.

The International Monetary Fund (IMF) anticipates a marginal decrease in global economic expansion, dropping from 3.0% in 2023 to 2.9% in 2024. Advanced economies might decelerate from 1.5% in 2023 to 1.4% in 2024. Emerging markets and developing economies could experience a slight decline from 4.1% in 2022 to 4.0% in both 2023 and 2024. Global inflation, at 6.9% in 2023, is projected to decrease to 5.8% in 2024. A gradual decline of core inflation is also generally envisaged.

Meanwhile, the ongoing war in Ukraine continues to dim prospects of a post-pandemic economic recovery for emerging and developing economies in Europe and Central Asia, states the World Bank's latest Economic Update for the region. The Gaza conflict in Israel could spiral out of control, as the region is a crucial supplier of energy and a key shipping passageway. In such a scenario, oil prices could soar to USD 150 a barrel and global growth drop by 1.7% – which could effectively wipe out about USD 1 Tn off world output.

In a region that produces 35% of the world's oil exports and 14% of gas exports, the impact of a potential production disruption looms large. However, unlike in past episodes, even if prices were to spike in response to events, oil producers, particularly those in the region, can tap into ample spare capacity to quickly boost production, helping to mitigate the impact.

On a positive note, chances of a widespread recession among the world's leading economies appear to have reduced somewhat, as the IMF's quarterly World Economic Outlook (WEO) report shows. The recent spike in hostilities in the Middle Eastern seas can disrupt trade, cause commodity prices to escalate, dampen growth, and remain a major risk.

Sri Lanka Economic Outlook

Having achieved economic stability compared to the previous turbulence, the Sri Lankan economy has been recovering in 2023. Stakeholder confidence has rebounded amidst a sense of caution relating to future uncertainties.

Funding from International Agencies

The most welcome news for the year-end is the release of the second tranche of the International Monetary Fund (IMF) Extended Fund Facility (EFF) of SDR 254 Mn (around USD 337 Mn), making the total disbursement of IMF financial support SDR 508 Mn (around USD 670 Mn) to date. Another inflow of approximately USD 600 Mn in staggered disbursements from the Asian Development Bank (ADB) has been assured. This financial support is expected to follow the disbursement of the second tranche of USD 3 Bn bailout package sanctioned by the IMF.

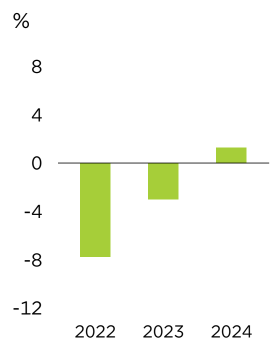
Prior to receiving the second tranche from the IMF, Sri Lanka received USD 495.6 Mn in interest-free budget support loans from the World Bank in September 2023, following its eligibility for reduced-rate International Development Association (IDA) credits.

The Government has also officially announced an agreement with China to restructure its USD 4.2 Bn in debt. With a total foreign debt amounting to USD 46.9 Bn, where 52% is attributed to China, its primary creditor, finalising agreements with all lenders will enable Sri Lanka to maintain access to funds within a USD 3 Bn bailout programme provided by the International Monetary Fund (IMF).

Economy on the Mend

The Asian Development Bank (ADB), in its recent report, stated that the Sri Lankan economy contracted by 7.8% in 2022 and is forecast to contract by 3% in 2023 as it continues to grapple with the challenge of debt restructuring and balance of payments difficulties. Growth will reach 1.3% in 2024. This is in contrast to World Bank's projection that Sri Lanka's economy is expected to grow by 1.7% in 2024 after contracting by 3.8% in 2023, as stated in its recent biannual update. "Sri Lanka has carried out critical reforms since the start of the economic crisis. Staying on the course of reforms while managing fiscal risks is crucial to restoring a sustainable growth path," according to the World Bank, points towards optimistic outcomes in the year ahead.

Sri Lanka GDP Growth Forecast



Fitch Ratings has upgraded Sri Lanka's Long-Term Local-Currency Issuer Default Rating (IDR) to "CCC-" from "RD" (Restricted Default). Fitch typically does not assign Outlooks to sovereigns with a rating of "CCC+" or below. The Long-Term Foreign-Currency IDR has been affirmed at "RD" and the Country Ceiling at "B-". This was followed by S&P Global Ratings, which raised Sri Lanka's local currency rating to CCC+/C from SD (selective default) after the completion of the domestic debt restructuring. Such upgrades to our sovereign ratings, while modest, still indicate a positive trajectory, resulting from a reform momentum which should be maintained at least in the medium-term by policy makers.

Foreign Exchange Earnings

Foreign remittances have risen 58.8 % in 2023, recording USD 5.97 Bn. Earnings from Tourism saw a 82% growth for the year bringing in over USD 2 Bn. Gross Forex reserves as of December 2023 were USD 4.4 Bn (including the swap facility from China). In 2023, the combined merchandise exports witnessed a 9.33% decrease, falling to USD 11,850 Mn compared to the same period in 2022. This decline in merchandise exports is linked to reduced demand for export items, specifically in sectors such as apparel and textiles, rubber and rubber-based products, coconut and coconut-based products, and gems, diamond, and jewellery. The Machinery and Mechanical Appliances, Base Metals and Articles, and Food, Beverages, and Tobacco segments saw moderate to flat YoY growth in export income.

The revised target set by the Board of Investments (BOI) for Foreign Direct Investments (FDI) for 2023 is USD 1.0 Bn. The recorded investments in the first three quarters of 2023, amounted to USD 445 Mn. The BOI has further signed and approved investments of USD 1.5 Bn. Bringing in more FDIs, Sri Lanka has also approved a proposal from Chinese state refiner Sinopec to build a USD 4.5 Bn dollar refinery.

Gross YTD inflows into the Sri Lankan Government securities market during 2023 amounted to USD 824 Mn which is many multiples of the inflows recorded in 2022, reflecting a sea change in sentiments among such investors. Fitch has acknowledged the following positive developments arising from the completion of the domestic debt restructuring exercise: the reduction in the Government's GFNs or Gross Government Financing needs, easing of risks to the Banking Sector via funding and liquidity pressures and adequate capacity of bank balance sheets to absorb risks from any future forex debt restructuring.

Restructuring and Resizing

Yet another positive development includes the proposed restructuring of Sri Lankan Airlines (SLA) and the interest shown by 16 investors, including Emirates, Etihad Airways and the Adani Group. SLA bears a debt of USD 1.2 Bn to a range of entities, comprising local state banks, unpaid fuel bills, outstanding dues on international bonds and leased aircraft, and an accumulated loss of LKR 594.4 Bn. SLA is among a number of loss-making State-Owned Enterprises (SOEs), that accumulated losses of LKR 1.8 Tn from 2005 to 2021. The Government has also planned to divest its ownership stake in Sri Lanka Telecom (SLT), the flagship Telco already partially privatised decades ago. SLT unlike SLA has been a profitable entity and the divestment can be expected to fetch lucrative proceeds for the Government.

Utility tariffs across power, energy, and water have been revised to ensure cost recovery pricing and enable future economic viability of SOEs like the CEB, CPC and the Water Board. The new direction taken on cost reflective prices was also vital to prevent the further accumulation of debt under these debt burdened entities. Power sector reforms are on the horizon, with a new Electricity Act approved recently by the cabinet. Increased transparency, competition and efficiency are envisaged in the reformed Power sector.

A comprehensive and effective privatisation and liberalisation programme can attract further foreign direct investments into the country as foreign businesses and investors gain confidence with the improving investment climate.

As part of the overall rationalisation of the Public sector, the Government intends to review the number of personnel on the public payroll across civilian and security structures as one of the major avenues to settle on a sustainable fiscal path.

Near Term Challenges

The IMF has cautioned that Sri Lanka's bailout programme might face insufficient funding, potentially leading to a resurgence of social unrest and derailing reforms due to the 2024 elections. "Social unrest could re-emerge, fuelled by falling real incomes, tax rate hikes and cost-recovery pricing in the energy sector, insufficient anti-corruption efforts, and delayed local elections", the report said.

Over 300,000 Sri Lankans have decided to leave our shores since 2022, when the nation defaulted on its foreign debt. More than 700 doctors have left the country in only a year, including 125 consultants who were experts in their professions. University lecturers, too, have been leaving in droves, partly attributed to economic uncertainties and partly due to sudden cost of living increases compounded by a heavy tax regime.

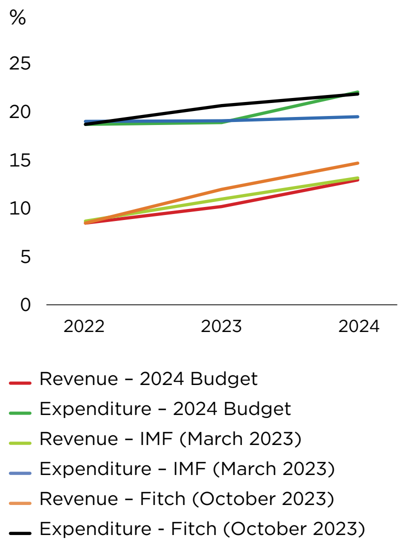
Growing the ICT workforce over the medium-term to long-term will be crucial to building a strong IT sector, which will help drive Sri Lanka's economic revival. The shortage of ICT personnel due to overseas migration is a trend that will need to be addressed by decision makers. In addition, the country needs to do a lot at policy level to retain and develop the ICT sector, with multiple threats emerging at a regional level. Several Sri Lankan apparel companies are opening branches or subsidiary companies overseas in African and Middle Eastern countries to keep costs down. Though it is small at present, there could be a sizable outflow over the years. Increased earnings from the revival of the leisure sector can help mitigate these effects. The economy has benefited immensely so far in 2023 from tourist arrivals. Rising tensions in certain regions of the world present an important opportunity for Sri Lanka to promote itself as a relatively peaceful tourist location.

The Port City Colombo project could have tremendous potential for the country if major investments materialise. However, the economy may have to enter a successful post-debt restructuring phase in order to credibly attract large numbers of impactful investment. The incentives, business friendly laws, and dollarised transactions promoted by the project could generate robust investments, jobs and crucial forex earnings in the medium-term if the project were to take off.

Outlook for 2024

Fitch Ratings expects greater divergence in the performance of Banking sectors in Asia Pacific (APAC) in 2024, with five countries, including Sri Lanka, set to report broadly improving results. Given below are the fiscal projections for the coming year, which show expenditure outpacing revenue.

Sri Lanka Fiscal Projections



The Agency expects consumer prices in Sri Lanka to rise by 8.7% on average in 2024, compared with 22.1% in 2023. The increase from economic growth, which Fitch projects at 3.3% in 2024, will also be modest. Fitch Ratings further states: "the presidential election in late 2024 will incentivise the Government to keep to its spending plans, which include a 14% increase in spending on salaries and wages. Nevertheless, if revenue falls short, there may be some room to trim capital expenditure, which amounts to almost 20% of total planned spending and is budgeted to rise 55% in 2024, excluding bank recapitalisation".

In the final analysis, Sri Lanka has come a long way since the economic and political upheaval of 2022. Despite the adverse developments of 2022, the economy has displayed remarkable resilience in 2023, as well as a number of positive indicators which point to a fairly improved business climate. As Sri Lanka braces itself for a parliamentary and presidential election in 2024, which is likely to be keenly contested, the outcomes of the same will become important determinants in influencing the economic policies and political trends in the coming years and bring with it opportunities and risks.

STRATEGIC DIRECTION AND OUTLOOK

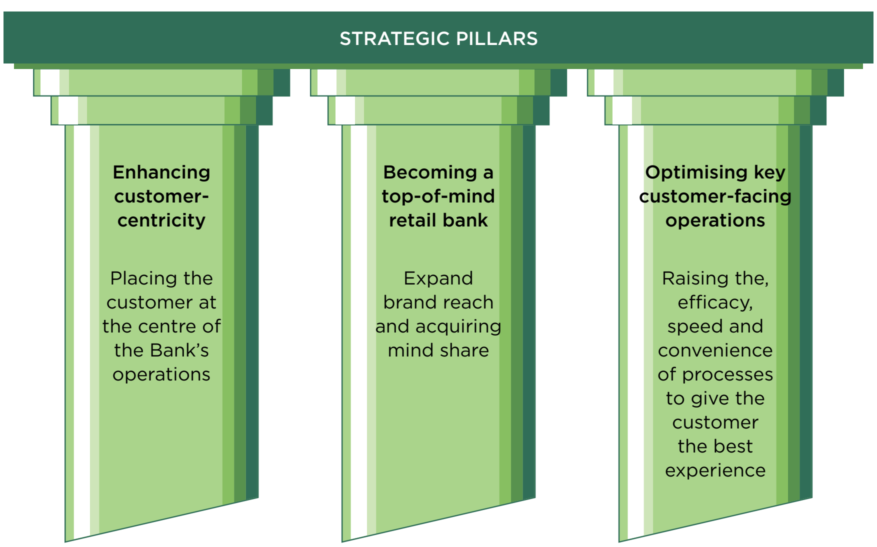
Since 2019, the country has been through several traumatic events, the Easter Sunday attack, the COVID-19 pandemic, and the economic crisis and social unrest of 2022. The Bank had to revisit its medium-term objectives and reprioritise according to immediate term for necessities that arose after the disruptive effects of the pandemic and the economic crisis. While we adapted to these new developments, our commitment to becoming the most Customer Centric Bank, which is "Data-Driven" and "Digitally Enabled", remains steadfast amidst this altered environment as it is in alignment with new realities. This tactical adjustment of our priorities which included a rebalancing of our assets book has ensured that the Bank was able to safely navigate the uncertainties and adverse economic conditions prevalent during much of the year while improving its performance across almost all metrics.

Although there was formerly an intention to formulate a new medium-term plan in 2023, given the realities of the situation, this turned out to be impracticable. The absence of a clear domestic economic direction, delays in the eagerly awaited resolution of Sri Lanka's debt negotiations with domestic and external creditors and the IMF, and possible elections in 2024 are serious variables that can cause significant changes to the economy, either negative or positive. A decisive conclusion on these factors can support the formulation of meaningful medium-term priorities. These difficulties are also compounded by external events such as the Russo-Ukrainian war and the turmoil in the Middle East.

The three strategic pillars enunciated in the 2019 plan remain in place:

- Enhance Customer Centricity – Placing the customer at the centre of the Bank's operations.
- Become a Top-of-Mind Retail Bank – Expanding brand reach and acquiring mind share.
- Optimise Key Customer Facing Operations – Raising the efficacy, speed, and convenience of processes to give the customer the best experience.

LONG-TERM STRATEGIC OBJECTIVES



One of the aspects of our future strategy will be the realisation of an optimum balance between profitability and scale. Striking such a balance will optimise the utilisation of our resources while yielding the best results for all stakeholders concerned.

Nevertheless, one area where we have out-performed expectations, as they were in 2019, has been digitalisation. This was initially heavily driven by the COVID-19 pandemic. Another factor has been the strong preference for digital transactions among the millennial generation, who prefer to avoid physical visits to a branch except for account opening. Indeed, with the advent of remote account opening, even this has become unnecessary, as the necessary verifications can be carried out through video conferencing.

Internet banking, mobile banking, and even agency banking are replacing brick-and-mortar banking. This drastic transformation has significantly impacted marketing channels the Bank leverages. A hybrid form combining digital channels (Mobile Banking, Internet Banking, MySpace, DFCC Galaxy Virtual Banking, etc) and brick-and-mortar branches is the way of the future. Particularly, the marketing reach out to the younger generation will have to be through digital channels, mainly social media platforms, given their digitally native lifestyles and consumption.

DFCC Approach towards Sustainability

In 2023, the Bank essentially continued with its sustainability strategy, implementing its vision and approach laid out in the 2020-2030 Sustainability Strategy. Despite the travails that the country and the entire banking sector faced in 2022, DFCC is steadfast in its commitment to fulfil its social and environmental responsibilities.

We remain unwavering in our conviction that maintaining a triple-bottom-line focus on people, the planet, and profits ensures our long-term sustainability, growth, and profitability. Supporting environment-friendly practices and promoting social inclusion are part of the Bank's ethos. The structure of the Bank's sustainability strategy consists of a Sustainability Vision, Sustainability Dimensions, Key Goals, and Key Focus Areas, which are tabulated below. It is also aligned with 13 of the UN SDGs and is also supported by five key enablers. DFCC achieved a major milestone when it became the first Sri Lankan entity to receive accreditation from the Green Climate Fund (GCF).

DFCC Sustainability Framework 2020-2030

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

Resilience	Resilient business	Impact for resilience	Resilient communities
	Contributing to sustainable economic growth	**Promoting positive social and environmental impacts**	**Advancing sustainable workplaces and lifestyles**
Key Goals	**The Bank for Green Finance by 2030**	**Carbon neutral Bank by 2030**	**Achieve sustainable work lifestyle by 2030**
Key Focus Areas	▸ Promote green finance (5% by 2025 and 10% by 2030 of the portfolio*) ▸ Promote/empower sustainable and social entrepreneurs (5% financing)	▸ Improve resource efficiency ▸ Be a digitally enabled Bank by 2025 ▸ Be a clean air champion ▸ Be paperless by 2024 ▸ Strengthen ecosystems and institutions	▸ Promote equal opportunity employment (15% by 2025 and 30% women in management and 1% marginalised groups by 2030) ▸ Great place to work ▸ Promote staff and customer well being

6Es Six Cross Cutting Themes: Education, Elderly, Emergency Relief, Entrepreneurship, Environment, Exercise

Align with UN SDGs: 1 No Poverty, 2 Zero Hunger, 3 Good Health and Well-Being, 4 Quality Education, 5 Gender Equality, 7 Affordable and Clean Energy, 8 Decent Work and Economic Growth, 9 Industry, Innovation and Infrastructure, 11 Sustainable Cities and Communities, 12 Responsible Consumption and Production, 13 Climate Action, 14 Life Below Water, 17 Partnerships for the Goals

Key Enablers: Collaboration ⟷ Digitising ⟷ Empowerment ⟷ Innovation ⟷ Inclusivity

* Targets were set prior to the introduction of the Sri Lanka Green Finance Taxonomy, and is subject to revision.

GRI 2-9, 12, 13, 14, 16, 18

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

As Sri Lanka's "Pioneer Development Bank", DFCC Bank has been a 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 internal changes to structures and processes to achieve this goal and meet statutory and other requirements pertaining to sustainable finance.

In addition to our 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). Accordingly, the Bank is also placing greater emphasis on innovation and training its staff on Sustainable Finance, and in 2023, upgraded its internal data capturing processes to meet the quarterly reporting requirements of CBSL on Sustainable Financing Activities and to adjust to future demands in this area.

The two Subcommittees which have continued since 2020, "Green Finance Subcommittee" and "Sustainable and Social Entrepreneurship Subcommittee", conduct capacity-building programmes to the credit staff on sustainable finance and identify and classify compatible facilities specified in the Green Finance Taxonomy published by the CBSL. Further, the Bank continues to integrate ESG-related matters in credit decision-making and to disclose our environmental and social impact through the business activities.

The sustainability initiatives carried out during the year, including sustainable finance activities and way forward, are described in the Social Capital (pages 136 to 141) and Natural Capital (pages 142 to 150) sections of this report.

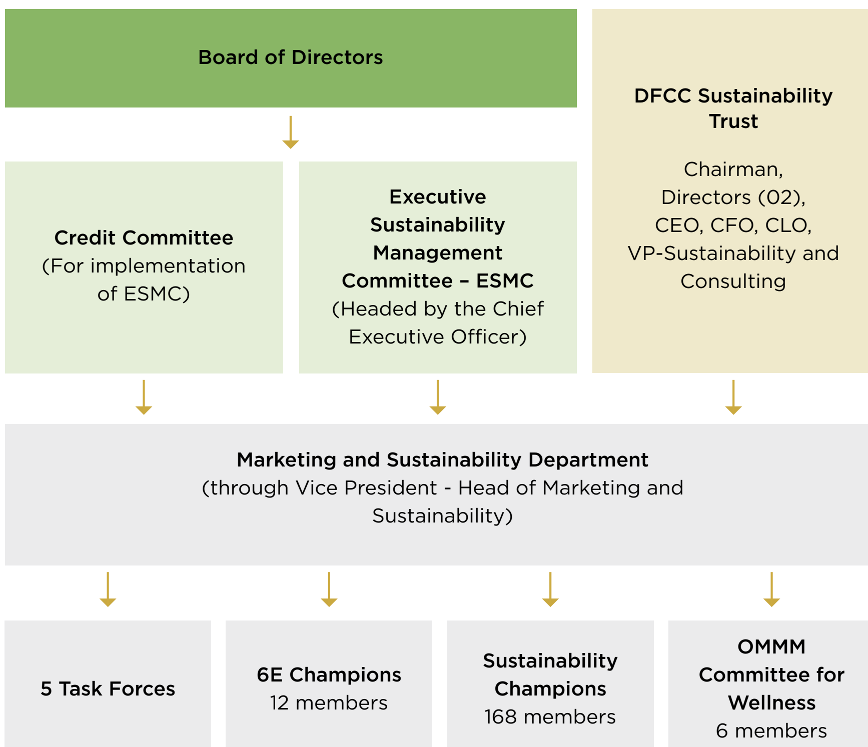
Sustainability Governance

Sustainability governance is an integral part of the Bank's sustainability policy. The Executive Sustainability Management Committee (ESMC) oversees all sustainability-related matters, operating under the Board and led by the Chief Executive Officer. The committee has broad representation, including many key management personnel as members.

The ESMC usually meets every six weeks to ensure the proper implementation of the Sustainability Strategy, make decisions regarding CSR activities, and provide required guidance and support.

Under the guidance of the ESMC, the Sustainability Unit gets involved in planning, implementing and monitoring sustainability initiatives.

DFCC Sustainability Organogram



The DFCC Sustainability Trust is established to engage Corporate Social Responsibility (CSR) and sustainability initiatives including the promotion of the six cross cutting themes (6Es) of the Bank, as well as its sustainability targets. The Trust is set up so as to provide more transparency and accountability.

The Sustainability Unit also reports to the Credit Committee on environmental and social compliance matters.

Employee Engagement in Sustainability

At DFCC, we believe that sustainability is not a matter that concerns the senior management alone, but requires the commitment and cooperation of staff at all levels. Hence, DFCC identifies that the active engagement of employees in its sustainability initiatives is a crucial component for the success and continuity of such efforts. This contributes to achieving sustainability goals and enhances employee satisfaction, motivation and overall organisational success. Inculcating an attitude of "Sustainability is now a way of life", all employees are encouraged to take the sustainability pledge of the Bank. Further, the Sustainability Unit along with the HR Department conducts sustainability-related training sessions for the staff covering ESG aspects. "Sustainability Champions" are appointed across the DFCC network to represent each department/branch for sustainability engagements. Sustainability-oriented tasks, action points, and measurement matrices are built into the Sustainability Champions' staff evaluation and appraisal processes. Another fifteen team members are appointed to 6 CSR pillars – 6Es to propose and drive CSR activities.

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.

Employee Engagement – Sustainability Unit

Subcommittees, Task Forces and OMMM Committee for Wellness	6E Champions (For 6E CSR Pillars)	Sustainability Champions (Branches/Departments)

Task Force on Energy Efficiency/Sustainable Facilities Management

- Review energy consumption of the Bank
- Develop a roadmap to improve Energy Efficiency
- Disseminate knowledge and awareness for staff on energy
- Identify sustainable facilities management requirements across the Bank

Task Force on Paper Reduction

- Drive different initiatives to reduce paper consumption within various business processes
- Review paper consumption data, recommend priorities, monitor KPIs, and conduct paper audits

Task Force on Green Finance and Sustainable Entrepreneurship

- Implement a Green Finance classification system for internal use and integrate into the core banking system
- Identify and promote sustainable and social entrepreneurs
- Strengthen staff capabilities through training and establishing targets

Task Force on Sustainable Procurement

- Ensure proper implementation of sustainable procurement in the bank

Task Force on HR Sustainability and OMMM Committee for Wellness

- Ensure that sustainability becomes a part of the cultural psyche and work ethic of the employees
- Ensure staff are duly acknowledged, appreciated for sustainability initiatives and responsibilities
- Ensure staff well-being through wellness activities

STAKEHOLDERS

GRI2-29

DFCC, as common with many large organisations, interacts with a wide range of institutions and individuals in the course of carrying out its business activities. The most important of these parties are known as its stakeholders. Value creation is a two-way process – on one hand, DFCC delivers value to its stakeholders; on the other hand, it derives value from them. DFCC's stakeholders include customers, shareholders, employees, business partners, other banks, regulators, communities, the environment, and the Government.

Stakeholder Engagement

The Bank's stakeholder engagement process is an ongoing process to ensure that the Bank understands stakeholder expectations and remains responsive to its stakeholder concerns.

Identification of Stakeholders	• Identification and categorisation of stakeholders based on key questions: who will contribute to the business? who will be impacted by the business? who can directly/indirectly influence the business?
Stakeholder Analysis	• Understand the needs, concerns, interests and positions of each stakeholder category • Decide on the key topics to be addressed • Evaluate channels to engage with stakeholders
Action Plan	• Decide engagement mechanisms and design value-driven projects/activities • Decide on frequency of engagement to ensure timely response • Plan and allocate resources for engagement • Decide on the key topics to be addressed • Formulate policies and procedures if necessary • Implement the action plan
Continuous Dialogue	• Engage and communicate with stakeholders to establish a qualitative dialogue with stakeholders • Obtain feedback and take further steps when concerns are raised.

The Bank engages with its different stakeholder groups in different ways and using diverse channels. In selecting the appropriate channels, attention is paid to what would have the maximum impact and maximum reach within each stakeholder group.

Shareholders and Investors

Shareholders and investors are the primary providers of capital for the Bank. The Bank maintains regular communication with them to keep them updated on the financial performance.

Reasons for engagement	To provide information on the financial performance of the Bank and future prospects
Key topics for engagement	• General performance of the economy as it affects the banking sector • Impact of regulations • Future prospects • Impact of macro-economic situation and possible future developments including agreement with IMF • State of moratoriums and concessions
Bank's response	Provision of the information most relevant to the situation Financial Capital Report Page 70 to 92 Institutional Capital Page 93 to 98 Social Capital Page 136 to 141

Engagement Mechanism	Frequency of Engagement					
	Annually	Quarterly	Regularly	Periodically	Continuous	As and when required
Annual General Meeting	✓					
Annual report	✓					
Quarterly financial statements and press release		✓				✓
Announcements through the Colombo Stock Exchange						✓
Investor relations meetings						✓
Shareholder forums/webinars						✓
General correspondence						✓

Customers

Customers are one of the most important stakeholders of the Bank and are, indeed, its raison d'etre. They include an incredibly diverse range: large corporations, SMEs, micro-enterprises, and individuals from all walks of life. The Bank needs to continually feel the pulse of their needs, tastes, and aspirations. Particularly within the backdrop of the past years' turbulence, these are constantly changing and evolving. The increasing trend towards digitalisation, which has been an aggressive thrust of the Bank, has done much towards changing patterns of engagement with customers. This has been partly due to the impact of the COVID-19 pandemic and fuel shortages but also due to changing customer profiles, with more customers from the millennial generation.

Reasons for engagement	• To provide information on products and services, especially new developments • To obtain information on customer requirements and preferences
Key topics for engagement	• Customer requirements, tastes and aspirations • Reactions to product developments and new products • Degree of disposable income • Propensity to borrow • Needs for rescheduling/provision of concessions
Bank's response	Refer Customer Capital pages 104 to 120 • Rescheduling/restructuring loans • Reduction of interest rates • Identification of priority sectors and customers for lending considering ability to repay and national priorities • Enhancement of internet/mobile banking • Appropriate marketing channels especially for the younger generation

Engagement Mechanism	Frequency of Engagement					
	Annually	Quarterly	Regularly	Periodically	Continuous	As and when required
Branch network					✓	
Customer Relationship Officer					✓	
AI-based digital assistance					✓	
A dedicated customer care centre					✓	

Employees

Our employees, particularly those at the front lines at the branches, are those who directly interact with the customer. They require technical knowledge in banking and soft skills such as customer service, etiquette, and complaint handling. The reputation of the Bank depends a great deal on them. Ethics and accountability are part of the Bank's core values. An internal code of conduct within the Bank lays down policies on conflict of interest, insider dealings, unfair business practices, and confidentiality. A whistleblower policy and the Listening Wall allow employees to report actual or suspected malpractices.

Reasons for engagement	• Need for ethical employment • Reduced purchasing power and threats to standards of living – impact on staff morale • Need to inform career development opportunities • Need for employee recognition and well-being • Need for employee communication, engagement and feedback
Key topics for engagement	• Well-structured performance based incentive schemes • Diversity, equity and inclusion • Employee well-being and work-life balance • Career development opportunities
Bank's response	Refer Employee Capital pages 121 to 130 • Performance based incentive and reward schemes • Appropriate training programmes in both hard and soft skills for career progression • Effective grievance handling mechanisms • Salary adjustment based on market surveys • Promote diversity and inclusion

Engagement Mechanism	Frequency of Engagement					
	Annually	Quarterly	Regularly	Periodically	Continuous	As and when required
Proactive engagement by HR					✓	
Grievance mechanism						✓
Performance appraisal	✓					
Engagement surveys				✓		
Training programmes						✓
WeConnect					✓	
Staff events			✓			

Business Partners, Suppliers and Service Providers

DFCC has a history of working with a broad spectrum of business partners. With its heritage of being a development bank, it has long experience partnering with institutional creditors to obtain long-term funding. While new long-term funding is in abeyance due to the financial crisis, country rating downgrade, and the consequent dampened demand for credit, this was revived in 2023 with DFCCs accreditation by the Green Climate Fund enabling the financing of climate-friendly products in Sri Lanka. We also interact with many vendors to procure goods and services.

Our procurement policy ensures a consistent, efficient, and best-practice approach to ensure that the Bank acquires goods and services transparently, cost-effectively, ethically and in a timely manner. We consider our suppliers to be not merely suppliers but partners in our value-creation process and seek to build long-term and productive relationships with them.

Reasons for engagement	To develop strategic partnerships and transparent communication by providing essential information regarding the Bank's requirements while actively seeking insights into our partners' activities and challenges. This reciprocal exchange of information is integral to enhancing collaboration and ensuring mutual benefit.
Key topics for engagement	• Maintain dialogue on matters of mutual concern • Agreements on standards to be maintained in procurement
Bank's response	Refer Business Partner Capital pages 131 to 135 • Providing information on a timely and relevant basis • Listening as well as communicating • Speedy resolution of any differences • Engaging in fair and equitable, and sustainable procurement

Engagement Mechanism	Frequency of Engagement					
	Annually	Quarterly	Regularly	Periodically	Continuous	As and when required
Supplier registration process						✓
Request for proposals						✓
Reviews and assessments			✓			
Communications and meetings			✓			✓

Government Institutions, Regulatory Bodies and Other Industry Associations

The Bank is of interest to the Government due to its role in economic development and contributing to the national sustainability (especially environmental) agenda. Considering the nature of our organisation and activities, we come under the purview of many regulatory bodies, such as the Central Bank of Sri Lanka, the Colombo Stock Exchange, the Securities and Exchange Commission of Sri Lanka, and certain other Government departments. We ensure compliance with all legal and regulatory requirements by regulatory bodies and government institutions.

Considering the Bank's wide range of activities, it has been advantageous to maintain membership in several associations and include the best practices and standards issued by these organisations. These include national and regional chambers of commerce and industry, banking and financial bodies, professional associations, and capital market institutions. We have obtained membership in several diverse commercial and professional associations to broaden our reach and effectiveness. These include banking associations, Chambers of Commerce and Industry, financial market-related institutions, and professional bodies. Through these partnerships, we have enhanced our reputation and can draw on their knowledge and skills for our continued growth (Refer page 135 for details).

Reasons for engagement	Obtaining up to date and easily understandable information on regulatory changes
Key topics for engagement	New regulatory and reporting requirements
Bank's response	Refer Business Partner Capital pages 131 to 135 – To implement procedures to manage new regulatory requirements – Put in place mechanisms for collecting and reviewing new information new information and requirements

Engagement Mechanism	Frequency of Engagement					
	Annually	Quarterly	Regularly	Periodically	Continuous	As and when required
Compliance Department			✓			
Continuous engagements with regulators at senior levels of the Group			✓			
Timely regulatory reporting				✓		✓
Response to queries and reviews carried out						✓
On-site and off-site supervision			✓			✓

Communities

Communities are groups and organisations that impact on and/or are impacted by the Bank's activities. Examples include local communities (particularly in rural or semi-urban areas), community based organisations, and religious leaders. In order to empower the communities to raise their socio-economic status, the Bank strives to adopt various socially responsive CSR activities.

Reasons for engagement	To understand requirements and problems at the grass-roots level and convey information regarding the Bank to them
Key topics for engagement	• Economic conditions especially inflation and interest rates • Hardships low-income groups are facing • Other issues facing the SME/Micro-enterprise sector • Ways in which the Bank can alleviate any hardships
Bank's response	Refer Social Capital pages 136 to 141 • Implementing CSR initiatives to help the SME/Micro sector • Implementing CSR projects

Engagement Mechanism	Frequency of Engagement					
	Annually	Quarterly	Regularly	Periodically	Continuous	As and when required
Press releases, conferences, and media briefings						✓
Public events						✓
Corporate website					✓	

Advocacy Groups

These are groups or organisations that form to support specific social, political, cultural, or environmental issues. This includes community-based organisations, trade unions, NGOs and INGOs. It also includes the media; here, the Bank has a special interest through its press releases and other news items that may appear in the media. Community-based organisations may impact the Bank through their advocacy and ability to influence opinion at local levels. Some more powerful advocacy Groups and NGOs/INGOs may have a broader impact with their ability to influence public opinion and exert pressure on the Government in policy making. These groups and organisations may include those backed by powerful business or political interests.

Reasons for engagement	Understand their viewpoints and perception
Key topics for engagement	• Issues that impacted the groups they represent • How these have been impacted by the operating environment • Dialogues with industry associations on issues of mutual concern even though perceptions may differ
Bank's response	Refer Social Capital pages 136 to 141 Meetings and consultations

Engagement Mechanism	Frequency of Engagement					
	Annually	Quarterly	Regularly	Periodically	Continuous	As and when required
Meetings and consultations						✓

MATERIALITY

GRI 3-1, 2

Determining Materiality

A subject topic is considered material to an organisation's strategy and performance, if it is anticipated to have a substantial impact on its ability to create value in the short, medium and long-term. This could be value created for the Bank, its stakeholders, or both. DFCC Bank effectively showcases its integrated thinking, a key objective of integrated reporting, by illustrating the interconnectedness of significant issues with its strategy, governance, performance, and future outlook. In the course of its value creation process, stores of value are consumed, transformed, and created by assessing the risks and opportunities in the immediate operating environment, studying the changes to legal and regulatory frameworks, analysing global trends, scrutinising research reports and other published information as well as through insights gained from stakeholder interactions.

Material matters determining process can be explained as follows:

Identification of Material Matters

We identify the material drivers impacting our strategy, stakeholders and value creation. In doing so, we analyse both external and internal environmental factors, considering the combined outcome of the potential magnitude of impact, and the probability of their occurrence.

(Materiality = Relevance X Magnitude of Impact X Probability of Occurrence)

Analysis and Prioritisation

We assess material matters, categorise and prioritise them upon analysing the organisation's objectives, risks and impact on stakeholders in a way that influences our ability to successfully execute our strategy and deliver long-term value to our stakeholders.

Validation and Integration

Integrate the topics that are material to the value creation to meet stakeholder expectations. Business and individual targets are set through key performance indicators which are linked to the strategic objectives.

The Bank has consistently engaged with stakeholders over the years to gain deeper insights into their concerns, and the significance of these issues in relation to their priorities. This ongoing dialogue encompasses economic, environmental, governance, and social considerations. Firmly believing in stakeholders' entitlement to voice their opinions on the impact of diverse issues on them and vice versa, the Bank ensures that their perspectives are heard and considered.

As an integral aspect of its sustainability initiatives, DFCC Bank consistently involves stakeholders to identify and resolve the following:

1. Substantial effects linked to business operations and strategy;
2. Stakeholders experiencing significant impacts; and
3. Stakeholders holding significant potential to influence the Bank, its operations, profitability, and reputation.

The external landscape encompasses current and emerging trends in the economic, environmental, governance, and social spheres. This could be both national and international. DFCC Bank diligently assesses these pertinent trends in the external landscape, regarding them as material to its continued success. Through materiality analysis, the Bank successfully identifies and evaluates aspects that are crucial to both its stakeholders and its operations. This scrutiny extends across economic, social, and environmental dimensions, aligning with the Bank's commitment to creating sustainable value.

The Bank engages with various stakeholder groups to identify the issues needed to structure its portfolio of activities. This alignment of activities with the distinct needs of each stakeholder group enables the Bank to create and deliver optimum value to them while also deriving reciprocal value. Consequently, this approach maximises the benefits for all involved parties. This approach will achieve 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:
   - Fostering relationships and nurturing bonds with customers.
   - Empowering employees by offering rewarding career opportunities.
   - Generating consistent returns for investors.
   - Establishing mutually advantageous and profitable partnerships.
   - Demonstrating responsible actions towards both society and the environment.

Material Topics

In 2020, when the DFCC Sustainability Strategy was formulated, the Bank conducted a materiality assessment. In the 2020-2022 annual reports, the Bank depicted the key matters that were identified in that assignment. We identified that the same topics are to be continued. However, we segregated those into identified key material themes as follows while considering the financial materiality and impact materiality of the topics.

Accordingly, compared to previous years, a few material topics are collated and presented in the table below.

Abbreviations/icon guide for the "Material Topics" table

Financial Capital

Institutional Capital

Investor Capital

Customer Capital

Employee Capital

Business Partner Capital

Social Capital

Natural capital

Resilient Business and Inclusive Economic Growth

DFCC Bank believes that sustainable practices and inclusive economic growth are vital to ensuring stakeholder value creation. Economic resilience enables the Bank to survive in rapidly changing environments, continuing to deliver superior performance. Hence, we consider the following topics to be material to ensure resilient business and economic growth:

1. The anticipated surge in demand for green financing, specifically catering to environment-friendly projects and investments which require sector-specific expertise to ensure an overall reduction in environmental impact, notably through initiatives such as renewable energy. This aligns with the Government's environmental conservation policy and resonates with the Bank's commitment to environmental stewardship.
2. Embracing emerging technologies designed for customer investment and utilisation, including innovations such as smart/precision agriculture, pollution control mechanisms, energy-efficient technologies, smart buildings, renewable energy solutions, and more.
3. Aligning economic performance with national policies and priorities.
4. Complying with the Sustainable Banking principles of the Sri Lanka Banks' Association (SLBA) under its Sustainable Banking Initiative (SLBA-SBI).
5. Formulating suitable strategies for improving the Bank's contribution towards achieving UN Sustainable Development Goals (UN SDGs).
6. Implementing initiatives to counteract the negative outlook and trends in the banking sector.
7. Being better prepared on all fronts to prevail in a highly competitive business environment.
8. Developing resilient business strategies with renewed focus on sustainability.
9. Reducing negative environmental and social impacts resulting from economic activities and raising awareness among stakeholders on addressing such issues.
10. Addressing concerns related to declining trends in exports and implementing suitable strategies to reverse such trends.
11. Strengthening business resilience.

Relevance to the Capitals

Inclusive Growth in Resilient Communities
DFCC Bank believes growth is sustainable when it supports not only the businesses in an inclusive manner but also the communities in which the business operates. The Bank tries to improve the lifestyles and livelihoods of broader population segments to promote inclusivity. Hence, we identify that the following key topics are material:
12. Adapting to the growing trend towards purpose-driven and socially responsible businesses dedicated to creating a positive impact on society. These businesses aim to address societal challenges while ensuring profitability. 13. Improving financial literacy and inclusion, especially among vulnerable individuals and communities. 14. Offering specialised services for Micro, Small, and Medium Enterprises (MSMEs), encompassing both financial and non-financial offerings aimed at capacity building and boosting their performance. 15. Collaborating with professional apex bodies to foster partnerships, leading to improved knowledge and productivity. 16. Increasing and broad-basing the involvement of entrepreneurs and MSMEs in creating positive social and environmental impacts. 17. Investing in sustainability initiatives, reducing resource consumption, addressing environmental and social impacts, and participating in CSR and disaster relief efforts. 18. Offering entrepreneurial skills training for self-employed individuals to help them enhance their potential. 19. Providing education, skill-building and training opportunities, including reskilling and upskilling when needed. 20. Implementing strategies to address the increasing frequency and magnitude of natural disasters, as well as improving both preparedness and response times to effectively meet the exigencies of such occurrences. 21. Supporting the growth of MSMEs, and acting as a catalyst for their enhanced role in national development and employment generation.
Relevance to the Capitals 

Equal Opportunity Employment and Employee Wellbeing

DFCC Bank always considers that all our employees have a right to equal opportunities, and we strive to protect their interests in all employment decisions. Hence, we consider the following are material to ensure equal opportunity employment and employee well-being:

22. Renewed focus on the health and wellbeing with a strong emphasis on work-life balance.
23. Empowerment initiatives for staff, particularly focusing on female staff and other vulnerable groups.
24. Encouraging collaboration and teamwork across all levels of seniority and functional divisions.
25. Boosting productivity and operational efficiency by investing in staff training and development, with emphasis on the current and emerging needs in knowledge and technology.
26. Cultivating a healthy workplace culture to attract and retain a diverse workforce of exceptional talent and to optimise their performance.
27. Well-defined and clear pathways for career progression, offering mentoring and other required support for staff members who exhibit slow progress.
28. Ensuring decent working conditions condition and fair compensation for all workers.

Relevance to the Capitals

Customer Centricity and Future-proofing Business

DFCC Bank believes that customer-centricity is critical in driving a business in a dynamic environment.
We differentiate ourselves by implementing a customer-centric approach leveraging the customer experience.
The following topics are identified as material:

29. Providing customer-centric services and engagement across all geographic areas and functional divisions.
30. Adapting financial services to meet evolving customer needs while adhering to international standards and local requirements.
31. Responding to the rising demand for convenient, remote, and flexible services.
32. Innovating to offer new and convenient services that maximise customer benefits.
33. Recognising organisational reputation as a competitive advantage while devoting suitable resources towards its expansion.
34. Embracing new technologies such as digitisation, Artificial Intelligence (AI), Machine Learning (ML), and Robotic Process Automation (RPA) while increasing their adoption across functional divisions and specialities.

Relevance to the Capitals

Sustainable Procurement and Resource Efficiency

DFCC Bank follows a consistent, efficient, and best practice approach to procurement, to ensure that an organisation acquires goods and services in a transparent, timely, cost-effective, sustainable and ethical manner. We amended the procurement policy to add social, environmental and governance aspects for supplier assessment/sourcing to improve resource efficiency, ethical sourcing and sustainable procurement. Six Guiding Principles (i.e. value for money, ethical sourcing, support of enterprise and growth, transparency, no conflict of interest, no bribery and corruption) underpin the core values and premise of the Procurement Policy of the Bank, which applies to all procurement decisions of the Bank, including procurement in the context of implementation and execution of funding proposals approved by external funds. We identify the following key topics as material:

35. Reducing energy and paper usage; minimise waste and use appropriate processes/technologies to ensure resource efficiency.
36. Establishing dependable and sustainable sourcing and supply chains.

Relevance to the Capitals

Transparent Reporting and Communication

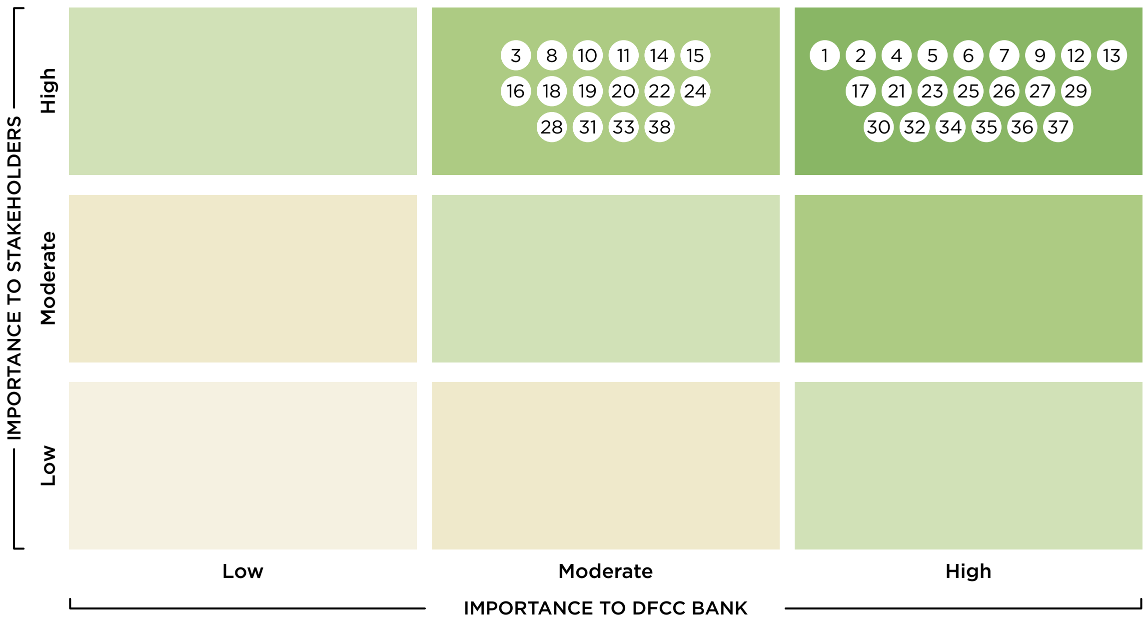
DFCC Bank believes that transparency, reliability and accountability for the information we communicate enhance value creation for our stakeholders. We pay attention to regulatory reporting requirements, good reporting practices, market changes, stakeholder concerns and accessibility to information in reporting;

37. Enhanced utilisation of social media for targeted and efficient communication.
38. Addressing the increasing demand for transparent reporting on non-financial information, including environmental and social issues.

Relevance to the Capitals

Materiality Matrix

A materiality matrix is a visual representation used in integrated reporting to assess and communicate the significance of various factors to an organisation's strategy, performance, and stakeholders. This tool aids in prioritising reporting and engagement strategies, emphasising what matters most to both the organisation and its stakeholders.



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 topics discussed above.

Management Discussion and Analysis

FINANCIAL CAPITAL

The strength of our financial performance in 2023 was demonstrated by growth in total assets, the deposit base, and profitability. We noted a remarkable increase in profit after tax over 2022 and stayed steadfast in our commitment to prudent financial management and sustainable growth. Our net interest income was boosted by judicious investment in high-yield government securities, while directed efforts on fee generation drove the non-funded business. Despite the trying economic backdrop, we have maintained resilient credit quality and fortified our capital position.

Overview

In a demanding banking landscape, DFCC Bank demonstrated resilience amidst significant local economic disruptions. Proactive policy adjustments facilitated a notable reduction in historically high-interest rates aimed at bolstering economic growth and stabilising inflation. This initiative, which commenced in June 2023, envisaged a substantial and widespread decrease in lending rates across markets, aligning with the overarching goal of monetary easing. Complementing this effort, DFCC Bank promptly aligned with directives, swiftly reducing lending and deposit rates to ensure the effective transmission of monetary policy benefits to businesses and individuals. Moreover, the Bank strategically augmented profitability by optimising its investment portfolio, notably through increased holdings in high-yield government securities. These measures enabled the Bank to maintain profitability whilst providing much needed concessions to our valued customers during these challenging times.

In light of our robust financial performance in 2023, marked by substantial growth in total assets, deposit base, and profitability metrics, including a notable 187% increase in profit after tax, DFCC Bank remains steadfast in its commitment to prudent financial management and sustainable growth. Our strategic investments in high-yield government securities and focused efforts on fee income generation have bolstered our net interest income and non-funded business lines. Despite prevailing economic challenges, we have maintained resilient credit quality and fortified our capital position, as evidenced by improved equity ratios and compliance with regulatory requirements. Our dedication to innovation and customer-centric values continues to be recognised, reaffirming DFCC Bank's position as a leader in the banking sector. Looking ahead, we remain focused on driving inclusive growth, fostering sustainability, and delivering value to all stakeholders.

A significant milestone this year was our accreditation by the Green Climate Fund (GCF), making DFCC Bank the first entity in Sri Lanka to receive such recognition. We are also honoured to receive prestigious accolades such as the "Euromoney Cash Management – Market Leader Award 2023" and the Merit Award for the "Green Brand of the Year" at SLIM Brand Excellence. These recognitions underscore our unwavering dedication to sustainability, innovation, and customer-centric values. As we continue to revamp our Corporate and Retail banking digital platforms and implement concessionary lending schemes to support our customers during challenging times, we remain committed to serving as the Bank for Everyone, supporting sustainable and social entrepreneurship and driving positive change in the communities we operate and serve.

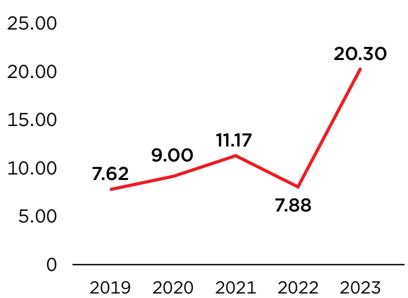
Income Statement Analysis

Profitability

The Bank's profit after tax increased by 187% to LKR 7,220 Mn, and the earnings per share (EPS) increased by 156% to LKR 17.27 during 2023.

EPS (Group)

LKR



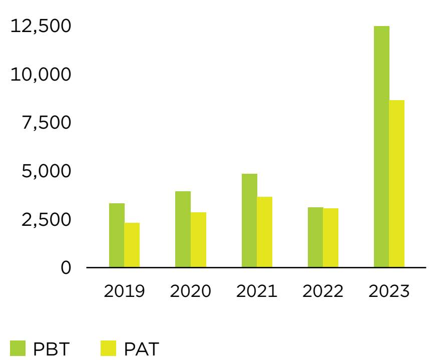
DFCC Bank PLC, the largest entity within the Group, reported a Profit Before Tax (PBT) of LKR 10,960 Mn and a Profit After Tax (PAT) of LKR 7,220 Mn for the year ended 31 December 2023. This compares with a PBT of LKR 2,439 Mn and a PAT of LKR 2,513 Mn in the previous year.

The Group recorded a PBT of LKR 12,508 Mn and PAT of LKR 8,659 Mn for the year ended 31 December 2023 as compared to LKR 3,112 Mn and LKR 3,042 Mn, respectively, in 2022. All the member entities of the Group made positive contributions to this performance. The Bank's Return on Equity (ROE) improved to 12.19% during the year ended 31 December 2023 from 5.04% recorded for the year ended 31 December 2022. The Bank's Return on Assets (ROA) before tax for the year ended 31 December 2023 was 1.82% compared to 0.46% for the year ended 31 December 2022.

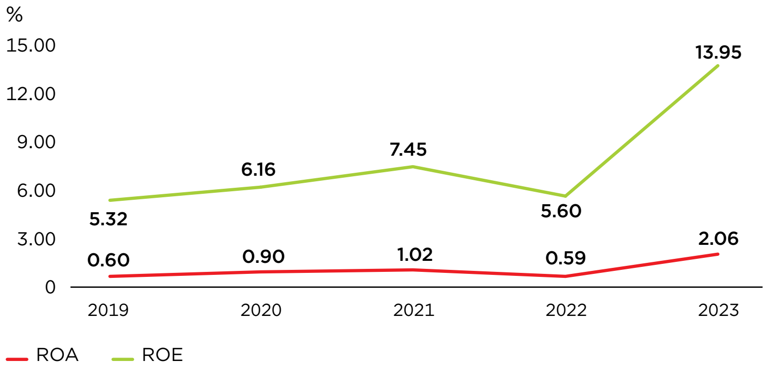
The Bank's total tax expense, which includes Value Added Tax (VAT) and Social Security Contribution Levy (SSCL) on financial services and Income Tax is LKR 6,927 Mn for the year ended 31 December 2023. As a result, the Bank's tax expense as a percentage of operating profit for the year stood at 48.96%.

Group Profit Before and After Tax

LKR Mn



ROA and ROE (Group)



Net Interest Income

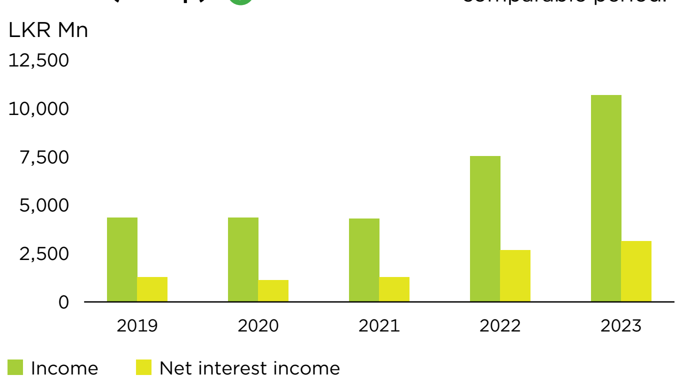
The tight liquidity conditions in the domestic money market have resulted in continuously rising market interest rates in early 2023. While the higher interest rates led to a contraction in the lending portfolio, strategically, the Bank increased its investment portfolio in high-yielding government securities, which led to an overall improvement in Net Interest income (NII). However, with the market guidance provided by the Central Bank, along with improvement in liquidity conditions of the domestic money market in line with the relaxed monetary policy stance of the Central Bank, both deposit and lending interest rates have continued to adjust downwards. Accordingly, the Bank has reduced both lending and deposit rates to align them with the monetary directions to ease monetary conditions for individuals and businesses adequately and swiftly, thereby supporting the envisaged rebound of the economy. While lower interest rates may have resulted in reduced interest income and expenses, in nominal terms, Net Interest Income (NII) has continued to improve as a metric during the period under review as a result of the Bank's strategy of investing in high-yielding government securities.

Strategically, the Bank thus increased its fixed-income investment portfolio, contributing significantly to increased interest income and The Bank's Net Interest Income (NII), which is its core business, increased by 18% to reach LKR 31 Bn by the end of 2023. The interest margin increased from 4.96% in December 2022 to 5.18% by December 2023.

Fee and Commission Income

The Bank's dynamic strategies and the efforts of its dedicated teams led to increased remittances, trade-related commissions, and other fee income lines, which contributed to the increase in non-funded business during the period. Fee income generated by credit cards also increased significantly, in line with the volume of transactions. Accordingly, net fee and commission income increased by 36% to LKR 3,905 Mn for the year ended 31 December 2023, compared to LKR 2,877 Mn for the comparative period in 2022.

Income (Group)



Impairment Charge on Loans and Other Losses

The impaired loan (stage 3) ratio increased from 4.36% in December 2022 to 7.03% as of 31 December 2023, continuing the prevalent trend amidst the present economic conditions. However, the positive developments in the macroeconomic environment coupled with the Bank's concerted efforts in recoveries resulted in reducing the impairment charge for the year 2023 compared to the year 2022. To address the current and potential future impacts of the present economic conditions on the lending portfolio, the Bank made adequate impairment provisions during the year by continuing to calibrate internal models to account for unseen risk factors in the future, including additional provisions made for the Bank's exposure to risk elevated sectors.

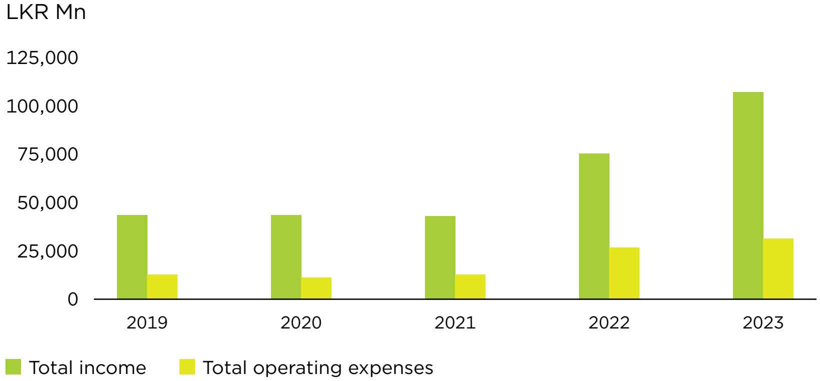
The Bank made significant judgments based on the information available at the reporting date to estimate the recoverable value of foreign currency-denominated investment securities issued by the Government of Sri Lanka. Accordingly, an impairment charge has been recognised to maintain a provision cover of 50% on the above investments.

Accordingly, with these provisions to address the additional risks in the economic environment, the impairment charge was recorded at LKR 13,985 Mn for the year ended 31 December 2023, compared to LKR 17,041 Mn in the comparable period.

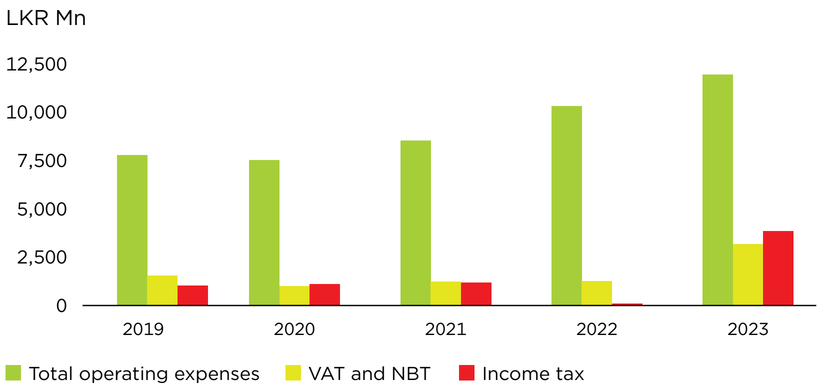
Operating Expenses

Operating expenses for the year ended 31 December 2023 increased to LKR 11,720 Mn compared with LKR 10,117 Mn during the corresponding period in 2022, primarily due to the increase in inflation. However, the Bank has taken numerous cost control measures within its operations, curtailing operating expenses and managing them at these levels. The Bank achieved a healthy 29.41% cost/income ratio in 2023 compared to 32.79% in 2022.

Total Income to Operating Expenses – (Group)



Expenses – (Group)



Other Comprehensive Income (OCI)

Changes in the fair value of investments in equity securities and fixed-income securities (treasury bills and bonds) and movement in hedging reserves are recorded through other comprehensive income. Due to the application of hedge accounting, the impact on the total equity of the Bank due to exchange rate fluctuation was minimised. A fair value gain of LKR 7,016 Mn was recorded on account of equity securities outstanding as at 31 December 2023. The increase in the share price of Commercial Bank of Ceylon PLC during the period was the main contributor to the reported fair value gain in equity securities. The favourable movement in treasury bill and bond yields also resulted in a fair value gain of LKR 5,932 Mn during the year.

Financial Position Analysis

Assets

Despite the challenges faced by the economy and the banking sector, DFCC Bank's total assets increased by LKR 74.6 Bn, recording a growth of 13% from December 2022. Aligning the Bank's growth strategy to the present economic climate by increasing investment in fixed-income securities, combined with positive fair value movement in both fixed-income securities and equity securities, has contributed to a 113% increase in investment in financial assets at fair value through other comprehensive income as of 31 December 2023 compared to the balance as of 31 December 2022. With increased provision for expected credit losses, appreciation of the Sri Lanka Rupee compared to 31 December 2022 and considerable economic challenges, the net loan portfolio has recorded LKR 349 Bn as at 31 December 2023, which is 6% lower than the balance as at 31 December 2022.

Liabilities

The Bank's deposit base experienced a growth of 9.97% during the year, recording an increase of LKR 37 Bn to LKR 407 Bn, up from LKR 370 Bn as at 31 December 2022. This resulted in recording an improved loan-to-deposit ratio of 96.92%. Further, the CASA ratio was 23.79% as at 31 December 2023. The Bank's funding costs were also contained using medium to long-term concessionary credit lines, primarily used to grow the lending portfolio and provide much needed concessionary funding to our customers. Considering these concessionary term borrowings, the CASA ratio further improved to 33.57%, and the loans-to-deposit ratio improved to 84.47% as at 31 December 2023.

Equity and Compliance with Capital Requirements

DFCC Bank's total equity increased to LKR 68 Bn as at 31 December 2023, supported by favourable movements in the equity portfolio and fixed income security portfolio classified as fair value through other comprehensive income, and positive movements in the hedging reserve, together with the recorded profit after tax of LKR 7.2 Bn. Accordingly, Tier 1 and Total Capital ratios improved to 11.490% and 13.511%, by 31 December 2023, compared to 10.085% and 13.148% respectively, as at 31 December 2022. The Bank's Net Stable Funding Ratio (NSFR) was 124.60%, and Liquidity Coverage Ratio (LCR) – all currency – was 597.47% as at 31 December 2023, compared to 126.55% and 202.34%, respectively, as at 31 December 2022. All these ratios were thus maintained well above the minimum regulatory requirement.

Credit Quality

In terms of the Bank's prudent lending policies, the Bank did not pursue aggressive growth, particularly in sectors that exhibited stress. During the year, the Bank had moderate growth in its loan book covering corporate, retail, and small and medium-sized business segments. Expanding into new geographical areas and customer segments increased the challenge of maintaining a sustainable risk profile. The Bank continued to improve its pre and post-credit monitoring mechanisms through changes to internal processes and timely recovery action.

Dividend Policy

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 5.00 per share, which will consist of LKR 3.00 per share in cash and LKR 2.00 in the form of a scrip dividend for the year ended 31 December 2023, balancing the needs of shareholders with business plans. Accordingly, the dividend pay-out ratio for the year ended 31 December 2023 is over 31% on the distributable profit.

Group Performance

The DFCC Group consists of DFCC Bank PLC and its subsidiaries: DFCC Consulting (Pvt) Limited (DFCC Consulting), Lanka Industrial Estates Limited (LINDEL), Synapsys Limited (Synapsys), 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 2023 were accounted for in all Group entities. Financials of the 31 March entity were subject to a review by its External Auditor.

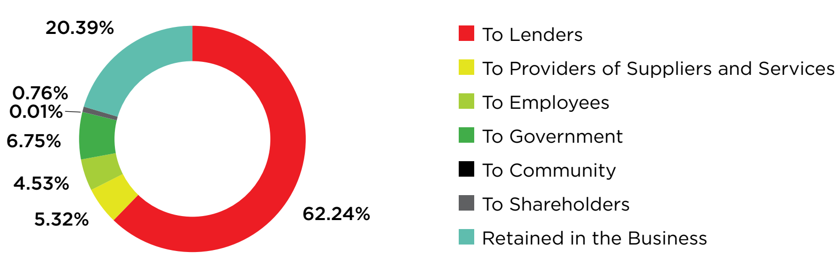
The Group made a profit after tax of LKR 8,659 Mn during the year ended 31 December 2023. This is compared to LKR 3,042 Mn made in the year 2022. DFCC Bank accounted for the majority of the Group profit, with profit after tax of LKR 7,220 Mn, while LINDEL (LKR 356 Mn), Acuity (LKR 2,279 Mn), Synapsys (LKR 49 Mn), and DFCC Consulting (LKR 0.31 Mn) too contributed positively by way of profit after tax to the Group. In the previous year, Synapsys, Acuity, DFCC Consulting, and LINDEL reported profit after tax of LKR 56 Mn, 332 Mn, LKR 24 Mn, and LKR 224 Mn respectively. The associate company, NAMAL, contributed LKR 5 Mn, to the Group, an increase from LKR 0.74 Mn in the year 2022.

GRI 2-6, 201-1

Economic Value Created and Distributed – Bank

	For the year ended 31 December 2023		For the year ended 31 December 2022	
	LKR Mn	%	LKR Mn	%
Economic Value added				
Interest income	96,922		69,863	
Net fee and commission income	3,905		2,877	
Net gains from trading	1,055		63	
Net gains from derecognition of financial assets	2,839		99	
Net other operating income	828		1,291	
	105,549		74,193	
Economic Value Distributed				
To Lenders as Interest	65,697	62.24	43,342	58.42
To providers of supplies and services	5,616	5.32	4,513	6.08
To employees as emoluments	4,778	4.53	4,444	5.99
To Government as Taxation	7,119	6.75	1,205	1.62
To community (CSR related activities)	11	0.01	9	0.01
To shareholders as dividends	805	0.76	962	1.30
Retained in the Business				
Depreciation and amortisation	1,124	1.06	1,125	1.52
Reserves	6,414	6.08	1,552	2.09
Provision for losses	13,985	13.25	17,041	22.97
Total Economic Value distributed	105,549	100	74,193	100

Economic Value Distributed



Retail Banking, SME, and Liabilities

The Backdrop

The year 2022 was traumatic for the entire banking sector, the economy, and society in general. Many of the issues that originated during this period carried over into 2023. During the first half of the year, the high-interest rates, unprecedented in recent times, continued. Though there was some reduction of rates in the second half, there were nevertheless severe constraints of reduced disposable income in the population due to the high inflation in the previous year and steep taxation imposed by the Government. Products such as housing loans, vehicle loans, and car loans have suffered a severe contraction, as has the SME sector.

New Asset Products

The Retail Banking Division successfully launched several innovative products tailored to the environment's exigencies. One was the "*Aduwenakota Aduwena*" leasing product. The prevailing scenario of declining interest rates discourages customers from taking leases as they fear they will incur a loss when rates decline further. Our new concept provides for rates to be reduced after one year. Backed up by an aggressive marketing campaign, within two months of launching, we were able to disburse more than LKR 2 Bn worth of leases. Another product tailored to the prevailing economic conditions was the structured housing loan, which gives the client a choice of repayment options, among which they could select according to their cash flow situation. Some of the options are:

- A step-up payment plan where they would pay a reduced amount in the first year, which would be gradually increased in subsequent years
- A five-year grace period for capital repayments and in this period, they would pay only the interest
- A payment plan to pay in lump-sum instalments
- The residual value plan, where we would allow up to 50% of the value to be paid as the last instalment. This may be attractive for customers who are buying apartments as an investment.

The product was promoted with appealing videos.

Liabilities

In 2002 and early 2023, customers enjoyed the benefits of very high rates on FDs, which reached as high as 30%. However, the rates plummeted during 2023. Despite the reduction in rates, customers kept investing in FDs, presumably due to a lack of other investment opportunities. Currently, the retail liabilities have achieved a growth of around 13% during the year.

A new product introduced was the DFCC investment planner, a savings-based product. It caters mainly to customers with long-term needs such as providing for children's higher education, children's marriage, parent's medical expenses, and retirement. The savings could be made in both rupees and selected foreign currencies. Interest rates higher than those prevailing in the market are guaranteed. We have even provided a calculator through which they can identify the instalment they wish to credit on a monthly basis. We help them to reach their targets over a 5-year or 10-year time frame or even longer. For high-net-worth customers, we provide them the opportunity to have detailed discussions, taking into account any short-term commitments and their long-term objectives. We consider their actual lifestyles and aspirations and help them find investment solutions that meet their needs.

The children's savings product, DFCC Junior, was revamped, and another new product, DFCC Junior Plus, was also introduced. For DFCC Junior, a new gift structure was introduced with different gifts earned based on deposit amounts – a slab system based on deposits ranging from LKR 1,000 to LKR 2.5 Mn determines the gifts. A variety of gifts were given, including gift vouchers, e-vouchers, and value credits. DFCC Junior Plus gives a 10% interest rate on savings accounts, a rate unmatched in the market.

Several campaigns were launched during the year with the active participation of our staff. One is the *Kasi Wasi* campaign, which is currently in its second phase. For FDs we have also launched a product offering a very attractive rate for 3-month FDs, which no other Bank equals. This has been very successful since some customers are now wary of investing in fixed deposits due to prevailing uncertainties regarding rates and other opportunities available in the market.

We have also introduced the virtual opening of accounts so that customers can avoid physical visits to branches. This benefits all customers, including youth who are accustomed to digital transactions, allowing the convenience of banking from home while avoiding travel, traffic, and wait-times to access services. Similarly, customers could also contact their product and account managers to avail themselves of our services without in-person presence. There has been remarkable growth in mobile and internet banking; continuing a trend that started with the COVID-19 pandemic and the fuel crisis that followed.

We conducted several campaigns to increase deposits, incorporating incentives for staff who were empowered to play a leading role. These campaigns bore fruit, with an increase of around 10% in deposits.

DFCC's mobile banking service, M-Teller, has been a resounding success. This doorstep banking service is operated by a member of the Bank's staff who accepts cash deposits through a mobile device. Monthly deposits have grown from LKR 1 Bn at the beginning of the year to LKR 2.4 Bn in December. Over the same period, the number of operators has grown from 52 to over 100.

Product-wise Performance

To take a brief look at the product-wise performance within the retail sector:

- Housing loan customers, especially those on floating rates, were adversely affected, with rates reaching up to 30%. The Bank extended a helping hand through moratoriums for a year, but the customers still had to incur much higher loan instalments than anticipated. New customers also faced the problem of escalation in housing and building costs, which resulted in negative growth of the product line.

- The vehicle market had similar issues, with vehicle prices rising due to the ban on vehicle imports; this resulted in deficient demand. However, we are pleased to note that there has been a remarkable recovery in leases after the reduction in interest rates. While leases to the value of around LKR 50 Mn were recorded in the first six months of the year, since then, around LKR 600 Mn has been added.
- Pawning was a product that performed remarkably well, both in 2022 and 2023. In 2023 we have recorded a growth of 35%.
- The SME sector has had a mixed record. Tourism has recovered well in certain areas, and we support it selectively. The agriculture sector was promising, and we identified it as an area to support. The apparel sector had problems with dampened world demand; nevertheless, we give it cautious support as an export industry. Much of the industrial sector, which produces for the local market, is still in the doldrums due to reduced consumer demand, even though import restrictions have been relaxed.

DFCC generally extended concessions to the SME sector through reduced interest rates, moratoriums, and grace periods on capital repayment. We had to perform a balancing act between achieving a minimum rate of return and keeping SME enterprises afloat.

Supporting Women and Financial Inclusion

We have not neglected our social responsibility to empower women financially. Under our *Aloka* product, we have provided both financial and non-financial benefits. In addition to higher interest rates and rewards on important occasions, we have conducted forums for women entrepreneurs at a regional level. Participating women have been educated on economic conditions and the facilities available to improve and expand their businesses. Those who opt to carry out pawning transactions through the *Aloka* account are offered special rates. An indication of the success of *Aloka* is that around 50% of new accounts opened have been *Aloka* accounts.

We promote financial inclusion and seek to draw in more business customers through our branch network, which the Bank is well able to support. We are focused on developing need-based banking and seeking out high-quality customers. Market segments, such as tea smallholders, present opportunities to be explored We are also very receptive towards start-up enterprises, provided they can develop a viable business plan. Our financing scheme, DFCC Freelancer, supports those in the informal sector providing services, perhaps without formal business registration. Freelance IT developers and business service providers are good examples.

Collaborating with Non-banking Partners

DFCC Bank has established a highly productive partnership with AIA Insurance, initiated in 2014. This collaboration has resulted in the successful launch of multiple products tailored to meet the diverse needs of our valued customers. (refer to Bancassurance pages 83 to 85 for details).

Looking Ahead

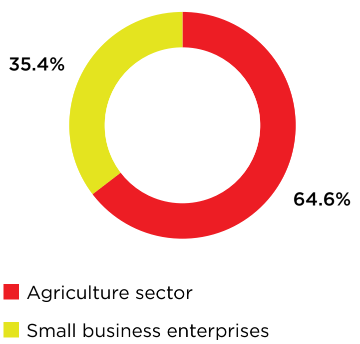
From a macroeconomic perspective, the most significant uncertainty we face, in common with the rest of the banking sector, is the economy's future growth. A substantial growth in exports is an opportunity we are looking forward to. Relaxing import restrictions on selected capital assets and raw materials is expected to create growth opportunities for SMEs in Sri Lanka. Moreover, with the reduction in interest rates, an increase in demand for loans can be anticipated in 2024.

Given the temperament of most retail customers and limited investment opportunities, the banking sector is likely to continue drawing fixed deposits. Uncertainties prevail, but we have reasonable hope for moderate growth in retail banking in 2024.

MSME

The MSME Department has two primary market segments under its purview. One is the micro and small enterprises. The other is the agriculture sector, which includes a slightly larger scale, the medium-sized farmers. Significantly, about 60% of our exposure is in the agriculture sector.

Portfolio Distribution by Sectors



Progress During the Year

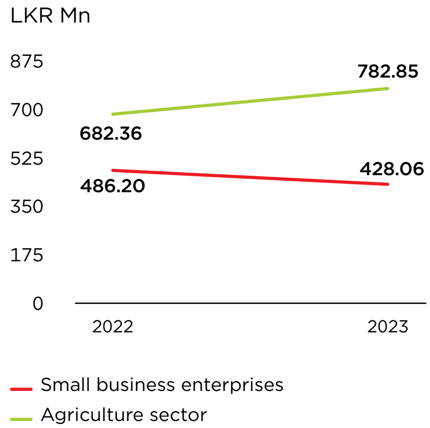
In 2023, some of the challenges we faced in 2022 were alleviated, particularly in the agriculture sector, such as farmers not having access to fertiliser. However, many challenges continued in the small business segment, such as the recovery issues that originated with the COVID-19 pandemic in 2020. Reduced purchasing power in the hands of consumers led to the squeezing of demand. The interest rates of 25-30% that prevailed for the first part of the year were beyond the capability of the small business sector. Even with reduction in the latter part of the year, rates were out of reach for many of the Bank's small-business customers.

Considering the high risk involved, we had to be conservative in our lending, resulting in almost ceasing of long-term lending. However, in the last quarter of the year, the clamp on long-term lending was relaxed. There are still issues of depressed demand in the local market. So, the small business sector is naturally wary about expansion; nevertheless, there is a pickup in demand for working capital.

The agriculture sector performed much better. This includes a variety of segments including, plantation crop smallholders, dairy farming, spices, and various food crops. Some problems that prevailed in 2022, such as the unavailability of fertiliser for farmers, have been alleviated. Furthermore, the agricultural sector benefited from concessionary schemes throughout the year under review.

DFCC has a strong presence in the dairy farming sector, with many customers in the North Western Province, North Central Province, and the Uva Province, among others. We are also active in food crop segments such as paddy, maize, green gram, and vegetables. Many concessionary schemes have boosted our lending to the agriculture sector, such as the Central Bank refinance scheme and the ADB scheme for tea smallholders and dairy farmers. Our target for 1,500 new customers for the year was achieved in 2023, thanks to the performance in the agriculture sector. Another financing line that could be very lucrative is the Agriculture Sector Modernisation Project (ASMP), sponsored by the World Bank. Significant projects in products such as bananas, groundnut, and papaya are coming under the umbrella of this programme.

Total Loans Portfolio 2022-2023



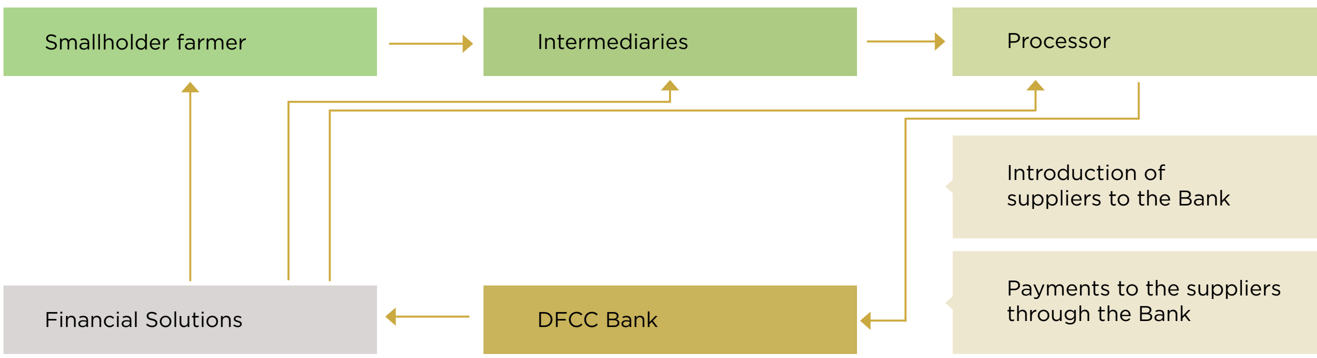
Developing Entrepreneurship Among Migrants

There has been a marked trend towards increased migration among the younger generation recently. Nevertheless, a section still wishes to retain their roots in Sri Lanka and return to the Country at some point. One innovative step that is in progress, with a futuristic mindset, is to tap the capital and latent entrepreneurial aspirations that some of these migrants have. If they are prepared to invest some of their capital in a business venture, we can provide a loan to bridge any gap.

To gain the confidence and loyalty of the migrants, the Bank launched the "*Ethera Saviya*" Scheme, where we finance their pre-departure expenses and possibly the first few months of their stay in their new country. The migrants will also be encouraged to send their foreign currency remittances through DFCC, resulting in a mutually beneficial relationship.

Value Chain Financing

DFCC's Value-Chain Financing Model targets processors and large-scale milk collectors in the dairy and agriculture smallholding segments. Identifying industries that hold promise for the future, we take a sector-wide approach that goes beyond the individual customer. The Bank has developed a clear system for evaluation, processing, and disbursement, which has been very effective, while leaving room for refinement and development. Disbursement of group loans has streamlined the process and reduced administrative costs. This year, we have disbursed about 700-800 loans to dairy farmers. The Smallholder Agribusiness Partnership Programme (SAPP) loan scheme has also greatly benefited dairy farmers. SAPP was established under the Ministry of Agriculture to develop agricultural value chains in the country. The refinancing fund is managed by the CBSL, where DFCC is one of the main PFIs granting loans to eligible farmers recommended by value chain promoters, at a concessionary long-form rate of 6.5%. DFCC is the leading PFI of the programme in financing the dairy sector in collaboration with leading dairy manufacturers in the country.



Supporting Female Entrepreneurs

Approximately 40% of our customer base comprises women, underscoring our commitment to impartiality and gender equity in our financing endeavours. While our internal policies adhere to a non-discriminatory and gender-neutral framework, it is worth noting that specific external funding programs accessible to the Bank, such as the ADB grants, feature particular provisions tailored to support women entrepreneurs.

External Credit Lines

We have several refinancing schemes for the MSME sector. The Asian Development Bank (ADB) long-form schemes for tea smallholders and dairy farmers are continuing. The Central Bank New Comprehensive Rural Credit Programme (NCRCP) for food crops also exists. There are 33 eligible crops under this scheme, including paddy.

Capacity Development for MSMEs

MSMEs encounter capacity constraints across various functional domains, including accounting, finance, marketing, and export. While direct provision of such services falls beyond the scope of our operations, we are committed to facilitating access to them. In 2023, we formalised a memorandum of understanding (MOU) with the Industrial Service Bureau (ISB) in Kurunegala. Primarily focused on industrial development within the North Western Province. Boasting a nation-wide presence, ISB collaborates with us to address our clients' capacity deficiencies by leveraging structured capacity-building initiatives and a pool of qualified resource personnel. This collaboration has led to establishing a dedicated platform for capacity enhancement. Tailored sessions are conducted in specific regions targeting aspiring entrepreneurs and those seeking to enhance their entrepreneurial acumen. Over the course of this year, we have organised four such programmes in Morawaka, Bandaragama, Kurunegala, and Ratnapura, engaging expert resource personnel to facilitate these sessions. Furthermore, we maintain close collaboration with the Small Enterprise Division, a governmental entity specialising in identifying and nurturing entrepreneurial talent.

Kurunegala Programme

Ratnapura Programme

Typically, we receive approximately 300-400 requests for these programmes. Following a rigorous screening process, we refine the pool to approximately 100 applicants who align with our criteria, resulting in a roughly 75-80% participation rate. Employing a structured model, we assess participants' current standing to identify any existing capacity gaps, focusing on marketing, financial management, and customer support. Our sessions, facilitated by expert resource personnel, span two hours and are designed with interactivity and engagement in mind. After the programme, and without undue pressure, many participants establish accounts with us. This initiative has enabled us to cultivate a profitable customer segment while delivering tangible value through the project.

Supplier Financing

The prevailing challenge of high-interest rates has somewhat hindered direct progress in this area. Additionally, it is essential to clarify that the MSME mandate does not extend to large exporters, as this segment falls under the purview of the SME Division. Nonetheless, we have exerted an indirect influence through our supplier financing framework, achieving notable success with cinnamon as a prime example. Typically, exporters face a specific time-lag before settling supplier payments, creating a financial gap. Our institution intervenes by providing financing to bridge this gap, ensuring a seamless supply chain for exporters. We are considering extending this successful model to other agricultural commodities, such as coconut.

In another collaboration, we are actively supporting a company based in Rajanganaya that exports "*ambul kesel*" (sour banana), formed by approximately 300 farmers holding enterprise shares. Our involvement aims to establish mechanisms that ensure their long-term sustainability. Currently, we oversee approximately 20 similar enterprises under our umbrella. These entities benefit from established market access, particularly in countries like the UAE.

Another noteworthy success story is the Scotch Bonnet project for chillies in the Talawa area, initiated in response to a requirement identified by the Mahaweli Authority. This project has brought together approximately 15 farmers, poised to complete their inaugural export shipment by December. This exemplifies our ability to foster collaboration among diverse stakeholders to achieve shared objectives.

Digital Banking

The advent of digitalisation has significantly impacted the MSME sector. As part of our key performance indicators (KPIs), our team actively promotes digitisation initiatives, including adopting point-of-sale (POS) machines. Recognising that some groups may hesitate to engage with our digital banking services, we offer alternative options to accommodate their preferences. For example, we established the "*Wyapara Hamuwa*" forum and integrated it into a WhatsApp Group. Through a webinar session, we raised awareness among participants about the various digital options available. This approach allows us to gradually introduce them to digitalisation, including Internet banking, mobile banking, virtual wallets, and POS machines. We have found this incremental method to be more effective than aggressively pushing products onto customers.

Contribution of the Branches

Branch staff represent the frontline interface with SMEs, often stationed in areas beyond urban centres. They understand the capabilities and challenges inherent in the MSME landscape. We derive valuable insights from these branches, which serve as conduits for introducing potentially profitable customers, including large entities requiring supplier financing. Typically, leads originate from the branches. Subsequently, we employ a decentralised approach, moving from a central hub to the outskirts engaging directly with farmers or entrepreneurs. Through these interactions, we assess their requirements, address concerns, and tailor financing solutions to meet their needs.

Looking Ahead

We can look forward to 2024 and beyond with a fair degree of optimism. We expect the macroeconomic challenges that still prevail to ease off from 2024 onwards and a conducive environment for the MSME sector to emerge. Improvements to our systems are still needed, for example, in screening customers. Even in agriculture, we need to look more intensively for progressive farmers with growth potential willing to learn and innovate. They need to have, or be able to develop, the ability to combine agricultural technical skills with a business mindset; they need to have the mindset to embrace technology. To generate synergies, we need better networking with third parties, the private sector and government institutions. We need to engage experts of the highest calibre and use them to grow our business and portfolio. With the Country's situation improving, we can expect a more considerable inflow of donor funds. All these developments should lead to more significant benefits for the Bank, our stakeholders, and the Nation.

Credit Cards and Merchant Acquisition

Strategy

At the outset of the year, the credit card business encountered a series of challenges, including the lingering effects of social unrest, a significant rise in tax rates, and persistently high interest rates from 2022. Consequently, a considerable portion of the population experienced a notable reduction in disposable income, leading to cutbacks in discretionary spending. Many credit card holders encountered difficulties in meeting payment obligations, prompting the issuance of additional relief measures in addition to those initiated by the Central Bank.

Against this challenging economic environment, the Bank undertook a comprehensive reassessment of its onboarding strategy, emphasising quality over quantity, particularly targeting customers who regularly deposit their salaries with the Bank. In response to escalating inflationary pressures, the minimum salary requirement for credit card eligibility was revised upwards from LKR 35,000/- to LKR 100,000/-. Adaptations were made to capitalise on opportunities amid adversity. Staff members were cross-trained and upskilled to effectively address evolving demands, providing them with opportunities for professional growth and enhancing job satisfaction.

Furthermore, the Bank prioritised the robustness of its systems and processes, initiating the Payment Card Industry Data Security Standards (PCIDSS) certification process, which is currently underway and expected to be completed by next year.

Card Issuing and New Products

The expansion strategy emphasised the need to focus on companion and supplementary cards along with the preparation to issue cards for the SME sector. There is a broad agreement that SMEs are the entry point to take the card culture to the rural population. In the rural hinterlands, SME entrepreneurs can show evidence of a stable income. Another segment the Bank targeted is freelancers, who have now become a sizable group. This product was launched in December 2023.

There is also a section of the population for whom credit cards are not the appropriate product, possibly because they are wary of getting into debt. They strongly prefer debit cards, and this concentration was also made by offering discounts during the season.

Entering into and leveraging partnerships is another expansion strategy. The Bank is working on partnering with different parties to onboard the unbanked and underbanked populations. The large customer base will be offered banking services through primarily issuing a co-branded debit card. The Bank entered into a partnership with Lanka IOC to issue a co-branded credit card, the issuance of which will commence next year. Cardholders are given an additional incentive through a cashback above the normal. The Bank revamped the Pinnacle Credit Card product with additional benefits by moving it to the Mastercard platform. The Bank has also made significant inroads into the corporate credit card market by issuing fleet-based fuel cards. Thus far, the card has mainly been geared to paying for travel and entertainment expenses. Business Payments Solution Provider (BPSP) will enable corporate clients to pay their expenses from next year, including utility bills and supplier expenses.

Promotions

Throughout the fiscal year, the Bank executed a series of promotional initiatives, notably focusing on April and year-end, yielding considerable success. One noteworthy campaign was the Mastercard Credit Card draw, where eligible cardholders surpassing a specified expenditure threshold were entered into a draw, with winners receiving ICC World Cup tickets for select Sri Lankan matches. Additionally, the Bank's collaboration with an authorised Apple product partner for the iPhone launch garnered significant pre-order success. Promotions such as the Mother's Day *Aloka* Card offer and the 50% discount promotion at Shangri-La Hambantota also achieved notable success.

Furthermore, expanding the affinity program through partnerships with esteemed educational institutions like St. Sebastian's College, Moratuwa, and Isipathana College, Colombo, further underscored the Bank's commitment to community engagement.

Merchant Acquisition

The Bank adopted an aggressive yet prudent approach to pursue merchant acquisition objectives. Leveraging its branch network, direct sales force, and aggregator partnerships, the Bank successfully onboarded new merchants, with direct acquisitions contributing to the Bank's Current Account and Savings Account (CASA) growth. Notably, akin to its approach in credit card acquisitions, the Bank exercised meticulous scrutiny in selecting merchants, prioritising quality over quantity to ensure sustainable growth.

The strategic focus has been on engaging second-tier merchants, where the Bank can offer competitive advantages in service quality and pricing. Concurrently, the Bank has maintained its presence within the micro-merchant segment, fostering growth in digital transactions. Moreover, enhancements such as incorporating QR code capabilities on Point of Sale (POS) machines and integrating China UnionPay acceptance have empowered merchants to facilitate multiple payment methods seamlessly.

Introduction of the Internet Payment Gateway in mid-2023 has proven instrumental in attracting new merchants, aggregators, and prospective partners seeking to collaborate with the Bank and expand their global footprint.

Looking Ahead

In 2024 and beyond, the Bank is committed to further diversifying its portfolio by venturing into new business avenues and market segments while reinforcing existing partnerships. Focus will be directed towards the Small and SME sector, with strategic initiatives aimed at enhancing both credit and debit card offerings explicitly tailored to meet the evolving needs of this market segment and the broader requirements of our valued customers and partners.

Further expansion of cardless transactions, including innovative solutions such as payment links and QR code options, will be a priority. These initiatives resonate particularly well with small-scale merchants due to their cost-effectiveness compared to traditional credit and debit card transactions, rendering them an increasingly preferred mode of payment acceptance.

Bancassurance

The collaborative venture with AIA Insurance is the cornerstone of our bancassurance – Life business, facilitating the promotion of life insurance policies to our esteemed clientele. This strategic partnership affords customers seamless access to a comprehensive suite of insurance products, complementing our core banking offerings and delivering an integrated one-stop solution. Under our bancassurance umbrella, we offer two principal categories, life insurance and general insurance, conveniently accessible across our extensive network of 137 branches.

Digital Technology for Enhanced Effectiveness

We are advancing towards the digital distribution of life insurance, leveraging widespread digital adoption among customers, particularly spurred by the transition to remote work necessitated by the pandemic. Additionally, our move towards digitalisation is prompted by a shortfall in necessary human resources, exacerbated by the turnover rate within the insurance distribution channel, notably pronounced in the Northern and Eastern regions.

We have embraced video conferencing technologies such as Zoom and Google Meet to address these challenges. This allows us to centralise our skilled human resources at the Head Office while establishing remote connections with branch staff and customers. Through interactive online platforms, we efficiently handle customer inquiries, resolve issues, finalise quotations, and close deals, thereby streamlining operations.

Our Bancassurance Unit is piloting projects to enhance technology adoption among branch staff and customers. By conducting technology-driven interactions with customers in the presence of branch managers or relationship managers, we instil a greater sense of confidence in our offerings. Encouragingly, this approach has garnered significant acceptance among potential customers.

Previously, when interest rates were notably high, insurance was often overlooked as an investment option, given the lucrative short-term returns offered by fixed deposits. However, with the stabilisation of deposit interest rates, which align more closely with our investment returns, there is a renewed interest in insurance as a long-term investment vehicle. Moreover, insurance's inherent risk mitigation benefits further underscore its attractiveness as an investment option.

Obstacles to Increasing Market Penetration

The value of insurance premiums in Sri Lanka as a percentage of GDP amounted to 1.39% in 2020, compared to the international average of 6.8%, and in Taiwan, it accounted for almost 15%. The number of insured persons also stands at about 10–13% of the population. This is due to the fact that most Sri Lankans regard life insurance strictly as an investment that offers a specific yield at maturity while ignoring its primary purpose of mitigating risk in the event of death or disability. This stands in contrast to the amounts people are willing to pay for motor insurance, where they have absolutely no returns at the end of the period of insurance.

While long-term life insurance products can be categorised as investment products due to their guaranteed returns at maturity, genuine life insurance products meet the customer's long-term financial security needs. This includes pension products and higher education products, which offer funds for children's education in case of the death or disability of a parent. We also provide short-term products with higher returns than life insurance, which is generally low, and pension products offer moderate returns.

Further improvements in sales to SME customers can be achieved by improving their awareness of the benefits of bancassurance products, as their current focus is limited to managing their day-to-day affairs, with a limited emphasis on the future. We anticipate a high level of demand for our products from this sector, as there is an inherent need for insurance policies which meet their requirements.

Product Innovations to Meet Changing Needs

In the past, we introduced an internal recognition programme known as the "CEO's Club" to acknowledge and reward outstanding staff members. This initiative has transformed and is now relaunched as the "CEO's Summit," a collaborative effort between the CEOs of DFCC and AIA.

Additionally, we have initiated the promotion of the "Business Club Insurance Package" through the DFCC sales channel, which is actively engaged in asset and liability sales and daily cash collections within their respective domains. Specifically, designated operatives have been entrusted with promoting this package to SMEs and business clientele.

The Business Club Insurance Package encompasses a comprehensive array of product covers tailored to address various risks small business owners and SME customers encounter. These covers include Fire Insurance, Personal Accident Benefits, Legal Liability, Workmen's Compensation Insurance, Burglary, Money in Transit, Breaking of Glass, Signboard Damage, Fidelity Guarantee, and Surgical and Hospitalisation benefits. Customers have the flexibility to select from among these covers according to their specific needs, whether it be fire protection, basic coverage, personal accident benefits, etc. All policies are consolidated into a single, integrated package, which is promoted through the Bank's designated insurance broker staff and its business development personnel.

Furthermore, we offer the Solar Power System Cover to MSME and SME customers for their rooftop solar power installations, thus enhancing our suite of general insurance offerings.

To address the requirements of our credit card customers, we have introduced "Anantaya," which provides resettlement cover for credit card usage up to an allocated limit of LKR 1 Mn. In the unfortunate event of a customer's demise or disability, their outstanding credit card balance will be settled to mitigate any financial burden on their dependents. Moreover, customers who opt for life insurance policies with a duration of 15 years or more and meet a specified value threshold are eligible for an annual surgical cover, which can be utilised to offset hospitalisation and surgical expenses.

Expanding on this concept, we now offer international cover for high net-worth individuals, particularly our Pinnacle customers, through short-term USD policies valid internationally for up to one year. Additionally, we are exploring options for customers to spread their insurance premium payments over 12 months instead of a lump-sum payment, potentially easing their cash-flow constraints. This instalment payment option is available through our credit card platform for select customer segments and specific products.

Changes in the Operating Environment

The adverse operating environment of the previous years has shown a marked improvement as people increasingly seek out life insurance products. This has resulted in an increase of 11% in premiums earned during Q1 of 2023, compared to the same period during the previous year. These financial figures are LKR 273 Mn in Q1 of 2022, which has increased to LKR 303 Mn in 2023, with a strong possibility of further increases over time.

When interest rates peaked, the banking sector slowed the lending portfolio growth, mainly due to the lack of customer demand. With the reduced interest regime, banks have shown renewed interest in securing quality lending, such as leasing products. General insurance has also demonstrated a considerable increase, especially after Q3 of the current year.

Converting Customers through Cross-selling

We have instituted initiatives to encourage our staff to engage in cross-selling strategies to enhance revenue streams. For example, the Bank's leasing customers may be encouraged to consider acquiring a motor insurance policy and personal accident benefit cover, effectively constituting the cross-selling of insurance products to banking clientele. Similarly, we can advocate adopting "*Anantaya,*" a short-term insurance offering, among our credit card customers. Furthermore, we actively cross-sell fire or burglary insurance to customers availing housing loans and target importers and exporters as prime prospects for marine insurance offerings. We endeavour to transition bank customers into insurance clients through these approaches, broadening our customer base and revenue channels.

Customer Engagement Unit

This web-based initiative provides dedicated web pages for each product and service offering. These pages are equipped with an inquiry box where customers can submit their questions or concerns related to the featured product or service. These inquiries are seamlessly directed through our Lead Management System (LMS) to the appropriate business units or branches, ensuring prompt attention to customer queries or issues. Additionally, the system incorporates a follow-up mechanism to verify the resolution or response to each inquiry. In the case of business or overseas queries regarding our products, such as the Golden Paradise Visa option or fixed deposits in foreign currency, our competent personnel will address matters promptly and efficiently.

Outlook for 2024 and Beyond

Due to notable enhancements in the overall business climate and the stabilisation of interest rates, there has been a noticeable uptick in business activity nationwide, including heightened borrowing for investment purposes, with indications suggesting a sustained momentum in the foreseeable future. Anticipated is an influx of concessional funding from the Ministry of Finance and various bilateral lenders, notably the Asian Development Bank (ADB) and the Japanese International Cooperation Agency (JICA), in the near term. Additionally, there are expectations for expansion in our general insurance portfolio, particularly in motor, non-motor, and Marine insurance linked to trade activity, bolstering our Marine Insurance portfolio through trade finance initiatives.

Aligned with the augmented general insurance and business activities, our strategic focus will extend to life insurance products tailored to the SME customer base and personal loan clientele in the upcoming year. This strategic shift holds the potential to fortify our life insurance offerings and cultivate a promising trajectory for the latter part of the coming year and beyond.

Corporate Banking

Performance in 2023

The year under review was highly challenging for the economy, the Bank, and especially for Corporate Banking. 2022 was a turbulent one, with the country reneging on its foreign debt, soaring inflation, rising interest rates, shortfalls in liquidity, and steep increases in taxation. These factors resulted in the Corporate Banking Department providing for significant impairment charges during the period under review.

Despite this, revenues increased due to the prevailing high-interest rates and exceeded budgets. As a result, Net Interest Income (NII) and Fee Income increased significantly during the year under review.

Nevertheless, with many industries significantly impacted and some, such as construction, virtually coming to a standstill, Corporate Banking had to provide substantially for impairments, dampening profitability and consequently ending the year with a marginal loss.

On a positive note, the Payments and Cash Management proposition and the electronic banking platform iConnect was voted Market Leader for the 3rd consecutive year by Euromoney Magazine, underlying market dominance and setting a benchmark in the industry.

Outlook for 2024

Although the macro environment is expected to be challenging, Corporate Banking plans to aggressively grow its asset book by focusing on quality lending opportunities and leading names by increasing wallet share. Corporate Banking aims to achieve a LKR 200 Bn asset book mainly in trade finance and working capital facilities with supply chain financing supplementing this. Corporate Banking will also look at well-placed overseas lending opportunities in line with the Bank's risk appetite. Project Lending will continue to be a part of the focus since the Bank has its roots in development banking by having a dedicated team looking at opportunities, especially in the sustainability and renewable energy segments. CASA growth, maintaining operating accounts of Corporate customers and Fee Income are also priority areas for Corporate Banking in 2024.

While focusing on growth, the Bank and Corporate Banking intend to intensify recovery and rehabilitation efforts to minimise new impairments and reverse impairments taken in the past. These have a direct impact on the profit of the Bank and on Corporate Banking. To this end, Corporate Banking is setting up a dedicated Recoveries Unit to rehabilitate, restructure and resuscitate distressed companies in the portfolio.

Treasury

The business environment during the year under review was challenging due to significant contractions following the economic crisis in 2022. High interest rates and inflation, coupled with higher taxation, brought about a substantial contraction of credit during the first part of the financial year. Turning adversity into an advantage, the Bank significantly increased its exposure in government securities over the first half of the year, locking in higher returns and expecting a downward revision of rates towards the second half of the year. Further, we were actively engaged in secondary market transactions through interbank, Institutional and retail clients. Treasury made significant Net Interest Income and Capital gains through its Government securities portfolio, thereby increasing our contribution towards the Bank's bottom line. This year saw the emergence of DFCC bank as a formidable market player actively participating in the government securities market as a leading liquidity provider across the yield curve.

During the year, the Treasury implemented a robust and client-centric relationship management framework through a dedicated Treasury client relationship team with renewed success while delivering a record performance on foreign exchange income. A lucrative collection of new relationships was added in a highly rate competitive environment, providing much-needed liquidity to the power and energy, pharmaceutical and essential commodities sectors, enabling the Bank to be a key player in the domestic foreign exchange market.

This year also saw the introduction of the Fund Transfer Price (FTP) mechanism, which has enabled the Bank's business units to identify their efficiencies and inefficiencies and have a more accurate assessment and quantification of their profits. FTP is a global best practice standard, which also serves as a motivational tool for individual business units, as it gives them a precise idea of their current and future profitability, thereby enabling and empowering the business units to make informed decisions with regard to asset and liability pricing. With the implementation of the same, the Bank has implemented a centralised approach to managing interest rate risk, with the treasury department taking the lead. This centralised management involves strategies such as hedging, gap management and diversification to mitigate the Bank's exposure to fluctuations in interest rates.

Operating Environment

Central Bank Policy rates, which were in the 16% – 17% range, plummeted over the year before settling in the 9% to 10% range towards the end of the year. While the lack of credit expansion due to high-interest rates combined with negative GDP growth and subdued economic activity was disadvantageous for the banks in carrying out regular lending activities, it was offset by opportunities in treasury operations and exceptionally high government security yields. The first half of the year was challenging, with uncertainties on Domestic Debt Optimisation (DDO) and relatively volatile exchange rate regimes. However, such uncertainties faded with the DDO's conclusion without affecting the banking sector's holding.

During the first half of the year, the exchange rate stabilised, and the Sri Lankan Rupee appreciated, contibuting to improved liquidity driven by worker remittances and tourism income growth. Improved trade balance compared to the year 2022, along with pledged IMF disbursements and loans from the World Bank and ADB, further strengthened the foreign currency liquidity position of the Country, thereby strengthening the local currency.

Long-term Funding

Despite continuous engagement with the Bank's traditional funding sources, the Country rating downgrade was a detrimental factor in securing funding within the financial year.

Moreover, additional funding requirements did not arise due to low credit growth in the foreign and local currency lending portfolios during the period.

Liquidity Position

During the period under review, the Bank maintained a Liquid Asset Ratio (LAR) well above 30%, and the Liquidity Coverage Ratio (LCR) was also maintained well ahead of the regulatory requirements. Investment of funds raised through deposits in government securities due to private sector credit contraction created higher liquidity positions across the banking industry.

Regulatory Changes

Foreign exchange controls in place during previous years were systematically relaxed and removed. Restrictions on transferring dividends and several types of outward payments were also relaxed to stabilise the system. Certain outward investments from individuals and banks, previously controlled, have now been permitted within given limits.

This period also relaxed rules on forward contracts for importers and exporters, stabilising the prices of imported commodities. The overall foreign currency liquidity position has also improved due to higher inflows from the tourism sector and worker remittances.

Introduction of the new CBSL Act during the year has significantly enhanced the autonomy and accountability of the governing authority. This will ensure price stability of the Country as the new act sets an inflation target for the CBSL.

Challenges During 2023

"Local Currency Long Term Issuer Default Rating" is currently at CCC – (Fitch Ratings). Since country and currency ratings are still under pressure, our capacity to raise foreign investments is limited. Furthermore, macroeconomic uncertainty caused foreign investors to be concerned about investing in Sri Lanka.

Facilitating international Trade transactions was challenging during 2022 and the first half of 2023 due to the difficulties in obtaining foreign bank confirmations for trade facilities.

Debt restructuring was another major challenge faced by the banking industry throughout the first half of the year. However, the domestic debt restructuring was completed without directly impacting the banking sector, which was a positive development.

The challenge of restructuring foreign currency debt remains, with hopes that it will be resolved by the first half of 2024. Until the process is concluded, we must continue navigating uncertainties and potential impacts on our financial health and operations. Another serious industry issue is the continued "brain drain", where experienced personnel are leaving the country for greener pastures overseas. Replacing suitable candidates with the required expertise is a massive challenge to the banking sector and even more so at the Treasury, where the skills are in high demand globally.

Future Outlook

Improvement in consumer demand is one of the key areas where banks can benefit, but high interest rates, high inflation and the current taxation structure are hindering this. We are unable to foresee consumer demand picking up unless the Government also plans on significant salary hikes, which could spur demand. Nevertheless, we are optimistic about the upcoming year. Economic Reform programmes implemented by authorities have yielded the first signs of recovery. Real GDP recorded growth of 1.6% (YoY) in the third quarter of 2023 – the first expansion in six consecutive quarters. Shortages of essentials have eased, and inflation remains contained. Furthermore, gross international reserves increased by USD 2.5 Bn to USD 4.4 Bn during 2023. Challenges remain in ensuring that these improvements translate into improved living conditions.

However, once the Treasury Bills, which are nearing maturity, are paid for, it will reduce the Government's recurrent expenditure on debt servicing. This, in turn, may enable the Government to focus on meeting the urgent needs of the people while infrastructure development will be put on hold for a while.

Under the IMF programme, Sri Lanka has committed to reforms, including restructuring loss-making state-owned enterprises, reducing budget deficits, and improving governance. The Government has committed to amending VAT policies to increase tax revenue. Lowering disposable income due to the high tax regime and higher cost of living may dampen consumption in the coming year. These policy measures will need to be accompanied by strengthening tax administration to make reforms more sustainable and to build confidence among Sri Lanka's creditors to regain debt sustainability and their support. In November 2023, the official creditor committee and Sri Lanka agreed on debt restructuring in principle. Sri Lanka has also agreed with the Export-Import Bank of China to cover USD 4.2 Bn of its outstanding debt. This covers a significant portion of the existing external debt. In addition, there are ongoing negotiations for a debt restructuring deal with commercial creditors of its defaulted US Dollar bonds.

Furthermore, Sri Lanka expects more foreign currency inflows from ADB and World Bank and the third tranche of the IMF program in 2024.

The envisaged "haircut" for foreign debt restructuring will save foreign currency for the country, and the debt servicing will not start immediately, which is a positive factor. Furthermore, we anticipate the tourism industry will continue to grow while inward remittances stabilise. We expect the exchange rates to hold at current levels in 2024.

Overall, it is likely that economic conditions will improve in 2024. In addition, we look forward to integrating digital solutions into our services to enhance accessibility and convenience for our customers.

Investment Banking

The Investment Banking unit traditionally engages with corporates, local and foreign institutions, and governments to continue healthy business relationships and bring funding and new business to the Bank. The Unit also oversees capital raising for the Bank, while underwriting in equity and debt is also part of its mandate. Given the limitations on the scope of our functions within the ambit of a bank, we are looking at a different business model this year, which would help us to expand our activities into new business lines.

In addition to the margin trading license and underwriting license, which we currently have, we plan to set up Custodian Banking services.

We also successfully launched a debenture issue during the 1st week of January 2024 raising LKR 8 Bn, which will help maintain the total capital ratio well above the CBSL regulatory requirement and help us fund the balance sheet expansion planned for the year 2024.

Performance

Considering the growth of the All-Share Price Index (ASPI) by 25.5% and the S&P SL20 by about 16.4%, our Unit's performance has not been exceptional. However, there is considerable scope for improving our performance in 2024.

The Investment Banking unit handles two portfolios: the available-for-sale and trading portfolios. The available-for-sale portfolio grew by about 7%, whereas our trading portfolio showed a dip of about 16%. Though this is an improved position compared to 2022, we were undoubtedly lagging behind the market performance. The main reason for this less-than-impressive performance is the lack of specialised focus and the scarcity of resources to expand this business.

Performance in the Margin Trading Business

The margin trading business has been lacklustre due to the high interest rates that prevailed from the beginning of the year. This also resulted in lack of appetite for margin trading from borrowers; however, following interest rate reductions in June and July by the CBSL and a drop in the market rates, there was renewed appetite from existing borrowers as well as new requests coming in. This resulted in a slight change in the environment as of Q3 and Q4 of the year.

Outlook for 2024

We believe that the low-interest rates will help the equity market, in addition to the economic recovery and other positive indicators such as the finalisation of external debt restructuring. Improved economic activity will help enhance the banking sector's performance. The prevailing low-interest rate scenario will also help some highly geared companies to perform well, with improvements in the price of their stocks. This will help with higher equity investments and margin trading business, along with more players entering the margin trading business.

The market expected that the ASPI would rise as high as about 12,000 points, but unfortunately, we saw that it dropped to 10,500 levels. However, the expectation for the year 2024 is that the ASPI will hit 14,000-15,000 points.

During the coming year, we are looking at a very optimistic scenario compared to 2023, but the recovery will be very gradual, as consumer demand will not pick up immediately, given the low disposable income of most salaried employees. The cost of living has risen to a level where the current high prices will remain permanent.

From the Government's standpoint, once external debt restructuring is finalised and IMF support is assured, there will be overall economic stability despite some challenges arising due to the upcoming elections. However, Sri Lanka can look forward to a positive outlook for the next three years due to improved revenue coming from tourism, inward remittances, exports and related activities. We feel that the Country will see vastly improved economic activities only around 2025 when the Government can commence more significant investment in infrastructure projects, which would be a key determinant of economic recovery.

Remittances and Trade Business Development

We are relentlessly focused on growing the volume of trade business and the commission income derived therein, from the branches and corporate banking units. Our unit plays a central role, which includes coordinating with the regional offices and branches, collaborating with external stakeholders, providing required central support for trade business growth and hosting the monthly trade review meeting with the presence of the CEO and all the relevant business heads. Further, we work closely with the 46 Trade Champions appointed from selected branches with trade potential. We conduct monthly meetings with them to review performance, check the pipeline for upcoming facilities and discuss other relevant information. We also conduct regular training on key areas that support promoting trade business, increasing volumes, and acquiring new clients. Furthermore, trade-related reports are shared across the Branch network to identify customers, transaction volumes and reasons for reducing business volumes with DFCC and thereby to take corrective action. Based on economic conditions, customers who belong to specific segments, such as those dealing in Indian Rupees, are visited personally and relationships strengthened in order to improve their trade volumes with DFCC Bank.

Our core banking team and the finance team extract data from branches and business units, which helps us generate reports at a granular level, such as the income earned by the branches, the region, the individual businesses, as well as segment-based analyses of sectors such as apparel, cinnamon, trading, etc. We use these records to carry out comparative studies between different years and advise branches on the potential of particular segments, clients or industries.

Reports on the performance of each branch, trade limits, and utilisation of facilities by branches and business units are shared with each region and the Corporate Banking Unit. New campaigns targeted at drawing in new trade clients are carried out centrally, in addition to customer visits to build new relationships.

Challenging Operating Environment

Throughout 2023, import restrictions were enforced, gradually easing from February onwards, albeit certain items remained subject to restrictions. Reduced consumer disposable income and increased taxes contributed to diminished demand, prompting numerous businesses to cease operations. Consequently, despite the relaxation of many import restrictions, the demand for imported goods has remained subdued.

In light of these challenging economic circumstances, trade customers have expressed concerns regarding fees, rates, and commissions, prompting us to adjust our charges to maintain market competitiveness. On the export front, constraints on raw materials have adversely affected manufacturing, garments, and apparel industries, exacerbating existing challenges stemming from the post-pandemic landscape and escalating labour costs. Consequently, several factories have been compelled to close, resulting in a significant decline in export earnings.

Forging Relationships with Key Partners

We also work closely with the chambers of commerce and trade bodies, enter partnerships, and offer sponsorships to increase visibility. Forming tie-ups with external stakeholders such as the National Chamber of Commerce and the Ceylon Chamber of Commerce, sponsoring some of their events, and entering into memoranda of understanding are vital from a business perspective. These partnerships have improved the image of DFCC, along with awareness among key industry players and SMEs about our offerings, such as our specialised refinance loan schemes. We also aim to share our details on clients' websites and industry publications to make further inroads among respective industries.

We are also building relations with stakeholders in business banking through our Branch Managers, Regional Managers, Trade Champions, and Relationship Managers, specifically focusing on trade income. We conduct regular analyses of competitors and their tariffs and identify new market opportunities, such as Government decisions to allow transactions in Indian Rupees or relaxing of certain import items. The Bank has identified new segments like cinnamon, spices, sugars, and other trades for which we customise and structure our facilities. Timely concessions are given for seasonal products to promote and on-board new clients.

Looking Forward

We are strategising to establish DFCC as the primary or preferred Bank for every client we engage with, fostering long-term relationships and loyalty. In addition, we aim to capture the attention of significant clients from competitor banks through our extensive branch network, thereby expanding our trade business and securing a larger market share. This proactive approach ensures the acquisition of new clients while promoting sustained growth.

As the country's situation stabilises and favourable political and economic conditions prevail, coupled with releasing the second tranche from the IMF, we anticipate a significant upturn in trade activities. Resurgence of confidence among foreign importers and suppliers in Sri Lanka signals promising prospects for further advancements in trade dynamics.

Furthermore, we are keen to collaborate with regional officers of the BOI zones, particularly in areas hosting exporters and importers of raw materials. By renewing our focus in these regions, we aim to capitalise on emerging opportunities and facilitate mutually beneficial partnerships to drive sustainable growth.

Remittances

Despite operating within a challenging environment, we have significantly elevated our Remittance business by expanding our presence through strategic deployments of Business Promotion Officers in key markets such as Israel, Qatar, and Dubai. Concurrently, we have forged partnerships with reputable and prominent exchange companies across various corridors. In addition to our established foothold, we have ventured into new territories, including Italy, Cyprus, Australia, Hong Kong, and the UK.

The results of these endeavours have been remarkable, with our remittance volumes experiencing a substantial surge. For instance, our Gross Remittance Inflows which stood at USD 37 Mn in the previous fiscal year, have soared to over USD 120 Mn by early October of the current year. Ongoing negotiations with numerous exchange houses is set to bolster our market position.

Efforts to curtail remittances through illegal channels have yielded notable success, attributable to proactive initiatives by the government, comprehensive promotional activities by financial institutions, and targeted awareness campaigns on social media platforms and print media. Moreover, the Central Bank of Sri Lanka's (CBSL) introduction of financial incentives for legal remittances has served as a significant catalyst in augmenting the volume of remittances through official channels.

Lanka Money Transfer (LMT) stands as the proprietary remittance platform of DFCC, facilitating Sri Lankan residents abroad to transfer funds to Sri Lanka seamlessly. LMT extends its services across 12 countries, including Israel, Oman, Qatar, the UAE, South Korea, Hong Kong, Italy, Singapore, Australia, New Zealand, and Japan.

The LMT system is intricately linked to our Application Protocol (API), establishing real-time transfer capabilities to accounts with 10 partner banks. Additionally, collaborative efforts with Amana Bank and Citizen's Development Bank have been undertaken to promote awareness among potential migrant workers. This concerted initiative ensures that customers can securely and conveniently initiate their remittances.

Recipient locations span 1,300 bank branches nationwide, affiliated with 10 partner banks, while remittance transactions can be initiated from over 500 locations across overseas territories. Withdrawal services are facilitated through more than 4,100 ATMs linked to LankaPay.

LMT has established partnerships with approximately 25 exchange houses operating in the countries under its purview. Notable partners include Worldcom Finance Ltd. (Israel), S T B Union (Israel), Unigiros Ltd (Israel), Global Money Exchange Co. (Oman), Al Zaman Exchange Wll (Qatar), Islamic Exchange Co. Wll (Qatar), City Exchange Co. Wll (Qatar), Alansari Exchange Llc (UAE), Lulu International Exchange Llc (UAE), Sharaf Exchange Llc (UAE), Worldwide Cash Express (UAE), Dar Exchange (UAE), Kookmin Bank (South Korea), A T Services Ltd (Hong Kong), Necmoney Transfer Ltd (Italy), and Hanshan Money Exchange (Singapore).

In the fiscal year 2023, LMT recorded remittances totalling USD 120 Mn, comprising over 50,000 transactions. This represents a substantial increase of 300% and 150%, respectively, compared to the previous year.

Throughout the year, a concerted effort was made to encourage Sri Lankans abroad to utilize official remittance channels, dissuading reliance on informal channels, particularly amidst financial challenges. Attractive incentives, including loan schemes, bolstered this initiative.

DFCC's provision of a reliable channel for Sri Lankans overseas to remit funds has significantly contributed to the Nation's economy, particularly during times of heightened need.

Forming New Alliances

This year, our emphasis has been on revitalising and fortifying our alliances with existing partners and exchange houses abroad. Collaborating with the Sri Lanka Bureau of Foreign Employment (SLBFE) in Sri Lanka has been a pivotal step in this direction. As part of this partnership, we have introduced a financial literacy booklet disseminated through SLBFE's Regional Offices across various countries and through our Business Promotion Officers (BPOs) stationed overseas.

Introducing a pre-departure loan facility, designed to provide financial assistance to workers embarking on overseas employment upon confirmation of their departure, has been another notable initiative. In conjunction with recruitment agencies, we have conducted partnership programs to impart financial discipline to departing workers and emphasise the importance of remitting funds through legal channels.

Our strategic focus remains on implementing fresh promotional campaigns with our international counterparts to enhance our market penetration. Concessional rates and incentives will incentivise individuals to utilise official remittance channels. Additionally, leveraging Sri Lankan cultural events such as Avurudu, Independence Day, and professional gatherings presents an opportunity to raise awareness about the myriad benefits of utilising official remittance channels.

Challenges to Overcome

It is imperative to acknowledge the existing challenges impeding remittance volume growth, including linguistic barriers across diverse markets and our late entry into the field. Compared to larger remittance markets like India, Bangladesh, Pakistan, and the Philippines, Sri Lanka's relatively smaller market size tends to receive less attention from exchange houses. Additionally, the comparatively limited branch network of DFCC in Sri Lanka diminishes our appeal as a partner for exchange houses in these markets.

Moreover, sourcing capable and willing personnel for deployment overseas remains a persistent hurdle. Despite the blue-collar segment accounting for approximately 90% of total transactions, our focus should prioritise the white-collar segment, which tends to engage in higher-volume transactions and is more inclined to retain earnings in foreign currency. Addressing these challenges will be instrumental in enhancing our remittance business.

Looking Forward

Our primary objective centres on further expanding our presence in overseas markets, and we have already initiated negotiations in countries such as South Korea, Japan, Bahrain, Oman, Malaysia, and Kuwait. Additionally, a concerted effort will be made to promote the pre-departure account, with targeted promotional activities slated for specific regions within the Dubai and Saudi Arabian markets.

Our strategy includes a focused campaign to raise awareness of our competitive interest rates, coupled with incentives to encourage greater engagement from prospective workers before their departure. Furthermore, we are actively promoting our loan products, designed to offer greater flexibility, thereby facilitating the routing of earnings through official channels to DFCC.

As our market share continues to expand, there is a pressing need for additional staff to be deployed overseas, aligning with our ambitious growth trajectory.

International Banking

International Trade and Remittances

The International Trade and Remittances business encountered challenges during the early part of the year, influenced by a combination of interrelated factors linked to the Nation's fragile foreign currency position. This scenario was a continuation of the repercussions stemming from the financial crisis of 2022. Notably, the outlook for International Trade was tempered by prevailing import restrictions, particularly for vehicles. Concurrently, the Remittance business faced uncertainties associated with fluctuating exchange rates during this period.

In response to these uncertainties, some Sri Lankans employed overseas opted to route their funds through informal channels offering more favourable rates than conventional banking channels. However, the landscape evolved significantly as the year progressed, marked by increased availability of foreign currency in the market and notable improvements in official foreign currency exchange rates.

Improved Business Environment

At present, most import restrictions, except for those on vehicles, have been lifted. Banks have adequate access to foreign currency, essential to facilitate imports or other international transactions that clients bring in. This has led to an improvement in foreign trade, which has resulted in an improvement in acceptance of the Letters of Credit (LCs) issued by local banks to overseas banks and suppliers. However, a significant hindrance to changing the acceptability of LCs issued by local banks is Sri Lanka's lingering perception regarding default on foreign currency obligations. This situation is likely to be reversed only if sovereign ratings are restored to acceptable levels by rating agencies. If the sovereign rate is improved, Letters of Credit will be freely accepted in overseas markets, resulting in a higher volume of import transactions using LCs, allowing Sri Lankan importers to reduce providing funds in advance to their suppliers.

Stabilisation of the official foreign currency rate, too, has led to a tremendous increase in the remittance of foreign currency through legal channels, as our expatriate workers are using remittance service providers and banks as safer and more convenient options to illegal operations.

Changes in the Imports and Exports Scenario

Despite the easing of import restrictions and availability of foreign currency, imports have yet to show a considerable increase due to the high cost of living and high taxation, which has compelled people to focus on essentials. Due to the lack of discretionary income, they cannot spend on luxuries, which usually accounts for a proportion of imports. Further, due to frequent fluctuations in exchange rates during the first half of 2023, importers were unable to correctly predict movements in the value of foreign currency rates, resulting in them being more cautious when ordering goods from overseas.

The much-needed export drive of the country has shown limited success due to various factors. Firstly, economies worldwide, especially in the European Union, are facing a recession, which has dampened the enthusiasm for imports across several categories. Exports of Sri Lankan tea have been adversely impacted by the war in Ukraine, which has slowed down the economy of Russia, which is among our top buyers. Among our largest buyers, tea exports to the Middle-Eastern region could be impacted if the conflict in Palestine spirals out of control beyond the current area.

Creating a regulatory environment by the government that is supportive of and conducive to exports could go a long way in improving the Country's export performance. On the other hand, the banking industry has reduced the rates and commissions charged to exporters, thereby giving a much-needed boost to the sector.

Outlook for 2024

An essential factor to be considered is the series of elections to take place in 2024. Policies implemented will be key to building up the economy, improving exchange rates and sovereign ratings, and ushering in improved investments in crucial sectors. The climate of uncertainty that prevails until elections are held is a dampening factor which could inhibit business growth.

The current war in Ukraine and the Middle-Eastern crisis may hurt the price of oil, which could have a ripple effect across the global economy, which in turn may negatively impact Sri Lanka's economic prospects.

Importers and exporters are impacted due to the hesitation displayed by foreign traders in dealing with their Sri Lankan counterparts due to our default status. Our sovereign rating will be crucial to restoring the confidence of foreign buyers and sellers dealing with our importers and exporters. In addition to achieving economic growth and stable exchange rates, restoring our sovereign ratings by international rating agencies to acceptable levels is imperative for Sri Lanka to achieve a level playing field in the international markets. Once the Government commences settling its international obligations, it will enhance the Country's image, paving the way for foreign direct investments to start flowing in again, which should boost the economy significantly.

Performance in 2023

DFCC, as a bank, has traditionally been highly supportive of the imports and exports business. The Bank has always meticulously analysed market conditions, providing clients with comprehensive services, including competitive exchange rates, interest rates and advisory services. We have an exceptional team of professionals with cross-functional capabilities who have supported and guided clients, informing them about important factors to consider when completing transactions and other related issues.

The team is committed and equipped to offer customised trade solutions according to ever-changing business environment and help clients take their businesses to the international arena beyond market boundaries while adhering to the changing nature of local regulatory requirements.

INSTITUTIONAL CAPITAL

Institutional capital is essential in industries emphasising knowledge and human resources, such as banking. DFCC possesses a wealth of institutional knowledge cultivated over the years, complemented by robust systems, procedures, and protocols that underpin its operations. These elements operate within the framework of the corporate culture, which encompasses shared values, beliefs, norms, and behaviours. Within this corporate culture, a framework of ethics and integrity serves as overarching principles that guide ethical conduct, foster transparency, instil trust, enhance accountability, and contribute to DFCC's operational excellence and sustainable growth.

GRI 2-23

Organisational Knowledge

Organisational knowledge represents a company's expertise, insights, processes, and information. It encompasses tacit knowledge (skills, experiences) and explicit knowledge (documents, data). Its significance lies in fostering innovation, enhancing decision-making, and improving efficiency. Accessible organisational knowledge facilitates quicker problem-solving, reduces redundancy, and nurtures a learning culture. It supports employee development, ensuring continuity even with staff turnover.

Moreover, it enables adaptation to market changes, competitive advantages, and long-term sustainability by leveraging past experiences and best practices. Effective management and organisational knowledge sharing create a robust foundation for growth, fostering resilience and agility in today's dynamic business landscape. Since its establishment, DFCC Bank has gathered extensive expertise comprising systems, procedures, and protocols that delineate its operational methods. The Bank's amassed knowledge is sustained by internal specialists who guide and coach employees across various facets of banking. This collective learning approach allows seasoned staff members to impart wisdom to the upcoming generation. Leveraging the Bank's intranet, "WeConnect" is a repository that houses policies, procedures, and regulations, providing staff with convenient access. Through these initiatives, the Bank cultivates a culture of continuous learning, staying committed to our motto, "Keep Growing."

A structured handover procedure facilitates knowledge transfer from a departing staff member to a new hire. This involves the outgoing staff member imparting their comprehension of job processes and protocols to the incoming employee. Alongside this, the supervisor takes on the role of guiding the recruit and offering additional assistance as required. Moreover, a work buddy system has been instituted to create a support network for new employees, aiding their integration into the workplace and fostering comfort and confidence in their new roles. In addition, the Bank's Training Unit provides diverse avenues for knowledge-sharing, learning, and professional development. These include classroom and virtual sessions, an e-learning platform, job rotations, and special assignments. These initiatives expose employees to internal and external experts, providing access to diverse perspectives and information on recent advancements.

Corporate Culture

Corporate culture embodies shared values, beliefs, norms, and behaviours. Its importance lies in shaping employee engagement, morale, and productivity. A strong culture fosters cohesion, inspiring commitment to company goals and values. It influences decision-making, driving consistency and alignment across the workforce. A positive culture enhances teamwork, innovation, and adaptability, attracting and retaining talent.

Moreover, it defines the company's reputation, impacting relationships with customers, stakeholders, and the community. Cultivating a vibrant corporate culture nurtures a supportive environment, driving performance, creativity, and long-term success while guiding organisational actions and interactions. DFCC Bank's fundamental values are the bedrock of our corporate ethos, deeply woven into the Bank's engagements with all stakeholders. These values encompass ethics, customer-centricity, innovation, professionalism, accountability, team spirit, social responsibility, stewardship, Diversity, Equity, and Inclusion (DEI). Fresh recruits undergo rigorous orientation aimed at instilling these values and expected conduct. Regular refresher programmes are conducted to fortify these principles across the entire workforce.

An ongoing internal communication campaign heightens staff awareness regarding the Bank's values and anticipated behaviour. This involves electronic direct mail (EDMs), employee testimonials, and videos. The CEO stresses these values and reiterates them during visits to regional branches and updates communicated through various meetings, forums, and a periodic bulletin.

Aligned with the introduction of the DEI value, the existing secure environment framework underwent a comprehensive review and expansion. Employees were educated about the new DEI policy through flyers and interactive platforms like quizzes, which are easily accessible on the Bank's intranet. Ensuring a secure environment that is harassment-free and prioritising staff wellbeing remains a significant focus area.

DFCC Bank nurtures an inclusive, open, and supportive work atmosphere, fostering diverse perspectives and transparent communication through multiple channels. Our commitment lies in enabling transparent, fair, and inclusive opportunities for all aspects of the employee journey, encompassing reward systems, learning access, career growth, and performance management.

GRI 2-26, 205-1, 2

Integrity and Ethics

Integrity and ethics serve as the guiding principles, crucial in fostering trust, credibility, and accountability within individuals and organisations. Upholding integrity ensures consistency between actions and values, fostering authenticity and reliability. Ethical conduct forms the bedrock of fair and responsible decision-making, influencing relationships with stakeholders and the community. It shapes a positive reputation, essential for long-term success and sustainability. Integrity and ethics establish a framework for transparent, moral behaviour, promoting a culture of respect, fairness, and honesty. They serve as the cornerstone for building strong, enduring relationships, fostering a conducive environment for growth and fostering trust among employees, customers, and partners.

The Bank's operations adhere strongly to a robust framework of ethics and integrity, rigorously upheld across all business transactions and associations. These facets constitute a fundamental component of the Bank's operations, encompassing interactions with employees, business affiliates, and customers. Honesty, fairness, trust, and respect are inherent in the Bank's functions, procedures, and methodologies. An established Whistleblowing Policy enables employees to report instances of ethical breaches, complemented by cross-functional committees and other frameworks empowering employees to voice their concerns.

Anti-bribery and Corruption

Anti-bribery and corruption efforts are critical in preserving fairness, transparency, and trust in business environments. Implementing stringent measures against bribery and corruption safeguards integrity, ensuring ethical conduct and compliance with laws and regulations. It upholds a level playing field, fostering healthy competition and fair business practices. Mitigating these risks protects reputation, reducing legal repercussions and financial losses. Additionally, it cultivates a culture of accountability and trust, enhancing relationships with stakeholders, customers, and partners. Anti-bribery and corruption initiatives are pivotal in sustaining ethical standards and fostering a conducive environment for sustainable growth and a more robust, ethical business ecosystem.

The Bank's Anti-Bribery and Corruption Policy (ABC Policy) undergoes regular updates, reviews, and endorsement by the Board of Directors. It governs the Bank's Anti-Bribery and Corruption Framework, overseen by the Fraud Risk Management Committee (FRMC). This policy applies to all directors, employees, and authorised representatives, prohibiting engagements with individuals or entities associated with or vulnerable to bribery and corruption.

The FRMC conducts routine policy assessments, using audits, compliance checks, and HR assessments to ensure alignment with the Bank's steadfast stance of zero tolerance towards bribery and corruption. Employees and stakeholders are actively urged to report concerns through the Bank's Whistleblowing Policy or other available channels, refraining from facilitating payments or political contributions. The Employee Handbook also outlines employee conduct guidelines, including bribery and corruption regulations.

Whistleblowing Policy

A Whistleblowing Policy is a vital mechanism for employees to report misconduct, fraud, or unethical practices within an organisation. It encourages transparency, ensuring a safe avenue for individuals to voice concerns without fear of reprisal. Such policies safeguard integrity, supporting compliance with laws and ethical standards. They help prevent potential risks, protecting the organisation's reputation and financial well-being. A Whistleblowing Policy cultivates trust among employees and stakeholders by fostering a culture of accountability. It acts as a proactive measure, allowing prompt investigation and resolution of issues, ultimately bolstering ethical practices and maintaining a healthy work environment.

DFCC Bank has enforced a policy allowing employees to report any misconduct or inappropriate behaviour in confidence or anonymously. The Bank assures the whistleblower's confidentiality and pledges to shield them from reprisals. In cases where the reporting is done confidentially, management will initiate a conversation with the employee to gather additional details and offer feedback on the steps taken in response to the raised concern. However, if the reporting is done anonymously, two-way communication may not be feasible; nevertheless, an investigation into the surfaced matter will be conducted.

Gifts and Inducements

Accepting gifts and inducements can compromise objectivity, leading to biased decision-making or preferential treatment. It undermines trust, potentially damaging the organisation's reputation and credibility. Additionally, it may violate ethical standards, company policies, or even legal regulations, exposing the employee and the organisation to risks such as conflicts of interest or accusations of impropriety. Declining gifts and inducements ensures ethical conduct, preserves professionalism, and upholds the organisation's integrity, fostering a culture of transparency, fairness, and trustworthiness.

The Bank has implemented a policy governing accepting gifts and incentives by its employees. As per this policy, employees are restricted from seeking or receiving gifts and incentives from customers and other third parties involved in the Bank's business, except for nominal token gifts (valued at or below LKR 10,000) associated with celebratory occasions.

Core Banking System

DFCC Bank has reaped significant benefits since implementing T-1 optimisation within the Temenos T24 system for data analytics. This strategic move has propelled the Bank towards a multitude of advantages across various operational facets:

T-1 Real-Time Insights

This has become a reality through T-1 optimisation, facilitating swift access to accurate data. This empowers the bank with near-instantaneous analytics, hastening the generation of insights critical for informed decision-making.

Improved Customer Service is another hallmark of this optimisation. T-1 Real-time data analytics offer deeper insights into current customer behaviour, enabling the Bank to provide personalised and timely services that significantly augment customer satisfaction and loyalty.

Enhanced Risk Management

This is a direct outcome of timely access to real-time data. It empowers the Bank to conduct quicker risk assessments, enabling the formulation of proactive risk management strategies and fraud detection protocols, thereby reducing potential losses.

Personalisation and Customer Insights

This has reached new heights with T-1 real-time analytics. Immediate comprehension of customer interactions allows for personalised services tailored to individual needs, significantly enhancing the overall customer experience.

The ability to access data from the preceding day has accelerated decision-making processes. Armed with this previous day's data, decision-makers can promptly respond to market fluctuations or operational hurdles, enhancing the Bank's responsiveness and agility.

Operational Efficiency

A marked improvement has been seen due to T-1 optimisation. This streamlined data processing and analytics approach has minimised time lags and enhanced resource allocation, resulting in smoother operations.

Predictive Analytics Capabilities

Swift access to data enables the Bank to effectively leverage predictive analytics models, anticipating market trends and risks and enabling proactive planning. Innovation and Growth opportunities have flourished due to real-time analytics. This empowerment allows the Bank to swiftly identify market gaps, accelerating product development and market entry strategies.

Compliance and Reporting Processes

This process has become more efficient thanks to real-time data generation. It ensures adherence to regulations while concurrently mitigating compliance risks. Competitive Advantage has been attained, setting apart banks that offer responsive services from competitors reliant on slower data processing methods.

Robotic Process Automation

DFCC had partnered with Automation Anywhere to establish a robust platform for automating various tasks, including user unlock and password reset requests for the DFCC internal staff users. This collaboration supported the Bank in streamlining operations, fortifying security measures, and enhancing user experience by delivering faster and more reliable service. The Robotic process operated 24/7, swiftly managing username and password reset and unlock requests within 03 minutes of submission.

This initiative yielded several benefits:

Enhanced efficiency: Automation significantly accelerated processes, enabling Bank internal users to quickly regain access, reducing downtime, and boosting productivity, especially for Branch users, who saved time by avoiding customer servicing delays due to internal staff password reset and unlock requests.

Cost savings: Implementing automation reduced the need for human intervention, resulting in savings on labour costs associated with handling repetitive tasks like password resets or account unlocks.

Reduced errors: Automation minimised human errors inherent in manual processes, ensuring accuracy and adherence to security protocols, thereby reducing the likelihood of mistakes and security vulnerabilities.

Improved security: The password reset or account unlock process, carried out through an online app sheet involving supervisor approval, enforced stringent security measures, diminishing the risk of unauthorised access.

Self-service capabilities: Automation empowered users to independently resolve issues using self-service portals, reducing reliance on support staff and enabling swift access restoration.

Faster response time: Automated systems operated round-the-clock, allowing users to initiate password resets or account unlocks at any time, resulting in quicker responses compared to manual processes constrained by working hours.

Compliance and auditing: Automation ensured consistent application of security policies and compliance with regulations and provided detailed logs for transparent tracking of actions during the reset or unlock process.

Scalability: The automated process efficiently handled many reset or unlock requests, ensuring scalability as organisations expanded or experienced demand fluctuations.

Focus on higher-value tasks: By automating routine tasks like password resets, IT and support staff could allocate more time and resources to strategic initiatives and tasks requiring human expertise.

Digital Banking Strategy and Innovation

The digital banking department of DFCC endeavoured to instil a customer-centric ethos by integrating technological initiatives and strategies with customer needs and preferences. This approach involved several key strategies:

Firstly, the Department actively collaborated with customer-facing units, staff such as branches, contact centres, relationship managers, customer experience unit marketing, and customer service. This collaboration sought to comprehend customer pain points, preferences, and feedback. Secondly, the department prioritised data analysis by enhancing its analytics capabilities and visualising the data to gain insights that support data-driven decision-making. By leveraging customer data analytics, they identified patterns, trends, and behaviour to design activities and actions to develop features, improve existing features, create customer awareness efforts and collaborate with internal and external stakeholders.

Additionally, the department fosters cross-departmental collaboration to ensure that its digital initiatives align harmoniously with overall digital banking strategies. Furthermore, transparent communication was emphasised, ensuring customers were well-informed about any technological changes, upgrades, or disruptions that might affect them. Lastly, an innovation-driven culture was encouraged among all stakeholders, allowing for the exploration and implementation of new services.

We are placing a premium on user experience with a focus on personalisation, which involves surpassing customer expectations, enhancing engagement, fostering loyalty, and stimulating growth while delivering services tailored to individual customer requirements and preferences. We accorded significance to the customer experience aspect through various means.

We perform usability tests to ensure that newly developed features and functionalities within our mobile application and online banking platform are user-friendly and functioning efficiently. Various mechanisms were implemented to enhance our customer experience and ensure positive feedback within our digital channels. Furthermore, we use customer data and insights for decision-making and also conduct data-driven marketing campaigns to enhance personalisation through our digital communication channels.

Security and Infrastructure

The Bank upgraded its security and infrastructure measures by relocating its primary production and disaster recovery sites to Tier 3 certified data centres. This enhances the resilience of the data centre 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. We have also upgraded security infrastructure, including firewalls, encryption tools, and access controls, to help organisations strengthen their defence against cyber threats. Improved security measures contribute to regulatory compliance and the safeguarding of sensitive data. We have made Software and Applications up to date. Infrastructure upgrades included the installation of the latest software and application versions. This ensures that organisations benefit from the latest features, security patches, and performance improvements.

Business Processes and Operational Efficiencies

Upgrading server hardware, storage systems, and network components has increased system performance. Faster processing speeds and reduced latency contribute to quicker execution of business processes. Infrastructure upgrades involved the implementation of redundant systems and failover mechanisms. This ensures higher availability and minimises downtime, critical for maintaining continuous business operations. The enhancements also involved the adoption of virtualisation technologies and cloud services. Virtualisation enables the efficient utilisation of server resources, while cloud integration provides scalability, cost savings, and accessibility from anywhere.

Apart from Infra supports to Business Processes and Operational efficiencies, keeping a customer-centric mindset, IT has cross-collaborated with Business and Digital Banking units and delivered the Video EKYC solutions, an end-to-end digital transformation with zero customer footprint to branches. DFCC Bank has recently secured the prestigious award for Best Banking Process at the Global Banking and Finance Review for its implementation of EKYC (electronic-know-your-customer) technology. This award underscores the Bank's unwavering commitment to digital innovation, security, and operational efficiency, particularly in Video EKYC. This sets the stage for seamless and secure 100% digital customer onboarding, removing the need for physical branch visits and enabling superior digital enablement and service delivery.

Video e-KYC simplifies the onboarding process, reducing paperwork and wait times resulting in a smoother and faster customer experience. Customers can complete the KYC processes remotely using digital channels, eliminating the need to visit physical branches, thus making banking services more accessible. Automate identity verification, ensuring compliance with regulatory requirements while efficiently managing and mitigating risks associated with identity fraud or money laundering. Video e-KYC combines the convenience of remote access with the security of real-time visual verification. It is a valuable tool for banks seeking to comply with regulations, mitigate fraud risks, and provide customers with a secure and efficient onboarding process.

Compliance

DFCC Bank always conducts its operations adhering to the governing regulatory framework. The Bank's policies have been drafted to meet the regulatory requirements, and the Board of Directors' approval is obtained before implementation. Additionally, policies are reviewed annually to align with current regulations. The Compliance Department diligently oversees this process to ensure the Bank complies with all regulatory requirements.

Further, all customer accounts are opened and operated in adherence to the legal framework established by the Financial Intelligence Unit (FIU) and the recommendations outlined in the Financial Transactions Reporting Act (FTRA).

INVESTOR CAPITAL

We depend on our investors for future growth and expansion. Therefore, we work to maintain their trust and confidence. The Bank strives to consistently provide high returns to its stakeholders through sustainably earning optimum profits.

The Bank maintains regular communication with its investors, providing timely information on financial performance and progress. We value the trust placed on us by our investors, as this will assure us of being able to raise additional capital as and when required. Thus, we will be able to realise our targets for sustainable growth and expansion.

Shareholder Profile

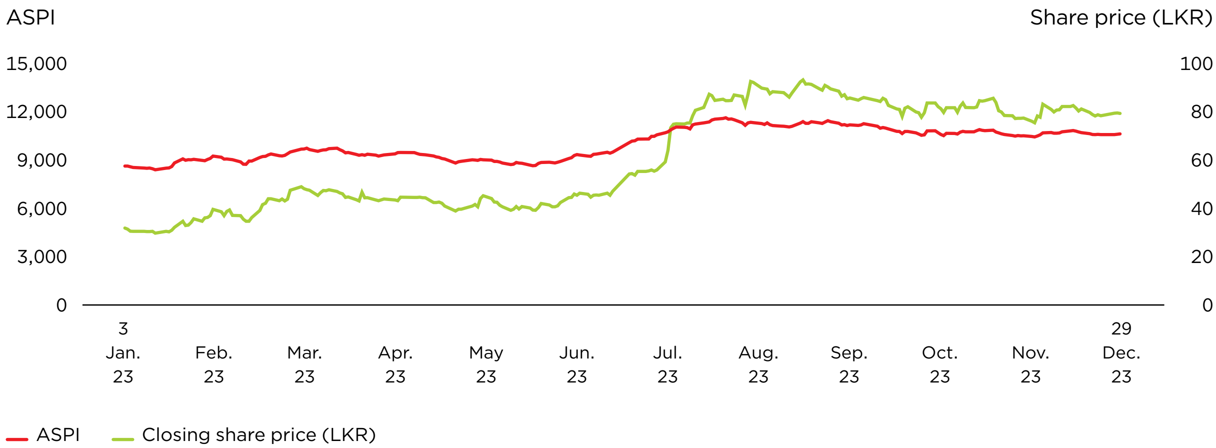
The bank had 10,103 shareholders as at 31 December 2023, compared with 10,459 as at 31 December 2022, with a total of 421,948,655 shares in issue. Institutions account for 83.17 % of the Bank's total share capital. 86.13% is held by local shareholders, both individual and institutional.

Share Information

DFCC Bank share price information, for the period 1 January 2023 to 31 December 2023.

	2023	2022
Price indices		
ASPI	10,654	8,489.66
S&P SL20	3,068	2,635.63
Share price		
Lowest price (LKR)	28.6	31.00
Highest price (LKR)	95.5	63.70
Closing price (LKR)	79.6	32.00
Market capitalisation		
Value (LKR Mn)	33,587	12,885
Percentage of total market cap	0.79	0.34
Rank	30	58
Value of shares traded		
Value (LKR Mn)	5,299	599
Percentage of total market turnover	1.29	0.09
Rank	20	121
Days traded		
Number of days traded	242	231
Total number of market days	242	231

Share Price Movement of DFCC Bank from January 2023-December 2023



Distribution of Shareholding

Categories of Shareholders

As at 31 December	2023			2022		
Shareholding (%)	Foreign	Local	Total	Foreign	Local	Total
Individual	8.54	8.29	16.83	6.49	13.61	20.10
Institutional	5.33	77.84	83.17	5.03	74.87	79.90
Total	13.87	86.13	100.00	11.52	88.48	100.00

Distribution of Shareholding by Size

As at 31 December	2023			2022		
Share range	Number of shareholders	Total holding	%	Number of shareholders	Total holding	%
1 – 1,000	5,920	1,437,085	0.35	6,343	1,807,299	0.45
1,001 – 10,000	3,462	9,397,310	2.23	3,458	9,557,980	2.38
10,001 – 100,000	608	17,319,332	4.10	558	14,372,961	3.58
100,001 – 1,000,000	84	21,457,390	5.08	74	19,317, 520	4.80
Over 1,000,000	29	372,337,538	88.24	26	357,590,296	88.79
	10,103	421,948,655	100.00	10,459	402,666,056	100.00

Public Holding

As at 31 December	2023	2022
Public holding %	67.0	67.0
Number of public shareholders	10,086	10,443
Float adjusted market capitalisation (LKR Mn)	22,509	8,636
Applicable option as per CSE listing 7.13.1 (i) (a)	Option 1	Option 2

Twenty Major Shareholders of the Bank

As at 31 December	2023		2022*	
Name of Shareholder/Company	Number of shares	%	Number of shares	%
1. Hatton National Bank PLC A/C No. 1	52,629,168	12.47	50,224,072	12.47
2. Bank of Ceylon – No. 2 A/C (BOC PTF)	44,141,353	10.46	42,124,141	10.46
3. LOLC Investment Holding Three (Private) Limited	42,194,864	9.99	40,266,605	9.99
4. Mr M A Yaseen	35,524,244	8.41	25,684,181	6.37
5. Sri Lanka Insurance Corporation Ltd. – Life Fund	32,000,355	7.58	30,537,974	7.58
6. Employee's Provident Fund	28,277,617	6.70	26,985,361	6.70
7. LOLC Finance PLC/Don & Don Holdings (Pvt) Ltd.	27,454,780	6.51	–	–
8. Melstacorp PLC	25,973,794	6.15	24,786,820	6.15
9. Seafeld International Limited	20,558,446	4.87	19,618,948	4.87
10. People's Leasing & Finance PLC/ Don and Don Holdings (Private) Limited	9,891,470	2.34	9,439,441	2.34
11. Renuka City Hotels PLC	8,037,892	1.90	7,670,569	1.90
12. Renuka Hotels PLC	4,726,698	1.12	4,510,693	1.12
13. Employees Trust Fund Board	4,627,590	1.09	4,416,115	1.09
14. Seylan Bank PLC/ARRC Capital (Pvt) Ltd.	4,316,969	1.02	–	–
15. Akbar Brothers (Pvt) Ltd. A/C NO 1	3,149,088	0.74	3,005,179	0.74
16. Anverally International (Pvt) Limited	3,089,081	0.73	2,947,914	0.73
17. Cargo Boat Development Company PLC	2,898,893	0.68	2,766,417	0.68
18. Don and Don Holdings Private Limited	2,801,730	0.66	28,873,821	7.17
19. Mr G B D Tilakarathne	2,750,000	0.65	–	–
20. Peoples Leasing & Finance PLC/Mrs M E Amarasinghe	2,678,062	0.63	–	–
Total of the 20 major shareholders	357,722,094	84.69		
Other shareholders	64,226,561	15.31		
Total	421,948,655	100.00		

* Shareholding as at 31 December 2022 of the twenty largest shareholders as at 31 December 2023

Return to Shareholders – Bank

Description	2023	2022
Profit for the year (LKR Mn)	7,220	2,513
Return on total assets (%)	1.82	0.46
Net assets per share (LKR)	160.54	125.96
Earnings per share (LKR)	17.27	6.75
Dividend per share (LKR)	5.00	2.00

Financial Returns

DFCC Bank tries to consistently provide high returns to its shareholders through earning optimum profits in a sustainable manner. The Directors approved a first and final dividend of LKR 5.00. per share by way of LKR 3.00 per share in cash and LKR 2.00 per share in the form of a Scrip Dividend for the year ended 31 December 2023.

Bank's Dividend per share	LKR
12 months ended December 2019	3.00
12 months ended December 2020	3.00
12 months ended December 2021	3.00
12 months ended December 2022	2.00
12 months ended December 2023	5.00

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

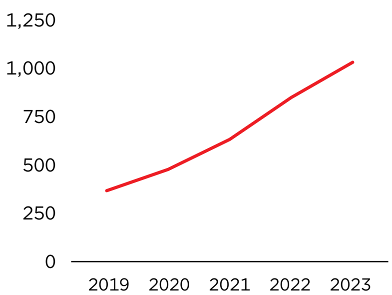
CUSTOMER CAPITAL

The Bank prioritises customer satisfaction and trust to establish lasting relationships, ensuring profitability, brand reputation, market presence, and sustainability. Customer-centricity is central to DFCC's strategies and operations, focusing on meeting customer needs to enhance product development, service delivery, and competitiveness. The Bank utilises advanced systems to gather customer feedback, enabling continuous improvement and better service delivery.

Customer Capital encapsulates the loyalty, trust, and satisfaction of customers, along with their potential lifetime value and the Bank's ability to meet their needs. This Capital signifies the ongoing revenue streams generated by loyal customers and their referrals, as well as the Bank's capacity to retain them. For DFCC Bank, understanding and enhancing customer capital is crucial as it directly influences profitability, brand reputation, and market positioning, fostering long-term sustainability and a competitive advantage in the financial landscape. It also serves as a pivotal metric in assessing the Bank's overall performance and growth trajectory.

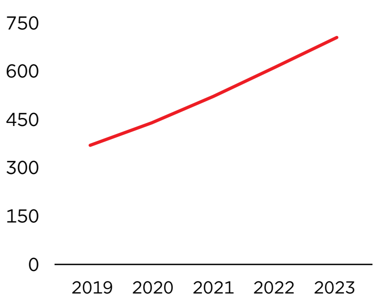
Growth in Customer Accounts

Nos. '000



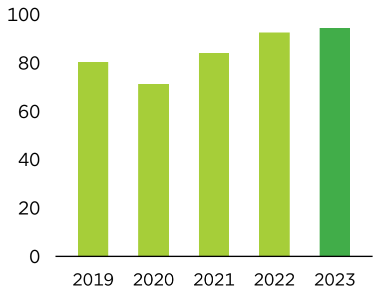
Growth of the Customer Base

Nos. '000



Number of New Customers Acquired

Nos. '000



Customer Centricity

Customer centricity lies at the heart of DFCC Bank's approach to enhancing customer satisfaction and loyalty. This guiding principle shapes every facet of operations, ensuring a steadfast commitment to delivering an exceptional experience to our valued customers.

By prioritising customer needs, the Bank is able to tailor its services, build stronger relationships, and gain a competitive edge in the highly competitive financial market. Having a highly focused customer-centric strategy enables DFCC Bank to place greater emphasis on personalised services, streamline processes for convenience, and actively seek customer feedback. This two-way communication helps in understanding and addressing customer needs efficiently. Moreover, the Bank engages in extensive employee training to ensure a customer-focused culture, reinforcing their commitment to delivering tailored financial solutions and fostering enduring relationships.

A number of initiatives have been undertaken by DFCC Bank to boost customer satisfaction and loyalty. A number of research tools have been utilised in implementing these initiatives. Additionally, a complaint management system has been made accessible to all branch staff, ensuring that inquiries and complaints are handled within specified timelines.

Monitoring service levels of critical functions facilitates process improvement, and periodic service refresher training for frontline staff helps maintain high standards across the branch network. The Bank uses the following service-related research tools to assess service standards, implementing necessary training to address identified gaps.

- Net Promoter Score (NPS) to assess the likelihood of customers recommending the Bank
- Net Easy Score (NES) to gauge the simplicity and efficiency of the customer journey, and experience with a product or service.
- Customer Satisfaction Score (CSAT) to assess satisfaction levels for specific interactions, helping businesses identify areas for improvement.
- Mystery caller and mystery shopper programme.
- In addition, certain activities commemorating the importance of customer service were carried out during the Customer Service Week. These included service training, bank-wide programmes, and forums.

The Bank employs various channels and processes to collect and address customer feedback, ensuring alignment with customer needs and expectations. This includes:

- **Customer Surveys:** Regular surveys are conducted online, over the phone, or in person at branches to gather feedback on customer experiences with products and services.
- **Customer Service Interactions:** Opportunities for direct feedback arise during phone calls, emails, or live chat interactions with Bank representatives. In addition branches now offer QR codes and missed call facilities, allowing customers to easily share their service experience.

- **Social Media Monitoring:** The Bank monitors social media platforms to track customer mentions, comments, and messages, addressing any concerns promptly.
- **Complaint Handling:** Formal processes to manage customer complaints, focusing on investigation, resolution, and implementing corrective actions.
- **Focus Groups and Interviews:** We engage in focus groups and or interviews with select customers for deeper insights into specific issues.
- **Data Analysis:** Analysing various data sources helps identify trends and patterns, guiding improvements in products, services, and customer experience.

After collecting feedback, and analysing the results, the Banks responds in a number of ways, including:

- **Resolution:** Addressing complaints swiftly and effectively, the Bank provides solutions or redress when necessary.
- **Continuous Improvement:** Utilising feedback, the Bank identifies areas for enhancement in products, services, processes, and overall customer experience. Prioritisation of action items considers feedback severity, frequency, and impact on customer satisfaction.
- **Communication:** The Bank keeps customers informed about actions taken in response to their feedback, underscoring their commitment to addressing concerns and improving the customer experience.
- **Training and Development:** In response to feedback, the Bank may offer additional training to staff, ensuring improved customer service delivery and alignment with customer needs and expectations.

In order to ensure a seamless and personalised customer experience across touchpoints, the Bank has implemented measures such as enhancing digital platforms with improved user experience. DFCC has also revamped the online account opening process, enabling customers to open accounts from anywhere via video call. These initiatives collectively contribute to an improved and tailored customer experience across various interactions.

Impact of the Customer-centric Approach

DFCC Bank has continued to sustain its unwavering commitment to customer-centricity, a cornerstone of our operations and success, which has yielded noteworthy impacts on both our financial performance and market positioning.

- **Strengthened Customer Loyalty:** Through personalised services and tailored solutions, we fortified relationships, resulting in heightened customer loyalty and increased retention rates. Satisfied customers remained steadfast, contributing to the stability of our customer base.
- **Enhanced Financial Performance:** Our customer-centric approach translated into improved financial metrics, marked by higher revenue and profitability. Effectively meeting customer needs led to increased product and service usage, thereby bolstering revenue streams.
- **Minimised Customer Churn:** Proactive engagement and attentive service significantly reduced customer churn rates. Addressing concerns promptly and aligning solutions with their financial goals fortified the relationships with customers.
- **Identified Cross-selling Opportunities:** Selling Opportunities – Understanding our customers' financial journeys allowed us to identify new cross-selling opportunities, introducing targeted offerings and capitalising on existing relationships for additional revenue.
- **Positive Brand Reputation:** Our dedication to customer satisfaction cultivated a positive brand reputation, positioning DFCC Bank as a reliable financial partner committed to our customers' success, thereby enhancing brand equity and attracting new clients.
- **Market Differentiation:** In a competitive landscape, our customer-centric approach served as a distinctive factor, setting us apart by prioritising customer needs and delivering exceptional experiences, thereby strengthening our market position.
- **Effective Risk Management:** Understanding customer behaviours facilitated more effective risk management. Aligning products and services with customer profiles mitigated risks associated with non-performing loans, ensuring a healthy loan portfolio.

Customer Experience

The Customer Experience Unit at DFCC plays a pivotal role in ensuring customer satisfaction and loyalty by focusing on enhancing the overall experience for customers throughout their journey and interactions with the Bank. It functions as a central hub dedicated to understanding, managing, and improving interactions between the Bank and its customers. This unit conducts comprehensive analyses of customer feedback, complaints, and satisfaction surveys to identify pain points and areas for improvement.

Key responsibilities of the Customer Experience Unit involve designing and implementing strategies to enhance customer interactions across various touchpoints, ensuring consistency and quality in service delivery. They collaborate closely with other departments to integrate customer feedback into product development, service design, and operational processes. By fostering a customer-centric culture, this unit aims to drive positive customer perceptions, loyalty, and advocacy, ultimately contributing to the Bank's reputation and long-term success.

Complaint Management System (CMS)

A Complaint Management System is pivotal for a customer-centric bank as it facilitates a responsive and proactive approach to customer issues. It enables swift identification, resolution, and analysis of complaints, fostering improved service delivery and customer satisfaction. By addressing concerns promptly, the Bank demonstrates attentiveness to customer needs, building trust and loyalty. Additionally, the system provides valuable insights for process enhancements, ensuring continual improvement in services, vital for sustaining a customer-centric approach.

The Customer Experience Unit has been tasked with the specific purpose of managing customer complaints received through various channels, including social media, the Bank's own website, online banking platforms, emails, calls to the contact centre, direct contact, or letters.

Trends in customer complaints are discussed and decisions are made on process changes required, training gaps identified, and the corrective action taken.

Assessing Customer Satisfaction

At present, the evaluation of the Net Promoter Score (NPS) is conducted internally, for products such as credit cards and propositions such as DFCC Pinnacle, aimed at identifying customer sentiments and drivers. There are plans to upgrade the service-level monitoring system, which will incorporate additional service-level dashboards that will assist in improving the service offerings.

Customer Service Ambassadors

When handling complaints and inquiries from multiple branches across the island, the coordination becomes challenging. There's a necessity for ground-level intervention to enhance services, identify gaps, and conduct refresher training to improve service quality.

The Customer Service Unit manages the administration of 139 "Customer Service Ambassadors" who are appointed one per branch. They play a crucial role in identifying service deficiencies and organising refresher training for new staff. The Ambassadors take charge of training new employees on phone etiquette, service efficiency, and ways to improve customer experience. Their performance is evaluated based on specific Key Performance Indicators (KPIs).

In the Bank's service-related programmes, priority is consistently accorded to the involvement of Customer Service Ambassadors. Their insights and experiences take precedence, as demonstrated in a forum held last year, where these Ambassadors were given a prominent platform alongside guest speakers to discuss customer service.

The Customer Experience Unit addresses service gaps, particularly in instances of multiple complaints from a specific area, unit, or branch, by conducting physical visits. Online training sessions are also conducted for new staff members; this includes online refresher training to cover service gaps. Moreover, the Customer Service Ambassadors participate in an annual external training programme. Region-specific training is based on complaints received and incorporates insights from research tools.

Housing Loans

DFCC Bank offers versatile home loan solutions tailored to meet diverse housing needs. Whether customers aspire to purchase, build, or renovate a home, invest in a block of land, acquire a condominium property, or upgrade an existing residence, our comprehensive range of home loans provide the best option.

With competitive interest rates, we provide the flexibility of choosing between fixed and variable rates, allowing customers to align their repayments with their financial capabilities. Our streamlined process ensures efficiency and convenience. Customers can obtain a pre-approved housing loan within a swift turnaround time of just 3 working days. This pre-approval offers the freedom to make investment decisions confidently, secure in the knowledge that financing is secured.

Our team of experienced officers, stationed across our extensive branch network, is dedicated to assisting customers throughout their entire journey. From the initial discussion to the loan disbursement, our experts will provide the guidance and information, saving valuable time and simplifying the process.

Leasing Facilities

With a three-decade tenure in the leasing industry, DFCC stands as a stalwart equipped to fulfil the diverse leasing needs of customers. Our seasoned professionals guarantee exceptional service quality coupled with competitive interest rates, ensuring a seamless leasing experience.

DFCC Leasing accommodates a broad spectrum of clients, encompassing entrepreneurs, SMEs (including proprietors, partners, and private limited companies), individual fixed-income earners, professionals, and both private and public limited corporate entities. Our tailored features are designed to optimise the leasing experience of these diverse clientele.

Our commitment to providing personalised service ensures that each client receives dedicated attention, tailoring solutions to meet individual needs. Flexible repayment plans are crafted to align with diverse financial requirements, facilitating convenient and stress-free payments. Our streamlined procedures demand minimal documentation, simplifying the application process and saving valuable time. Competitive interest rates, combined with expedited service, ensure a swift and cost-effective leasing journey. With an island-wide branch network, our services are easily accessible nationwide. We bring the convenience of service directly to your doorstep, enhancing accessibility for your comfort. Moreover, our experienced team offers professional leasing advice, empowering informed decision-making.

Personal Loans

Personal loans offer several benefits to individuals, providing financial flexibility for various needs without requiring collateral. These loans facilitate major purchases or unexpected expenses. Personal loans often have fixed interest rates, making budgeting easier. Additionally, timely repayment can positively impact credit scores, potentially enabling access to better loan terms in the future, thereby aiding in financial planning and stability. Personal loans can consolidate high-interest debts into a single, manageable payment.

Ethera Saviya

An exclusive loan programme tailored for skilled workers aiming for overseas employment in nations such as Israel, Italy, Japan, and members of the Gulf Cooperation Council (GCC). This initiative covers pre-departure expenses and supports business development endeavours for eligible individuals.

DFCC Green Loans

Sri Lanka's IT/BPM sector stands as a leading contributor to foreign currency inflow. To sustain and expand this industry, DFCC Bank has launched an exclusive green loan programme. This scheme is aimed at SLASSCOM member firms and their employees, enabling them to acquire Sustainable Power Generation Equipment, fostering the industry's development within the present landscape.

Garusaru Loans

The DFCC *Garusaru* Loan is an individualised personal loan designed exclusively for retired government pensioners. This loan plan provides borrowing options of up to LKR 5 Mn, allowing for a repayment span of fifteen years. Borrowers who opt for this service through DFCC Bank can benefit from highly competitive interest rates, accompanied by a streamlined and convenient service. Within its *Garusaru* product range, DFCC Bank also presents the *Garusaru* Senior Citizens Savings Account, requiring an initial deposit of LKR 1,000.

DFCC Teachers' Loans

The DFCC Teachers' Loan is a specialised Personal Loan programme specifically crafted for school teachers employed in government, semi-government, or recognised private/international schools, or serving as executive/senior executives (Grade I, Grade II, Grade III, or Special Grade) in educational administration.

This scheme offers loan amounts up to LKR 4 Mn with a repayment tenure extending up to 7 years and features competitive low-interest rates.

DFCC *Mehewara* Personal Loan

A dedicated and unique Personal Loan scheme has been tailored specifically for the valiant heroes serving in the Sri Lanka Army, Sri Lanka Air Force, Sri Lanka Navy, and the Special Task Force of the Sri Lanka Police. This specialised programme aims to offer financial support and assistance to these esteemed individuals, recognising their commitment and sacrifices in safeguarding the nation's security and well-being.

DFCC Auto Loans

The DFCC Auto Loan offers the opportunity to purchase your dream vehicle with a flexible repayment schedule customised to align with your income. Positioned as the premier choice for vehicle financing, it ensures a comfortable repayment scheme adjusted to your cash flows and features a structured payment plan. This financing solution stands out for its tailored approach, making it an ideal option for acquiring your desired vehicle while managing your financial obligations conveniently.

DFCC One Loan

An exclusive loan programme uniquely designed to consolidate existing liabilities and cater to personal financial needs. This scheme enables the settlement of various debts such as loans, leases, credit card balances, and other borrowings. Additionally, it accommodates individual requirements, providing financial support beyond debt consolidation to address personal necessities effectively, offering a comprehensive solution to manage and fulfil both financial obligations and personal aspirations.

Personal Loans for Professionals

An exclusive Special Loan Scheme meticulously crafted for professionals engaged in stable fixed employment or self-employment. This versatile loan option serves multiple purposes, catering to personal needs and facilitating the acquisition of professional equipment or the expansion of business ventures. This tailored scheme provides financial support, empowering professionals to invest in their aspirations and elevate their career or business prospects.

DFCC Education Loans

Having appropriate educational qualifications can go a long way towards achieving one's personal ambitions, including improved career prospects and greater income. This specialised loan scheme from DFCC aims to support individuals in pursuing diverse educational paths, whether it is higher academic pursuits, vocational training, or attaining professional qualifications. It offers tailored financial aid, enabling individuals to fulfil educational aspirations and advance towards a successful and fulfilling future.

Credit Cards

Our range of Credit Cards empower individuals and businesses with unparalleled flexibility, granting access to the lifestyle they aspire to achieve. These cards stand as symbols of prestige, ensuring recognition and acceptance across a spectrum of locations. DFCC Credit Cards not only provide this valued status, but also offer a lucrative advantage through a rewarding feature, allowing personal card users to earn a 1% Cash-Back on every transaction made locally and internationally, contributing to their savings with each purchase.

These cards are available in various categories such as the DFCC Visa Platinum, DFCC Visa Signature, DFCC Visa Infinite, and DFCC World Mastercard and Visa Corporate for businesses each accompanied by a diverse set of benefits. These privileges encompass exclusive deals and discounts at prominent establishments, the utilisation of cutting-edge contactless payment technology for swift and secure transactions below a specific threshold, and the option to access up to 75% of the credit limit as a loan on the personal cards.

Moreover, our personal Credit Cards facilitate hassle-free balance transfers from other credit cards to DFCC, simplifying financial management. With a strong focus on rewarding spending habits, providing convenience, and offering diverse financial options, our suite of Credit Cards aims to enhance the lifestyle of the users while ensuring seamless transactions and added value with every purchase.

Ranwarama Pawning

DFCC Bank's *Ranwarama* Pawning Scheme stands as the optimal solution for individuals seeking immediate financial assistance. This scheme offers a secure and reliable method to acquire funds swiftly by leveraging gold assets. Pawning gold holds several advantages, such as providing quick access to cash without requiring credit checks or lengthy approval processes. Moreover, it offers a discreet way to obtain funds without affecting credit scores or financial standings.

The *Ranwarama* Pawning Scheme from DFCC Bank ensures a hassle-free experience, allowing customers to pawn their gold possessions, including jewellery or sovereigns, in exchange for a loan. This loan is granted based on the market value of the gold pledged, providing a convenient and viable source of emergency funds or fulfilling urgent financial needs.

Beyond its immediacy, pawning gold at DFCC Bank affords customers the flexibility to redeem their pledged gold items upon repayment of the loan and accrued interest within the stipulated timeframe. Additionally, DFCC Bank ensures the security and safekeeping of the pledged gold items throughout the pawning period, guaranteeing peace of mind to customers.

The *Ranwarama* Pawning Scheme not only serves as a prompt financial solution but also offers a secure and trustworthy avenue to unlock the inherent value of gold assets during unforeseen circumstances or urgent monetary requirements.

Lines of Credit

DFCC Bank's dedication to nurturing the SME sector in the nation goes beyond mere financing. The Bank is deeply committed to empowering entrepreneurs by offering not just financial support but also essential knowledge and guidance. Recognising the pivotal role SMEs play in economic growth, DFCC Bank strives to equip entrepreneurs with the necessary expertise to elevate their businesses. This comprehensive approach aids in fostering sustainable growth and innovation within the SME landscape, contributing significantly to the country's economic development.

SMELoC – TEA Smallholder Credit Line and JFPR Grant

This is an Asian Development Bank (ADB) funded line of credit to support tea small holders. This facility is provided to landholding of 10 Acres to 50 Acres, with a recommendation letter from the Tea Small Holdings Development Authority (TSHDA) or the Sri Lanka Tea Board (SLTB). The maximum loan amount is LKR 30 Mn.

Tea Small Holders with a land extent not exceeding 10 Acres, for the purpose of new planting and replanting are eligible for a 10% Grant (JFPR). The maximum loan amount is LKR 5 Mn.

SMELoC – SME Component and We- Fi Grant

This is an Asian Development Bank (ADB) funded line of credit for registered Small or Medium-sized Enterprises (SMEs) with an annual turnover less than LKR 750 Mn and less than 300 employees if in the manufacturing sector or less than 200 employees if in the service sector.

The following criteria should be fulfilled to be a "Qualified grant Enterprise" under SMELoC – We- Fi Grant.

51% of the enterprise ownership shall be controlled by women or at least 20% of the enterprise ownership is controlled by women. A Woman is either the Chief Executive Officer (i.e. the most Senior Manager) or Chief Operations Officer (i.e. Second most senior manager); and at least 30% of the Board members are women; where a board exists.

Environmentally Friendly Solutions – E-Friends II-RF

Environmentally Friendly Solutions Fund II (E-Friends II) Revolving fund, also known as E-Friends II-RF, is offered in collaboration with the Ministry of Industries. This credit line is set up by the Government of Sri Lanka to assist industrial enterprises in Sri Lanka in finding solutions to the environmental problems, such as industrial pollution caused by their manufacturing and energy consumption. The main objective of this credit scheme is to improve the environment and meet the environmental safety standards.

E-Friends II – (RF) – General Loan Scheme

The General Loan Component supports the industrial enterprises in addressing environmental concerns stemming from their manufacturing and energy usage. The funds can be utilized to mitigate industrial pollution, improve the environment via waste reduction, resource recovery, energy conservation, and pollution management, enabling businesses to adopt eco-friendly practices for sustainable operations.

E-Friends II – (RF) – Technical Assistance Loan Scheme

Technical Assistance Loan (TA Loan) supports projects funded by E-Friends II (RF) General Component loan scheme to facilitate consultancy and technical services to investigate the environmental problems and for waste minimisation, resource recovery and savings, and pollution control and abatement measures and associated design, supervision of installation and operation of the equipment financed under the fund.

SMILE III Revolving Fund-RF

The Small and Micro Industry Leader and Entrepreneur (SMILE) Promotion Project, also known as Smile III Revolving Fund , is offered in collaboration with the Ministry of Industry and Commerce. This credit line is set up by the Government of Sri Lanka to support the manufacturing and industry-related service sectors.

SMILE III (RF) – General Loan Scheme

SMILE III RF General Loan Scheme is offered in collaboration with the Ministry of Industries and Commerce to support the manufacturing and industry-related service sectors. This credit line supports Small and Medium Scale sole proprietorship, partnership, cooperative society, limited liability company, or any other privately owned enterprise to start-up businesses.

SMILE III (RF) – Technical Assistance Loan Scheme

The SMILE III (RF) TTAS is designed to support training costs on upgrading staff's accounting, managerial, and technical skills, consultancy cost, quality control and laboratory equipment. These facilities are available for Small and Medium Scale sole proprietorship, partnership, cooperative society, limited liability company, or any other privately owned enterprise to start-up businesses.

New Comprehensive Rural Credit Scheme – (NCRCS)

This loan scheme is an interest subsidy and credit guarantee scheme implemented by the Central Bank of Sri Lanka (CBSL) to support cultivation of agricultural crops and production of seeds and planting materials. NCRCS has been introduced with the primary purpose of uplifting the socio-economic conditions of micro and small scale farmers who engage in cultivation of seasonal (short term) crops.

Smallholder Agribusiness Partnerships Programme – (SAPP)

The Smallholder Agribusiness Partnerships Programme (SAPP) has been implemented by the Ministry of Agriculture – Sri Lanka and Central Bank of Sri Lanka (CBSL). The programme aims to facilitate rural smallholder farmers in terms of building the commercial partnerships, providing access to finance, improving technical knowledge and financial literacy, and introducing mechanisation to agriculture.

Manusavi Loan Scheme for Sri Lankan Migrant Workers – (MLSMW)

This loan scheme has been implemented by Central Bank of Sri Lanka (CBSL) and Sri Lanka Bureau of Foreign Employment (SLBFE). The main objective of the Loan Scheme is to encourage Sri Lankan migrant workers to remit their foreign exchange earnings through formal channels and to utilise their earnings for productive purposes. The eligible sub-borrower shall be a Sri Lankan citizen employed abroad with a valid employment contract for a fixed term not less than one year.

Digital Products and Services

DFCC Bank's Digital Products and Services play a pivotal role in modern banking by providing convenient, accessible, and secure financial solutions. These digital offerings empower customers to conduct various banking transactions, manage accounts, transfer funds, and access services anytime, anywhere. They contribute significantly to enhancing customer experiences, promoting financial inclusion, and adapting to evolving technological landscapes, ensuring efficiency and ease in meeting diverse banking needs in today's digital era.

DFCC Virtual Wallet (Hybrid Mobile Banking App)

The DFCC Virtual Wallet empowers customers to conduct transfers between DFCC accounts, as well as other bank accounts and credit cards via CEFTS. It facilitates the addition of DFCC Credit Cards, enables balance inquiries, bill payments, mobile reloads, and institutional payments. Self-registration can be carried out by downloading the app onto the customers mobile device and using the debit card, ensuring convenience and accessibility for banking anytime and anywhere according to customer preferences.

DFCC iConnect

The Banks' electronic banking platform for Corporates continued to make waves in the Payment and Cash Management sphere in 2023 by being voted the Market Leader by the prestigious Euromoney Awards for the third consecutive year. Beyond mere accolades, it signifies our steadfast commitment to reshaping banking norms with innovation and unwavering focus on customer needs. Boasting advanced features and an intuitive interface, DFCC iConnect empowers users to effortlessly manage their finances anytime, anywhere. This accolade underscores our dedication to leveraging technology for customer-centric solutions, reaffirming our position as trail blazers in the financial landscape in Sri Lanka.

DFCC Chatz/DFCC Video Chatz

DFCC Chatz is an interactive and multi-channel chatbot which transforms communication dynamics. It ensures a smooth customer journey by accommodating queries in the user's preferred language, guiding them through personalised procedures. Accessible across diverse platforms like the DFCC Bank website, Facebook, Messenger, Viber, and WhatsApp, DFCC Chatz efficiently handles inquiries. Complex inquiries will be rerouted to a 24-hour live agent, ensuring comprehensive assistance and resolution.

MTeller

The Mobile Teller (MTeller) doorstep banking service involves a staff representative visiting customers to collect their daily cash deposits. This service allows customers the flexibility to make cash deposits at their preferred location within a 20 km radius of the servicing branch. Future enhancements are planned to introduce additional features that will further benefit customers through this channel, aiming to add more value and convenience to their banking experience.

eStatements

In its pledge towards environmental sustainability, DFCC Bank has introduced eStatements offering monthly consolidated statements and interactive credit card eStatements. This service is provided free of charge, enabling customers to save time previously spent waiting for mail deliveries and facilitating efficient reconciliations. By opting for eStatements, customers contribute to environmental sustainability while experiencing convenience and streamlined financial management.

DFCC Alerts

DFCC Alerts is a service that delivers account transaction and available balance details to customers via SMS or email, ensuring real-time updates on your day-to-day banking activities wherever you are. SMS Alerts are available for individuals, SMEs, and corporate customers, while corporate customers additionally benefit from email and trade alerts. This feature keeps customers informed promptly, enhancing their banking experience by providing immediate insights into their transactions.

DFCC Online Banking

DFCC Online Banking offers comprehensive financial control, providing an array of banking services conveniently accessible anytime, anywhere. This platform empowers users to oversee their accounts round the clock, enabling diverse functions such as establishing goal-based savings, opening fixed deposits and savings accounts, securing credit card blocks, configuring essential DFCC alert services, and personalising preferred user IDs for a tailored online banking experience.

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

The DFCC "MySpace" concept unveils a range of banking facilities like ATMs, CRMs, Cheque deposit kiosks, and Pay-and-Go machines. These stations enable customers to conduct various transactions, including Cardless/Card-based cash deposits and withdrawals, credit card payments, bill settlements, and cheque deposits. Notably, DFCC Bank stands out by not levying fees on cash withdrawals made by its customers from DFCC ATM/CRM machines. Prioritising customer value enhancement defines DFCC Bank's core purpose and existence in the banking sector.

Retail Liabilities (Deposits), Product Propositions

DFCC Bank offers a diverse range of deposits products to meet the varied needs of its customers. The DFCC fixed deposits are designed for those seeking higher returns over a fixed term, with options ranging from 1 month to 10 years, accommodating different investment preferences.

The savings portfolio includes general LKR savings products like DFCC Mega Bonus for general savings needs, DFCC Winner Savings for the workforce and professionals, DFCC Xtreme Saver account for clients seeking short-term savings with higher returns, DFCC Junior/Junior Plus to instil the savings habits in the younger generation, DFCC Teen Savings promoting financial literacy among teenagers,

DFCC *Aloka* Savings covering various financial needs of female customers, and DFCC *Garusaru* Savings exclusively for senior citizens. Additionally, DFCC Current Account is ideal for day-to-day transactions, facilitating cash and cheque deposits, and electronic payments. The Bank also provides various FCY accounts for foreign currency transactions.

New Product Propositions

DFCC Bank recognises the importance of offering new product propositions to stay innovative and meet evolving customer needs. Introducing fresh solutions enhances customer engagement, attracts a broader clientele, and strengthens the Bank's competitive position. By continually innovating, DFCC ensures it remains at the forefront of the financial industry, providing valuable and relevant products that align with the dynamic preferences of its customers and fostering sustained growth in a competitive market.

In 2023, DFCC launched a novel offering, the DFCC Investment Planner, a savings-centric product tailored to address the enduring financial goals of customers. Primarily targeting those with long-term needs such as funding children's higher education, marriage, parental medical expenses, and retirement, this product allows savings in both LKR and selected foreign currencies. It guarantees interest rates surpassing prevailing market rates. To facilitate easy planning, we've introduced a calculator enabling users to determine the monthly instalment they prefer. We assist customers in achieving their financial objectives over a 5, 10, or even extended years. High-net-worth clients benefit from personalised discussions, considering short-term commitments and long-term goals, aligning with their lifestyles and aspirations. Our aim is to provide investment solutions that precisely meet their diverse needs.

In 2023, DFCC introduced the DFCC Goal Savings proposition, presenting DFCC Savings Goals as a feature within DFCC Online Banking. This feature is designed to automate savings on a daily, weekly, or monthly basis, aiming to attain a predetermined financial target and realise desired goals within a period of fewer than 24 months.

DFCC Junior, the savings product for children, underwent a redesign, accompanied by the introduction of a new product named DFCC Junior Plus. For DFCC Junior, a novel gift structure was implemented, where various gifts are earned based on deposit amounts. This follows a slab system determined by deposits ranging from LKR 1,000 to LKR 2.5 Mn. The gifts encompass a diverse range, including gift vouchers, e-vouchers, and value credits. As for DFCC Junior Plus, it offers an unprecedented 10% interest rate on savings standing out as unmatched in the market.

We have introduced a special offer for Fixed Deposits (FDs) with an exceptionally appealing rate for 3-month terms, surpassing any rate offered by other banks. This initiative has proven highly successful, especially considering that some customers have become cautious about investing in fixed deposits due to uncertainties surrounding prevailing rates and other opportunities in the market.

We have implemented virtual account opening, allowing customers to complete this process without the need to physically visit a branch. This innovation is particularly appealing to the younger generation, who prefer handling all their transactions virtually. Even older customers, not as adept with IT, now prefer avoiding the inconvenience of traveling to a branch and enduring waiting times.

Additionally, customers can engage with their product managers and account managers, obtaining services without the necessity for face-to-face interactions. The significant growth in mobile and internet banking, initiated during the COVID-19 pandemic and further accelerated by the fuel crisis, continues to gain momentum.

It is heartening to have introduced DFCC Pinnacle Junior as an extension of the Pinnacle proposition, specifically crafted for the younger members of the Pinnacle family. This initiative is designed to offer customised solutions for juniors, cultivating a culture of savings through Annuity products and special interest-based Savings accounts. Simultaneously, it supports their educational pursuits and extracurricular activities, including internships to guide them along their career path.

The objective is to enrich their knowledge, nurture future aspirations, foster the development of their creativity and skills, and promote networking skills among members. This initiative superficially aligns them to meet the challenges of the future by encouraging their participation in various educational forums.

Recognising the requirements of IT freelancers, we have expanded our support, allowing them the flexibility to categorise various income streams from multiple job providers as net income. We offer solution-oriented propositions and benefits, consolidating all services on a unified platform for their convenience.

Acknowledging that their primary income is not fixed from a single corporate or business entity, we appreciate and value the diverse skills and professional expertise of IT freelancers. Our approach is tailored to acknowledge and support the unique income structure associated with their diverse projects and clients.

DFCC's mobile banking service, M-Teller, has achieved considerable success. This doorstep banking service is operated by Bank staff who accept cash deposits through a mobile device.

Performance of Savings Portfolio and Enhancements During the Year

We have exceeded the budgeted growth for our Fixed Deposits and CASA, achieving remarkable expansion. Moreover, DFCC Investment Planner, DFCC *Aloka*, DFCC Junior, and DFCC Xtreme Saver accounts have demonstrated extraordinary growth in the past year, surpassing a growth of LKR 40 Bn.

Savings Annuity product has exceeded anticipated growth, demonstrating substantial expansion. The *Aloka* community has experienced a notable surge, primarily fuelled by active participation from a considerable number of savers. This has led to a cumulative contribution that surpasses expectations, resulting in remarkable growth in savings. To adapt to market trends, adjustments have been implemented to better align with evolving preferences and demands.

Differentiating Liability Products from Competitive Offerings

Distinctive liability products are vital for DFCC Bank to stand out amidst competition. This differentiation attracts and retains customers but also enhances the Bank's market positioning, in addition to staking its claim on profitable market niches.

By offering unique features, tailored services, and competitive advantages, DFCC ensures its liability products meet diverse customer needs, fostering loyalty and sustaining a competitive edge. This strategic differentiation reinforces the Bank's commitment to providing innovative and valuable financial solutions in a crowded market.

DFCC Bank carries out a diligent and comprehensive study of the market and assesses customers' lifestyle commitments and needs, including latent, unmet needs. To ease the financial burden of customers, we offer flexible plans customised to individual affordability. Our approach involves addressing specific challenges and integrating valuable customer feedback to deliver personalised solutions. These not only cater to their needs but also yield significant financial advantages.

Going beyond traditional offerings, DFCC Bank provides holistic solutions, encompassing innovative payment choices and interest-free card instalment plans. These initiatives are crafted to enhance the ease of financial commitments, presenting customers with convenient and budget-friendly alternatives for managing their expenses.

Managing Risks Associated with Liabilities Products

DFCC Bank judiciously manages risks associated with liability products in order to safeguard the Bank's financial stability, preserve customer trust, and ensure regulatory compliance. Effective risk management enhances the reliability of liability products, promoting sustained growth and reinforcing the Bank's commitment to providing secure and dependable financial solutions. This approach safeguards both the Bank and its customers, fostering a resilient banking environment and sustaining long-term relationships.

The Bank launched an investment scheme involving a monthly commitment to aid customers in fulfilling their future obligations, available in both LKR and FCY. Customers were given the option of an annuity scheme, allowing them to select a monthly affordable instalment in either LKR or FCY, especially during periods of high deposit rates. For tenors exceeding 10 years, the Bank set fixed rates to support customers in their future aspirations and commitments. This offering extended to foreign currency, encouraging those with income in FCY to retain their funds in that currency, thereby supporting investment gains.

Additionally, the Bank introduced an attractive fixed deposit opportunity, providing a competitive 30% interest rate for a 5-year investment period. This initiative was designed to assist customers in meeting their commitments over the specified time frame. Importantly, customers were granted.

Branch Network

DFCC Bank's branch network is vital for its continuing growth, representing the cornerstone of retail banking and managing a significant portion of the product portfolio. This extensive network not only ensures essential access to financial services to customers in the farthest corners of the country, but also fosters personalised interactions, contributing significantly to profit levels. It plays a pivotal role in serving diverse client segments across the country, reinforcing the Bank's commitment to delivering accessible and tailored financial solutions to a wide range of customers, especially those belonging to marginalised and vulnerable sections. Branches also play a crucial role in improving the financial literacy of a cross-section of customers, and bringing the unbanked into the fold of the formal financial sector, and helping them escape the clutches of the informal sector.

While expansion of the branch network was put on hold last year due to strategic reasons, improvements were made at the Maharagama and Borella branches to enhance service quality for our customers. Two off-site self-banking units were installed at Havelock City Mall and Ruhunu Hospitals in 2023. The Colombo region remains a key contributor to the overall business growth of the branch network.

To enhance the customer experience in branches, the Customer Experience Unit was established to centrally monitor and address customer inquiries and complaints, ensuring consistency. The mystery caller programme was implemented across the branch network to ensure uniformity in responding to customer calls. The complaint management system was extended to all branch staff to handle customer inquiries and complaints within a defined service level agreement, maintaining consistent response timelines. Periodic utilisation of service-related research tools like NPS, NES, and CSAT helps assess our service standards, enabling necessary training to address identified gaps and provide a standardised offering across the branch network. Monitoring the service levels of critical functions is ongoing to enhance processes and offerings, and periodic service refresher training is conducted for frontline staff to uphold the established standards.

Branch performance is assessed against Key Performance Criteria, determined by the business potential of each branch. Anticipating the relocation or closure of branches/units with low business potential, alternative modes will be established to continue serving the existing customer base. Amendments to the network operations structure are planned for 2024 to enhance operational efficiency, service levels, and reinforce operational risk control aspects.

The branch network serves as the primary catalyst for retail banking business, including credit cards and SME business. It oversees over 70% of the Bank's product portfolio, making a substantial contribution to profit levels. The branch network ensures access to the Bank's financial services for diverse client segments across various regions of the country.

Multichannel Customer Touchpoints

To boost customer engagement, we have used multiple channels, including digital channels, to implement data-driven approaches and conduct targeted marketing campaigns. Analysing the resultant data enables us to tailor messages effectively to specific audiences, enhancing personalisation and engagement. Our communication methods include emails, SMS, in-app messaging, and outbound calls. Additionally, we have ensured that our branch network information is updated on "Google MyBusiness", enabling customers to easily access relevant details through Google Search and Maps.

The following features were implemented in our digital platforms in order to improve customer engagement and usage.

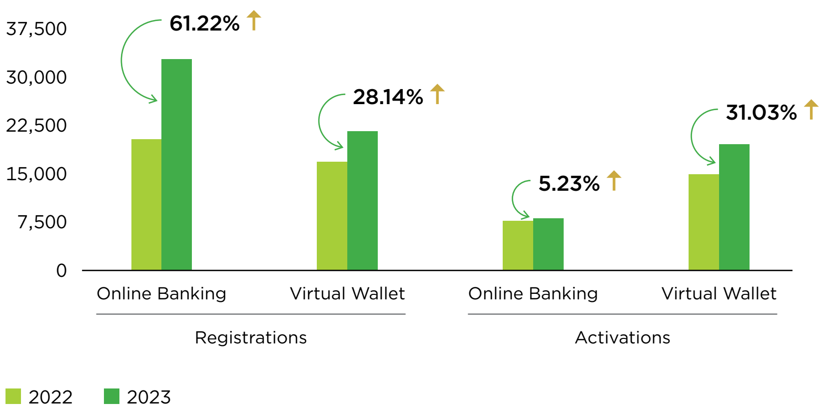
Channel	Feature Introduced and Promotions
Online Banking	1. Enabling payments to government institutions via Online Banking (SL Customs, EPF and IRD Payments) 2. Promoting goals savings product with, attractive interest rates. 3. Changing the duration of Savings Goal from 10 years to 02 years to help customers achieve their short-term financial goals 4. Viewing your "OUTSTANDING BILL AMOUNT" via Online Banking (Water Board, SLIC, Dialog TV/Broadband and Mobile (Postpaid) 5. Ability to choose your preferred OTP channel (SMS or Email)
Virtual Wallet (Hybrid mobile app)	1. Receipts were enabled for bill payments, within DFCC transactions and credit card payments with a new design 2. 5 new billers each for insurance and leasing/finance companies were added 3. Improvements made to user interface
DFCC MySpace	1. Deployed 12 new cheque deposit machines to branch network 2. Deployed 13 new CRMs to branch network 3. Deployed 3 new ATMs to branch network 4. DFCC MySpace branding done in 15 locations 5. An offsite CRM was placed at Havelock City Mall
DFCC Website	1. Income Tax Calculator upgraded with new tax slabs from 1 March 2022 to 31 December 2022 and 1 January 2023 to 31 March 2023 2. Enhanced Website Accessibility feature 3. New product pages created for 9 new products and services 4. Microsites created for payment products related to Cards (IPG, POS, Simplified commerce and DFCC Galaxy)
DFCC Galaxy	1. Official launch of Sri Lanka's first virtual branch DFCC Galaxy 2. Updates on products and promotions 3. General information about the Bank's products and services 4. Customisable avatars 5. The ability to host exclusive webinars and events 6. Interacting with other users 7. Redirections to account opening and credit card applications
DFCC Chatz	1. Integration of the live agent to the Digital Onboarding platform 2. Integration of the live agent and Chatbot to DFCC Galaxy
SMS Alerts	1. Enabling the cheque number in Cheque presented Alerts 2. Enabling Alerts for Standing Orders (Setup, Amend, Cancel)
eStatements	1. Adding Joint account holder's name in CASA statements 2. Displaying name of card holder
MTeller	1. 17 New MTeller Machine deployments to branches to visit customers and collect cash 2. MTeller firebase integration to send in app push notifications and analyse app crashes

As of 31 December 2023, a significant shift towards digital transactions was observed, with a notable 86% of total transactions occurring through digital channels, surpassing traditional branch counter transactions.

The following table outlines the increase in user adoption for DFCC Online Banking and Virtual Wallet when compared to the figures recorded in the year 2022.

Increase in user adoption for DFCC Online Banking and Virtual Wallet

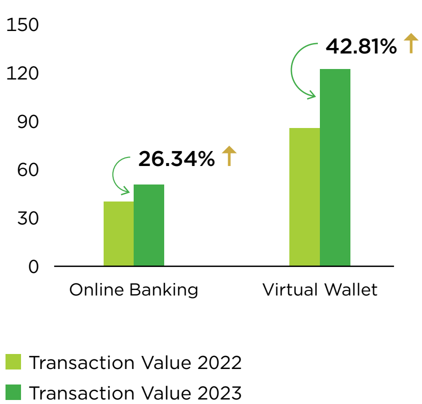
Nos.



The following information outlines the improvement in product performance for DFCC Online Banking and Virtual Wallet, as compared to the data from the year 2022.

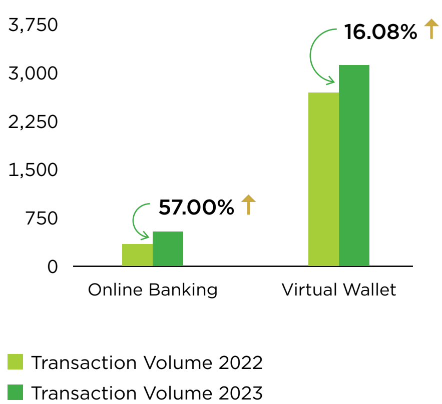
Improvement in Product Performance – Transaction Value

LKR Bn



Improvement in Product Performance – Transaction Volume

Nos. '000



Security Measures to Safeguard Data at Customer Touchpoints

DFCC Bank has enforced stringent security measures to safeguard customer information across digital touchpoints. These measures encompass robust encryption technologies, two-factor authentication systems, and regular security audits. Real-time monitoring and advanced intrusion detection systems enhance these defences. The Bank also promotes customer involvement in security through awareness campaigns and SMS alerts, emphasising its commitment to secure digital banking. To heighten awareness, DFCC conducts email and SMS campaigns targeting active banking customers and hosts an informative blog on its website, providing additional resources for customers to secure their online transactions.

Contribution of Multi-channel Approach to Customer Satisfaction

DFCC Bank has revolutionised customer experience by seamlessly integrating multi-channel touchpoints, delivering unparalleled convenience and extensive accessibility. Through Online Banking, Virtual Wallet, and ATM/CRM services, customers enjoy 24/7 access, streamlining financial management. The interactive DFCC Chatz chatbot further enhances the customer experience with 24/7 availability, trilingual support, and instant answers to queries. Customers also have the option to engage with a live agent. DFCC's strategic improvement of digital banking products ensures a consistent, user-centric experience across various platforms. Ongoing feature evolution and the introduction of novel functionalities contribute to heightened customer satisfaction. Importantly, DFCC's digital transformation strategy builds trust and loyalty, positioning it as a pioneering financial institution responsive to the dynamic needs of its active customers.

Products and Services Responsibility

DFCC Bank consciously ensures responsible and ethical practices in the development and offering of its financial products using, but not limited to, the following means;

- Designing or redesigning products through a structured process as per the Bank's Product Development/ Amendment Policy, in which a comprehensive analysis is performed covering various aspects to ensure product sustainability. The proposed product or new features are required to be properly streamlined qualitatively and quantitatively in collaboration with cross functional teams, for it to be feasible in its application.
- When designing, developing and deploying products, ensuring compliance with all the applicable laws and regulations for licensed commercial banks, including adherence to the guidelines in the Financial Consumer Protection Regulations Act, Prevention of Money Laundering Act, Convention on the Suppression of Terrorist Financing Act, Financial Transactions Reporting Act, the Financial Institutions (Customer Due Diligence) Rules etc., of the Central Bank of Sri Lanka (CBSL).
- When carrying out product promotions, ensuring that the promotional material and customer communications comply with the applicable regulatory requirements and the guidelines for the protection of customer rights as per the Customer Charter for Licensed Commercial Banks.
- Clear communication and explaining in detail to clients, the information on key features and functionalities of a product, interest rate, fees and charges, terms and conditions by credit staff and customer contact centre staff, in the language preferred by the client. Training is carried out to equip the staff with such competence. Trilingual information is also available in the Bank website and client documentation is available in either of the three languages upon request.
- As one of the 18 signatories to the 11 Sustainable Banking Principles launched by the Sri Lanka Bank's Association (SLBA), DFCC Bank adheres to the principles.
- Considering the exposure to Environmental & Social (E&S) risks of its clients, in 2016 the Bank developed an Environmental & Social Management System (ESMS) for its lending activities.
- As an Accredited Entity of the Green Climate Fund (GCF), the Bank is committed to follow the International Finance Corporation (IFC) Performance Standards and maintain internal operations to accomplish GCF evaluation standards.
- DFCC Bank has maintains an "Exclusion List"– a list of prohibited activities which will not be considered for financing by the Bank.
- Disclosure of associated impacts generated from the business and material topics most relevant to the Bank and its stakeholders according to the Global Reporting Initiative (GRI) framework as well as information on stakeholder value creation through business activities.
- Disclosing the verified GHG emission of the Bank (Direct Emissions (Scope 1), Indirect Emissions (Scope 2) and Other Indirect Emissions (Scope 3).
- The Bank has a customer complaints and grievance handling process and there is a channel provided in the Bank's website. There are also dedicated telephone lines provided for customer service such as the call centre, customer experience, recoveries etc.
- If the client is not satisfied with the response received from the Bank to the concern or complaint made, the client has the option to escalate it to the Financial Consumer Relations Department at the CBSL and to the Financial Ombudsman.

Marketing Communications

In 2023, DFCC experienced a dynamic period in its marketing and communications strategy, marked by notable advancements in brand equity, social media engagement, and public relations. These achievements unfolded within a fluctuating market environment shaped by socioeconomic shifts and changing consumer behaviours. DFCC remained steadfast in its commitment to innovation, crafting market strategies that resonated with our audience and bolstered confidence in our role as a financial partner. Throughout these endeavours, our focus on generating top-of-mind awareness remained paramount.

Brand Equity

During the past fiscal year, our marketing endeavours were strategically aligned to fortify our brand presence through brand-centric initiatives and innovative communication strategies. We adeptly utilised traditional and digital channels to amplify our reach and engagement.

DFCC Bank strategically fostered brand equity by emphasising its proactive stance towards technological advancements and its dedication to meeting the evolving needs of its digitally savvy customer base. Being digitally first in all its communications and initiatives underscored the Bank's mission to provide seamless banking experiences by showcasing a commitment to leveraging cutting-edge technology. Through targeted messaging and innovative digital strategies, DFCC Bank positioned itself as a forward-thinking institution that prioritises customer convenience and embraces technological innovation to deliver best-in-class services.

The relaunch of DFCC Junior highlighted the Bank's unwavering dedication to fostering financial literacy from an early age; by introducing specialised banking solutions tailored for young customers, DFCC reaffirmed its commitment to nurturing a financially savvy generation and positioned itself as a progressive institution that prioritises the future. This initiative demonstrated the Bank's proactive approach to empowering its clientele and reinforced its reputation as a trusted partner in their financial journey.

DFCC Freelancer addressed the distinctive financial needs of platform-based tech workers, positioning the Bank as a responsive ally to the evolving freelancing economy. By offering tailored banking solutions, DFCC demonstrated its understanding of emerging customer segments and showcased its adaptability to changing market dynamics.

As Sri Lanka's pioneering virtual bank, DFCC Galaxy spearheaded innovation in banking services and customer experience. This groundbreaking digital platform revolutionised banking by offering customers an immersive metaverse banking experience. By introducing such innovative solutions, DFCC reinforced its reputation as a leader in digital banking offerings, elevating brand equity and positioning itself as a frontrunner in the financial industry's evolution.

DFCC Pinnacle Junior aims to enhance self-esteem and decision-making power among children and provides them with valuable tools to navigate their financial journeys confidently. Through this initiative, DFCC Bank reaffirms its position as an entity dedicated to nurturing a financially savvy generation. Moreover, by extending many of the privileges Pinnacle customers enjoy to DFCC Pinnacle Juniors, the bank emphasises inclusivity and demonstrates its dedication to providing comprehensive banking solutions tailored to the unique needs of its clientele.

As evidence of the efficacy of DFCC's brand and communication strategies, the DFCC Brand Rating for 2023 experienced a notable ascent, moving up four positions to attain the 21st position from its previous standing at 25th.

Brand Rating Improved

	DFCC Bank's Brand Rating		
	Position	Rating	Value (Mn)
2023	21	A-	5,885
2022	25	A-	5,721
2021	27	A	5,584
2020	28	A-	5,039
2019	25	A+	6,334
2018	27	A+	4,706
2017	39	A+	1,660
2016	38	A-	1,684

Source – Brand Finance Sri Lanka 100 – 2023

A leap in Digital Marketing on DFCC's Social Media channels

In addition to our brand equity initiatives, DFCC Bank took significant steps forward in social media engagement in 2023 and recorded significant achievements. Our strategic focus on digital channels, and content that resonates with customers and targeted campaigns, contributed to enhanced brand visibility and increased customer interaction across various platforms. Key social media achievements included:

	Facebook	Instagram	LinkedIn	YouTube	TikTok
Followers	189,605	11,854	56,641	3,502	1,424
Impressions/ Video Views	62.1 (million)	5.9 million	912,267	306,000	53,936
Reach	52.7 million	4.7 million	362,847		

Source: Fanpage *Karma* link to https://www.fanpagekarma.com/

Driving Brand Awareness Through PR:

DFCC Bank's public relations efforts in 2023 also resulted in significant recognition and impact. Our strategic initiatives and proactive engagement with media outlets resulted in significant achievements.

DFCC Bank strategised its public relations with forward-looking approaches to building and maintaining positive relationships with the media and stakeholders. This earned the Bank dividends by securing fourth place in the public relations ranking within the banking sector. These achievements underscore DFCC's commitment to driving brand equity and positive public perception through strategic marketing initiatives (including intensive use of social media) and proactive public relations efforts. As we continue to innovate and evolve, we remain dedicated to delivering unparalleled value to our customers and stakeholders, solidifying DFCC's position as a leader in the banking industry.

The marketing and communications initiatives undertaken have made a substantial contribution, acquiring six out of the seventeen awards earned by the Bank.

Key Marketing Campaigns implemented during 2023

EMPLOYEE CAPITAL

Our business needs are diverse, and a comprehensive skills profile among our staff is needed to cater to these needs. While satisfying these needs, our staff have the opportunity to develop and grow themselves. We endeavour to build a culture that fosters customer service and facilitates digital enablement. The Bank manages its talent pool so that people are placed in the correct positions to use their talents best and ensure their career growth. We also have procedures to ensure that each role is remunerated commensurately to its contribution.

We believe that together, we can grow. Our employees have the privilege and the opportunity to join hands with our customers in making dreams come true and realising aspirations.

Our customers come to us with financial needs, wants, dreams, and aspirations. We can provide innovative and responsible financial solutions to develop individuals and businesses sustainably. For this purpose, every employee in the Bank is committed to delivering. As we fulfil this purpose, we allow our staff to develop and grow. We value the diversity and unique skill set that each employee brings to the organisation, and we are committed to enhancing those capabilities whilst embracing the values and persona of DFCC.

Employees can grow their capabilities through formal training and development programmes, cross-functional projects, job rotations, and other informal experiences. Our focus on health and wellness programmes, as well as social events, ensures that we create a balanced working environment that facilitates our employees to keep growing, both professionally and personally.

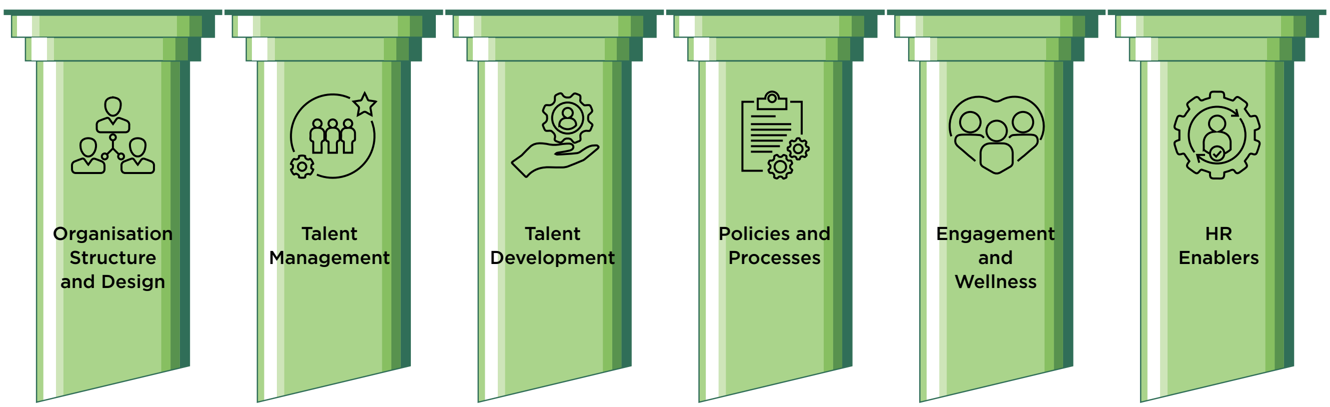
HR Strategy

Customer Centricity and Digital Enablement are two key focus areas for the Bank. Our HR Strategy is designed around creating a sustainable culture that fosters a service mindset and facilitates digital enablement while ensuring optimum productivity and employee engagement. We believe that by focusing on these key elements, we will achieve the following outcomes:

- Be amongst the top 5 banks in terms of Profit per employee/Revenue per employee.
- Maintain top talent attrition below 8% in the next 2 years and 5% thereafter.
- Maintain an employee engagement score above the industry average by 2025.

Structure and Organisation

At a granular level, the HR Strategy is achieved through the development of a Human Capital Architecture based on 6 key pillars:



1. Organisation Structure and Design

A streamlined organisation design ensures optimum efficiency by creating workforce structures that enhance process efficiency and employee productivity. This directly correlates to increasing the revenue and profit per employee indicators. A significant step taken this year in this context is forming an Organisation Design and Workforce Planning function. This unit undertook the Branch Operating model review in collaboration with stakeholders related to the branch banking business to enhance customer centricity. Complementing this initiative, workforce planning undertook an in-depth analysis of types of transactions, number of transactions, customer interactions, etc., and scientifically ascertained the number of staff required at a particular branch unit to ensure that the correct number of staff is available in the right roles.

In addition, the Lean Management function spearheaded the revamping of core processes to enhance the customer experience. To facilitate this, the organisation structures of key customer support units were reviewed and revamped.

GRI 404-2

2. Talent Management

Talent Management ensures that people are placed in the correct function and at the right level to ensure that the productivity we receive is commensurate with the remuneration we pay.

The evaluation of jobs to ensure that each role is placed at the right level and compensated in line with the value it delivers continued throughout the year, with 30 jobs evaluated during the year. Complimenting this, a detailed market study was carried out with the support of external consultants to assess the standing of the Bank in terms of Total Rewards. As an outcome, a market adjustment was made for selected grades (as the 1st phase) to ensure that employees are compensated well for value delivered. Employees' aspirations differ; therefore, rather than managing their careers, a process has been implemented to facilitate employees to manage their careers themselves.

The Expression of Interest (EOI) process advertises each vacancy internally, allowing employees to apply for roles at parallel and higher levels. They will then go through a selection process, and the right candidate is allowed to move to the role of their choosing. This gives each employee the power to manage their own career, facilitating job enrichment based on individual aspirations. 232 EOIs were issued during the year. Furthermore, complementing this process, to effectively manage risk and provide job variety to employees, 500 transfers were implemented.

3. Talent Development

Developing people to optimise their potential remains a high priority in the Talent Development agenda. In this context, 90,678 learning hours have been delivered to 24,795 participants. A new initiative in the sphere of Talent Development is the launch of role-based training. The majority of the workforce is in the Branch network. Hence, role-based training was initially introduced to the branch network. Under this initiative, the training and certifications required to perform optimally in a specified role were identified and mapped to each unique role. Based on this, the key certifications were developed and rolled out in the initial phase. Technical and soft skills training are also being delivered to ensure the unique role holder is "role-ready". Leadership Development also forms a key component of the Talent Development strategy.

The leadership development initiatives were reviewed and revamped, with three new initiatives scheduled to be launched in the first quater of 2024. The groundwork and selection process was completed, considering the revisions to the succession plan.

4. Policies and Processes

An annual review was carried out on all HR Policies and Processes, ensuring that the policies implemented align and support the business objective, meet regulatory requirements and enhance value to employees. Based on the implementation of the HR Roadmap, periodic review of policies continues to take place, as and when required.

5. Engagement and Wellness

Prioritising physical and mental health has been consistently recognised as a catalyst for improved productivity. Accordingly, the Bank has dedicated efforts towards fostering a culture of health and wellness throughout the year. Continuing its commitment, the Bank sustained various health and wellness initiatives, including monthly cycling, walking, and exercise programmes.

To enrich these offerings, new additions to the calendar included a 4km walking session and a "Bike and Bond" distance bicycle excursion. Moreover, yoga sessions and rhythmic dancing lessons for beginners, initiated in 2022, were carried forward into the 1st quarter of 2023. Notably, the second quarter saw the introduction of social dancing sessions, allowing staff to learn styles such as the Jive, Ballroom Merengue, and Bachata.

Furthermore, organised hikes to scenic destinations such as Yakdessagala, Narangala, and Kanneliya witnessed enthusiastic participation, with over 30 staff members joining each excursion. These initiatives have been instrumental in promoting health and wellness while fostering camaraderie among employees.

Complementing these efforts, the Bank's social calendar remained vibrant under the guidance of the Welfare Committee. Events such as the Avurudu Pola, Sports Day, Annual Trip, and Day Outing at Pearl Bay were organised to provide relaxation and social interaction opportunities. Additionally, as sub-activities, the Welfare Committee collaborated with merchants to offer discounts and freebies, further enhancing the overall employee experience.

GRI 2-26, 205-1, 2

6. HR Enablers

To facilitate the above, key HR processes were reviewed and revamped. The above initiatives, working in unison, ensure that the Bank builds an engaged workforce, focuses on continuous development and delivers optimum value through a structure that enables efficient and effective delivery of customer solutions.

Guidance from the Leadership

The HR function has multi-faced responsibilities. It is responsible for championing the Bank's vision, representing and being the voice of the people/employees, ensuring that stakeholder value is enhanced and being true to the HR Profession. In formulating HR strategies and developing a roadmap, the HR function is mindful of these four responsibilities. The roadmap is validated and approved by the Board Human Resources and Remuneration Committee, of which the Chairman is a member and the CEO is an invitee. Furthermore, if there are any changes to a key policy, it is presented to this Board Subcommittee for recommendation and submitted to the Board for approval. All important initiatives are executed in consultation with the Board Human Resources and Remuneration Committee.

Staff Attrition

The challenging economic environment has had a direct impact on the real incomes of the employees. This has been a significant contributing factor to the high level of attrition, with notably high numbers of staff migrating. Nevertheless, while good people leave, the better and more resilient will remain, working towards the light at the end of the tunnel. The challenges have also brought employees together due to the need to perform with extra rigour, ensuring higher collaboration across the organisation.

Transparency and Anti-corruption

The Bank has a rigid code with no tolerance for bribery and corruption. The Anti-bribery and Corruption (ABC) policy is a public document published on the Bank's website. It is also available on the corporate intranet for staff to easily reference. It is reviewed annually by the HR Subcommittee that recommends the Policy and, thereafter, approved by the Board. This highlights the fact that the Policy is authorised at the highest levels.

The Policy is binding on all employees, Members of the Board, and those authorised to act on behalf of the Bank. Authorised persons include parties such as agents and any other representatives. In any agreements we sign with such parties, the non-disclosure sections of such contracts would also have safeguards against corruption. As a policy, no direct or indirect contributions to any political party are made by DFCC Bank.

A training programme on Anti-corruption was conducted for all Directors in November 2023, and significant training on this subject has been provided to department heads and unit heads. The Bank also has laid down policies on gifts, hospitality, and expenses, which are part and parcel of the ABC Policy. This lays down the proper code of conduct when an employee receives a gift and the acceptable limits in terms of value. It will also recommend the course of action when the limits are exceeded. The Policy also prohibits receiving facilitation payment for providing routine services.

Whistleblowing

The Bank also has a whistleblowing mechanism where an employee can report suspected cases of corruption. There is also an Independent Director, the channel of contact for whistleblowing. This reporting may be done anonymously if the employee wishes so. Any employee may use this channel without fear of reprisals. Even if the allegation or suspicion turns out to be unfounded, if it was made in good faith, there will be no adverse consequences for the employee. The employee will also be informed confidentially of the outcome; depending on the circumstances, he may be informed of why it was found to be incorrect. We also have other mechanisms, such as open days with the Chairman and the CEO, where employees can raise their concerns.

Additionally, the CEO Hangout, held quarterly, is an opportunity for staff members at different levels to discuss directly with the CEO. There is also another initiative, the listening wall, where employees can post any comments anonymously or openly. Regarding any contributions of a political nature, the Bank has a policy that this should be disclosed and reported separately. There were no contributions of a political nature made during the year.

Diversity, Equity and Inclusion

DFCC Bank is committed to fostering an inclusive environment where difference is encouraged and all stakeholders are treated equitably. It has been further reinforced by the inclusion of DEI as a core value of the Bank since 2022, with the introduction of DEI Policy. This demonstrates our social responsibility and contribution to a more innovative, productive, and resilient workplace culture. We

GRI 401-2, 404-3

have created a space for people with different abilities by broad-basing the employment opportunities available. As a part of the implementation, working groups have been established to drive goals in the upcoming year.

In April 2023, the Bank partnered with Enable Lanka Foundation to conduct an accessibility audit for the Head Office building and the Ramanayake Mawatha building to assess the accessibility and shortcomings that may hinder the mobility of Persons With Disabilities (PWDs). After prioritizing the identified issues, we expect to develop a remediation plan to address them.

Performance Appraisal

All permanent employees go through an annual performance appraisal process. The bonus and increments are based on the outcome of performance.

Gender and Non-discrimination

Any form of discrimination based on gender is also explicitly prohibited by the Secure Environment Policy and the Diversity, Equity, and Inclusion Policy. All recruitments and promotions are essentially gender-neutral.

Procedures for Operation Change

When there is a change in an employee's responsibilities, and this involves a change in work location, the Bank usually gives the employee a reasonable period of notice. This will generally be at least two weeks and up to a month, where possible. However, exceptions sometimes have to be made where there is an urgent requirement, for instance, at another branch. Here, too, attempts are made to minimise the hardship to the employee by selecting someone from the closest branch.

When an employee needs to travel to another location for work above a specified kilometre range, a special allowance to meet this travelling expense is offered. This applies to moves due to an emergency and to regular transfers. For selected roles, a rent reimbursement is also provided.

Employees on Contract

The Bank employs a certain number of staff who are not permanent employees but on fixed-term contracts. These employees are not entitled to certain facilities that the average staff are entitled to, such as loan schemes.

As at the end of the year, the services of 30 employees at the Contact Centre and eight employees at the PFS department were outsourced.

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

Company	Employment type	Housing loan	Vehicle loan*	Exam*	Professional subscription*	Social Club gymnasium*	Miscellaneous/ staff loan	Festival advance**	MBA loan	Holiday grant***
DFCC	Permanent	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Contract	×	×	×	×	×	×	×	×	×

* Executive trainees and management trainees on fixed term contracts and staff on contract above one year will also be provided

** Only for non-executive staff

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

Career Endings

Employees are given certain special benefits at the end of their careers with the Bank(retirement). They are entitled to a one-time reimbursement of certain expenses by the Bank as a token of appreciation for long service.

Certain employees who joined the Bank before 1 May 2004 are entitled to pensions as there was a pension scheme operating across Banks. During the financial crisis, special consideration was given to our pensioners receiving a pension below a certain amount. They were paid a special hardship allowance, which is still being continued.

GRI 403-1, 2, 3, 4, 5, 6, 7, 8, 404-1, 2

Organisational Knowledge and Handover Procedures

The Bank has a cherished repository of knowledge among its employees, which should be nurtured and passed on. There is a formal handover process when a staff retires or is even transferred to another branch. Completing a handover document is a mandatory process, even on retirement. This ensures that knowledge transfer from a person to his successor is effectively carried out.

Occupational Health and Safety (OHS)

The Bank holds a paramount commitment to the health and safety of its employees, underpinned by a comprehensive Occupational Health and Safety (OHS) policy. To facilitate ongoing learning and awareness, an e-learning module is accessible via the corporate intranet, encouraging regular engagement from employees. Information on healthy diets and lifestyles is also disseminated to promote overall well-being.

Moreover, the Bank has implemented various amenities to minimise workplace health risks. The option for remote work and flexible hours remains available as deemed necessary. DFCC acknowledges its duty to uphold health and safety standards across all properties, ensuring a safe and secure environment throughout its assets.

To uphold these standards, effective safety systems, standards, and practices are consistently applied across the Group, tailored to comply with local legislation. Our overarching objective is to provide and sustain a safe and healthy environment for all stakeholders, including staff, business partners, visitors, and others.

Throughout the year, no significant non-compliance with health and safety guidelines was reported, underscoring our steadfast commitment to maintaining high health and safety standards across all operations.

Training and Development

A total of 90,698 learning hours have been delivered covering 24,795 participants. Details pertaining to the training delivered during the year is as follows:

Training hours by type

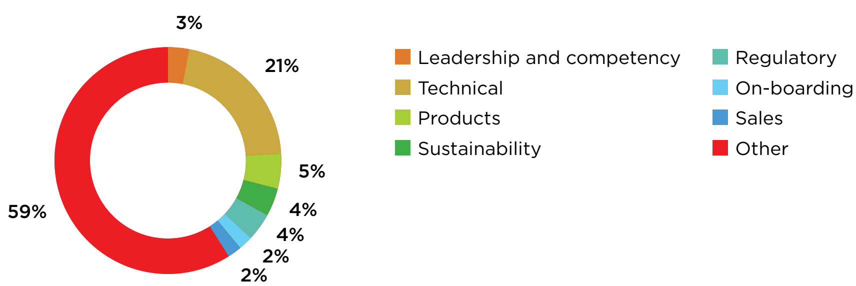
	Number of programmes	Training hours
Online training	127	17,309
Onsite training	199	25,453
E-learning	64	47,936
Total		90,698

Total number of staff attended for training programmes by staff category and gender

	Male	Female	Total number of participants
Management	373	151	524
Executive	4,802	3,062	7,864
Supervisory staff	3,429	3,027	6,456
Junior staff	4,896	5,055	9,951
Total	13,500	11,295	24,795

Note: The above number of participants is a cumulative figure, it consists of the same employee attending multiple training programmes.

Training Programmes by Category



GRI 2-7, 404-1

Average Training

	Total	Male	Female
Total number of non-executives in the Bank	1,439	728	711
Total number of programmes non-executives attended	18,059	9,074	8,985
Average programme per non-executive		12.46	12.64
Total number of executives in the Bank	670	429	241
Total number of programmes executives attended	6,736	4,426	2,310
Average programme per executive		10.32	9.59

Gender Analysis

	Nos.
Total number of female employees	952
Total number of programmes females attended	11,357
Average programmes per female employee	11.93

We also have programmes that are conducted specially for the members of the Board. A special programme on IT security was conducted in October 2023, and one on bribery and corruption was conducted in November 2023 for the Board of Directors.

Employment Profile

Workforce by employment type/province

Age Group	Permanent			Contract			Total number of employees		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Central	57	41	98	10	9	19	67	50	117
East	36	15	51	12	5	17	48	20	68
North	28	16	44	6	4	10	34	20	54
North Central	37	21	58	9	3	12	46	24	70
North Western	46	40	86	3	10	13	49	50	99
Sabaragamuwa	48	30	78	8	11	19	56	41	97
South	84	57	141	13	20	33	97	77	174
Uva	44	20	64	11	6	17	55	26	81
Western	580	474	1,054	125	170	295	705	644	1,349
Total	960	714	1,674	197	238	435	1,157	952	2,109

Note: No temporary/non-guaranteed/part time employees in employment

GRI 401-1, 405-1

New Employees

Grade	New employees joining in the current Financial Year						
	Age Group				Gender		
	Less than 30 years	Between 30-50 years	Above 50 years	Total	Male	Female	Total
Management		9	1	10	8	2	10
Executive	6	106	6	118	70	48	118
Supervisory staff	38	38	2	78	47	31	78
Junior staff	436	22	1	459	202	257	459
Total	480	175	10	665	327	338	665

Note: Staff re-joining after retirement have been excluded

Turnover

Employee turnover based on Age Group*

Employee turnover based on Gender*

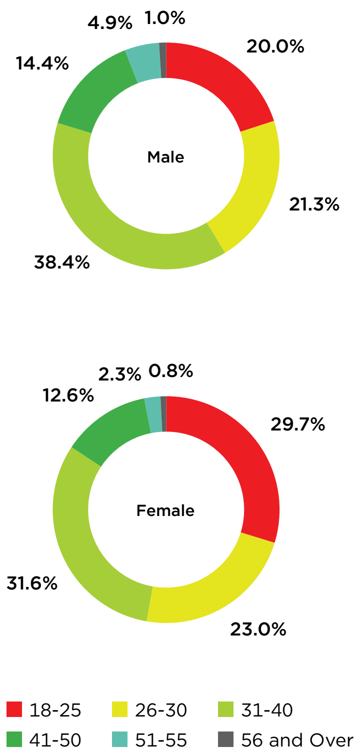
* In the permanent cadre, excluding terminations/retirements/contract expiries/involuntary resignations

Employees by Seniority and Gender

	Male	Female	Total	Male %	Female %
Below 1 year	264	273	537	22.8	28.7
1-5	322	226	548	27.8	23.7
5-10	283	145	428	24.5	15.2
10-15	168	170	338	14.5	17.9
15-20	75	99	174	6.5	10.4
Above 20	45	39	84	3.9	4.1
Total	1,157	952	2,109	100.0	100.0

GRI 2-7, 405-1, 2

Employees by Age Group



Male:Female Salary Ratio by Employee Category

Grade	Number of employees			Basic salary ratio, Male/Female
	Male	Female	Total	
Management	83	30	113	52:48
Executive	346	211	557	51:49
Supervisory staff	279	278	557	50:50
Junior staff	449	433	882	52:48
Total	1157	952	2109	51:49

Staff by Category and Gender

Retention of New Hires

Retention	2023			
	Total New Recruits	Number of Resignations	Retained	Retention %
Management	10	0	10	100
Executive	118	10	108	92
Supervisory staff	78	4	74	95
Junior staff	459	70	389	85
Total	665	84	581	87

Note: Excludes contract expiries, terminations and involuntary resignations

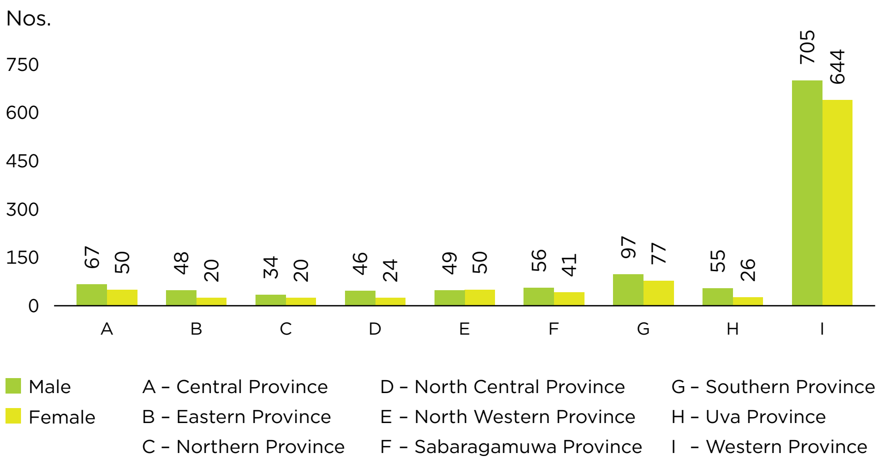
GRI 2-7, 401-3

Parental Leave

Return to work after parental leave

Indicator	Male	Female	Total
Number of employees entitled to parental leave during previous reporting period (2022)	N/A	851	851
Number of employees who took parental leave and due to return during 2023	N/A	50	50
Number of employees who returned to work after parental leave during 2023	N/A	49	49
Employees who returned to work out of those due to return during 2023	N/A	98%	98%
Number of employees due to return to work after parental leave during 2022	N/A	43	43
Number of employees who returned to work after parental leave during 2022	N/A	41	41
Employees who returned to work out of those due to return during 2022	N/A	95%	95%
Number of employees who returned to work after parental leave during 2022, who were still employed 12 months after return to work	N/A	30	30
Retention rate	N/A	70%	70%

Employees by Province



Culture and Values

Two new values were introduced to the Bank's core value framework: stewardship and diversity, equity, and inclusiveness (DEI). Multiple programmes were conducted to orient the staff on these new values, and implementation is closely reviewed at the highest level. The values of the Bank are discussed in the orientation programme, focusing on how they need to be practically implemented.

Looking Ahead

The business environment is volatile, and an agile approach is required to navigate it. The roadmaps and plans developed have multiple review points and are implemented in sprints to maintain the flexibility needed to react fast and change course when required.

BUSINESS PARTNER CAPITAL

DFCC Bank's robust and enduring alliances in the domestic and international spheres are pivotal in safeguarding and strengthening its reputation as a trustworthy financial institution with an impeccable history and rich legacy. These lasting partnerships, fostered and sustained by the DFCC Bank, serve as a cornerstone for its credibility.

GRI 2-6

DFCC Bank has consistently focused on strengthening its Business Partner Capital, as it is crucial for augmenting financial stability, diversifying risk, and enhancing market presence by leveraging the strengths of collaborative networks. This exemplifies shared resources, expertise, and networks, underscoring the Bank's interconnectedness and sustainable practices. Such partnerships established over the years, have brought in cross-functional expertise, technological advancements, and expanded customer bases, enabling the Bank to innovate and deliver diverse services. Such strong alliances have provided access to varied resources, facilitating resilience against market fluctuations and regulatory changes, while amplifying credibility and customer loyalty. This has contributed consistently towards leveraging combined strengths to achieve mutual goals and enhance the overall success and competitiveness of DFCC Bank, as well as partner organisations.

Multilateral and Bilateral Institutions

DFCC Bank's adherence to judicious, far-sighted, and credible financial practices and ethical conduct has propelled its ranking among Sri Lanka's top ten banks. Such recognition has been influential in the decision of the Government of Sri Lanka and various multilateral and bilateral financial bodies, such as the Asian Development Bank (ADB), to channel funds to end-users through DFCC. This has resulted in DFCC being involved in numerous projects where credit and grant funding have effectively supported market development and capacity building initiatives. Additionally, the Bank has consistently sustained partnerships with global institutions, effectively managing multiple funding programmes that directly benefit Sri Lanka's overall economic growth as well as crucial support for vulnerable segments.

DFCC Bank's partner organisations include:

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

Driven by the country's challenging economic conditions, subdued business sentiment, and global growth limitations, DFCC Bank's Investment Banking Unit has persistently pursued viable strategies to broaden the Bank's funding sources. This endeavour involves proactive engagement in partner collaborations and exploration of diverse markets to augment its Business Partner portfolio.

Such alliances offer opportunities for shared knowledge, innovative solutions, and improved operational efficiencies, enabling DFCC Bank to stay competitive in an ever-evolving financial landscape. This expansion not only diversifies the Bank's revenue streams but also fosters geographic and demographic inclusivity, potentially reaching untapped areas or customer bases that were previously inaccessible. Additionally, forming alliances and collaborating with a wider array of business partners bolsters the Bank's resilience against economic downturns or market uncertainties.

Correspondent Banks

DFCC Bank maintains around 200 global Correspondent Banking connections crucial for international trade. Additionally, these institutions serve as the Bank's nostro agents in their respective countries. They are vital for global financial connectivity, enabling cross-border transactions and fostering international trade. Correspondent banks serve as intermediaries, streamlining payments, trade finance, and currency exchanges. These relationships enhance transaction efficiency, reduce risks through regulatory compliance, and curb fraudulent activities. Additionally, correspondent banks promote financial inclusivity by extending banking services across borders, empowering access to diverse markets and currencies.

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

Supply Chain Management and Procurement Policy

A robust Supply Chain Management (SCM) and Procurement Policy are crucial as they ensure operational efficiency, cost-effectiveness, and quality control throughout the procurement process. This policy streamlines sourcing, supplier selection, and inventory management, optimising resource allocation and minimising risks. It fosters transparency, ethical practices, and compliance with regulatory standards, promoting sustainability and mitigating potential disruptions. Additionally, a well-defined SCM and Procurement Policy cultivates strong supplier relationships, driving innovation, and ensuring timely delivery of goods and services.

DFCC's procurement process has consistently followed a stringent and transparent policy framework over the years. Both registered and newly onboarded vendors operate on a level playing field, ensuring equitable opportunities to meet the Bank's diverse requirements. Under the leadership of a Senior Vice President, the Procurement Committee ensures cost-effective sourcing, primarily favouring domestic suppliers.

Supplier evaluation involves assessing multiple criteria to ensure quality, reliability, and alignment with business needs. This process typically examines factors such as business stability, product quality, adherence to delivery schedules, pricing competitiveness, and post-sale support, with biennial reviews dictating their continuity. Evaluations include performance reviews, audits, and feedback mechanisms to gauge supplier effectiveness. Additionally, scrutinising ethical practices, compliance with regulations, and financial stability is crucial. This comprehensive evaluation framework ensures suppliers' ability to consistently meet standards, mitigate risks, and align with the Bank's objectives.

The Bank's preference for local suppliers signifies its commitment to the community it serves. Registered suppliers also receive advisory support on financial and business matters from the Bank. High-value IT procurement undergoes review by the IT Steering Committee (ITSC), while specialised capital investments may face additional scrutiny by independent bodies if necessary.

Partners for Service Delivery

As a customer-focused financial institution, the Bank has established and fostered various service delivery channels, which primarily aims to provide customers with the exceptional service they expect. These channels encompass agency banking for customer accessibility, cash management, secure transportation of customer-owned security items, and ensuring that ATMs remain adequately stocked for timely access to funds.

Engaging with proficient IT partners ensures secure, efficient technological and digital platforms safeguarding customer data and access channels. Additionally, several back-office functions, including payroll, audits, document storage, legal counsel, and equipment maintenance are outsourced to partners, ensuring seamless operation across the Bank's various departments.

These alliances drive innovation, ensure compliance, and elevate service quality, enabling DFCC Bank to provide diverse, efficient, and secure financial services to our customers while concentrating on our core strengths and competencies.

Strategic Diversification and Alliances

The strategic orientation of the DFCC Group is enriched by multiple subsidiaries, joint ventures, and associate companies, amplifying its overall capacity and augmenting the scope of its strategic direction and goals for comprehensive growth and development.

DFCC Consulting (Pvt) Ltd.

DFCC Consulting (Pvt) Ltd, a wholly-owned subsidiary, has been active in consultancy, advisory services, and related sectors since 2004. It has executed domestic and global consultancy projects across varied fields like programme management, engineering, environment, and renewable energy, serving diverse clientele, including the World Bank and the ADB. Leveraging expertise from DFCC Bank's staff and external consultants, the company collaborates with overseas experts and firms when needed, accessing a rich pool of knowledge and skills to deliver comprehensive solutions.

Lanka Industrial Estates Ltd.

Established in 1992, Lanka Industrial Estates Ltd (LINDEL) operates as a public-private partnership with the Government of Sri Lanka. Its primary objective was to transform the abandoned facilities of the former State Fertiliser Manufacturing Corporation in Sapugaskanda into an industrial estate. LINDEL is dedicated to managing and providing top-notch infrastructure and related services to its tenants, representing diverse sectors such as chemicals, construction materials, engineering, fertilisers, FMCG, metal fabrication, and packaging. LINDEL is actively engaged in discussions with the Ministry of Industries to expand and establish a second industrial estate. while looking at the possibilities of optimising the land utilisation in the present location. Considering the large extent of roof space available, LINDEL is currently evaluating alternative options available to accelerate the investment into renewable energy sources. Despite plans for a CSE listing, current economic conditions in the country have resulted in this being put on hold for the time being.

Synapsys Ltd.

Synapsys Ltd., a wholly-owned subsidiary, stands as an innovative technology firm, drawing upon over 17 years of dedicated client service within banking, capital markets, insurance, and retail payments across Asia-Pacific and the UK. The Company's primary focus lies in promoting financial inclusion, disruptive financial services under the motto "Bank Different!", and developing alternative, cost-effective payment networks. Synapsys builds cloud-ready Fintech platforms through trusted partnerships, utilising extensive expertise in SME, Micro, and Agri-finance sectors. Its success is propelled by a diverse team of professionals, including software engineers, banking consultants, payment solution experts, IT operations specialists, and operations management personnel. As a diversification strategy, Synapsys is now adding non-banking solutions to its product suite and is also considering moving into overseas markets which looks more lucrative in terms of profitability.

Acuity Partners (Pvt) Ltd.

Acuity Partners (Pvt) Ltd. emerged as a joint venture between DFCC Bank and Hatton National Bank with the aim of centralising all investment banking endeavours of both institutions. The broader Acuity Group, consisting of Acuity Partners (Pvt) Ltd., Acuity Securities Ltd., Acuity Stockbrokers (Pvt) Ltd., and Lanka Ventures PLC, delivers an extensive range of corporate finance, fixed income securities, stock brokering, margin trading, and venture capital financing products and services under a unified platform.

National Asset Management Ltd.

National Asset Management Ltd. (NAMAL), an affiliated firm of DFCC Bank, holds the distinction of being Sri Lanka's first-ever unit trust management company. Since its establishment in 1991, NAMAL introduced the country's first unit trust, the National Equity Fund. NAMAL presently oversees four unit trusts and extends fund management services alongside private wealth management solutions. The Company is supported by proficient and seasoned professionals within the financial sector.

GRI 2-28

Membership in Industry Associations

The Bank has taken the strategic initiative to broaden its footprint among diverse business sectors, maintaining links in a number of business and professional organisations, including:

- 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 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 reputed and established bank in Sri Lanka, DFCC Bank places great emphasis on its Business Partners. Recognising the significance of robust partnerships, we firmly believe that fostering strong alliances is pivotal for sustainable business expansion. By nurturing these partnerships, we aim to achieve impactful and sustainable growth, thereby better serving the community and the Nation.

SOCIAL CAPITAL

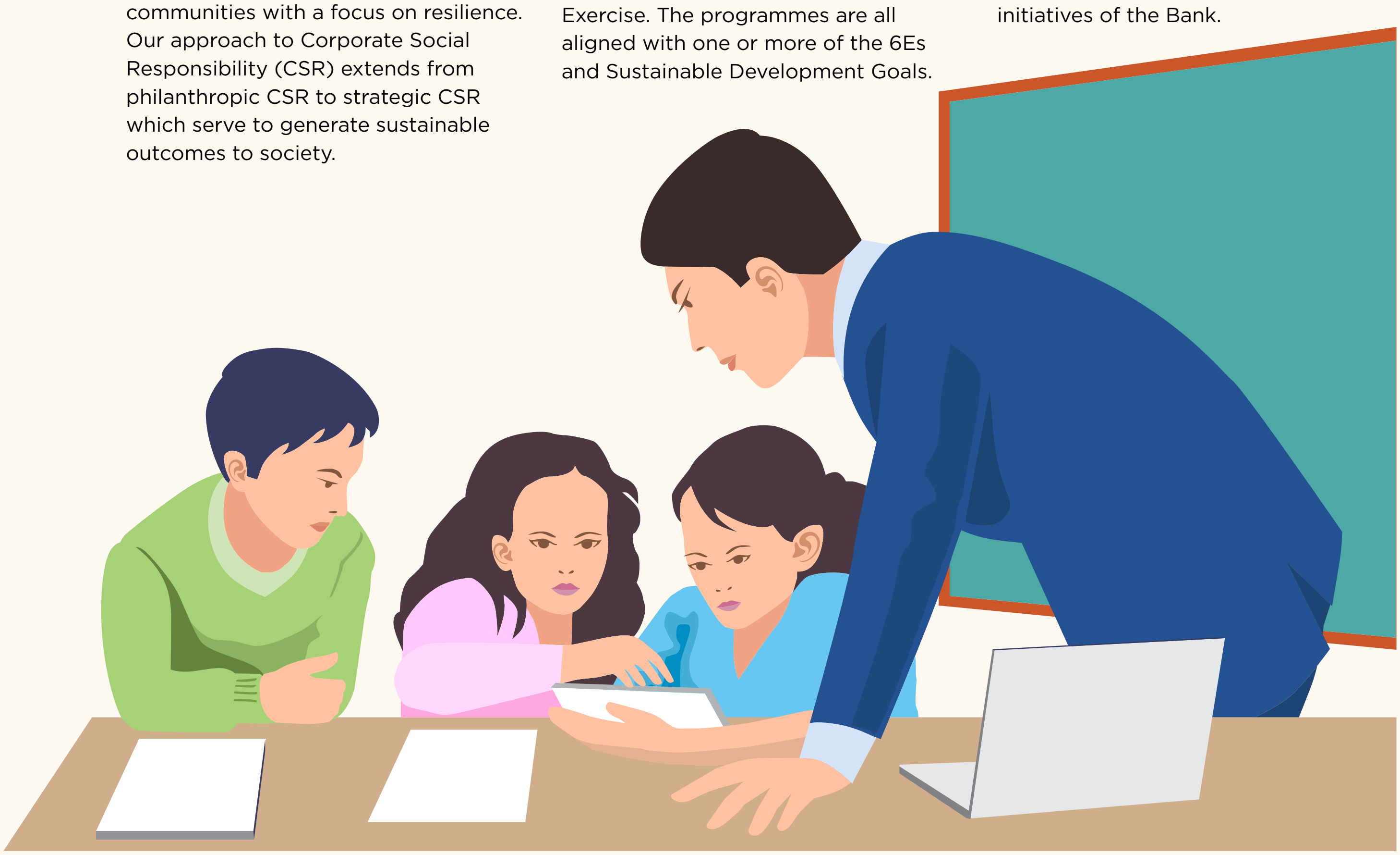
The Bank has a comprehensive sustainability strategy encompassing social, environmental, and governance aspects. The strategy, which is executed through a detailed, time-bound, implementation plan is described in depth under the "DFCC Approach Towards Sustainability" in the strategy report (page 50 to 53).

Our Community Engagement Strategy

DFCC Bank demonstrates its commitment to social sustainability of communities with a focus on resilience. Our approach to Corporate Social Responsibility (CSR) extends from philanthropic CSR to strategic CSR which serve to generate sustainable outcomes to society.

In implementing our CSR programmes we focus on key six themes, i.e. 6Es depicted in our Sustainability Strategy: Education, Elderly, Emergency Relief, Entrepreneurship, Environment, and Exercise. The programmes are all aligned with one or more of the 6Es and Sustainable Development Goals.

Under the guidance of the Executive Sustainability Management Committee (ESMC), the Sustainability Unit gets involved in planning, implementing and monitoring of the sustainability initiatives of the Bank.



Project Management Mechanism

GRI 2-16, 413-1

Project identification (Community needs/grievances)
Sustainability Unit, 6E Champions, Sustainability Champions, Branches/Departments, Other Stakeholders

Project idea evaluation/project designing
Sustainability Unit, 6E Champions

Project screening/strategic direction
Executive Sustainability Management Committee

Project implementation
Sustainability Unit, Regional Offices, Branches, Departments

Project monitoring and record keeping
Sustainability Unit

DFCC Flourish Beyond

"Flourish Beyond" is a programme introduced in 2023 under the Elderly pillar, dedicated to Senior Citizens. The programme was very well received and we intend to roll it out on an ongoing basis in the future.

The primary objective of this programme was to enhance the physical and cognitive well-being of the elderly, foster healthy aging, and empower our senior citizens to take proactive control of their health and overall well-being.

The inaugural workshop under the "Flourish Beyond" programme was conducted in September 2023. This event witnessed active participation from individuals aged 60 and above, including customers and parents of DFCC staff, in collaboration with the Geriatric Unit of the Colombo South Teaching Hospital in Kalubowila.

DFCC Community Kitchen

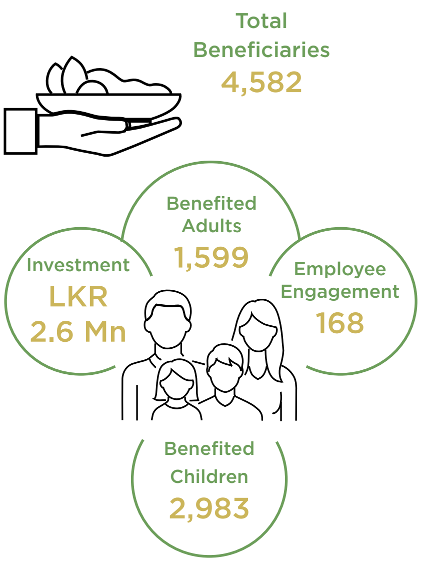
This programme originated during the financial crisis of 2022. During the crisis, a large segment of the population either lost their normal sources of income or found their purchasing power eroded by inflation. Through the Community Kitchen programme the Bank sought to ensure that food was available to the most vulnerable sections of the population. During 2023, 14 community kitchens were conducted in Batticaloa, Colombo, Gampaha, Jaffna, Kalutara, Kandy, Kurunegala, Matara, Monaragala, Polonnaruwa and Puttalam districts serving more than 4,500 people.

In line with the Bank's "Sustainability focus", these events were conducted as plastic-free events.

Value added activities for Community Kitchen programme

- Planting of fruit saplings and distribution of vegetable seed packs at some of the schools where the Community Kitchens were held
- Awareness sessions on nutrition and healthy meals
- Distribution of school supplies/essentials to the schools based on the requirement

Outcome of DFCC Community Kitchens



DFCC Read the Way

This programme provides books and stationery to under-resourced schools. In addition to the Bank's contribution, items are collected from customers, employees and other well-wishers and distributed. The schools were selected on a district basis. The programme benefitted more than 14,000 students across 50 schools in 19 districts. The branches collaborated in the programme by helping to identify deserving schools and organising the distribution.

"Read the way" inculcates the habit of reading among young children and opens a window to the world through books. Through the programme we intend to make a positive contribution to the lives of the future generation of Sri Lankans. In addition, book cupboards were donated to 10 schools.

DFCC *Samata* English

This programme aims to reduce barriers, particularly when seeking employment, that many under-privileged youth face due to their inadequate knowledge of English. The programme is targeted at young people who have completed the G.C.E. (A/L) examination, and is free of charge. It is being conducted in partnership with Gateway Education Services (Pvt) Ltd. In 2023, the programme was rolled out in Hambantota, Trincomalee and Nuwara Eliya and was followed by 81 students. The programme has innovative teaching methods including group exercises. The Bank offers internship and work opportunities to high achievers who have graduated from the programme.

The course also includes a soft skills component, which includes aspects such as time management, team management, presentation skills, and interview-facing skills. In addition to employment, the programme unlocks the door for participants to access a world of information though the internet and books and thus contributes to their personality development.

DFCC Education Scholarship Programmes

DFCC – CARITAS Sri Lanka Education Scholarship Scheme

Commencing in 2020, the Bank embarked on a five year journey with CARITAS Sri Lanka – SEDEC to support selected underprivileged children to continue their education by providing financial support for their secondary and tertiary education.

The Bank invested LKR 2.5 Mn in 2023 to support 192 students during the year.

Beneficiaries of the programme

Level	Beneficiaries
G. C. E. (O/L) and other	45
G. C. E. (A/L)	81
Vocational Training	19
Undergraduate	47
Total	192

Educational Assistance to Children Affected by the Easter Sunday Attack

With its commitment to assist people in difficult times, DFCC Bank initiated a scholarship scheme to assist 12 children who were victims of the Easter Sunday Attack in Katuwapitiya since 2019. In 2023, 9 students were provided with scholarships worth LKR 145,000/- in total to support their education. This scholarship will continue until they complete their secondary education.

Emergency Relief Programme in Southern Region

DFCC Bank assisted customers and communities who were heavily affected by floods during the period September-October 2023.

Dry ration packs were distributed to more than 200 families identified as directly affected from floods in the areas under the Athuraliya Divisional Secretariat – Balakawala, Panadugama, Haupe, Thibbotuwawa and Thibbotuwawa North and also to 65 affected customers in the Matara District. The packs were distributed to the beneficiaries under the supervision of officials from the Divisional Secretariat and the *Grama Niladhari* of each area.

DFCC Entrepreneurship Development Programmes

The Bank is cognisant of the economic and social importance of the micro/SME sector in the country. We are also aware of the limitations this sector faces in many areas such as accounting, financing, marketing, product standards and international trade procedures. For over five decades the Bank has focused on extending to this sector not only financial assistance, but other forms of assistance as well. In 2023, we signed an MOU with the Industrial Services Bureau (ISB) Kurunegala, for the purpose of utilising their expertise in conducting capacity development programmes.

DFCC *Vyapara Hamuwa*

We conducted a capacity development exercise under the "DFCC *Vyapara Hamuwa*" Entrepreneurship Development Programme. This programme is intended to help women and other small scale entrepreneurs to hone their skills. Four such programmes were conducted during the year benefitting 246 entrepreneurs.

Summary – *Vyapara Hamuwa* 2023

Target Group – Women and Small Scale Entrepreneurs

Location of the programme	Number of participants
Matara	45
Kurunegala	53
Bandaragama	85
Ratnapura	63
Total	246

Capacity Development and Financial Literacy Programmes for Farmers

Several other entrepreneurship development and financial literacy programmes were conducted for agriculture and dairy sector farmers under value chains and for female entrepreneurs. DFCC Bank linked with the Hector Kobbekaduwa Agrarian Research and Training Institute (HARTI) to provide financial literacy to the farmers linked with HARTI. During the year, 16 training sessions were conducted for more than 300 farmers in Ampara, Anuradhapura, Badulla, Batticaloa, Galle, Kegalle, Kurunegala, Matara and Vauniya.

Further details can be found in the MSME section pages 78 to 81.

DFCC – Good Life X Climate Adaptation Accelerator Initiative

The Bank partnered with Good Life X in 2022 and 2023 as the climate action initiatives' sole financial institutional partner. Good Life X works on climate change and adaptation in the agriculture and tourism sectors. Further, it works as an accelerator with start-ups by developing their businesses and products to match market requirements and up scaling these solutions widely across Sri Lanka.

During the year 2023, the Bank successfully conducted three knowledge-sharing sessions for the startups registered with Good Life X. The Bank also functions as a "business matchmaker", scoping out business opportunities, connecting programme participants with the Bank's existing clients and others based on mutual interests, and providing banking facilities to participating business entities on a best-effort basis.

Workshop for Agri-Entrepreneurs

DFCC Bank collaborated with the Faculty of Management Studies and Commerce, University of Sri Jayewardenepura through the Sri Lanka Council for Agriculture Research Policy (SLCARP) to conduct a workshop for 40 agri entrepreneurs linked with SLCARP. The programme was held in August 2023 at the SLCARP Auditorium. This was an interactive programme targeted at agri-entrepreneurs and guided them to develop their business models.

MSME Success Stories

DFCC Bank Empowered an Enthusiastic Entrepreneur

Mr Saman Kumara
Founder, Ziolty Lanka (Pvt) Limited

Mr Saman Kumara first participated in the DFCC *Vyapara Hamuwa* programme conducted at Morawaka in the beginning of 2023 to explore an entrepreneurship and business idea as he saw the programme as a gateway to realising his aspirations. His unwavering desire to start a business led him to travel 75 kilometre from Udawalawa to Morawaka to participate in this programme.

Enthralled by the insights shared during the "DFCC Vyapara Hamuwa" programme, Mr Saman found clarity and direction for his entrepreneurial endeavours. Armed with newfound knowledge and a fervent determination, he set his sights on realising his long-held ambition of venturing into coconut oil manufacturing.

Laying the groundwork for a transformative partnership, he connected with the DFCC Godakawela branch to obtain the required assistance to make his dream a reality. The Bank not only provided him financial assistance but also guided him to develop the business model.

With the DFCC Bank's support and his dedication, he established Ziolty Lanka (Pvt) Ltd., a coconut oil manufacturing company within a mere six months. Currently, the business is operated with two young employees.

He is actively pursuing the necessary training and certifications to realise his next goal of producing export-quality virgin oil, propelled by a vision of expanding Ziolty Lanka's footprint beyond borders and into international markets.

A Courageous Women Entrepreneur from Avissawella

Mrs Chamika Sugandhi Wanniarachchi
Founder, Vikum Productions

I started this business with just 1 Kilograme of sesame and assistance from my family members. Initially all productions were hand made. I gained technical knowledge through the training programmes conducted by the Divisional Secretariat, and gradually expanded my business with a range of other confectionery products as well. During the expansion stage I planned to purchase some machinery, equipment and shift the operations to a new premises and then I connected with the DFCC Avissawella Branch seeking the required assistance.

DFCC Bank helped me with financial assistance and necessary guidance to expand my business. They helped me to improve my entrepreneurial competencies and financial literacy. After one year of commencement I could distribute my products to reputed Supermarkets as well. I have created seven job opportunities through my business and I supply various other confectionery products to the market.

Rise & Shine – Awareness Programmes to Promote Sustainable Lifestyles

DFCC Rise & Shine is an internal campaign targeted at employees to educate and share knowledge on various topics that are important to ensure sustainable lifestyles. During the year, seven knowledge sharing sessions were conducted via an online platform.

Session	Number of Participants
Managing your money – tips on financial literacy	81
Knowledge sharing programme on new tax implications	202
Using emotional intelligence in workplace	177
Importance of emission management and your role as a team member	130
Smart ways to use your credit card	208
Plan your savings and investments	160
Prevention and detection of cancer – to coincide with cancer awareness week	91

OMMM initiatives – Wellness Activities for Staff

The Bank's Health and Wellness Committee, OMMM, conducted a number of initiatives during the year to promote employees' wellbeing.

More details are given under Employee Capital – Engagement and Wellness on page 123.

NATURAL CAPITAL

Natural Capital is a vital component which refers to the natural resources we obtain from both renewable and non-renewable sources. DFCC's Natural Capital strategy is part of its overall sustainability strategy which has been described under "DFCC's Approach Towards Sustainability" on pages 50 to 53.

Alignment with UN SDGs

Our Approach

As a service sector entity, DFCC uses natural resources relatively minimally. Natural resources are needed for a number of the Banks's operational components. However, in comparison to other industries (e.g. production based industries), we have a relatively lower direct environmental impact.

Nevertheless, we have pledged to control adverse effects on the environment while quickening our pace to reach the objectives outlined in the sustainability strategy (refer page 50). DFCC's Approach to Natural Capital Management is summarised as follows:

Green Products/ Services
- Green Deposit
- Digital Channels
- Green Loans
- Inducing and supporting our customers and suppliers for environmental compliance and green practices

Resource Efficiency
- Energy Management
- Emission Management
- Waste Management
- Water Management

Environmental and Social Compliance

Environmental and Social Management System – ESMS
- Policies and Procedures
- Project Appraisal, Monitoring and Supervision
- Training and Awareness
- Reporting

Employee Engagement
- Sustainability Unit
- Task force on Energy Efficiency/ Sustainable Facilities Management
- Task force on Paper Reduction
- Task force on Green Finance and Sustainable Entrepreneurship
- Task force on Sustainable Procurement
- Sustainability Champions

Despite the turbulent and uncertain situation that followed in the wake of the economic, social, and political crises of 2022, DFCC remains committed to its sustainability strategy. We are also mindful of our stakeholder expectations in this regard and continually monitor and revise our strategies to keep up with them. The Bank has also consistently sought to align itself with sustainability guidelines and best practices pertaining to the banking sector. The adoption of good ESG practices reflects DFCC's recognition of the interconnectedness between environmental, social, and governance factors to obtain long-term financial performance, as well as our role in contributing to a more sustainable and inclusive economy.

DFCC Bank – The First Sri Lankan Direct Access Entity of the Green Climate Fund

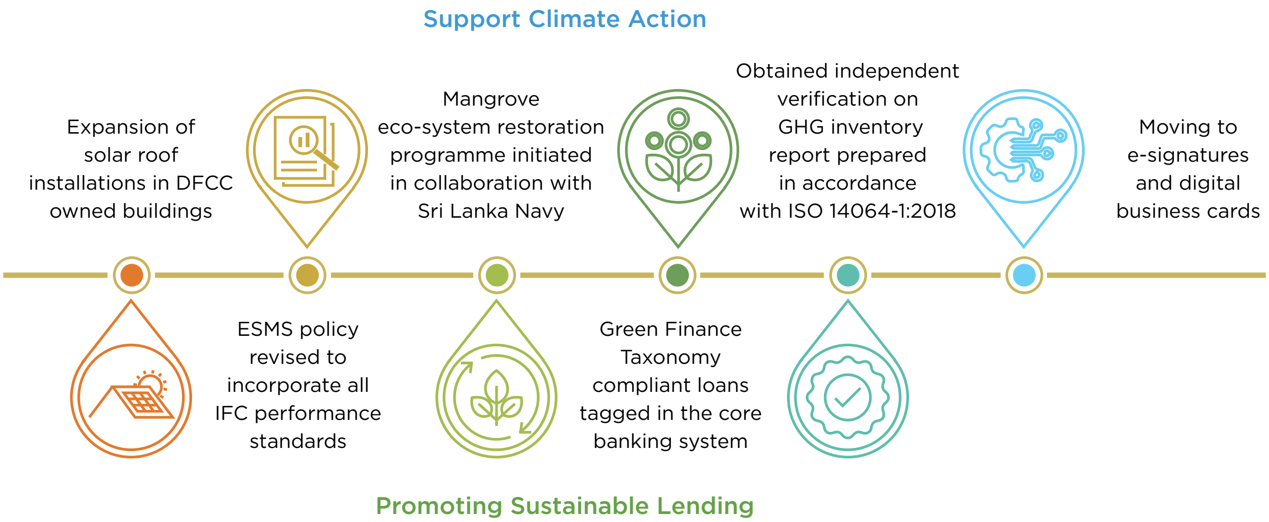
GREEN CLIMATE FUND

A landmark event in our sustainability journey has been our accreditation by the Green Climate Fund (GCF), making DFCC Bank the first Sri Lankan entity, and one of 120 in the world, to be accredited by this fund.

In July 2023, DFCC Bank became the first and the only Sri Lankan entity to obtain Accreditation of the Green Climate Fund (GCF) – the world's largest fund for climate action. Having undergone the rigorous process to secure GCF Accreditation, DFCC Bank has joined the ranks of 120 institutions worldwide that are at the forefront of combating climate change and building a sustainable future. With DFCC Bank now joining this esteemed group, it reinforces the Bank's reputation as a leading player in sustainable finance, as well as its commitment to tackling climate change and promoting sustainability. **The GCF Accreditation allows DFCC Bank to access concessionary funding for projects with a value of up to USD 250 Mn per project from the GCF, enabling the financing of climate mitigation and adaptation projects across Sri Lanka.** We expect to leverage this accreditation to mobilise climate finance and spearhead impactful projects that address the urgent climate challenges facing Sri Lanka.

This will be a great impetus for climate-friendly projects in Sri Lanka. This accreditation is a testament to DFCC's commitment to sustainability.

Best Practices During 2023



Resource Efficiency

Energy Management

GRI 302-1, 4

We determine that the primary cause of the Bank's carbon footprint is the energy used in our regular business activities. In order to assure resource efficiency, we therefore rank "managing energy consumption" as our top priority. The main uses of energy for DFCC are the lighting and cooling of office buildings, the operation of equipment in these spaces, and the vehicles used for transportation. The source of electricity is the national grid and rooftop solar to a limited extent. The Energy Subcommittee together with the Premises and Administrative Services department has taken measures to improve the energy efficiency of the Bank by monitoring the consumption of all energy sources, including fuel and electricity.

DFCC strives continuously to limit the consumption of finite resources while adopting green measures and processes with a strong belief that even moderate use of natural resources contributes to resource depletion. Accordingly, the following key initiatives were implemented during the year:

- On 14 November 2023, the Bank installed a 150 kWp rooftop solar system at the Head Office which has an estimated monthly production capacity of 17,000 kWh which amounts to 27% of the total electricity consumption of the Head Office.
- Installation of two electric bike charging points at the Head Office car park.
- LED lighting solutions replacing florescent lights in branches.
- Installation of motion sensor lights in washrooms of the Head Office.
- Numbering switches and lights in work areas to enable the staff to easily switch on only the required lights.
- Maintaining temperature settings of the air conditioning at a standard temperature.
- Obtaining master utility bills for the Bank to increase the efficiency of centralised tracking.

Solar energy generation during 2023

Branch/location of the building	System capacity (kWp)	Electricity generation from solar/savings (kWh)
Kurunegala	50.00	80,834
Negombo	27.00	40,140
Ramanayaka Mawatha	36.40	46,960
Head Office	150.15	22,690
	263.55	190,624

GRI 302-2, 3, 305-1, 2, 3, 4, 6, 7

Energy consumption for the year 2023

Electricity consumption	
Head Office	684,590 kWh
Ramanayake Mawatha	703,962 kWh
Heating consumption	No
Cooling consumption	No
Steam consumption	No
Standards, methodologies, assumptions, and/or calculation tools used	None
Conversion factors used	None
Energy consumption outside the organisation	Not applicable
Reduction in energy	Solar power generation – 190,624 kWh
Energy intensity ratios	**Electricity consumption** Head Office – 1,906 kWh per employee (approx.) Ramanayake Mawatha – 2,958 kWh per employee (approx.)
Fuel consumption (non-renewable sources)	
Standby generators – Head Office	Diesel 6,600 litres
Company-owned vehicles	Diesel – 44,315 litres
	Petrol – 28,594 litres

GREENHOUSE GAS VERIFICATION OPINION

Sri Lanka Climate Fund (Pvt) Ltd

Ministry of Environment

Organization Level GHG statement developed by

DFCC Bank PLC

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

complying with the requirements of ISO 14064-1:2018 has been verified in accordance with the specification of ISO 14064-3:2019 with reasonable level of assurance*

Opinion No	: SLCF/CFP/0207
Date of Issue	: 09.02.2024
Period of Assessment	: 01.01.2023 – 31.12.2023
Selected Boundary	: Operationally controlled business operations of DFCC Bank PLC (Including 52 departments and 139 branches Island wide)
Direct GHG Emissions	: 467 tonnes of CO_2 equivalent
Indirect GHG Emissions	: 5,572 tonnes of CO_2 equivalent
Total GHG Emissions	**: 6,039 tonnes of CO_2 equivalent**

ISO 14065
GHG 001-01

Chief Executive Officer
Sri Lanka Climate Fund (Pvt) Ltd

Period of Validity: 09.02.2024 – 31.03.2025
Exclusions: GHG Emissions from transportation of purchased goods and waste disposal.
*Materiality threshold is below 5%

GHG Verification Certificate – Issued by Sri Lanka Climate Fund

Emission Management

Emissions are calculated yearly based on the parameters in the Greenhouse Gas (GHG) Protocol to determine the company's annual carbon footprint for the financial period. In 2023, we carried out a GHG assessment in partnership with Randeewa Rasitha Associate (Pvt) Ltd. based on GHG protocol guidelines and ISO 14064-1:2018 standards. Verification for the GHG emission assessment is obtained from the Sri Lanka Climate Fund. 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.

Assessment Type: Organisational Greenhouse Gas Assessment*

Compliance: ISO 14064-1:2018; Greenhouse Gas Protocol – a corporate accounting and reporting standard (for calculation); ISO 14064-3:2019 (for verification)

Reporting period: 1 January 2023 to 31 December 2023

Scope 1 – Direct Emission	Scope 2 – Indirect Emission by purchased energy	Scope 3 – Other indirect Emission	Total Carbon footprint	Emission per employee
467 tCO_2e	3,416 tCO_2e	2,155 CO_2e	6,038 tCO_2e	2.86 tCO_2e

CO_2 = **5678.516** tCO_2e CH_4 = **6.363** tCO_2e N_2O = **13.47** tCO_2e

* Figures confirmed by Randeewa Rasitha Associate (Pvt) Ltd. and verified by Sri Lanka Climate Fund (Pvt) Ltd.

CARBON CONSCIOUS
RR Environmental Service

CARBON CONSCIOUS CERTIFICATE

The inventory of Greenhouse Gas emissions in year **2023** of

DFCC Bank PLC

73/5, Galle Road, Colombo 3

has been assessed and reported in accordance with the requirement of

ISO 14064-1:2018

for the scope of

Operationally controlled business operations in the entire branch network including the head office of DFCC Bank PLC

Direct GHG Emissions	**467.47** tonnes of CO2e
Indirect GHG Emissions from Imported Electricity	**3416.45** tonnes of CO2e
Total Indirect GHG Emissions	**2154.69** tonnes of CO2e

Total Greenhouse Gas Emissions of 6038.61 tonnes of CO2e

Period of Assessment: 01.01.2023 - 31.12.2023

Certificate No:RR-GHG-022401

Issue Date: 13.02.2024

Authorized by:

Rasitha Niroshana
Chief Sustainability Officer
RR Associate (Pvt) Ltd
Date: 13.02.2024

RR Associate(Pvt) Ltd
P91, Nivasipura, Ja Ela,
Sri Lanka
(+94)11 492 3456
info@rrenvt.com
www.rrenvt.com

RR Associates Private Limited

Carbon Conscious Certificate – Issued by RR Associate (Pvt) Ltd.

Water Management

Pipe-borne water obtained from the National Water Supply and Drainage Board and local authorities fulfill our water requirement. Filtered water is provided to most of our employees and customers through a filtering system. Monitoring and controlling the use of water is another important aspect of the Bank's sustainability strategy. The Bank seeks to inculcate the importance of water conservation in our employees through internal communication platforms.

Water consumption data as at 31 December 2023

	Consumption	Intensity ratios
Head Office	7,305m^3	Approximately 20.3m^3 per employee
Ramanayake Mawatha building	3,619m^3	Approximately 15.2m^3 per employee

Waste Management

DFCC has implemented a waste management strategy based on the 3R principle in order to reduce generation of paper, food, plastic, glass, and e-waste. We have introduced a proper system and provided facilities to branches for classifying, segregating, and recycling waste. Recycling is carried out in collaboration with third party recyclers. The staff are also encouraged to bring any e-waste they have in their homes for recycling.

Organic waste management

All organic waste generated, mainly through our employees, is disposed of using the services of the respective local authority.

E-Waste management

Generated e-waste, such as used printer cartridges and damaged electronic equipment are disposed with the assistance of an authorised e-waste collector.

Paper waste management

Paper waste generated is mainly cardboard and expired documents. Those are handed over to our recycling partner Neptune Recyclers for recycling. Documents of a confidential nature are shredded under the supervision of a Bank officer.

Promoting paperless operations

Major priority is given to reducing paper waste in line with our targets of becoming 100% paperless internally by 2024, and 50% paperless externally by 2025.

A number of initiatives towards minimising paper usage were implemented previously, such as installation of user codes and tracking copies/printouts taken by each user, streamlining of processes and awarding paperless certificates to departments to reduce paper usage by at least 85%, introducing shared Google files to branches to reduce the need for physical copies, removal of individual printers, and reducing paper towel usage. These initiatives were continued in 2023.

This year, DFCC embraced new technology in our journey towards being paperless. We started accepting digital signatures from customers and also started using digital signatures internally, further reducing paper usage. An innovative digital business cards solution was embraced, with which the Bank is working towards eliminating the use of paper business cards by 2024.

Another major milestone in our journey towards paperless digital operations was the launch of the fully fledged electronic KYC (eKYC) digital onboarding platform for our account opening. With this, new customers have the option of filling an online application and opening an account with DFCC without having to visit the bank or fill any documents. All processes are evaluated continuously by the Lean Management Unit towards further reducing or eliminating paper usage. As a result, the Bank annually saves over 2.2 million A4 papers which has resulted in saving over 132 trees annually (a tree is considered as a pine tree 45ft tall and 8in across).

Savings from waste paper recycling

Total paper recycled **6,070kg**

Saved fully grown trees **103**

GHG emission reduction **6,070kgs** of carbon equivalent

Saved oil **10,653** litres

Saved landfill **18m³**

Saved water **192,905** litres

Saved electricity **24,280** kWh

Figures confirmed by Neptune Recyclers

Environmental and Social Management System – ESMS

The adoption of good ESG practices reflects DFCC's recognition of the interconnectedness between environmental, social, and governance factors to obtain long-term financial performance, as well as our role in contributing to a more sustainable and inclusive economy.

Social and environmental compliance is the central component of DFCC's Sustainability Strategy. The Bank's major Environmental and Social (E&S) impacts tend to be indirect, arising from the provision of financial services to projects.

The Bank developed and implemented its own Environmental and Social Management System (ESMS) in 2016, which was revised in 2021 with the objective of incorporating E&S aspects as an integral part of project appraisal and follow-up activities. In 2023, the ESMS was further revised to incorporate all IFC "Performance Standards on Environmental and Social Sustainability" into the project appraisal stage to meet the requirements of the Green Climate Fund. The Sustainability Unit is responsible for the implementation of this ESMS. To ensure the implementation of the ESMS in the Bank, several training programmes were carried out by the Sustainability Unit throughout the year.

The Sustainability Unit strives to ensure that commercial customers with facilities above LKR 25 Mn obtain and comply with all relevant environmental clearances to operate, as per environmental laws and regulations of the country. The Sustainability Unit analyses and categorises facilities based on our own E&S risk categorisation framework and provides due diligence plans to monitor during the loan tenor. The following table summarises the E&S Risk Categorisations carried out for all term loans over LKR 25 Mn during this year. Moreover, the loan appraisal formats were updated to capture relevant data from the facility level, and the core banking system was developed to capture the data for future reporting. In addition, the Sustainability Unit also acts as the "Environmental Screener" for all loans funded through credit lines including the ADB SME line.

ESMS Process in Lending

(Review the facility against the bank exclusion list)

Project activity is in the Exclusion List

Facility not entertained

Project activity is not in the Exclusion List

Pre. Screening Stage

Rapid assessment of E&S risks

Complete the Environmental and Social Check-list for all green field projects

Appraisal Stage

Environmental and Social aspect categorisation of term loans

All term loans categorised based on DFCC's E&S impact classification system

Screening by Sustainability Unit

SU screens all term loans of LKR 25 Mn and above and other selected loans

Implementation Stage

Post monitoring on E&S aspects

Implementation of Environmental Management conditions stipulated in initial clearances and EPLS (if any) during the loan tenor

Reporting E&S aspects

Internal – Credit Committee, ESMC, Annual Report

External – Credit line administrators and Funders e.g. ADB, DFC

Summary of the E&S Risk Categorisations carried out for all new term loans over LKR 25 Mn as at 31 December 2023

Category	Number of loans
Very High Impact (A)	10
High Impact (B)	38
Medium Impact (C)	13
Low Impact (D)	10
Very Low Impact (E)	59
Total	130

Currently, we are in the process of carrying out a review of our ESG systems including the ESMS to meet the requirements of the statutory bodies and stakeholders. A change has been made in the current year, where the green loans are entered into the core banking system and tagged whereas it was formerly an entirely manual process.

Green Products and Services

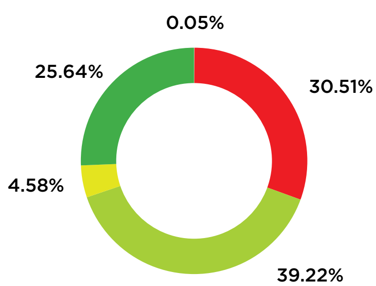
Green financing

With an impressive three-decade record of green financing, DFCC Bank remains committed to financing and promoting green and low-carbon-intensive facilities. As a brand, we believe that focusing on sustainable economic growth, together with environmental and social due-diligence will assist the necessary paradigm shift from the "business as usual" approach. By encouraging our stakeholders and customers through supporting more green projects, DFCC believes that we can position ourselves as a leader in responsible business practices, attract environmentally conscious customers, and contribute significantly to the global effort towards a more sustainable and resilient future.

Green finance reporting

Considering the national importance of promoting sustainable financing initiatives and the need for providing a governance and risk management framework for licensed banks in respect of sustainable finance activities, the CBSL issued the Banking Act Direction No. 05 of 2022. In accordance with this direction DFCC reports its Sri Lanka Green finance Taxonomy (SLGFT) compliant green portfolio quarterly to the CBSL. As at 31 December 2023, DFCC has classified and reported LKR 10.96 Bn worth of loans which is 3.0% of the "gross loans and receivables from the customer portfolio". The figure below depicts the total Green Finance Taxonomy compatible facilities belonging to the macro sectors specified in the SLGFT. In 2023 the Bank financed LKR 327 Mn of new green facilities.

SLGFT sector-wise distribution of the green portfolio



- Agriculture, forestry and logging – sustainable agriculture
- Electric power generation, transmission and distribution – Renewable energy projects
- Water supply, sewerage and waste management – Water supply/ management projects
- Water supply, sewerage and waste management – Waste management projects
- Construction – Other sustainable activities

Green deposits

On the liability side, we introduced a green deposit product. It is a special fixed deposit developed with the aim of mobilising new funds through corporates and individuals who are committed towards green and sustainable initiatives. We assure that the funds mobilised from the Green deposits will be reinvested by the Bank in green projects, complying with the SLGFT. An assurance is conducted in this regard by KPMG.

Employee Training on Environmental Aspects

DFCC believes that integrating sustainability into an organisation's culture through training and awareness initiatives is essential for fostering responsible business practices, achieving long-term success, and making a positive impact on the planet and society as a whole.

Training programmes for employees on E&S aspects during the year 2023

Topic	Number of programmes	Target group
Social and Environmental Management System – ESMS	1	Credit Staff
Green Taxonomy and E&S Categorisation of Loans	3	Branch Managers, Credit staff of MSME, Corporate Banking, IRM officers
Identifying/qualifying businesses that come under the Green Finance Taxonomy, Women-led enterprises, and Sustainable and Social Enterprises	3	Credit staff, Branch Managers

DFCC is a pioneering signatory to the eleven "Sustainable Banking Principles" (SBP) of the Sri Lanka Banks' Association (SLBA) under the Sustainable Banking Initiative (SBI) and is committed to adhering to these principles in its operations. In order to generate value for our stakeholders, DFCC consciously works towards attaining social, environmental, and economic sustainability while upholding the highest standards of governance.

Employee engagement in Environment Conservation

DFCC strives to make sustainability a way of life at the Bank which permeates all our activities. Corporate Social Responsibility (CSR) programmes related to the environment are initiatives undertaken to demonstrate the bank's commitment to environmental stewardship, to minimise our environmental footprint, contribute positively to environmental conservation, and address environmental challenges. Through unique initiatives, we have offered the DFCC family various opportunities to participate in and gain exposure to significant environmental concerns.

Most of our sustainability initiatives are driven through the leadership of the sustainability champions represented by our employees.

Employee awareness on sustainability

Sustainability is a highlight in the weekly newsletter shared amongst staff.

DFCC "Life to Marine" – Marine & Coastal Ecosystem Restoration and Conservation Programme

"Life to Marine" is the DFCC environmental programme which focuses on conservation and restoration of marine and coastal ecosystems. We consider this programme a timely requirement to preserve marine biodiversity and to combat climate change.

Restoration of mangrove ecosystems – Preserving coastal blue carbon habitats

Protecting mangroves and restoring damaged ecosystems will eventually aid in combating climate change through carbon sequestration as they are some of the most carbon-rich ecosystems on the planet. DFCC has recognised this timely needed intervention as a responsible corporate citizen and partnered with the Sri Lanka Navy for the mangrove restoration programme. The project commenced by establishing a mangrove nursery at the Naval Detachment Karukupane (Kalpitiya) in July 2023. At the initial engagement, an opportunity was given to some of our 6E Sustainability Champions and branch staff to volunteer in seed collecting and planting activities and get background knowledge through an awareness session on mangroves conducted by an expert.

Over a thousand seedlings from two different species of *Rhizophora* are being raised in the nursery for planting at the chosen site in the North Western province in 2024. This will be one of the signature initiatives of the Bank, which will also have a community outreach aspect. The Bank will streamline this project by implementing a long-term adaptive management approach that allows for adjustments based on ongoing monitoring and evaluation to address unforeseen challenges.

Beach Cleanup

A beach cleanup was organised to commemorate World Environment Day and World Ocean Day 2023, in collaboration with the Sri Lanka Navy and Eco Spindles (Private) Limited at Preethipura Beach, Uswetakeiyawa. Staff, families, customers and residents from the area participated in this event, which successfully raised awareness about the importance of minimising plastic and polythene waste in the ocean, aligning with the theme of World Environment Day 2023 "Beat Plastic Pollution".

Guided Excursion to the "*Diyasaru* Park" Urban Wetland in Thalawathugoda

The annual guided excursion organised by the Bank was held in November with the participation of DFCC staff and families. This excursion was designed with the objective of improving awareness on the critical importance of urban wetlands, its ecosystem services and the associated biodiversity. The event was facilitated by the Sri Lanka Land Development Corporation (SLLDC) including an awareness session conducted by an expert on "how wetlands contribute to the liveability and resilience of cities" and a guided nature walk conducted by an ecologist with the assistance of a field team. The excursion was followed by a nature journaling event, which received high enthusiasm from participants. These kinds of activities contribute to the well-being and bonding of family members of DFCC and the experiences will provide opportunities for shared adventures and create lasting memories.

DFCC cleanup day

DFCC conducted its annual cleanup day, to coincide with World Cleanup Day on 16 September. The participating teams cleaned their office premises and surrounding areas and disposed of unnecessary clutter. Waste was segregated by category, at source and handed over to our partner companies, Neptune Papers (Pvt) Ltd and Cleantech (Pvt) Ltd for recycling.

Cleanup day – Collection summary

Paper
2,500 kg

PET Bottles
3 kg

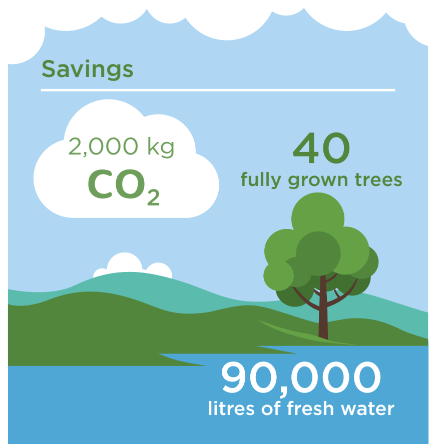
Glass
32 kg

Metal
36.5 kg

Plastic
10 kg

E-waste
3.5 kg

Note: Waste collection included Head Office, Ramanayake Mawatha, Nawala, Lakehouse, Malabe, Kurunegala, Negombo, Galle, Matara figures are confirmed by Cleantech (Pvt) Ltd.



Stewardship

INTEGRATED RISK MANAGEMENT

GRI 2-24, 25, 26

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 clearly 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 blended into the gamut of the Bank's activities, including strategic, business and financial planning and customer transactions, so business and risk management goals and responsibilities are aligned across the Organisation. Risk is managed systematically by focusing on a group basis and 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.
- Off-balance sheet exposures and securitisation risk.

Credit risk amounts to the highest quantum of quantifiable risk faced by the Bank based on the current quantification techniques. The Bank's credit risk accounted for 87% of the risk-weighted assets. Additionally, the Bank takes necessary measures to proactively manage operational and market risks as fundamental risk categories considered as Pillar I risks under the Basel regulations.

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

a. The Board of Directors are responsible for maintaining a prudent integrated risk management function in the Bank.

b. Promoting awareness of the risk policies to all relevant Bank employees.

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 new business and delivery channels, developing products, or adopting new strategies.

g. An assessment of risks involved on an incremental and portfolio basis when designing and redesigning 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, liquidity, and reputation risks, which are not in Pillar I of Basel guidelines. Capital requirement is monitored periodically based on certain stress scenarios.

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. Continuously review 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. Instilling a prudent risk management culture within the Bank.
o. Periodic review of risk management policies and practices to align with the developments in regulations, business environment, internal environment and industry best practices.

The risk management culture promotes its business objectives and an environment that enables the Management to execute the business strategy more efficiently and sustainably. 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 clearly understands his/her responsibilities in terms of risks undertaken at every step of 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 functions' 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, emphasising the "Three Lines of Defence" concept. The governance structure encompasses accountability, responsibility, independence, reporting, communication and transparency, internally and with our relevant external stakeholders.

The First Line of Defence involves management control at the business level and adhering to relevant internal control mechanisms while discharging the responsibilities and accountability for the day-to-day management of business operations. Independent risk monitoring, validation, centralised oversight of the effective implementation of the 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 independent check and quality assurance of the internal and external audit functions provides the Third Line of Defence.

The Bank's Risk governance includes setting and defining the risk appetite, risk limits, risk management functions, capital planning, risk management policies, risk infrastructure, and risk profile analysis. The Bank exhibits an established risk management culture and effective risk management approaches, systems, and controls. Policy manuals, internal controls, segregation of duties, clearly demarcated authority limits and internal audits form a part of key risk management tools. The Bank's risk management framework covers all aspects of risk governance, including risk management structure, which is implemented through different subcommittees and clearly defined reporting lines. The framework ensures that the risk management unit is functioning independently. The Chief Risk Officer (CRO) functions by directly reporting to the BIRMC.

Governance Structure for Risk Management

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

BOARD OF DIRECTORS/BOARD SUBCOMMITTEES

CEO AND MANAGEMENT COMMITTEES

FIRST LINE OF DEFENCE	SECOND LINE OF DEFENCE	THIRD LINE OF DEFENCE
Management control at business level and relevant internal control mechanisms	Centralised oversight of effective implementation of risk management framework	Independent and objective assurance on the risk exposures processed and practices in place
STRATEGY, PERFORMANCE, AND RISK MANAGEMENT	**POLICY, MONITORING AND OVERSIGHT**	**INDEPENDENT ASSURANCE**
Corporate Banking; RB and SME; Treasury; Digital Banking; Branch Credit Management; General/Branch Operations; Rehabilitation and Recoveries; Finance; IT; Credit Services; Planning; Legal; Marketing; Bancassurance; Card Operations; PFS Collections; International Operations; HR	Integrated Risk Management; Compliance	Internal Audit; External Audit

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. The 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 manner. This framework defines risk integration and aggregation approaches for different risk categories. In addition, separate policy frameworks detail the practices for managing 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.

Risk Appetite

The Bank's risk appetite is 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 is a cornerstone of the risk indicators and encompasses key risk areas such as credit, market, liquidity, operational, equity, and 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 consider the inherent diversification within the subsectors and the borrowers within broader sectors. A "Traffic Light" system monitors these limits monthly and quarterly. These risk appetite limits are reviewed at least annually in line with the risk management capacities, business opportunities, the Bank's business strategy and regulatory requirements.

If the risk appetite threshold has been breached or is approaching 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 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	Statutory liquid assets ratio	> 20% (Regulatory) > 22% (Internal)
	Leverage ratio	> 3% (Regulatory)
	NSFR	> 100% (Regulatory) > 110% (Internal)
	Liquidity coverage ratio (all currencies and rupee only)	> 100% (Regulatory) > 110% (Internal)
Market risk	Forex net open long position or short position	As prescribed by the Central Bank of Sri Lanka

Board Integrated Risk Management Committee (BIRMC)

The BIRMC is a Board Subcommittee that oversees the risk management function as required by the Regulator. The BIRMC adheres to 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, information system security 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 215 of this Annual Report.

The BIRMC meets at least once every two months and reviews the risk information and exposures as reported by the Integrated Risk Management Department, Treasury, Finance, Compliance 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, market, liquidity, operational, information systems security, and compliance risks.

During 2023, six BIRMC meetings were conducted, and the Committee paid more attention to market risk, credit risk, and capital adequacy in the increasingly volatile operating environment due to the 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 the economic challenges.

Scope and Main Content of Risk Reporting to the BIRMC

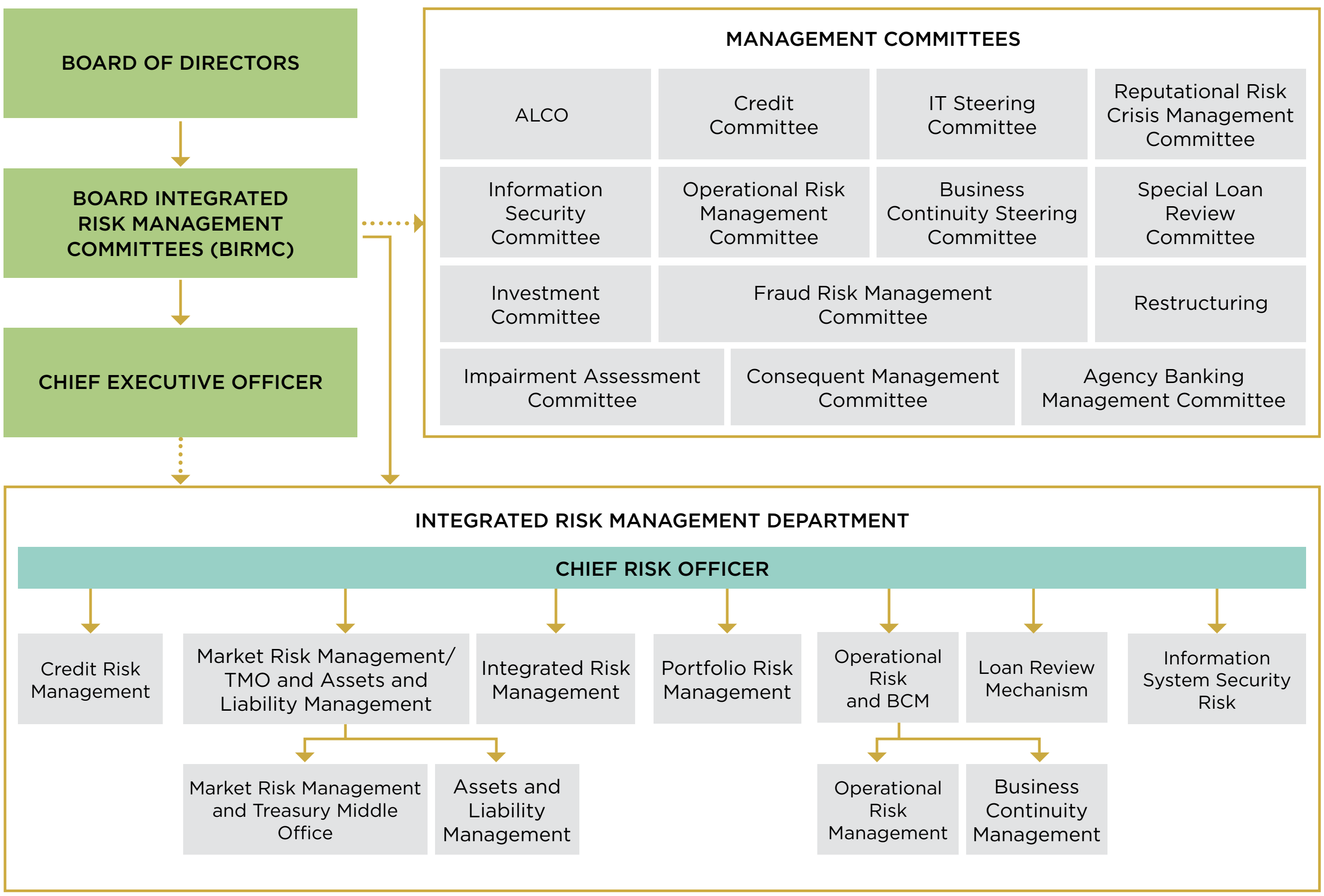
Risk type	Scope and main content of risk reporting
Overall risk	• Review of the Internal Capital Adequacy Assessment Process (ICAAP) • Regulatory capital adequacy position and trends compared with limits • Overall risk limit system including regulatory and internal limits • Stress testing of key risks 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 • 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 and trading fixed income 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

Involvement of Management Committees

Management Committees such as the Credit Committee (CC), Asset and Liability Management Committee (ALCO), Operational Risk Management Committee (ORMC), Fraud Risk Management Committee (FRMC), Special Loan Review Committee (SLRC), IT Steering Committee (ITSC), Investment Committee (IC), Facility Restructuring Committee (FRC), 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 Reference (TORs), and the membership of each committee is defined to bring an optimal balance between business and risk management.

Organisation Structure for Integrated Risk Management



The Integrated Risk Management Department (IRMD) is responsible for measuring and monitoring risk on an ongoing basis to ensure compliance with the parameters set out by the Board, BIRMC, and other Management Committees for performing the Bank's overall risk management function. It consists of separate units such as Credit Risk Management, Market Risk Management, 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 gets involved with product, business strategy development and new business lines, giving input from the initial design stage throughout the process from a risk management perspective.

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 that led to further improvements in the overall integrated risk management function.

Prudential risk limits were reviewed to reflect the Bank's current risk appetite by setting new limits wherever necessary. Internal limits have been implemented to better manage the regulatory limits as trigger points, which are much more stringent than the regulatory limits. All Board-approved risk management frameworks, charters, and TORs were reviewed during the period, especially considering regulatory and business environment changes.

In order to make management decisions more proactive and protect the Bank's NII and capital, TMO introduced new advisory limits for VaR and stressed interest rate sensitivity limits based on duration and historical movements. To preserve a robust risk management culture within the Bank, all limits were established as a percentage of Tier 1 capital. Additionally, other limits were established to align with the best industry practices, i.e. tenor/duration limit, broker concentration limit, etc.

The credit workflow ensures that every credit proposal except for certain identified products is evaluated by an independent authority not connected to business lines. The credit workflow of the Bank was further improved during the year, taking business requirements and changes in market conditions into consideration.

The Bank's credit workflow, requirement of risk rating validations, and collateral guidelines were adjusted/improved during the year in accordance with the Bank's process requirements, subsequent developments and changes in market conditions. Further, some of the product guidelines were amended to safeguard against lending to high-risk categories, which pose risks of increased impairment charges to the Bank.

The lending portfolio was segregated into four stressed categories based on the client's industry, and the industries were reviewed quarterly.

Further delegation of lending and related authority was reviewed during the year. Clients with revolving facilities were reviewed annually, and those with non-revolving facilities who were undergoing difficulties were given longer payment tenures for repayment or were supported with exit strategies.

The Pre-evaluation Committee was converted to a Facility Restructuring Committee (FRC) with enhanced authorities. The number of ALCO and special ALCO meetings was significantly increased to proactively assess liquidity risk and other risks.

The Loan Review Unit, an independent unit from the Credit Risk Management Unit, constantly evaluates the quality of the loan book and brings about qualitative improvements in the 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.

During the year, the frequency of knowledge sharing with the business on the lapses has increased. In addition, special assignments were carried out on the instructions of the Senior Management.

Being cognisant of the global trend of growing threats to 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 manage the Bank's information security risk proactively. The Information Security Committee oversees the effectiveness of security initiatives and directs the management of information security risks within the Bank.

Internal security reviews, encompassing server, infrastructure and business applications, are routinely conducted. Further, the Unit is involved in new system implementations from the request for proposal (RFP) stage to the Go-live confirmation and ensuring new systems comply with industry security best practices. Furthermore, the Unit works with reputed external parties to ensure that critical and customer-facing systems are appropriately secured.

During the year, we have continued implementing the CBSL Regulatory framework on Technology Risk Management Resilience and the Data Protection Act. The Bank's Information Security Risk Management strategy has been revised based on regulatory and new system requirements. The risk assessment process of third-party IT vendors was improved by adapting controls from the Personnel Data Protection Act, industry best practices, and new regulatory requirements. Enhancements were also made to the Security Operating Centre reporting process. The Bank has implemented state-of-the-art cloud-based Security Information Event Management (SIEM) and Security Operations Center (SOC) solutions, marking the first adoption of the latest and advanced cloud-based solutions within the local banking community.

Due to continuous improvements in the core system, stability increased, and the related operational risk decreased. The number of ORMC subcommittee meetings has also increased to six per year, and the discussion topics are aligned to focus more on the core operational risks.

Reporting the quarterly internal loss events to CBSL, which Branch Operations previously handled, has been taken over by the ORMU/IRM w.e.f. Q1 2023. The following limits have been established to manage the operational risk at a desired level and in accordance with the overall risk appetite limit structure of the Bank.

- **Loss/3 years**
  Loss/3 years Average Gross Income at 0.25%
- **Potential Loss**
  Potential loss/3 years Average Gross Income at 0.50%

KRIs and RCSAs have been revised/removed/added for all departments on a biannual basis considering the changes to the Business scope of the Department. In addition, ORMU is evaluating the RCSAs of the Department, which carry high risks based on the risk weight of the significant process and control of the Department.

Staff awareness programmes on operational risk were held for staff at various levels, from new recruits to branch managers, and they were further facilitated through the e-Academy. Operational risk alerts were shared with the Bank staff as knowledge sharing by indicating the risk and 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 68 departments or units for the KRI, and in 2023, RCSA and KRIs were developed for seven units.

From July 2023, the Business Continuity Management System (BCP) functions under the Integrated Risk Management Department. Training for the Emergency Response Teams, such as first aid and fire drills, was conducted. The IT disaster recovery drill was conducted in June 2023, and all the critical IT systems were tested. The learnings from the drill were taken into consideration to prevent future occurrences.

Stress testing covers all main types of risks (Credit Risk, Market Risk, Operational Risk, IRRBB, Liquidity Risk, Reputational Risk, Credit Concentration Risk, group risk, etc). The impact on regulatory CAR was measured under each stress scenario. The Breach of Regulatory minimum requirement was considered as the maximum tolerance limit. The impact on LAR was measured under each scenario in liquidity risk stress testing. The combined impact of a few stress scenarios under the main risk types was also examined.

Credit Risk

Credit risk is 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 loans and advances to individuals, MSMEs, SMEs and Corporates. Direct lending activities, commitments, and contingencies expose the Bank to credit risk.

The challenges the Bank experienced in 2022, with policy changes, inflationary pressures, the end of moratorium granted to customers with cash flow constraints, and the surrounding uncertainties in many industry sectors, continued in 2023.

The lending portfolio accounts for 54% of total assets, and credit risk accounts for 87% of the total risk-weighted assets. It is imperative to manage the credit risk of the Bank prudently to ensure its sustainability since the increase in credit risk will have a negative impact on the profitability and capital of the Bank.

Considering the above, the Bank has continued precautionary measures to ensure prudent lending, analysing various segments of the lending portfolio for signs of deterioration, extending repayment periods for identified borrowers, and managing overlays for risk-elevated sectors.

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 and up to date and address the changing business requirements. During the year, several key policies, including Credit Policy and Credit Risk Management Framework, were reviewed and updated further to strengthen the Bank's credit risk management.

Concessions to Bank Customers

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

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 and rating downgrades monitored over a period of time is disseminated to management with a view of taking corrective measures to ensure the quality of the Bank loan book.

A sample of watch-listed borrowers with significantly extensive exposure is reported to the Board Credit Committee. A traffic light system is also employed to identify watch-listed clients with varying levels of impact on the portfolio.

Industry Analysis

As a prudent measure, the Bank has reviewed and analysed industries and portfolio segments to identify negative trends, risk-elevated industries and unsecured exposures proactively. IRMD reports to the BIRMC on portfolio dynamics through dashboards and reports that give a snapshot of credit portfolio quality and performance. These analyses guide business line managers on the direction of lending by disseminating credit risk-related knowledge and sharing information on critical areas. Further, IRMD has provided continuous contributions towards human resource development programmes by providing resource personnel to conduct knowledge-boosting training programmes in areas such as credit evaluation and credit risk management. Recognising the importance of accurate industry sector classification of the clients, IRMD initiated a project to cleanse the industry sector classifications and introduced a procedure to ensure the accuracy of the industry sectors.

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.

Risk Rating

DFCC use seven rating models for the rating of lending clients. Rating models are based on financial, non-financial and industry parameters. Risk rating varies from Low Risk (AAA) to Default (D). Pricing of the key products is based on the risk rating of the client.

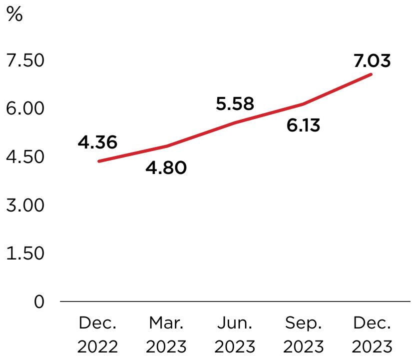
Portfolio Risk Management Unit

An in-depth analysis of selected lending products is carried out by the Portfolio Risk Management unit to proactively identify and mitigate aggregate risks in the Bank's credit portfolio. Various demographic and geographic customer dimensions and key internal aspects are analysed to assess the behaviour of different customer segments and sub-segments. Data analytics and modelling techniques are used to gain detailed insights into portfolios. The findings and recommendations are shared with business units and relevant internal stakeholders for decision-making and action. This adds value to prudently achieving business goals while managing risks more efficiently.

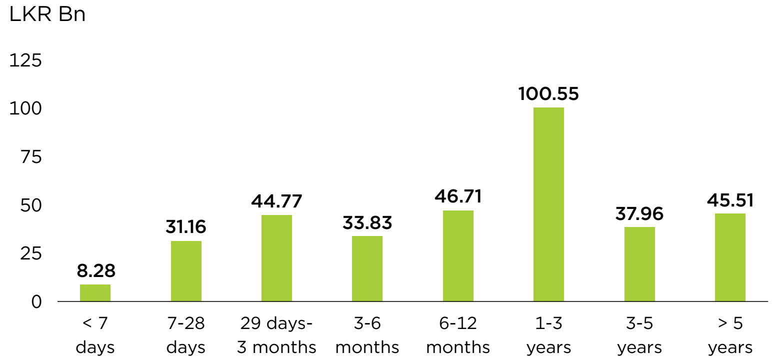
IT Involvement

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 in-house development of the IRMD using the Google AppSheet application.

Movement of Stage 3 Ratio

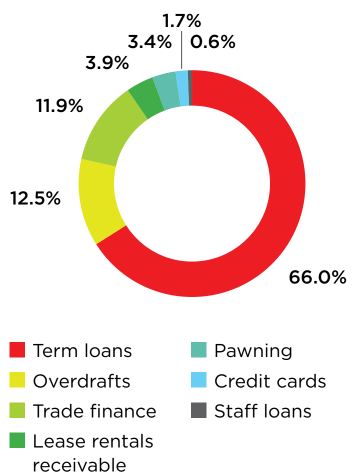


Residual Maturity of Total Advances (Net)

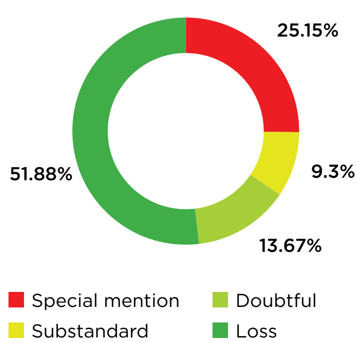


Geographical Distribution of Gross Loans and Advances

Product Composition



Composition of Non-performing Facilities



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 the Bank's risk appetite.

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. Continuously review and monitor 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 provide direction on lending to the 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. The Bank is using an inbuilt application software to process finance leases. Collateral guidelines for lending were amended/improved during the year considering the market conditions and current economic situation of the country to safeguard the Bank's interest. 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 Committees and evaluates credit proposals from a risk perspective. Risk-based pricing is practised at the Bank. However, deviations are allowed for identified products, funding through credit lines, and where strong justification is made for business development purposes.
Control measures	Exclusion lists 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. Advisory limits on single borrower exposure, group exposure and industry sectors are set by the Board of Directors on the recommendation of IRMD.

Credit risk management	Timely identification of problem credits through product-wise and concentration analysis in relation to industries, specific products and geographical locations such as branches or regions. Industry reports or periodical economic analyses 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: minimum, short-term, medium-term and long-term, 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 credit reviews. A post-sanction review of loans by the Loan Review Unit, which is independent of the Credit Risk Management Unit, within a stipulated time frame is in place in accordance with the Loan Review Policy to ensure credit quality is maintained. 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 the 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 systematic process of watch-listing is in place for identifying, monitoring and reporting clients that demonstrate a significant increase in credit risk, which will contribute to the continuous improvement of the quality of the loan book. Reporting periodically to BIRMC on credit concentration risk positions regarding regulatory limits such as single borrower and group exposure limits and internal advisory limits on industry sectors, selected geographical regions, and exposure based on credit rating grades. Reporting on top key risks to the BIRMC and the Board. Continuous contribution to effective financial reporting through stage upgrades in accordance with SLFRS 9 and involvement in the Impairment Committee.
Credit risk mitigation	An independent portfolio Risk Management Unit proactively identifies and manages the credit risk at the portfolio level. Comprehensive and in-depth analyses are continuously carried out to evaluate portfolio behaviour, covering various demographic, geographic, and customer dimensions. Credit strategy on the portfolio level is 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
Probability of default	Annually
LGD under Basel III and IFRS	Quarterly/Annually
Top and emerging risks under credit risk	Monthly
Credit portfolio analysis	Once in two months
Rating-wise distribution across business segments	Once in two months
Summary of rating reviews including overridden ratings	Once in two months
Watch-listed clients	Monthly to the Senior Management and quarterly to the Board
Summary of reviews done under Loan Review Mechanism	Quarterly

Dimensions for Analysis and Monitoring of Credit Concentration Risk

Credit concentration risk measure/indicator	Frequency
Industry sector limits positions	Quarterly
Top 20 borrower exposures	Quarterly
Top 20 borrower group exposures	Quarterly
Industry sector HHI*	Quarterly
Product distribution of the credit portfolio	Once in two months
Borrower distribution across rating grades	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. 07 of 2011 on Integrated Risk Management and 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.

Total volume of the facilities that were reviewed by the LRU in 2023 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 and BIRMC on a quarterly basis to enhance the quality of the credit portfolio.

During 2023, the frequency of knowledge sharing with the Business Units on the lapses found has increased. In addition, the following special assignments were carried out on the instructions of the Senior Management.

1. Review the facilities crossing to stage III within 180 days of grant
2. Special follow-up on two facilities approved by the credit committee
3. Review of possible errors in pricing at the migration of the core system

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: loss of cash flows or loss of economic value. Market risk can be viewed in two dimensions: 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 traded and 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.

The Treasury Middle Office (TMO) is segregated from the Treasury Front Office (TFO) and Treasury Back Office (TBO) and reports to the CRO.

TMO is responsible for the Bank's market risk management, which refers to the processes and strategies implemented by the Bank to identify, assess, monitor, and control the potential losses arising from changes in financial market conditions. It encompasses the risk associated with fluctuations in market prices such as interest rates, exchange rates, commodity prices and equity prices. TMO's functions include market risk management aspects such as market risk identification, market risk quantification, risk measurement models, risk limits and guidelines, hedging strategies, monitoring and reporting stress testing, regulatory compliance, and analytics, thereby continuously improving the risk culture.

Market risk management is an integral component of overall risk management within the Bank; effectively managing market risk is crucial for maintaining financial stability, protecting assets and achieving long-term business objectives.

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 that arises from the inherent mismatch between the Bank’s assets and liabilities, resulting in repricing timing differences.
- Basis risk that arises from the imperfect correlation between different yield and cost benchmarks attached to the repricing of assets and liabilities.
- Yield curve risk that 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, monitored periodically to ensure compliance with 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 several scenario analyses and simulations on the effect of interest rate changes on 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 the possibility of an adverse impact on 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 the Bank has assumed at a point in time. This figure represents the unhedged position of the Bank in all foreign currencies. The Bank accrues foreign currency exposure by purchasing and selling 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 tools that include limits for net unhedged exposures, hedging through forward contracts, and hedging through creating offsetting foreign currency assets or liabilities. Overall, NOP and currency-wise NOP limits have been established and monitored in real-time. The Bank conducts VaR for the forex position. Stress testing is also performed and reported by TMO. The daily interbank foreign currency transactions are monitored for consistency with preset limits, and any deviations are reported to the Management and BIRMC. The Bank has set limits for FX forward mismatch negative gap for USD currency and all currencies separately.

The unhedged foreign currency exposure of the Bank is closely monitored, and necessary steps are taken to hedge it in accordance with market volatilities.

Indirect Exposures to Commodity Prices Risk – Gold Prices

The Bank’s pawning portfolio amounted to LKR 13,359 Mn as at 31 December 2023, which amounts to 2% of total assets. The Market Risk Management Unit (MRMU) manages the risk emanating from gold by constantly analysing 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 price risk is the risk of losses in the marked-to-market equity portfolio due to decline in the market prices. The Bank's direct exposure to the equity price risk arises from the equity portfolios classified as fair value through profit, 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 the margin borrower's credit risk. The Investment Committee of the Bank is responsible for managing the equity portfolio in line with the policies and guidelines set out by the Board and 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 investment strategy framework and the risk policy.

Liquidity Risk

Liquidity risk is the risk of insufficient funds to meet financial obligations on time and in full at a reasonable cost. It arises from mismatched maturities of assets and liabilities. The Bank has a well-set 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 ALCO. Any negative mismatches up to the immediate three months revealed through cash flow gap statements are matched against cash availability through incremental deposits or committed lines of credit. While meeting the regulatory requirements relating to liquidity, for internal monitoring purposes, the Bank considers the liquidity of each eligible instrument about the market at a given time and undrawn commitments to borrowers when stress testing its liquidity position.

Maintaining a strong credit rating and reputation in the market enables the Bank to access domestic wholesale funds. The Bank also has access to the money market at competitive rates for short-term liquidity support. 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 funding source 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 annually.

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

The Bank prepares a statement of Maturities of Assets and Liabilities (MAL), 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 assist in prudently managing liquidity obligations.

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.

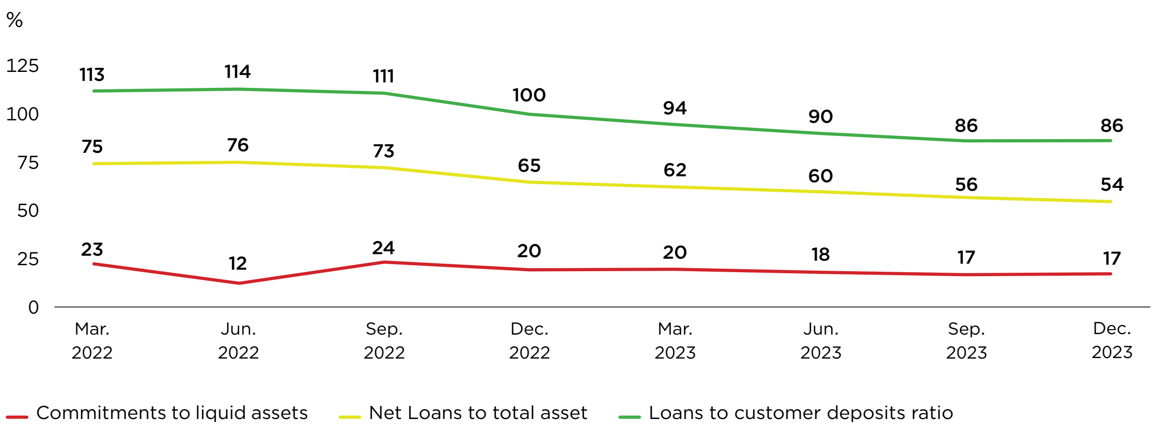
According to minimum liquidity standards (Liquidity Coverage Ratio) under Basel III, banks are required to maintain an adequate level of unencumbered High-Quality Liquid Assets (HQLAs) that can be easily and readily converted into cash to meet their liquidity needs for a 30-calendar daytime horizon under 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.

Net Stable Funding Ratio (NSFR) guidelines issued by the Central Bank of Sri Lanka (CBSL) 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 assets	Once in two months
Loans to customer deposits	Once in two months
Large liabilities to earning assets excluding temporary investments	Once in two months
Purchased funds to total assets	Once in two months
Commitments to total assets	Once in two months
Trends in 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 a contingency plan that 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 the assets and liabilities of the Bank are to be monitored, pricing strategies are to be devised, and growth strategies are to be reconsidered, emphasising avoidance of a liquidity crisis based on the risk level. 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 extremely high liquidity risk and proposes a set of strategies to avoid and mitigate possible crises proactively. The action plan for each high-risk contingency level scenario 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 the responsibilities of the liquidity contingency management team. During the year, the Bank encountered no 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, omissions, inefficiencies in reporting, technology failures or 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 the operational risk of the Bank 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 audits, strict monitoring facilitated by the technology platform and backup facilities for information are the fundamental tools of operational risk management. The Unit has completed five reviews and was involved in six process/product improvement discussions to provide inputs.

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

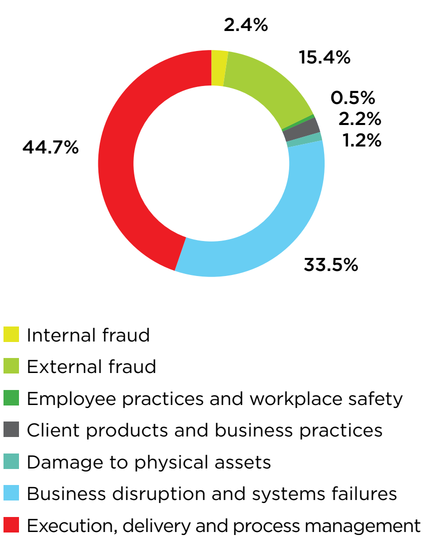
- Monitoring of Risk and Control Self Assessment (RCSA) and Key Risk Indicators (KRIs) for the functions under defined threshold limits using a "Traffic Light" system.
- Maintaining an internal operational risk incident reporting system and carrying out an independent analysis of the incidents by IRMD to recognise necessary improvements in the systems, processes, and procedures.
- Trend analysis on operational risk incidents and review at the ORMC.
- Review the downtime of the critical systems and assess the causes. The risk and business impact are evaluated. Corrective action is taken whenever tolerance levels are compromised.
- Review of HR attrition and exit interview comments in detail evaluated at the ORMC from an operational risk perspective.
- Establishment of the Bank's complaint management process under the Board Approved Complaints Management Policy. IRMD analyses complaints received to identify any systemic issues and reports to ORMC on an annual basis, where the Customer Experience Unit submits quarterly analyses.
- Conduct product and process reviews to identify operational risks and recommend changes to products and related processes.
- Evaluate the operational risks associated with any new product developments.
- Maintaining an external loss database to proactively 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 to identify potential fraud risks that might impact the Bank and 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		

Operational Risk Losses

The Bank has improved its operational risk incident reporting system over time 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 409 incidents were reported in 2023. 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, that took place at their respective branches or departments. The operational risk incidents reported in 2023 based on the event type are given in the graph.

Operational Risk Incidents



Most of the reported incidents were due to failure in the execution, delivery and process management, and they also included near misses and no-loss incidents. Due to the stringent controls, current losses from operational risk events have been kept to the barest minimum.

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 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 68 departments/units for the KRI, and in 2023, RCSA and KRIs were developed for 7 units.

RCSA requires semi-annual self-evaluation of operational risk exposures of processes in the Bank by respective departments. 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 to minimise risk exposure to the Bank. Regular KRI monitoring assists business line managers with a quantitative, verifiable risk measurement evaluated against the thresholds. A summary of KRIs based on a traffic light system is presented to ORSC.

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, fraud, 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 the 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 coverages on an annual basis and carries out comprehensive discussions with insurance companies on any revisions required at the time of renewal of the insurance coverages.

Outsourcing of Business Functions

Outsourcing occurs when the Bank uses another party to perform non-core banking functions that the Bank itself would have traditionally undertaken. As a result, the Bank will benefit from focusing on its core banking activities while having outside experts take care of the non-core functions. The Bank has outsourced some business functions under its outsourcing policy after evaluating whether the services are suitable for outsourcing based on assessing 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 workforce capability, financial strength, etc. 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 to 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)	Every other month
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 – Subcommittee meeting frequency has been increased to six each per year.

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

Information security risk management (ISRM) is managing the risks associated with using 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 has been ISO 27001:2013 certified since 2016. The main objective of ISRM is 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 is implementing the latest version 4 of PCI-DSS certification controls while complying with the SWIFT customer security controls framework, Baseline Security Standard (BSS), and payment-related mobile application security guidelines of CBSL.

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

- Improving the existing Information Security Management System (ISMS) by adopting the recent CBSL Regulatory Framework on Technology Resilience and the Data Protection Act.
- Improving information security policies, procedures, and guidelines while considering regulatory requirements and the 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.
- Reviewing and monitor information security KPIs and report the status of the indicators to the Operational Risk Management Committee.

- Conducting internal vulnerability assessment and penetration testing covering IT infrastructure at defined intervals to ensure known vulnerabilities are appropriately managed.
- Performing trend analysis on the Bank's cybersecurity posture and manage information security incidents to minimise the risk.
- Ensuring adequate information security awareness is given to staff members and the 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 last year to better clarify risks involved in processes and the corresponding risk factors through an objective-oriented risk identification approach. As a result of establishing a new independent user access review process covering common user access risk scenarios, the system user account management process was streamlined according to the Bank's information security policy. 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 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 last year to improve the visibility of the information security posture of the Bank to the Senior Management, considering the importance of cybersecurity to business continuation. The Bank considers its customer information a priceless asset and keeps improving its information security governance processes, factoring current cybersecurity threats and best practices. During the last year, the Bank undertook a few initiatives to improve the security of its digital assets by introducing new technologies.

- Improving the Security Operations Center (SOC) capabilities by investing in 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.
- Improving the frequency of security assessments and the depth of critical business applications.
- Improving real-time vulnerability detection and risk-based vulnerability management capabilities bank-wide through improvements to the existing Endpoint Detection and Response (EDR) solution.
- Performing technology and operational security gap assessments in 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 a 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.
- Improving information security training and awareness programmes by introducing new modules to the existing computer-based training (CBT) platform.
- The annual phishing simulation exercise enhances the Bank's user awareness and implementation of robust human controls as a defence mechanism against increasingly sophisticated phishing attacks.

Key Information Security Risk Measurement Tools and Reporting Frequencies

Information security risk measure/indicator	Frequency
IT infrastructure vulnerability assessments (internal)	Quarterly
Business application vulnerability assessments (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

Reputational Risk

Reputational risk is the risk of losing public trust or the Bank's image being tarnished 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 that may affect the Bank's 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. 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 that could lead to reputational damage are presented to the Board, and the Bank takes suitable measures 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 enable 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 business risk management 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 transactions unenforceable 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

The Bank's compliance programme encompasses all policies and procedures in managing its compliance risks: regulatory, reputational, operational and legal. It ensures the Bank's compliance with applicable laws, regulations, guidelines and standards of good practice. As the second line of defence, the compliance function plays a key role in managing the risks.

The compliance function of the Bank is structured effectively to manage the dynamic challenges posed by the national and international regulations and to address the risks associated with money laundering, financing of terrorism, and other compliance risks. Setting the right tone from the top has immensely helped to create a sound compliance culture within the Bank and implement compliance strategies in a healthy manner.

The Bank has a robust screening and compliance monitoring system to track transactions and activities for any suspicious patterns that may indicate money laundering or regulatory non-compliance. Leveraging advanced technologies has enabled the Bank to enhance the efficiency and accuracy of compliance processes.

The compliance function conducts regular reviews and assessments to ensure the Bank's adherence to regulatory requirements, identify gaps and promptly address any issues found. Continuous employee training on governing regulations is being conducted to ensure staff adherence to compliance requirements at all levels of the Bank.

The Bank's compliance function closely works with regulatory bodies and key stakeholders in the banking industry to ensure smooth operation.

The Bank has a robust system comprising processes and procedures to ensure compliance with the governing legal and regulatory framework.

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 in line with the regulatory guidelines and 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 significant 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 of areas to improve.

The Bank covers a wide range of stress tests that check the resilience of the Bank's capital, liquidity, profitability, etc.

The outcome of the stress testing process is monitored carefully, and remedial actions are taken and used by the Bank as a tool to supplement other risk management approaches. During 2023, the stress scenarios were updated to be more relevant in the current economic landscape and considering the dynamic nature of the risk types, stress testing frequencies were also amended.

The details of stress tests carried out by the Bank for 2023 are given below:

Risk Area and Methodologies Adopted

Risk area and methodologies adopted	Results
Credit and concentration risk • Impact of adverse movement of the impairment stages • Impact of increase in impaired loan ratio • Sector concentration, concentration of credit rating, 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. • At all stress conditions, CAR stands above 10% which is the minimum regulatory requirement at a full drawdown of the Capital Conversation Buffer (CCB).
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 all stress scenarios.
• Multifactor stress testing • Combined stress of all risks	• 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).

Findings of the Bank's stress testing activities are input into several processes, including capital computation under the 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 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 regularly reviews stress testing outcomes, including assumptions underpinning them. They provide 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 for senior management, risk owners, risk managers, supervisors, and regulators. The results of the stress testing are reported to BIRMC and the Board periodically to support proactive decision-making.

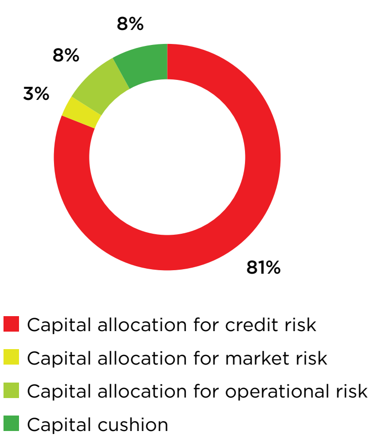
Risk Capital Position and Financial Flexibility

The Bank adopts a proactive approach to ensure a satisfactory risk capital level throughout its operations. In line with its historical practice and 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 2023, the Bank maintained a risk capital position of 11.49% Tier I capital ratio and 13.51% 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 Bank's capital adequacy has been computed using the following approaches of the Basel regulations currently practised 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 2023, based on the quantified risk as per the applicable regulatory guidelines. Out of the regulatory risk capital (total capital) available as of 31 December 2023, the capital allocation for credit risk is 81% of the total capital, while the available capital buffer is 8%.

Capital Distribution



Capital Adequacy Management

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

Additionally, Pillar II (Supervisory Review Process – SRP) under the Basel regulations requires banks to implement an Internal Capital Adequacy Assessment Process (ICAAP) for assessing capital adequacy in relation to the risk profiles and a strategy for maintaining capital levels. The Bank has in place an ICAAP, strengthening 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 proactively manage emerging risks. 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 risks such as reputational risk and strategic risk.

The Senior Management team is closely involved in formulating risk strategy and governance, 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 proactive with additional capital requirements in the future.

This integrates strategic plans and risk management plans with the capital plan in a meaningful manner with inputs from Senior Management, Management Committees, Board Committees and the Board.

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

31 December Quantified as per the CBSL Guidelines	2023		2022	
	Bank	Group	Bank	Group
Credit risk-weighted assets (LKR Mn)	331,726	332,340	331,751	332,256
Market risk-weighted assets (LKR Mn)	14,062	14,062	8,392	8,392
Operational risk-weighted assets (LKR Mn)	33,950	34,616	24,960	25,492
Total risk-weighted assets (LKR Mn)	379,738	381,018	365,103	366,140
Total Tier I capital adequacy ratio – Basel III (%)	11.49	12.46	10.09	9.94
Total capital adequacy ratio – Basel III (%)	13.51	14.48	13.15	12.99

Financial Flexibility in the DFCC Group's Capital Structure

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

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

Assessment of Integrated Risk

In the assessment of integrated risk, the Bank reviews key regulatory developments 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 how 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)	Internal
		Exposure to GOSL	Internal
		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/ Internal
		Margin trading (aggregate exposure of margin loans extended/total loans and advances)	Internal

Risk category	Impact	Key risk indicators	Limit type
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.	Statutory Liquid Assets Ratio	Regulatory/ Internal
		Liquidity Coverage Ratio (all currencies and Rupee only)	Regulatory/ 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/ Internal
		Leverage Ratio	Regulatory
Market risk management		Forex Net Open Long Position	Regulatory
		Forex Net Open Short Position	Regulatory
		Limit for counterparty off-balance sheet market risk	Internal
		Max holding period for trading portfolio	Internal
		Maximum FX Swap	Internal
		Clean money market borrowing limit	Internal
		Portfolio limit on Trading	Internal
		Portfolio limit on AFS	Internal
		Portfolio limit on HTM	Internal
Investment risk		Equity exposure – Individual (equity investment in a public company/Capital funds of the Bank)	Regulatory
		Equity exposure – Individual (equity investment in a 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
		Aggregate equity exposure in public companies	Internal
		Equity exposure (equity exposure as a percentage of Total Lending Portfolio plus Securities Portfolio)	Internal
		Equity exposure in each sector	Internal
		Single equity exposure out of the quoted equity portfolio	Internal
Operational efficiency		Operational efficiency ratio	Internal

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

CORPORATE GOVERNANCE

GRI 2-11

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 Bank's Board approved Corporate Governance Charter. 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.

Our commitment to strong corporate governance and ethical practices remain unwavering.

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 – eight out of eleven are independent members. An Independent Director functions as the Chairperson of Audit, Nomination and Governance, Integrated Risk Management, Human Resources Remuneration, and Related Party Transactions Review Committees.

The Bank continued to successfully implement the Sustainability Strategy during the past year, mainly focusing on becoming "The Bank for Green Finance" being a "Carbon Neutral Bank" and "Building Resilient Communities".

As we look towards the future, community engagement holds a special place in our hearts. We are committed to expanding our initiatives and social responsibility programmes over the coming year, contributing positively to the communities we serve.

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

19 February 2024

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.

CEO

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

NON-EXECUTIVE DIRECTORS

Exercise a strong independent voice, challenging and supporting 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.

CHAIRMAN

Provides leadership and guidance to the Board promoting high standards of corporate governance. He is the link between the Executive and Non-Executive Directors.

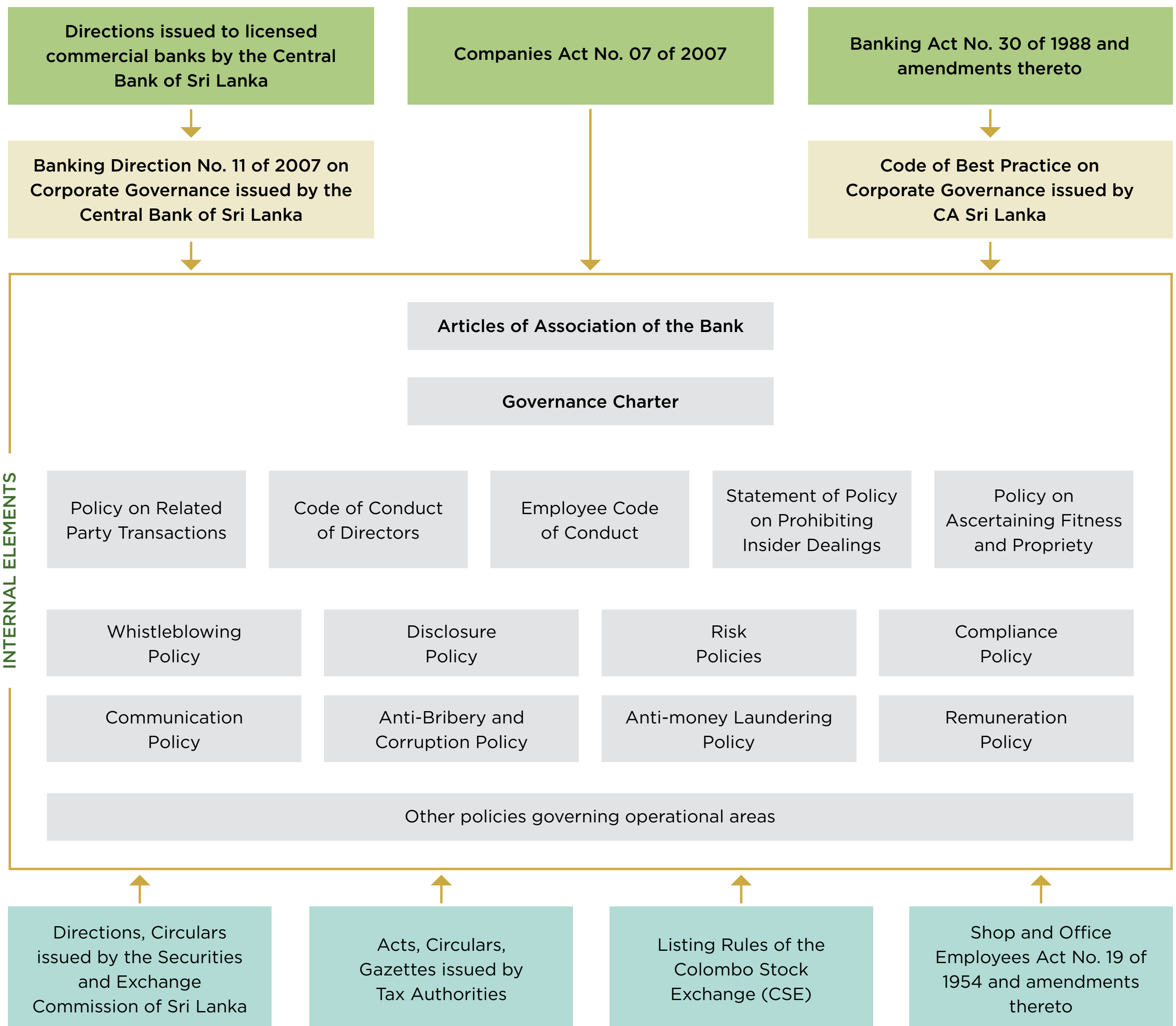
COMPANY SECRETARY

Advises the Chairman on Governance, together with updates on regulatory and compliance matters. Supports the Board agenda with clear information flow. Acts as link between the Board and its Committees and between Non-Executive Directors and the Senior Management.

GRI 2-23, 24, 25, 26, 27

Governance Framework of the Bank

Main elements which encompass the governance framework of the Bank



The list of Policies governing Corporate Governance practices of the Bank can be accessed via the link https://www.dfcc.lk/company-policies/. These policies are reviewed periodically and changes are introduced as and when required.

Bank is in full compliance with the requirements of the Policy described in Section 9.5.1 of the CSE Listing Rules governing matters relating to the Board of Directors.

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

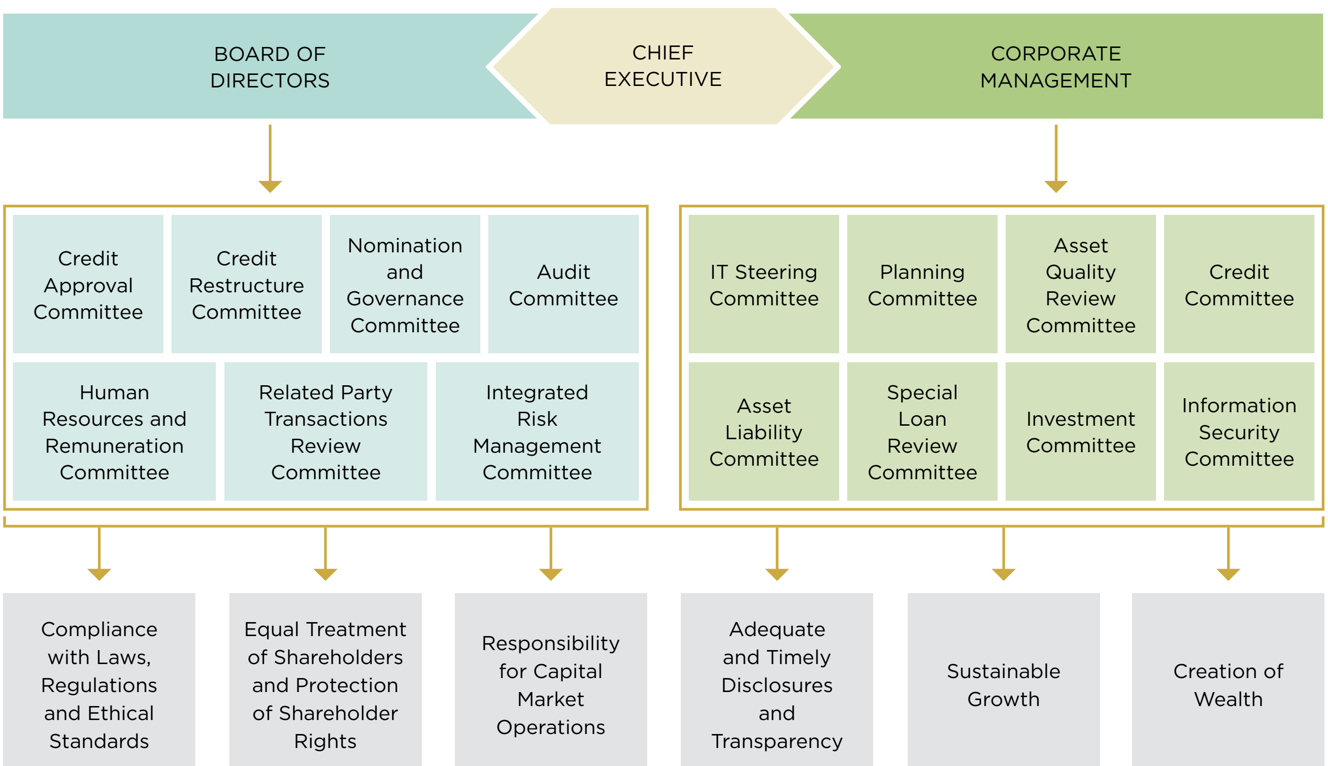
OECD principles of good governance are based on the following six guidelines:

- Promoting transparency, being consistent with laws, and clearly articulating division of responsibilities
- Protecting and facilitating the exercise of shareholder rights, ensuring equitable treatment of all shareholders and recognising the rights of stakeholders in creating wealth.
- Exercising due diligence and responsibility in capital market operations
- Timely and accurate disclosure on all material matters regarding the Bank including financial situation, performance, ownership, and governance
- Sustainability and Resilience
- By way of an effective Governance Framework 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 the 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 addition to the requirements of the Central Bank Direction, the corporate governance rules applicable to listed entities given in Section 9 of the Listing Rules of the Colombo Stock Exchange (CSE) are also applicable to the Bank. The Bank is in full compliance with the said CSE Rules on Corporate Governance which are effective as at date.

GRI 2-9

DFCC Bank's Goals of Good Corporate Governance



Board Culture

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

Conduct and Ethical Framework

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

- Compliance with laws, rules, and regulations
- Avoidance of conflicts of interest
- Maintenance of confidentiality of information
- Fair dealing with stakeholders
- Protection of the Bank's assets

Employee behaviour is governed by a separate Code of Conduct including other policies and procedures such as the Anti-Bribery and Corruption Policy, Disciplinary Code, Statement of Policy on 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.

Board Highlights 2023

- Decided to issue up to 80 Mn Basel III compliant subordinated, listed, rated, unsecured, redeemable debentures
- Approved the implementation a fund transfer pricing mechanism
- Approved payment of a scrip dividend for 2022
- Approved the business plan for 2023
- Approved the Indian Rupee as a designated currency for the Bank
- Approved a Code of Conduct for staff dealing in Treasury Functions
- Approved the installation of a solar power system at the Head Office premises
- Approved the Grievance Redress Mechanism for projects financed through the Green Climate Fund
- Conducted a programme on anti-bribery and corruption for Directors
- Approved the implementation the project “Banking Reimagined” to improve the service culture
- Revised the limits on delegation of lending and related authority
- Conducted a session on Information Security for Directors
- Reviewed the changes to CSE Listing Rules on Corporate Governance
- Approved the revision of remuneration of selected categories of staff
- Revised the Terms of Reference of Board Committees
- Reviewed all major policies
- Reviewed and endorsed of KPIs of Key Management Personnel

Permanent Board Committees as at 31 December 2023

* The Credit Restructure Committee approves papers by circulation.

Name of Director	Main Board	Audit Committee	Human Resources and Remuneration Committee	Nomination and Governance Committee	Integrated Risk Management Committee	Credit Approval Committee	Related Party Transactions Review Committee
	Attendance of Directors at meetings – 2023						
Total number of meetings	12	10	5	4	6	12	12
W D Batagoda	12/12		5/5				
J Durairatnam	12/12		5/5	4/4		12/12	12/12
Ms L K A H Fernando	12/12	10/10			6/6		
W R H Fernando	12/12			4/4	6/6		
Ms H M N S Gunawardana	12/12	9/10	4/5				
N K G K Nemmawatta	12/12					12/12	12/12
N H T I Perera	12/12				6/6		12/12
Ms V J Senaratne	12/12			3/4	6/6		
Ms A L Thambiayah	10/12		5/5			10/12	
N Vasantha Kumar	12/12			4/4	6/6		
H A J de S Wijeyeratne	12/12	10/10					

Attended/eligible to attend

Shareholder Rights

The basic rights of shareholders include;

a. the ability to transfer shares freely

b. to have access to financial and other relevant information about the entity on a regular and timely basis

c. the ability to effectively participate in shareholder meetings

d. appoint Directors and Auditors

e. equitable treatment relating to the type of shares owned

The shares of the Bank are freely transferable through the Colombo Stock Exchange (CSE) 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 CSE.

During the year, shareholders were notified through announcements made to the CSE, of quarterly results, dividend declaration for 2022, Annual Financial Statements for 2022, Interim Financial Statements for 2023, dates of the Annual General Meeting and the Extra-ordinary General Meeting in 2023. 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 2022 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. The AGM was held on 30 March 2023.

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 access the Annual Report by way of a web link or obtain a 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 2023 to obtain the approval of the shareholders for the debenture issue.

GRI 2-10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20

Annual Corporate Governance Report for the Year Ended 31 December 2023 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.
	(b) Overall business strategy	Compliant	The Bank's strategic plan was approved by the Board. 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 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 needed.

Rule	Governance principle	Compliance	Remarks
	(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 219. The Independent Assurance Report by the External Auditor on the Directors' Statement on Internal Control is given on page 222.
	(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.

Rule	Governance principle	Compliance	Remarks
	(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 Key Management Personnel 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. During the year, the Board was appraised of the new changes introduced to the CSE listing rules on Corporate Governance.
	(m) Due diligence in hiring and oversight of External Auditor	Compliant	The primary responsibility for making recommendations on the appointment of the External Auditor rests with the Audit Committee. A formal policy approved by the Board on engagement of External Auditor to perform non-audit services is in place.
3.1 (ii)	Appointment and segregation of the roles of the Chairman and CEO	Compliant	The Board elects the Chairman and appoints the CEO. While the Chairman provides leadership to the direction, oversight, and control process exercised by the Board, the CEO is responsible for the management of the Bank.

Rule	Governance principle	Compliance	Remarks
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 185.
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.
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.

Rule	Governance principle	Compliance	Remarks
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 of eleven Directors.
3.2 (iii)	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.
3.2 (iv)	Number of Independent Directors	Compliant	There were eight Independent Directors on the Board at the end of the year under review. The Board has adopted a format of a declaration to be obtained annually from Non-Executive Directors so that each Director shall independently confirm their status against specific criteria applicable to the ascertainment of independence. As such, all Non-Executive Directors have submitted their declaration in compliance with the Board decision.

Rule	Governance principle	Compliance	Remarks
3.2 (v)	Alternate Directors to represent Independent Directors	Compliant	Persons who are appointed as alternate Directors to existing Independent Directors of the Board are subject to the same criteria applicable to such Directors. During the year, Independent Directors did not appoint any alternates.
3.2 (vi)	The skills, experience, and track records of Non-Executive Directors	Compliant	Non-Executive Directors who held office had professional backgrounds, strong track records, and high-level managerial experience in banking, business, industry, law, finance, or auditing.
3.2 (vii)	Number of Non-Executive Directors required to form a quorum 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. There were no new Directors appointed during the year.
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	None of the Directors resigned or were removed during the year under review.
3.2 (xii)	Appointment of a Director or an employee to another bank	Compliant	No Director or employee of the Bank is a Director of another bank.
3.3 (i)	Maximum age of Directors	Compliant	All Directors who reached the age of 70 have relinquished office.
3.3 (ii)	Holding of Director's position in more than 20 companies in all	Compliant	All Directors comply with this requirement.
3.3 (iii)	Appointment of a Director or a Chief Executive Officer who has held office in another licensed commercial bank, not to be considered before the expiry of a period of 6 months from the date of cessation of his/her office at the licensed bank in Sri Lanka	Compliant	The Company Secretary ensures that all newly appointed Directors will comply with this requirement. During the year there were no newly appointed Directors.
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.

Rule	Governance principle	Compliance	Remarks
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 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, to ensure that necessary amendments are approved to meet the requirements of the Bank. Material decisions made under delegated authority are reported to the Bank 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.
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.

Rule	Governance principle	Compliance	Remarks
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 208.
	(a) Chairman of the Committee	Compliant	During the year under review, the Audit Committee was chaired by an Independent Non-Executive Director who is a qualified Chartered Accountant.
	(b) Composition of the members	Compliant	All members of the Committee are Non-Executive Directors.
	(c) External Auditor	Compliant	The Audit Committee assists the Board in implementing a transparent process in the engagement and remuneration of the External Auditor and assists in the general oversight of financial reporting, internal controls, and compliance with laws, regulations, and Codes of Conduct. The Committee ensures that the engagement of the audit partner does not exceed five years.

Rule	Governance principle	Compliance	Remarks
	(d) Independence and effectiveness of the audit process	Compliant	The Committee reviewed the statement issued by the External Auditor pursuant to Section 163 (3) of the Companies Act No. 07 of 2007. The Committee discussed with the External Auditors, the nature and scope of the audit, and the effectiveness of the audit process in respect of the financial year 2023.
	(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 2023.
	(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 2022 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 Director.
	(m) Terms of reference	Compliant	The Committee is guided by the Audit Committee Charter.
	(n) Meetings	Compliant	During the financial year ended 31 December 2023, ten meetings were held. Attendance of Committee members is given in the table on page 185.

Rule	Governance principle	Compliance	Remarks
	(o) Audit Committee activities	Compliant	Please refer Committee report on page 208.
	(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.
3.6 (iii)	Board Human Resources and Remuneration Committee		Please refer page 212.
	(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 213.
	(a) Appointment of new Directors and KMP	Compliant	During the year, the Committee considered and recommended to the Board, 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 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.

Rule	Governance principle	Compliance	Remarks
3.6 (v)	Board Integrated Risk Management Committee (BIRMC)	Compliant	Please refer page 215.
	(a) Composition	Compliant	Please refer page 215.
	(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.
	(c) Review of adequacy of Management Committees	Compliant	The Committee assesses the effectiveness of all Management Committees annually.
	(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 meets every two months.
	(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 compliance reports at every meeting.
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 there under 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 218. 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 there under in granting accommodation to the Directors and/or their close relations.

Rule	Governance principle	Compliance	Remarks
3.7 (v)	Accommodation granted to Directors prior to appointment	Compliant	The provisions of the Banking Act will be followed if such situations arise and public will be informed if not compliant by the specified date as he/she will cease to hold office. This situation did not arise during the year.
3.7 (vi)	Avoidance of favourable treatment in granting accommodation to employees, close relations of employees and/or entities in which any employee or close relation of such employee hold substantial interest	Compliant	The accommodation granted to employees, close relations of employees and/or entities in which any employee or close relation of such employee holds substantial interest are subject to normal commercial terms applicable to such transactions and secured by security approved by the Monetary Board except in the case of accommodation under approved schemes, uniformly applicable to all or specific categories of employees.
3.7 (vii)	Not to remit part of 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 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 225.
(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 219.
(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 222.

(d) Details of Directors, including names, fitness and propriety, transactions with the Bank, and the total fees/remuneration paid by the Bank	Please refer pages 32 to 37, and Note 56.2 to the Financial Statements
(e) Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.	Complied with.

Category of related party	31 December 2023	
	LKR '000	%
Subsidiaries	2,000	-
Directors	2,578	0.01
Other Key Management Personnel	146,878	0.29
Close Family members of Directors and Key Management Personnel	2,083	–
Total net accommodation	153,539	0.30
Regulatory capital – solo basis	51,304,883	–

The total net accommodation was 0.3% 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 56.2 to the Financial Statements. Further, in addition to the above, compensation, total deposits, and investments made and accommodation obtained as at 31 December 2023 by the other Key Management Personnel (officers performing executive functions referred to in Banking Act determination No. 1 of 2019) amounted to LKR 159.7 Mn, LKR 243.96 Mn and LKR 67.74 Mn respectively.
(g) All findings of the "Factual Findings Report" of the External Auditor to be incorporated in this report.	Complied with.
(h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls, and measures taken to rectify any material non-compliance.	Complied with. See Annual Report of the Board of Directors on the State of Affairs of the Bank.
(i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	The Monetary Board has not directed any disclosure to be made.

Independent Assurance

The External Auditors have performed procedures set out in Sri Lanka Related Services Practice Statement 4750 (SLRSPS 4750) issued by the Institute of Chartered Accountants of Sri Lanka, to meet the compliance requirement of the Corporate Governance Direction. Their findings presented in their report addressed to the Board are consistent with the matters disclosed above and did not identify any inconsistencies to those reported above by the Board.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF AFFAIRS OF THE BANK

General

The Board of Directors of DFCC Bank PLC (the Bank) take pleasure in presenting their Report on the State of Affairs of the Bank as published in this Annual Report of the Bank which also consists of the Audited Financial Statements of the Bank, the Consolidated Financial Statements of the Group and the Auditor's Report on those Financial Statements.

The disclosures in this Annual Report conform to the requirements of the Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 (as amended), the Directions issued by the Monetary Board of the Central Bank of Sri Lanka under the Banking Act and the Listing Rules of the Colombo Stock Exchange (CSE).

The disclosures required under Section 168 of the Companies Act No. 07 of 2007, published in this Annual Report are tabulated in the table below:

Section	Disclosure requirement	Reference to Annual Report
168 (1) (a)	The nature of the business of the Bank and Group	Page 243 (Note 1.4 to the Financial Statements)
168 (1) (b)	Signed Financial Statements of the Bank in accordance with Section 152	Page 237 (Financial Statements)
168 (1) (c)	Auditor's Report on Financial Statements of the Bank and the Group	Page 227
168 (1) (d)	Changes in accounting policies made during the accounting period	Page 252 (Note 6 to the Financial Statements)
168 (1) (e)	Particulars of entries in the interest register made during the accounting period	Page 203 of this Report
168 (1) (f)	Remuneration and other benefits of Directors during the accounting period	Pages 202, 308 and 376 (Notes 19 and 56.2 to the Financial Statements and this Report)
168 (1) (g)	Total amount of donations made by the Bank during the accounting period	Page 203 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 201 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 308 (Note 19 to the Financial Statements)
168 (1) (j)	Auditors' relationship or any interest with the Bank and its subsidiaries	Page 201 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 207 (Signed with an acknowledgment by two Directors and the Company Secretary)

Constitution

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

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

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

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

Going Concern

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

Financial Statements

The Financial Statements of the Bank and the Group are given on pages 234 to 385 of the Annual Report. The Financial Statements of the Bank and the Group have been prepared in accordance with Sri Lanka Accounting Standards prefixed SLFRS and LKAS, the Banking Act No. 30 of 1988 and amendments thereto, the Companies Act No. 07 of 2007 and other applicable statutory and regulatory requirements.

Review of Business of the Year

DFCC Bank continued its commitment to serving customers across the country, delivering high-quality customer centric banking services, despite the volatile and challenging economic environment. Recognising the challenging circumstances faced by our customers, the Bank proactively initiated a series of impactful relief initiatives and measures to address their predicament. These internal initiatives, driven by the Bank's commitment to customer welfare, were specifically tailored to alleviate the adverse effects of the unpredictable economic conditions experienced during the year.

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

Profit and Appropriations

Year ended 31 December 2023	LKR '000
Profit for the period	7,219,702
Appropriations	
Transfer to: Reserve fund (statutory requirement)	365,000
First and final dividend recommended for financial year ended 31 December 2023	2,109,743
Unappropriated profit for the period	4,744,959

Accounting Policies

The accounting policies adopted in the preparation of the Financial Statements of the Bank and the Group are stated on pages 247 to 385 of the Annual Report.

There were no changes to the accounting policies of the Group in the year under review, other than as disclosed in Note 6 to the financial statements.

Auditors' Report

The Auditors' Report on the Financial Statements, which is unqualified, is given on page 227.

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 2024. The Audit Committee has reviewed the effectiveness and the relationship with the Bank including the fees paid to the Auditors and has concluded that they are suitable to continue in office. The Directors are satisfied that based on the written representation made by the Auditors, they have no relationship or interest with the Bank or with any of its subsidiaries which would impair the Auditors independence. A resolution pertaining to their reappointment and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting for adoption.

The Board of Directors

The Board of Directors of the Bank consist of 11 Directors with wide knowledge and experience in the fields of banking, finance, trade, law, commerce, or services. Profiles of the Directors are given on pages 32 to 37.

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

Ms H M N S Gunawardana

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 V J Senaratne

Executive Director

N H T I Perera – Chief Executive Officer

The Independent Directors satisfy the criteria set out in Section 9.8.3 of the CSE Listing Rules. Further, all directors satisfy the fit and proper assessment criteria stipulated in the CSE Listing Rules.

Appointment, Retirement/Resignation and Re-election of Directors

There were no new appointments, retirements or resignations during the year.

Retirement by Rotation and Re-election of Directors

The Directors retiring by rotation in terms of Article 44 are J Durairatnam, Ms A L Thambiayah and N Vasantha Kumar, who offer themselves for re-election under the said Article with the unanimous support of the Directors.

Details relating to Directors seeking re-election:

Name of Director/ Date of appointment	Date last re-elected	Board Committees served during 2023	Directorships and other principal commitments 2021 to 2023
J Durairatnam/ 30 August 2018	30 March 2021	• Chairman – Credit Approval Committee • Chairman – Credit Restructure Committee • Member* – Human Resources and Remuneration Committee • Member* – Nomination and Governance Committee • Member – Related Party Transactions Review Committee	• Director – Asian Hotels and Properties PLC • Director – Ceylinco Life Insurance Co. Ltd. • Director – Assetline Finance Ltd. • Director – Enviro Solutions (Pvt) Ltd.
N Vasantha Kumar/ 1 September 2021	30 March 2022	• Chairman – Integrated Risk Management Committee • Member – Nomination and Governance Committee • Member – Credit Restructure Committee	• Director – Ceylinco Insurance PLC • Director – Senkadagala Finance PLC • Director – Asset Trust Management (Pvt) Ltd. • Director – Wealth Management (Pvt) Ltd. • Chairman – Safe Capital (Pvt) Ltd. • Past Chairman/Director – Safe Holdings (Pvt) Ltd.

Name of Director/ Date of appointment	Date last re-elected	Board Committees served during 2023	Directorships and other principal commitments 2021 to 2023
Ms A L Thambiayah/ 1 September 2021	30 March 2022	• Member – Credit Approval Committee • Member – Human Resources and Remuneration Committee	• Joint Managing Director – Renuka City Hotel PLC • Joint Managing Director – Renuka Hotels PLC • Director – Cargo Boat Development Company PLC • Director – Renuka Consultants and Services Ltd. • Director – Renuka Properties Ltd. • Director – Lancaster Holdings Ltd. • Director – Amalgamated Theaters (Pvt) Ltd. • Director – Portfolio Management Services (Pvt) Ltd.

* Functioned as Chairman until 25 October 2023.

None of the above Directors (Including close family) has had any relationships with other Directors, the Bank or with any shareholders holding more than 10% of shares of the Bank.

Directors' Remuneration

The Directors' remuneration in respect of the Bank and the Group for the financial year ended 31 December 2023 is given below:

Year ended 31 December	2023 LKR '000	2022 LKR '000
Bank	61,854	60,932
Group	89,270	84,135

Directors' Meetings

The Bank held 12 Board meetings during the year. The Table on page 185 of the Annual Report gives details of the attendance of the Directors at Board and Board Committees during the year.

Directors' Interests in Shares/Debentures

	Number of shares	
As at 31 December	2023	2022
W D Batagoda	Nil	Nil
J Durairatnam	Nil	Nil
Ms L K A H Fernando	Nil	Nil
W R H Fernando	Nil	Nil
Ms H M N S Gunawardana	Nil	Nil
N K G K Nemmawatta	Nil	Nil
N H T I Perera	25,814	24,635
Ms V J Senaratne	2,101	2,006
Ms A L Thambiayah	105,094	100,292
N Vasantha Kumar	1,800	Nil
H A J de S Wijeyeratne	12,905	12,316

No Director directly or indirectly holds debentures or 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 carried out in the ordinary course of business on an arm's length basis with entities/ persons (other than subsidiaries, the joint venture, and associate) listed under each Director for the year ended 31 December 2023 is as follows:

	LKR '000
J Durairatnam	
Assetline Finance Limited Aggregate amount of accommodation	500,000
Asian Hotels and Properties PLC Aggregate amount of payment for services	1,883
Ms L K A H Fernando	
Aggregate amount of accommodation	7,500
United Motors Lanka PLC Aggregate amount of payment for services	872
N K G K Nemmawatta	
Aggregate amount of accommodation	5,000
N H T I Perera	
LankaPay (Pvt) Ltd. Aggregate amount of payment for services	996
Ms A L Thambiayah	
Renuka Hotels PLC Aggregate amount of payment for services	5,188
H A J de S Wijeyeratne	
Aggregate amount of accommodation	15,600
Trans Asia Hotels PLC Aggregate amount of payment for service	1,968

During the year, N H T I Perera has been Chairman/Director of one or more of the subsidiary, joint venture, or associate company. Details of transactions with subsidiary, joint venture and associate company are disclosed in Note 56.4.

No Director or their close family members has had any material business relationship during the year with other Directors of the Bank.

Corporate Donations

During the year, the Bank made donations amounting to LKR 135,000/-.

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:

Committee	Members	Nature of Directorship	Date Appointed to Committee
Audit Committee	H A J de S Wijeyeratne – Chairman	Independent	1 July 2020
	Ms L K A H Fernando	Independent	1 November 2017
	Ms H M N S Gunawardana	Independent	1 July 2022
Credit Approval Committee	J Durairatnam – Chairman	Independent	31 August 2018
	N K G K Nemmawatta	Independent	28 July 2019
	Ms A L Thambiayah	Independent	1 January 2022
Credit Restructure Committee	J Durairatnam – Chairman	Independent	28 July 2019
	N K G K Nemmawatta	Independent	24 June 2020
	N Vasantha Kumar	Independent	28 September 2021
Human Resources and Remuneration Committee	Ms H M N S Gunawardana – Chairperson*	Independent	26 August 2020
	W D Batagoda	Non-Independent	28 September 2022
	J Durairatnam**	Independent	28 July 2019
	Ms A L Thambiayah	Independent	24 November 2021
Nomination and Governance Committee	W R H Fernando – Chairman*	Independent	28 September 2022
	J Durairatnam**	Independent	28 July 2019
	Ms V J Senaratne	Non-Independent	26 August 2020
	N Vasantha Kumar	Independent	1 July 2022
Integrated Risk Management Committee	N Vasantha Kumar – Chairman	Independent	1 September 2021
	Ms L K A H Fernando	Independent	1 November 2017
	W R H Fernando	Independent	28 September 2022
	N H T I Perera	Executive	1 January 2022
	Ms V J Senaratne	Non-Independent	26 April 2017
	Chief Risk Officer of the Bank is also a member of the Committee.		
Related Party Transactions Review Committee	N K G K Nemmawatta – Chairman	Independent	1 July 2022
	J Durairatnam	Independent	28 July 2019
	N H T I Perera	Executive	1 January 2022
	Ms A L Thambiayah	Independent	1 February 2024

* With effect from 26 October 2023.

** Functioned as Chairman until 25 October 2023.

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

Further details relating to the committees are given in the section on Corporate Governance and the Committee Reports.

Dividend

The Directors have approved the payment of a first and final dividend of LKR 5.00 per share, (final dividend paid in the previous period, LKR 2.00 per share). The total dividend for the year will amount to approximately LKR 2,110 Mn (LKR 805 Mn in the previous period), which amounts to 31% of the Bank's distributable profit.

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

Property, Plant, and Equipment, and Leasehold Property

The total expenditure of acquisition on property, plant, and equipment during the year amounted to LKR 1,291 Mn, of which intangible assets amounted to LKR 252 Mn. Details of these are given in Notes 37 and 38 to the Financial Statements.

Reserves

Total reserves and retained profit amounted to LKR 53,874 Mn.

Market Value of Freehold Properties

The information on market value of freehold properties are given in Note 37.1.2 to the Financial Statements.

Stated Capital and Subordinated Debentures

The stated capital as at 31 December 2023 was LKR 13,866 Mn. The number of shares in issue as at 31 December 2023 was 421,948,655. Consequent to the Scrip issue approved during the year, the stated capital was increased by LKR 684.5 Mn.

Further information is given on pages 368 and 371.

Share Information

Information relating to earnings, net asset and market value per share are given on pages 100 and 103 of the Annual Report and also contain information pertaining to the share trading during the period.

Shareholders

As at 31 December 2023, there were 10,103 registered shareholders and the distribution is indicated on page 101.

The 20 largest shareholders as at 31 December 2023 are listed on page 102.

Employment and Remuneration Policies

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

Statutory Payments

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

Review of Related Party Transactions

The Related Party Transactions Review Committee is responsible for ensuring compliance with the code specified in Section 9.14 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. Directors are provided with updates on revisions to Rules, Directions and other applicable laws. 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 58 to the Financial Statements.

Corporate Governance

Corporate Governance practices of the Bank are governed by Direction No. 11 of 2007 of the Central Bank of Sri Lanka (as amended) and Section 9 of the Listing Rules of the Colombo Stock Exchange. Details of governance practices are given on pages 179 and 198.

The Directors have obtained External Auditors' assurance on effectiveness of the internal control mechanism and compliance with the Direction 11 of 2007 of the Central Bank of Sri Lanka on Corporate Governance.

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 Table below:

Reference to rule	Requirement	Reference to Annual Report
3 (8) (i)	Financial Statements on prescribed format	Financial Statements on pages 234 to 385.
3 (8) (ii) (a)	Affirmative assurance of compliance with accounting standards and requirements	Directors' Responsibility Statement on page 225.
3 (8) (ii) (b)	Affirmative assurance of the integrity of financial reporting system	Directors' Statement of Internal Control on page 219.
3 (8) (ii) (c)	Assurance report issued by the External Auditor	Independent Assurance Report on page 222.
3 (8) (ii) (d)	Information on Directors	Pages 32 to 37.
3 (8) (ii) (d)	Remuneration of Directors	Annual Report of the Board of Directors on the State of Affairs of the Bank on page 202.
3 (8) (ii) (e)	Net accommodation granted to each category of related party	Corporate Governance Report. Table on page 198.
3 (8) (ii) (f)	Compensation and other transactions with Key Management Personnel	Corporate Governance Report on page 198.
3 (8) (ii) (h)	Compliance with prudential requirements and regulations	This Report.

The Annual Report disclosures prescribed by Section 9 of the Listing Rules of the Colombo Stock Exchange effective as at date have been made in this Annual Report as shown in the Table below:

Reference to rule	Requirement	Reference to Annual Report
9.1.3	Statement on compliance with the Corporate Governance Rules	Corporate Governance Report on page 182.
9.2.2	Any waivers or exemptions granted	None.
9.2.3	Policies which are effective as at date	Corporate Governance Report on page 181.
9.5.2	Policy governing matters relating to the Board	Corporate Governance Report on page 181.
9.7.5	Fit and Proper Assessment Criteria	Annual Report of the Board of Directors on the State of Affairs of the Bank on page 201.
9.8.5 (b)	Names of Directors determined to be "independent"	Annual Report of the Board of Directors on the State of Affairs of the Bank on page 201.
9.10.1	Policy on maximum number of directorships permitted to held by Board members	Twenty directorships.
9.10.4	Details with respect to Directors	Profiles on pages 32 to 37. Annual Report of the Board of Directors on the State of Affairs of the Bank on pages 201, 202 and 204. Corporate Governance Report on page 185.

Reference to rule	Requirement	Reference to Annual Report
9.11.4 (3)	Members of the Nomination and Governance Committee	Annual Report of the Board of Directors on the State of Affairs of the Bank on page 204.
9.11.6	Report of the Nomination and Governance Committee	Page 213.
9.12.8	Members of the Remuneration Committee, remuneration policy and aggregate remuneration	Annual Report of the Board of Directors on the State of Affairs of the Bank on pages 202, 204 and 205.
9.13.5	Report of the Audit Committee	Page 208.
9.14.8 (1) & (2)	Non recurrent and Recurrent Related Party Transactions in terms of the Rule	Financial Statements Note (56.7) on page 381.
9.14.8 (3)	Report of the Related Party Transactions Review Committee	Page 218.
9.14.8 (4)	Affirmative declaration	Annual Report of the Board of Directors on the State of Affairs of the Bank on page 205.
9.16	Additional Disclosures That Directors have:	
	i. Declared all material interests in contracts and have refrained from voting on matters in which they were materially interested	Annual Report of the Board of Directors on the State of Affairs of the Bank on page 203.
	ii. Conducted a review of the internal controls covering financial, operational and compliance controls and risk management and have obtained reasonable assurance of their effectiveness and successful adherence	Directors Statement of Internal Control on page 219. Independent Assurance Report on Page 222.
	iii. Made arrangements to make themselves aware of applicable laws, rules and regulations and are aware of changes particularly to Listing Rules and applicable capital market provisions	Annual Report of the Board of Directors on the State of Affairs of the Bank on page 205.
	iv. Disclosed any material non-compliance with law or regulation and any fines, if any which are material, imposed by any government or regulatory authority	None.

Annual General Meeting

The Sixty-Eighth Annual General Meeting will be held on 28 March 2024 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 and
Chief Executive Officer

Ms N Ranaraja
Company Secretary
19 February 2024

REPORT OF THE AUDIT COMMITTEE

GRI 2-24

Composition

The Board appointed Audit Committee comprises three Independent Non-Executive Directors.

The Committee for 2023 is chaired by Mr H 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).

The present members of the Board appointed Audit Committee are as follows:

Mr H A J de Silva

Wijeyeratne – Chairman

Ms L K A H Fernando

Ms H M N S Gunawardana

There were no changes in the membership of the Committee during the year. Brief profiles of the members are given on pages 32 to 37.

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 November 2023. 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 revised Section 9 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 2023. During the year, 10 Audit Committee meetings were held and proceedings of the Audit Committee meetings were reported regularly to the Board.

The meetings during the year were regularly attended and the attendance by the Committee members at the meetings is given in the table on page 185 of this Annual Report.

The Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and Chief Information Officer attend meeting 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 2023

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.

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. The Committee reviewed the revised impairment

policy document on adoption of the Sri Lanka accounting Standard – SLFRS 09 on Financial Instruments during the year 2023 and made recommendations for further improvements and implementation.

- 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 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 2023, 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 in to account in the preparation of the Financial Statements and that the 2023 Financial Statements are reliable and presents a true and fair view of the state of affairs of the Bank.

Review of Internal Control System

The Audit Committee assessed the effectiveness of internal controls over financial reporting as at 31 December 2023 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 Audit Committee obtained the assurance from the CEO and other key management personnel who are responsible for adequately designing and effectively implementing the Entity's risk management and internal control systems as part of this process.

Further the Committee monitored the progress on implementation of the recommendation made in the Statutory examination reports of the Central Bank of Sri Lanka (CBSL) through regular follow up reports tabled during the year 2023. The Committee ensures that appropriate action is taken by the Management on the recommendations of the Internal Auditors, External Auditors and in Statutory examinations conducted by the Central Bank of Sri Lanka (CBSL) 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 219 to 221.

Group Internal Audit

The Audit Committee ensures that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care. The Audit Charter authorises and guides the Head of Group Internal Audit (HGIA) in carrying out independent audit functions of the Bank and its subsidiaries. The HGIA enjoys operational independence in conducting duties and has the authority to initiate, carry out, and report on any action, which is considered necessary. For the performance of duties, the HGIA and audit staff shall have unrestricted, unlimited, direct and prompt access to all records of the Bank and 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 October 2023 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 2023. 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 and incident reporting from time to time.

The Group Internal Audit Department carried out the internal control testing on each audit assignment during the year 2023 and a special review on Internal Control Testing was carried out at the year end on all significant processes of the Bank and as a result additional Risk and Control Matrices for 10 significant processes were identified and added to further strengthen the internal control system of the bank by respective business and process owners after the intimation of the Group Internal Audit.

In addition, the Group Internal Audit performed many certifications during the year as required by the CBSL including quarterly based certifications provided on interest reimbursements on senior citizen accounts and incentives paid on overseas worker remittances.

In 2023, the Board Audit Committee reviewed all the significant audit findings along with the management responses and rectification action plans related to 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.

By obtaining services from a consultant, Internal Audit conducted a special training on the importance of internal controls, risk and ownership culture among the management staff, Heads of the Departments and Branch Managers during the year considering the emerging risks and regulatory risk landscape changes.

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 and obtained a statement confirming the independence in accordance with the terms of all relevant professional and regulatory requirements. The Committee approved the policy in place as reviewed on non-audit services provided by the External Auditors in October 2023.

The Committee reviewed the details and related fees of all Audit and Non-Audit Services obtained from the External Auditor to ensure that the non-audit related fees do not exceed the combined fees and expenses payable for audit and audit related services of the year 2023.

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 last 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 regulatory 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.

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 re-appointed for the financial year ending 31 December 2024 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 existing Whistleblowing Policy of the Bank and its subsidiaries was reviewed during the year 2023 and all members of staff were educated and encouraged to practice whistleblowing if they suspect any wrong doing to further strengthen 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.

Further in alignment with DFCC Bank's unwavering dedication to combat fraud, the internal audit department conducted knowledge sharing programmes throughout the International Fraud Awareness Week held on 12th to 18th of November 2023 to actively disseminate anti-fraud awareness among the DFCC Group employees and other stakeholders.

Training and Development of Committee Members

Members of the Committee attended presentations made by consultants and Key Management Personnel. Members also attended seminars, conferences and workshops as part of their continuous professional development.

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

19 February 2024

REPORT OF THE HUMAN RESOURCES AND REMUNERATION COMMITTEE

GRI 2-24

Composition

The Human Resources and Remuneration Committee appointed by the Board of Directors, presently consists of four Non-Executive Directors. Ms H M N S Gunawardana an Independent Director is the Chairperson of the Committee. J Durairatnam, Ms A L Thambiayah, 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 9.12.6 of the Listing Rules of the Colombo Stock Exchange (CSE). In line with the revised CSE listing rules, Ms H M N S Gunawardana took over as Chairperson of the Committee from J Durairatnam in October 2023.

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 and Section 9.12 of the CSE Listing Rules on Corporate Governance.

The Committee in determining the remuneration policy relating to Directors, Chief Executive, and Key Management Personnel of DFCC Bank, 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 reviewed Market Compensation data in comparison with that of the Bank, gathered and analysed by an external consultant, and made recommendations on market corrections for staff of lower grades to ensure that the Bank's remuneration structure will remain sufficiently attractive. Furthermore, the Committee 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. 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 five meetings during the financial year to carry out its task. The attendance by members is given on page 185 of the Annual Report.

Ms H M N S Gunawardana

Chairperson
Human Resources and
Remuneration Committee

19 February 2024

REPORT OF THE NOMINATION AND GOVERNANCE COMMITTEE

GRI 2-24

Composition

The Nomination and Governance Committee of the Board of Directors presently consists of four Non-Executive Directors. W R H Fernando an Independent Director is the Chairman with J Durairatnam, Ms V J Senaratne, and N Vasantha Kumar as members.

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

The composition of the Committee met the requirements of Rule 3.6 (iv) (f) of the Banking Act Direction No. 11 of 2007 of the Central Bank and Section 9.11.4 of the Listing Rules of the Colombo Stock Exchange (CSE). In line with the revised CSE Listing Rules, W R H Fernando took over as the Chairman of the Committee from J Durairatnam in October 2023.

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 and Section 9.11 of the CSE Listing Rules on Corporate Governance.

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.

The role of the Committee in terms of the mandate 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.

Documented policy and processes are in place to ensure Board diversity in terms of skills, experience, age, gender etc.

The Committee is also responsible for the task of implementing a procedure for the appointment of the CEO and Key Management Personnel.

Processes are in place to conduct an orientation upon the appointment of a new Director. Existing Directors are provided with updates on revisions to rules on Corporate Governance and other relevant regulations.

Further, periodic reports are submitted to the Board, on top and emerging risks for the Bank, overall risk limits, internal drivers, stress testing, liquidity ratio, etc. in order to ensure that the Non-Executive Directors are informed of the critical issues.

During the year no new Directors were appointed to the Board.

Meetings

Four 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 identified persons to fill key management positions after reviewing many candidates from time to time to ascertain the best fit for the Bank in terms of qualifications, ability and character, reviewed succession planning and assessed the fitness and propriety of Directors, and Key Management Personnel, in terms of the requirements of the Banking Act and CSE Listing Rules.

A declaration was obtained based on the revised format adopted by the Committee from Non-Executive Directors, confirming their status of independence. Further, a new declaration was obtained from the Directors in terms of Section 9.7.3 of the CSE Listing Rules confirming their fit and propriety to hold office as a Director.

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, dates of appointment to Committees and the nature of Directorships are given on page 185 and 204 of the Annual Report.

In terms of the Articles, one-third of the Non-Executive Directors shall retire from office at each Annual General Meeting and are eligible for re-election. The Committee reviewed the contributions made by the respective Directors towards Board Committees, their other commitments and the overall performance and has recommended the re-election of the Directors offering themselves for re-election at the forthcoming Annual General Meeting. Particulars of Directors seeking re-election are given on pages 201 and 202 of the Annual Report.

The Corporate Governance requirements stipulated under the CSE Listing Rules have been met. Further the Independent Directors have met the criteria for determining independence in terms of Section 9.8.3 of the CSE Listing Rules.

W R H Fernando

Chairman
Nomination and Governance Committee

19 February 2024

REPORT OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

GRI 2-24

Composition of the Board Integrated Risk Management Committee (BIRMC)

During the financial year ended December 2023, the composition of the Board Integrated Risk Management Committee (BIRMC) exhibited stability, with no alteration to its membership.

There were four Non-Executive Directors and an Executive Director as at 31 December 2023 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 2023 was as follows:

N Vasantha Kumar –
Chairperson of the Committee/ Independent Non-Executive Director

Ms L K A H Fernando –
Independent Non-Executive Director

Ms V J Senaratne –
Non-Executive Director

W R H Fernando –
Independent Non-Executive Director

N H T I Perera –
Executive Director/Chief Executive Officer

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. 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 once in two months. During 2023, DFCC Bank convened six BIRMC meetings. The attendance of members is listed on page 185 of the Annual Report. The Committee continued to review policy frameworks, risk management strategies, risk capital position, key risk indicators and top and emerging risks at these meetings and was satisfied that the risk exposures of the Bank and the Group were being appropriately managed. During the financial year, the following key initiatives were achieved by the Committee

A. Reviewed and approved the Internal Capital Adequacy Assessment Process (ICAAP) of DFCC Bank, which was a regulatory requirement with effect from January 2014. BIRMC will continue monitoring and proposing future capital requirements as per the Bank's growth targets for the next few years.

B. In relation to the management of compliance risk, compliance risk indicators with different risk scales were reviewed and specific areas of focus were recognised based on the possible impact and the probability of occurrence.

C. Risk controls and monitoring tools were further improved with revisions to the overall risk limits system of the Bank from time to time as required. New advisory limits were put in place as trigger limits as required.

D. All existing risk policies and practices were reviewed by the Committee in line with the Bank's specific requirements, industry dynamics, and regulatory specifications and approved the necessary amendments to further strengthen the risk management processes in the Bank.

E. The annual review of effectiveness and adequacy of the Management Committees were conducted by the BIRMC during the first quarter of 2023. The review results were shared with the respective Committees for necessary improvements.

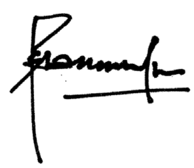
F. Reviewed and implemented the CBSL recommendations based on the examination report requirements in relation to the integrated risk management function of the Bank.

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 2023, 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 V Kumar
Chairman
Board Integrated Risk
Management Committee

19 February 2024

REPORT OF THE CREDIT APPROVAL COMMITTEE

GRI 2-24

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.

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 185 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

19 February 2024

REPORT OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

GRI 2-24

Composition

The Related Party Transactions Review Committee appointed by the Board of Directors, presently consists of three Non-Executive Directors and the Chief Executive. N K G K Nemmawatta, an Independent Director is the Chairman of the Committee. J Durairatnam, Ms A L Thambiayah and N H T I Perera are the other members.

The Company Secretary functions as the Secretary of the Committee.

The Committee's composition met the requirements of the Rule 9.14.2 of Listing Rules of the Colombo Stock Exchange (CSE).

Mandate

The Committee adopted as its mandate, the tasks specified in Section 9.14 of the Colombo Stock Exchange 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 9.14.10 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 twelve meetings during the financial year to carry out its tasks. The attendance by members is given on page 185 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

19 February 2024

DIRECTORS' STATEMENT OF INTERNAL CONTROLS

GRI 2-24

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 controls over financial reporting taking into account relevant principles for the assessment of internal controls 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 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 offsite auditing initiatives were further strengthened to review the design and the effectiveness of the internal control system utilising 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 and potential fraud monitoring testing were performed during the year and submitted to the Board Audit Committee on a periodic basis.
- 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 208.
- By obtaining services from a consultant, the Internal Audit Department conducted a special training on the importance of internal controls, risk and ownership culture among the management staff, Heads of Departments and Branch Managers during the year considering the emerging risks and regulatory risk landscape changes and further to strengthen the first and second lines of defence in the internal controls and governance structure of the Bank.
- Further in alignment with DFCC Bank's unwavering dedication to combat fraud, the Internal Audit Department conducted knowledge sharing programmes throughout the International Fraud Awareness Week held from the 12th to the 18th of November 2023 to actively disseminate anti-fraud awareness among the DFCC group.
- 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, Information Security 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.
- As a result, additional Risk and Control Matrices for 10 significant processes were identified and added to further strengthen the internal control system of the Bank by the respective business and process owners after the intimation of the Internal Audit.
- Further special focus areas were identified and assessed for strengthening the control setup including information system controls adopted in the core banking system and the MIS reporting. The Bank continuously evaluates the evolving internal control environment with the implementation of the new core banking system and the effects of the ongoing digitalisation drive.
- The Bank had adopted SLFRS 9 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 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 2023 with consideration of elevated risks due to implications from the pandemic and the economic crisis, and application of 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 2022 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 2023 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 of Internal Controls over Financial Reporting for the year ended 31 December 2023 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 Controls over Financial Reporting" is given on page 222 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

19 February 2024

ASSURANCE REPORT ON THE DIRECTOR'S STATEMENT ON INTERNAL CONTROL

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THE BOARD OF DIRECTORS OF DFCC BANK PLC.

Report on the Directors' Statement on Internal Control

We were engaged by the Board of Directors of DFCC Bank PLC ("Bank") to provide assurance on the Director's Statement on Internal Control ("Statement") included in the annual report for the year ended 31 December 2023.

Management's Responsibility

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.

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding professional compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our Responsibilities

Our responsibility is 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 design and effectiveness of the internal control of the Bank.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 (revised), Assurance Report for Banks on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

This standard requires that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

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G.A.U. Karunaratne FCA
R.H. Rajan FCA
A.M.R.P. Alahakoon ACA
T.J.S. Rajakarier FC
W.K.D.C Abeyrathne FCA
R.M.D.B. Rajapakse FCA
M.N.M. Shameel FCA
Ms. P.M.K. Sumanasekara FCA
W.W.J.C. Perera FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA
Ms. C.T.K.N. Perera ACA
R.W.M.O.W.D.B. Rathnadiwakara FCA

Principals - S R I Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA,Ms. F R Zyard FCMA (UK), FTII

For purposes of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed and audit or review of the financial information.

Summary of Work Performed

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for the 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 Director's 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 (revised) 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 (revised) 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.

The procedures selected depend on our judgment, having regard to our understanding of the nature of the Bank, the event or transaction in respect of which the Statement has been prepared.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Our Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included on pages 219 to 221 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
19 February 2024

Financial Reports

FINANCIAL CALENDAR

2023	LKR 2.00 per share Final Dividend for 2022 paid on	15 March 2023
	Audited Financial Statements signed on	19 February 2024
	68th Annual General Meeting to be held on	28 March 2024
	First and Final Dividend of LKR 5.00 per share by way of cash and scrip Dividend for 2023	by 21 March 2024
	1st Quarter Interim Results released on	11 May 2023
	2nd Quarter Interim Results released on	14 August 2023
	3rd Quarter Interim Results released on	9 November 2023
Proposed Financial Calendar 2024	1st Quarter Interim Results to be released in	May 2024
	2nd Quarter Interim Results to be released in	August 2024
	3rd Quarter Interim Results released on	November 2024
	69th Annual General Meeting to be held in	March 2025

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

The Auditor's Report sets out the respective responsibilities of the Directors and Auditors relating to the Financial Statements and this statement provides additional information.

The Directors are required by relevant statutory provisions to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the Bank and the Group for that year. The statutory provisions are in the Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988 and amendments thereto. The application of principal qualitative characteristics and appropriate accounting standards and regulatory requirements inclusive of specific disclosures would result in Financial Statements that convey a true and fair view of financial information and financial position.

The Directors are satisfied that the Bank and Group have the resources to continue in business for the foreseeable future and therefore, these Financial Statements are prepared on a going concern basis.

The Financial Statements for the year ended 31 December 2023 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 208 to 211.

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 226.

By Order of the Board,

Ms N Ranaraja
Company Secretary

Colombo
19 February 2024

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 2023 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 2023, as required by the Banking Act Direction No. 11 of 2007, result of which is given on pages 219 to 221 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 222 to 223 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 208 to 211.

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 55.2 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 2023 have been paid or were relevant provided for.

N H T I Perera
Director/Chief Executive Officer

Amarasekara

Chinthika Amarasekara
Chief Financial Officer

Colombo
19 February 2024

INDEPENDENT AUDITORS' REPORT

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TO THE SHAREHOLDERS OF DFCC BANK PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of DFCC Bank PLC ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group"), which comprise the statement of financial position as at 31 December 2023, and the 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 material accounting policies as set out on pages 243 to 385 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 2023, 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 for professional Accountants issued by CA Sri Lanka ("Code of Ethics"), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Bank's financial statements and the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the Bank's financial statements and the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Allowances for Expected Credit Losses

Refer to Note 04 (Use of judgements and estimates), Note 16 (impairment for loans and other losses), and Note 30 (Financial assets at amortised cost – Loans to and receivables from customers) to these financial statements.

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C.P. Jayatilake FCA
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R.H. Rajan FCA
A.M.R.P. Alahakoon ACA
T.J.S. Rajakarier FC
W.K.D.C Abeyrathne FCA
R.M.D.B. Rajapakse FCA
M.N.M. Shameel FCA
Ms. P.M.K. Sumanasekara FCA
W.W.J.C. Perera FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA
Ms. C.T.K.N. Perera ACA
R.W.M.O.W.D.B. Rathnadiwakara FCA

Principals - S R I Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA,Ms. F R Zyard FCMA (UK), FTII

KPMG

Risk description	Our responses
As disclosed in Note 30 to these financial statements, the Bank has recorded financial assets measured at amortised cost against loans to and receivables from customers amounting to LKR 348,767 Mn as at 31 December 2023 and a total impairment relating to Financial assets at amortised cost – Loans and receivables from customers amounted to LKR 45,917 Mn As disclosed in Note 16 total impairment for loans and other losses amounted to LKR 13,985 Mn High degree of complexity and judgement are involved in estimating Expected Credit Loss (ECL). Allowance for expected credit losses (ECL) is a key audit matter due to the significance of the loans to and receivables from customers balance to the financial statements and the inherent complexity of the ECL models used by the Bank to measure ECL allowances. These models are reliant on data and estimates including multiple economic scenarios and key assumptions such as defining a significant increase in credit risk (SICR). SICR identification is a key judgement within the ECL methodology, as this criterion determines if a forward-looking 12 month or lifetime allowance is recorded.	Our audit procedures to assess the allowances for ECL included the following: Testing key controls of the Bank in relation to: • The ECL model governance and validation processes which involved assessment of model performance; • The assessment and approval of the forward-looking macroeconomic assumptions and scenario weightings through challenge applied by internal governance processes; • Reconciliation of the data used in the ECL calculation process to gross balances recorded within the general ledger as well as source systems; • IT system controls which record loans days past due, and non-performing loan classification. **Assessing adequacy of impairment for individually significant customers (ISL)** Selecting a sample of larger customers (based on quantitative threshold set by the Bank for ISL 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.

KPMG

Risk description	Our responses
SLFRS 9 Financial Instruments requires the Bank to measure ECLs on a forward-looking basis reflecting a range of economic conditions. Management overlay adjustments are considered to address known ECL model limitations or emerging trends in the loan portfolios. Additional subjectivity and judgement are required due to the heightened uncertainty associated with the impact of the economic outlook and its impact on customers, increasing our audit effort thereon. Additionally, allowances for individually assessed loans exceeding specific thresholds are assessed by challenging the assessment of specific allowances based on the expected future cash repayments and estimated proceeds from the value of the collateral held in respect of the loans by the Bank. The disclosures regarding the Bank application of SLFRS 9 are key to explaining the key judgements and material inputs to the SLFRS 9 ECL results.	This included the following procedures; • Evaluating management's assessment of recoverability of the forecasted cash flows by comparing them to the historical performance of the customers, their financial position 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, forecasted timing of future cash flows in the context of underlying valuations and approved business plans and challenging key assumptions in the valuations; • Exercising our judgement, our procedures included using our understanding of relevant industries and the macroeconomic environment and comparing with the data and assumptions used by the Bank in recoverability assessment. Where relevant we assessed the forecast timing of future cash flows in the context of underlying valuations, and business plans and evaluating the key assumptions in the valuations; • Testing the implementation of the Bank SICR methodology by re-performing the staging calculation for a sample of loans; • For a sample of customer loans which were not identified as displaying indicators of impairment by management, we reassessed the conclusions made by the management by reviewing the historical performance of the customers and form our own view whether any impairment indicators were present. **Assessing the adequacy of collectively assessed impairment** We tested key controls of the Bank by: • Obtaining an understanding of the processes to determine ECL allowances of the Bank, evaluating the ECL model methodologies of the Bank against established market practices and criteria in the accounting standards; • 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 considerations of the uncertainty relating to key economic indicators used by the Bank.

KPMG

Risk description	Our responses
	• By working with our Financial Risk Management (FRM) specialist we carried out the following procedures; – Challenging the Bank forward-looking macro-economic assumptions and scenarios incorporated in the ECL models by comparing the economic factors used to relevant publicly available macro-economic information, to identify contradictory indicators; – Evaluating and challenging the key assumptions in the components of the Bank's management overlay adjustments to the ECL allowance balance. This included assessing the requirement for additional allowances considering the Bank's ECL model and data limitations identified by the Bank's ECL model validation processes, particularly in light of the extreme volatility in economic scenarios caused by the prevailing economic conditions; • Assessing the ongoing effectiveness of the SICR criteria and independently calculating the loans' stage to determine whether a SICR event had occurred; • Assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the loan portfolios against the assessment of the Bank; • Evaluating the approach taken by the management in identifying the risk elevated sectors and assessing the current market conditions and specific risks in the loan portfolios of the Bank due to exposure to risk elevated sectors; **Assessing the adequacy of impairment for financial assets** By working with our Financial Risk Management (FRM) specialist we carried out the following procedures; • Challenging the underlying assumptions used and the methodology adopted by the Bank to compute the impairment provision; and • Assessing the reasonableness of key inputs and assumptions using comparable data in the market and available alternatives. We also assessed the appropriateness of the related disclosures in the financial statements using our understanding obtained from our testing and against the requirements of Sri Lanka Accounting Standards.

KPMG

IT Systems and Controls over Financial Reporting

Risk description	Our responses
The Bank businesses utilise many complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. The controls over access, changes to and operation of IT systems are key to the recording of financial information and the preparation of financial statements which provide a true and fair view of the Bank's financial position and performance. The IT systems and controls, as they impact the recording and reporting of financial 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 worked with our internal IT specialists to perform audit procedures to test the technology control environment for key IT applications (systems) used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems which link the technology-enabled business processes. Our further audit procedures included: **General IT controls design, observation and operation** • Assessing the governance and higher-level controls in place across the IT Environment, including those regarding policy design, policy review and awareness, and IT Risk Management practices; • Obtaining an understanding and testing operating effectiveness of the sample of key controls operating over the information technology in relation to financial accounting and reporting systems, including system access and system change management, monitor system integrity, program development and computer operations; • Data integrity of critical system reporting used by us in our audit to select samples and analyse data used by management to generate financial statements. **Application controls** Design and operating effectiveness testing of key automated business process controls including those relating to enforcing segregation of duties to avoid conflicts from inappropriate role combinations within IT applications. • On sample basis, re-performed selected automated computations and compared our results with those from the system and the general ledger. **User access controls operation** Design and operating effectiveness testing of key controls across the user access management. • Assessing the management's evaluation of access rights granted to applications relevant to financial accounting and reporting systems and; • Evaluate the design and operating effectiveness of IT controls, including those related to user access and change management. • Assessing the operating effectiveness of controls over granting, removal and appropriateness of access rights. Where our testing identified design and operating effectiveness matters relating to IT systems or application controls relevant to our audit, we performed alternative audit procedures, including consideration of mitigating controls.

KPMG

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 3272.

Chartered Accountants

Colombo, Sri Lanka
19 February 2024

INCOME STATEMENT

For the year ended 31 December	Note	Page No.	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Gross income	10	293	106,883,450	74,959,516	107,441,538	75,471,383
Interest income			96,921,523	69,863,356	96,924,661	69,867,327
Interest expenses			65,697,026	43,342,290	65,584,019	43,268,327
Net interest income	11	293	31,224,497	26,521,066	31,340,642	26,599,000
Fee and commission income			5,239,924	3,643,039	5,238,670	3,641,487
Fee and commission expenses			1,335,294	766,002	1,335,294	766,002
Net fee and commission income	12	295	3,904,630	2,877,037	3,903,376	2,875,485
Net gains from trading	13	297	1,055,107	63,216	1,055,107	63,216
Net gains from derecognition of financial assets	14	298	2,838,626	99,112	2,838,626	99,112
Net other operating income	15	298	828,270	1,290,793	1,384,474	1,800,241
Total operating income			39,851,130	30,851,224	40,522,225	31,437,054
Impairment for loans and other losses	16	299	13,984,830	17,041,471	13,984,830	17,058,972
Net operating income			25,866,300	13,809,753	26,537,395	14,378,082
Operating expenses						
Personnel expenses	17	306	4,777,944	4,444,212	5,037,299	4,678,123
Depreciation and amortisation	18	308	1,123,853	1,124,666	1,190,663	1,188,433
Other expenses	19	308	5,818,220	4,548,101	5,756,308	4,478,732
Operating profit before taxes on financial services			14,146,283	3,692,774	14,553,125	4,032,794
Taxes on financial services	20	309	3,185,957	1,253,301	3,185,957	1,253,301
Operating profit after taxes on financial services			10,960,326	2,439,473	11,367,168	2,779,493
Share of profits of associate and joint venture			–	–	1,140,981	332,719
Profit before income tax			10,960,326	2,439,473	12,508,149	3,112,212
Income tax expense	21	310	3,740,624	(73,879)	3,849,610	70,301
Profit for the year			7,219,702	2,513,352	8,658,539	3,041,911
Profit attributable to:						
Equity holders of the Bank			7,219,702	2,513,352	8,485,146	2,932,475
Non-controlling interests			–	–	173,393	109,436
Profit for the year			7,219,702	2,513,352	8,658,539	3,041,911
Earnings per share						
Basic/diluted earnings per ordinary share (LKR)	22	314	17.27	6.75	20.30	7.88

The notes to the financial statements from pages 243 to 385 form part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December	Note	Page No.	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Profit for the year			7,219,702	2,513,352	8,658,539	3,041,911
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 (FVOCI debt instrument):						
Net change in fair value			5,931,781	901,909	5,931,781	901,909
Reclassified to income statement			(2,838,626)	(99,112)	(2,838,626)	(99,112)
Share of other comprehensive (expenses)/income of equity accounted joint venture and associate			–	–	(315,332)	440,917
Movement in hedging reserve:						
Cash flow hedges – effective portion of changes in fair value			(3,887,927)	20,807,094	(3,887,927)	20,807,094
Cash flow hedges – reclassified to income statement			5,657,125	(20,208,750)	5,657,125	(20,208,750)
Related deferred tax	21.2	311	(1,458,632)	(198,904)	(1,458,632)	(198,904)
Total other comprehensive income that are or may be reclassified subsequently to income statement			3,403,721	1,202,237	3,088,389	1,643,154
Items that will not be reclassified to income statement						
Gains/(Losses) on remeasurement of defined benefit (assets)/liabilities			(712,612)	325,828	(714,335)	332,442
Equity investments at FVOCI – net change in fair value			7,015,939	(4,505,992)	7,015,939	(4,494,947)
Share of other comprehensive expenses of equity accounted associate and joint venture			–	–	(1,168)	(1,067)
Related deferred tax	21.2	311	208,814	(155,492)	209,395	(157,477)
Total other comprehensive income/(expenses) on items that will not be reclassified to income statement			6,512,141	(4,335,656)	6,509,831	(4,321,049)
Other comprehensive income/(expenses) for the year, net of tax			9,915,862	(3,133,419)	9,598,220	(2,677,895)
Total comprehensive income/(expenses) for the year			17,135,564	(620,067)	18,256,759	364,016
Total comprehensive income/(expenses) attributable to:						
Equity holders of the Bank			17,135,564	(620,067)	18,083,000	254,238
Non-controlling interests			–	–	173,759	109,778
Total comprehensive income/(expenses) for the year			17,135,564	(620,067)	18,256,759	364,016

The notes to the financial statements from pages 243 to 385 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Page No.	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Assets						
Cash and cash equivalents	25	320	14,478,468	16,122,565	14,483,062	16,126,635
Balances with Central Bank of Sri Lanka	26	320	2,107,776	9,030,868	2,107,776	9,030,868
Placements with banks	27	321	29,138,098	15,224,692	29,173,988	15,242,493
Derivative financial assets	28	321	16,499,171	20,473,544	16,499,171	20,473,544
Financial assets measured at fair value through profit or loss	29	325	1,740,928	1,429,149	1,740,928	1,429,149
Financial assets at amortised cost – Loans to and receivables from other customers	30	326	348,767,466	369,072,030	348,767,466	369,072,030
Financial assets at amortised cost – Debt and other instruments	31	332	68,031,313	50,947,926	68,094,041	50,947,926
Financial assets measured at fair value through other comprehensive income	32	336	134,902,765	63,319,060	134,902,765	63,319,060
Investments in subsidiaries	33	341	237,035	237,035	–	–
Investment in associate	34	342	33,169	33,169	36,844	35,394
Investment in joint venture	35	343	755,000	755,000	4,402,238	3,577,701
Investment property	36	345	9,879	9,879	468,385	439,973
Property, plant and equipment	37	346	3,499,737	3,198,553	3,704,411	3,389,441
Intangible assets and goodwill	38	350	1,926,287	2,198,042	2,101,256	2,375,055
Deferred tax assets	39	352	5,407,626	4,137,828	5,415,426	4,143,535
Other assets	40	354	12,963,406	9,750,568	13,170,641	9,933,670
Total assets			640,498,124	565,939,908	645,068,398	569,536,474
Liabilities						
Due to banks	41	356	52,793,464	15,857,994	52,793,464	15,857,994
Derivative financial liabilities	28	321	381,653	84,670	381,653	84,670
Financial liabilities at amortised cost – Due to depositors	42	356	407,225,313	370,314,026	406,584,864	369,746,855
Financial liabilities at amortised cost – Due to other borrowers	43	358	72,022,734	81,145,692	72,022,734	81,145,692
Debt securities in issue	44	358	16,311,577	16,304,115	16,311,577	16,304,115
Employee benefits	45	360	1,371,126	591,550	1,400,921	615,849
Current tax liabilities	46	366	4,426,683	2,479,562	4,535,557	2,575,008
Deferred tax liabilities	39	352	–	–	104,276	149,608
Other liabilities	47	366	9,152,343	10,041,361	9,485,315	10,335,890
Subordinated term debt	48	367	9,072,265	18,399,991	9,072,265	18,399,991
Total liabilities			572,757,158	515,218,961	572,692,626	515,215,672

As at 31 December	Note	Page No.	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Equity						
Stated capital	50	371	13,866,557	13,182,025	13,866,557	13,182,025
Statutory reserve	51	371	3,239,968	2,874,968	3,239,968	2,874,968
Retained earnings	52	372	28,250,357	22,600,898	33,645,590	26,731,857
Other reserves	53	372	22,384,084	12,063,056	21,231,498	11,225,802
Total equity attributable to equity holders of the Bank			67,740,966	50,720,947	71,983,613	54,014,652
Non-controlling interests	54	373	–	–	392,159	306,150
Total equity			67,740,966	50,720,947	72,375,772	54,320,802
Total equity and liabilities			640,498,124	565,939,908	645,068,398	569,536,474
Contingent liabilities and commitments	55	374	193,992,770	169,132,507	193,992,770	169,132,507
Net assets value per share, LKR			160.54	125.96	170.60	134.14

The notes to the financial statements from pages 243 to 385 form part of these financial statements.

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

Chinthika Amarasekara
Chief Financial Officer

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

For and on behalf of the Board of Directors,

J Durairatnam
Chairman

Thimal Perera
Director/Chief Executive Officer

Colombo
19 February 2024

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 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	–	–	–	–	–	(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 net gains on disposal of equity investments at fair value through other comprehensive income to retained 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
Balance as at 1 January 2023	13,182,025	2,874,968	(1,832,190)	115,407	13,779,839	22,600,898	50,720,947
Profit for the year	–	–	–	–	–	7,219,702	7,219,702
Other comprehensive income/(expenses), net of tax	–	–	9,181,221	1,238,439	–	(503,798)	9,915,862
Total comprehensive income for the year	–	–	9,181,221	1,238,439	–	6,715,904	17,135,564
Transfers	–	365,000	–	–	–	(365,000)	–
Transfer of net gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	–	–	(98,632)	–	–	98,632	–
Transactions with equity holders of the Bank, recognised directly in equity							
Forfeiture of unclaimed dividends	–	–	–	–	–	5,255	5,255
Final dividend for 2022 – Scrip	684,532	–	–	–	–	(805,332)	(120,800)
Total contributions from and distribution to equity holders	684,532	–	–	–	–	(800,077)	(115,545)
Balance as at 31 December 2023	13,866,557	3,239,968	7,250,399	1,353,846	13,779,839	28,250,357	67,740,966

The notes to the financial statements from pages 243 to 385 form part of these financial statements.

	Attributable to the equity holders of the Bank									
		Statutory reserve	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 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	–	–	–	–	–	–	(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)	659,381	226,385	–	173,556	(2,678,237)	342	(2,677,895)
Total comprehensive (expenses)/income for the year	–	–	(3,737,559)	659,381	226,385	–	3,106,031	254,238	109,778	364,016
Transfers	–	128,000	–	–	–	–	(128,000)	–	–	–
Transfer of net gains on disposal of equity investments at fair value through other comprehensive income to retained 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)	822,582	(103,057)	13,779,839	26,731,857	54,014,652	306,150	54,320,802
Balance as at 1 January 2023	13,182,025	2,874,968	(3,273,562)	822,582	(103,057)	13,779,839	26,731,857	54,014,652	306,150	54,320,802
Profit for the year	–	–	–	–	–	–	8,485,146	8,485,146	173,393	8,658,539
Other comprehensive income/(expenses), net of tax	–	–	9,190,985	(261,511)	1,174,854	–	(506,474)	9,597,854	366	9,598,220
Total comprehensive income/(expenses) for the year	–	–	9,190,985	(261,511)	1,174,854	–	7,978,672	18,083,000	173,759	18,256,759
Transfers	–	365,000	–	–	–	–	(365,000)	–	–	–
Transfer of net gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	–	–	(98,632)	–	–	–	98,632	–	–	–
Transactions with equity holders of the Bank, recognised directly in equity										
Forfeiture of unclaimed dividends	–	–	–	–	–	–	5,255	5,255	–	5,255
Change in holding through joint venture	–	–	–	–	–	–	1,506	1,506	–	1,506
Final dividend for 2022 – Scrip	684,532	–	–	–	–	–	(805,332)	(120,800)	–	(120,800)
Dividend distributed to non-controlling interest by subsidiaries	–	–	–	–	–	–	–	–	(87,750)	(87,750)
Total contributions from and distribution to equity holders	684,532	–	–	–	–	–	(798,571)	(114,039)	(87,750)	(201,789)
Balance as at 31 December 2023	13,866,557	3,239,968	5,818,791	561,071	1,071,797	13,779,839	33,645,590	71,983,613	392,159	72,375,772

*In the previous year, the share of other comprehensive income attributable to equity-accounted investees, net of tax which associated with cash flow hedge activities, was recorded under the exchange equalisation reserve. However, from the current year, these amounts are now specifically recorded in the cash flow hedge reserve for improved financial statement presentation.

The notes to the financial statements from pages 243 to 385 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Cash flows from operating activities					
Interest receipts		94,707,773	61,237,255	94,801,907	61,317,563
Interest payments		(59,513,733)	(34,013,778)	(59,449,795)	(33,952,168)
Net commission receipts		5,087,447	3,683,160	5,087,447	3,683,160
Net trading income		48,469	28,469	48,469	28,469
Recoveries from loans previously written off		16,767	162,518	16,767	162,518
Receipts from other operating activities		125,212	527,653	521,132	1,077,113
Payments on other operating activities		(6,250,903)	(5,308,678)	(5,837,596)	(5,044,500)
Cash payments to employees		(4,772,478)	(4,660,084)	(5,257,537)	(5,080,846)
Taxes on financial services		(3,234,294)	(1,173,413)	(3,234,294)	(1,173,413)
Operating cash flows before changes in operating assets and liabilities		26,214,260	20,483,102	26,696,500	21,017,896
Decrease/(Increase) in operating assets:					
Balances with Central Bank/deposits held for regulatory or monetary control purposes		6,923,093	1,569,108	6,923,093	1,569,108
Financial assets at amortised cost – Loans to and receivables from other customers		735,466	29,673,313	735,466	29,673,313
Others		3,409,013	(6,847,527)	3,460,440	(6,880,994)
Increase/(decrease) in operating liabilities:					
Financial liabilities at amortised cost – due to depositors		37,195,041	9,689,742	37,065,783	9,214,443
Others		433,525	(991,233)	433,606	(1,058,272)
Net cash flows from operating activities before income tax		74,910,398	53,576,505	75,314,888	53,535,494
Surcharge tax paid		–	(1,232,490)	–	(1,309,892)
Income tax paid	46	(4,305,780)	(1,531,379)	(4,446,618)	(1,630,622)
Net cash flows from operating activities		70,604,618	50,812,636	70,868,270	50,594,980
Cash flows from investing activities					
Dividend received from investment in subsidiaries, joint venture, and associate	15	78,118	89,861	–	–
Dividend received from other investments		111,605	695,331	111,605	695,331
Government securities – net		(82,162,743)	(30,362,319)	(82,162,743)	(30,362,319)
Proceeds from sale and redemption of securities		654,149	700,697	654,149	715,734
Purchase of financial investments		(1,535,338)	(1,342,486)	(1,509,437)	(1,359,957)
Purchase of property, equipment, intangibles and investment property		(1,454,768)	(1,050,400)	(1,546,054)	(1,114,992)
Proceeds from sale of equipment, investment property and others		15,502	12,469	15,502	12,469
Net cash flows used in investing activities		(84,293,475)	(31,256,847)	(84,436,978)	(31,413,734)

For the year ended 31 December	Note	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Cash flows from financing activities					
Redemption of debentures		(8,956,610)	–	(8,956,610)	–
Issue of new shares under rights issue	50	–	3,620,001	–	3,620,001
Borrowing, medium and long-term		1,754,143	4,834,232	1,754,143	4,834,232
Other borrowing – net		44,673,126	12,771,705	44,673,126	12,771,705
Repayment of borrowing, medium and long-term		(11,512,493)	(26,410,731)	(11,512,493)	(26,410,731)
Dividends paid		–	–	(101,536)	(85,800)
Net Cash flows from/(used in) financing activities		25,958,166	(5,184,793)	25,856,630	(5,270,593)
Net increase in cash and cash equivalents		12,269,309	14,370,996	12,287,922	13,910,653
Cash and cash equivalents at the beginning of the year		31,347,257	16,976,261	31,369,128	17,458,475
Cash and cash equivalents at the end of the year		43,616,566	31,347,257	43,657,050	31,369,128
Reconciliation of cash and cash equivalents with items reported in the statement of financial position					
Cash and cash equivalents	25	14,478,468	16,122,565	14,483,062	16,126,635
Placements with banks	27	29,138,098	15,224,692	29,173,988	15,242,493
		43,616,566	31,347,257	43,657,050	31,369,128

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 243 to 385 form part of these financial statements.

RECONCILIATION OF PROFIT FOR THE YEAR TO OPERATING CASH FLOWS BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES

		BANK		GROUP	
	Note	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Profit before income tax		10,960,326	2,439,473	12,508,149	3,112,212
Add/(deduct) items not using (providing) cash:		14,315,917	18,605,282	13,264,760	18,342,253
Depreciation					
– Property plant and equipment and investment property	18	382,427	400,320	438,893	455,785
– Right-of-use assets	18	326,149	309,678	328,099	309,678
Amortisation –					
Intangible assets	18	415,277	414,668	423,671	422,970
Accretion of interest on right-of-use assets	11.1.2	153,345	141,899	154,570	141,899
Net gains from trading					
Unrealised loss on trading securities	13	231,506	239,223	231,506	239,223
Forward exchange fair value changes from banks and other customers	13	384,709	(299,859)	384,709	(299,859)
Foreign exchange (gains)/losses	15, 13	(1,563,021)	170,534	(1,548,076)	151,953
Impairment for loans and other losses	16	13,984,830	17,041,471	13,984,830	17,058,972
Share of profits of associate and joint venture		–	–	(1,140,981)	(332,719)
Provision for defined benefit plans	17	695	187,348	7,540	194,351
Deduct items reported under investing activities		(3,598,282)	(1,316,969)	(3,598,282)	(1,227,108)
Dividend income		(741,555)	(1,209,113)	(741,555)	(1,119,252)
Gains on sale of Government securities	14	(2,838,626)	(99,112)	(2,838,626)	(99,112)
Gains on sale of property, plant and equipment	15	(18,101)	(8,744)	(18,101)	(8,744)
Deduct changes in operating assets and liabilities:		4,536,299	755,316	4,521,872	790,539
Increase in account receivables		(2,258,639)	(6,527,119)	(2,220,165)	(6,594,969)
Increase in account payables		6,794,938	7,282,435	6,742,037	7,385,508
Operating cash flows before changes in operating assets and liabilities		26,214,260	20,483,102	26,696,500	21,017,896

The notes to the financial statements from pages 243 to 385 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. Bank 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 2023 was as follow:

Group	2,225 (31 December 2022 – 2,097)
Bank	2,109 (31 December 2022 – 1,989)

1.2 Consolidated Financial Statements

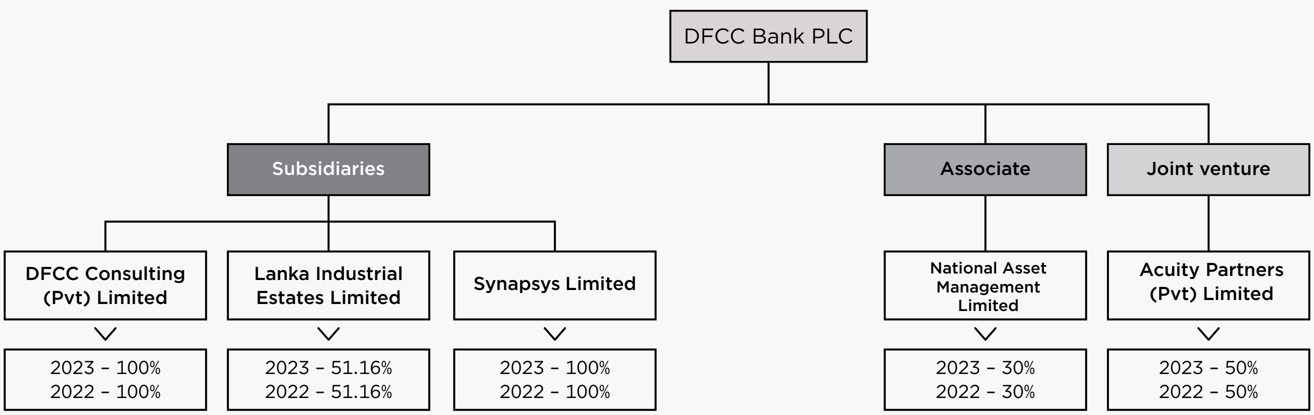
DFCC Bank PLC as the parent of subsidiaries under its control is required to present only the consolidated financial statements as per Sri Lanka Accounting Standard – SLFRS 10 on "Consolidated Financial Statements" and the proportionate share of the profit or loss and net assets of its Associate and joint Venture in terms of the Sri Lanka Accounting Standard – LKAS 28 on "Investments in Associates and Joint Ventures". In addition to the consolidated financial statements, separate financial statements are also presented as per the Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988 and amendments thereto.

The Bank's financial statements comprise the amalgamation of the financial statements of the Domestic Banking Unit (DBU) and the Foreign Currency Banking Unit (FCBU).

1.3 Parent Entity and Ultimate Parent Entity

The Bank does not have an identifiable parent of its own. The Bank is the ultimate parent of the Group companies.

1.4 Principal business activities, nature of operations of the Group and ownership by the Bank in its subsidiaries, associate and joint venture.



A summary of principal activities of DFCC Bank PLC, its subsidiary companies, associate company and joint venture company is as follows:

Entity	Principal business activity
DFCC Bank PLC	Range of financial services such as accepting deposits, corporate credit and retail banking, personal financial services, project financing, investment banking, foreign currency operations, trade finance and dealing in Government Securities and Treasury-related products.
Subsidiaries	
DFCC Consulting (Pvt) Limited	Technical, financial, and other professional consultancy services in Sri Lanka and abroad.
Lanka Industrial Estates Limited and its subsidiary	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 subsidiary	Management of Unit Trust and private portfolios.
Joint venture	
Acuity Partners (Pvt) Limited and its subsidiaries and joint venture	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 2023 were authorised for issue by the Directors on 19 February 2024.

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 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."

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 (FVOCI) to amortised cost.

These financial statements, except for information on cash flows have been prepared following the accrual basis of accounting.

Details of the Group's material accounting policies followed during the year are given on Note 5 on pages 247 to 252.

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 234 and 235).
- a Statement of Financial Position providing information on the financial position of the Group and Bank as at the year end; (Refer page 236).
- a Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Group and Bank; (Refer pages 238 and 239).
- 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 240 and 242).
- Notes to the financial statements comprising accounting policies and other explanatory information. (Refer pages 243 to 385)

The format used in the preparation and presentation of the financial statement and the disclosures made therein also comply with the specified formats prescribed by the Central Bank of Sri Lanka in the Circular No 2 of 2019 on “Publication of Annual and Quarterly Financial Statements and Other Disclosures by Licensed Banks”.

2.2 Basis of Measurement

These financial statements have been prepared on the historical cost convention except for the following material items, which are measured on the following 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	29	325
Derivative financial assets and derivative financial liabilities.	Fair value	28	321
Financial assets measured at fair value through other comprehensive income.	Fair value	32	326

Non-Financial Assets/Liabilities

Item	Basis of measurement	Note	Page
Employee benefits	Present value of defined benefit pension obligation less net pension assets of DFCC Bank Pension Fund, a trust separate from the Bank.	45	360
	Present value of the defined benefit gratuity obligation.	45	360

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, and an increase of non-performing loans and therefore to the recognition of significant impairment losses (Note 16) by the Bank and by the banking system in general. Based on the above and taking into account the Bank capital adequacy (Note 8.6.1) and the ability of the Bank to access the liquidity mechanisms (Note 8.3), 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.

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

Sri Lanka is facing an economic crisis as the country has not been able to maintain a healthy level of Government revenue fueled by the COVID-19 pandemic, and due to the large public sector expenditure. As a result, central government debt increased to an unsustainable level and In April 2022, Sri Lanka announced an external debt service suspension as a measure to manage its depleted reserves. In March 2023, the International Monetary Fund (IMF) Executive Board approved a 48-month Extended Fund Facility (EFF) of approximately USD 3 Bn to support the government's reform program. In May 2023, the program was approved in Parliament . In June 2023, Sri Lanka's Cabinet approved a plan to restructure nearly half of its USD 42.1 Bn local debt following an agreement with IMF. Indicative terms of restructure were announced in June 2023. The Sri Lankan Government is actively addressing the economic challenges through a combination of policy measures and reforms. The IMF board completed the first review under the 48-month extended fund facility with Sri Lanka, to support its economic policies and reforms. As per IMF report Sri Lanka's performance under the program was satisfactory. As per the IMF forecasts the real GDP growth rate of 1.8% for 2024 is forecasted whereas it was negative 3.6% in 2023. IMF is forecasting a real GDP growth rate of 3% by 2025.

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	16	299
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)	5.3.2	249
Determination of control over investees	34, 35	342, 343
Derivative Assets	28	321

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.	16, 30	299, 326
Determination of the fair value of financial instruments with significant unobservable inputs.	9.3.1	288
Measurement of defined benefit obligations: key actuarial assumptions.	45.2.2	364
Impairment testing for Cash Generating Units (CGU) containing goodwill: key assumptions underlying recoverable amounts.	5.4	352
Recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.	55	374

5. Material Accounting Policies

The material accounting policies set out below have been applied consistently to all periods presented in the financial statements of the Group.

These accounting policies have been applied consistently by Group entitles.

Set out below is an index of the material 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.

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 33 on pages 341.

5.1.3 Non-controlling Interests (NCI)

Details of non-controlling interests are given in Note 54 on page 373 and 374.

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 34 and 35 on pages 342 to 344.

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 audit review is performed.

5.2 Foreign Currency

5.2.1 Foreign Currency Transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest, impairment and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- qualifying cash flow hedges to the extent that the hedges are effective

5.2.2 Foreign Operations

The Bank does not have any foreign operations that is a subsidiary, associate, joint venture or a branch. Therefore, there is no exchange differences recognised in other comprehensive income.

5.3 Financial Assets and Financial Liabilities

5.3.1 Recognition and Initial Measurement

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

5.3.2 Classification

5.3.2.1 Financial Assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

5.3.2.1.1 Business Model Assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether Management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's Management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

The Group's retail, small and medium enterprises and corporate banking business comprises primarily loans to customers that are held for collecting contractual cash flows. In the retail business the loans comprise mortgages, overdrafts, unsecured personal lending and credit card facilities. Sales of loans from these portfolios are very rare.

Certain debt securities are held by the Group Central Treasury in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be 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.

5.3.2.1.2 Assessment of whether Contractual Cash Flows are Solely Payments of Principal and Interest (SPPI)

For the purposes of this assessment, “principal” is defined as the fair value of the financial asset on initial recognition. “Interest” is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group’s claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

Equity instruments have contractual cash flows that do not meet the SPPI criterion. Accordingly, all such financial assets are measured at FVTPL unless the FVOCI option is selected.

5.3.2.2 Financial Liabilities

On initial recognition, the Bank classifies financial liabilities, other than financial guarantees and loan commitments, into one of the following categories:

- Financial liabilities at amortised cost; and
- Financial liabilities at fair value through profit or loss

5.3.2.2.1 Financial Liabilities at Amortised Cost

Financial Liabilities issued by the Bank that are not designated at fair value through profit or loss are recognised initially at fair value plus any directly attributable transaction costs, by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method. Deposit liabilities including savings deposits, current deposits, fixed/time deposits, call deposits, certificates of deposit and debentures are classified as financial liabilities measured at amortised cost.

The EIR amortisation is included in “Interest expense” in the income statement. Gains and losses too are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

5.3.2.2.2 Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss include derivative liabilities held for risk management purposes.

5.3.3 Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. Financial liabilities are not reclassified as such reclassification are not permitted by SLFRS 9.

5.3.4 Derecognition

5.3.4.1 Financial Assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in 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 profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

5.3.5.2 Financial Liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in 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 material 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 16 on page 299.

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 Material Accounting Policies

A. Deferred tax related to assets and liabilities arising from a single transaction

The Group has adopted deferred tax related to assets and liabilities arising from a single transaction (Amendments to LKAS 12) from

1 January 2023. 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. For leases, an entity is required to recognise the associated deferred tax assets and liabilities 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, an entity applies the amendments to transactions that occur on or after the beginning of the earliest period presented.

The Group previously accounted for deferred tax on leases by applying the "integrally linked" approach, resulting in a similar outcome as under the amendments, except that the deferred tax assets or liabilities was recognised on a net basis. Following the amendments, the Group has recognised a separate deferred tax assets in relation to its lease liabilities and a deferred tax liabilities in relation to its right-of-use asset. However, there was no impact on the statement of financial position because the balances qualify for offset under paragraph 74 of LKAS 12. There was also no impact on the opening retained earnings as at 1 January 2022 as a result of the change. The key impact for the Group relates to disclosure of the deferred tax assets and liabilities recognised (see Note 39).

B. Material Accounting Policy Information

The Group also adopted Disclosure of Accounting Policies (Amendments to LKAS 1 and SLFRS Practice Statement 2) from 1 January 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements.

The amendments require the disclosure of "material", rather than "significant", accounting policies. The amendments also provide guidance on the application of materiality for disclosure of accounting policies, with a view to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

Management reviewed the accounting policies and made updates to the information disclosed in Note 5 Material Accounting Policies.

7. Standards Issued but not yet Adopted

A number of amendments to standards are effective for periods beginning after 1 January 2024 and earlier application is permitted; however, the Group has not adopted the following amended standards in preparing these consolidated financial statements:

Accounting standard	Descriptions	Effective date
Classification of liabilities as current or non-current with covenants (Amendments to LKAS 1)	Amendments to LKAS 1 alter the classification of liabilities like convertible debt and introduce new disclosure requirements for liabilities subject to covenants.	1 January 2024
Lease liability in a sale and leased back (Amendment to SLFRS 16)	The amendments specifically affect seller-lessee accounting in sale and leaseback transactions that qualify as a sale under SLFRS 15, especially those involving variable lease payments not based on an index or rate. They modify how a seller-lessee accounts for these leasebacks, preventing recognition of gains on retained rights of use due to lease term modifications or changes, which previously could occur when variable payments not defined as "lease payments" were excluded	1 January 2024
Supplier Finance Arrangements (Amendments to LKAS 7 and SLFRS 7)	The amendments require enhanced disclosures in financial statements about liabilities and supply chain finance arrangements, focusing on their impact on liabilities, cash flows, and liquidity risk, and specifying additional details about terms, conditions, and amounts related to these arrangements.	1 January 2024
Lack of Exchangeability (Amendments to LKAS 21)	The amendments provide guidance on how an entity should evaluate the exchangeability of a currency and establish a spot exchange rate in cases where exchangeability is absent. They also mandate disclosures that help users of Financial Statements comprehend the effects of a currency's non-exchangeability	1 January 2025

8. Financial Risk Review

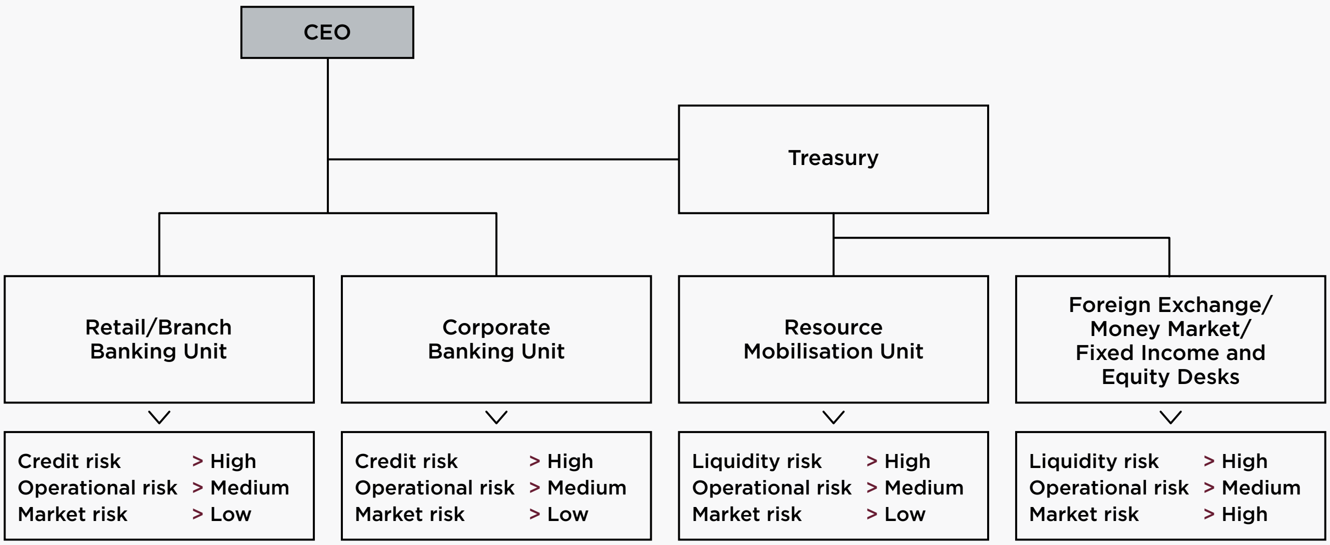
This note presents information about the Bank's exposure to financial risk and the Bank's management of capital.

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.



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 could potentially impact 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, controls, and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Bank's activities. The Bank through its training and management standards and procedures, aim 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, 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. Establishing the authorisation structure for the approval and renewal of credit facilities are vested with the Board of Directors. Authorisation limits are allocated to business unit heads.
3. Reviewing and assessing credit risk: Bank 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 concentration of exposure to counterparties, industries (for loans and advances, financial guarantees and similar exposures), credit ratings and countries.

5. Developing and maintaining the Bank's processes for measuring ECL: This includes processes for:
   - initial approval, regular validation and back-testing of the models used;
   - determining and monitoring significant increase in credit risk; and
   - incorporation of forward-looking information.
6. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of 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.
8. Determining risk rating for each lending client based on financial risk, non financial risk and industry risk parameters.

Each business unit is required to follow bank credit policies and procedures. Business units are 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.

Credit risk management approaches as described in 1 to 8 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 reviewed and updated accordingly.

8.2.3 Credit Quality Analysis – Bank

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	2023			
In LKR '000	Stage 1	Stage 2	Stage 3	Total
Current	223,498,686	26,914,014	10,607,068	261,019,768
Overdue < 30 days	33,106,631	10,548,682	811,872	44,467,185
Overdue > 30 days	–	29,275,389	59,922,380	89,197,769
Total	256,605,317	66,738,085	71,341,320	394,684,722

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

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.

As at 31 December 2023	Derivative type											
	Forward		SWAP		Spot		Cross currency SWAP		Interest rate SWAP		Total	
In LKR '000	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
Derivative financial assets (Note 1)	7,248,934	10,704	62,074,342	16,487,547	612,042	920	–	–	–	–	69,935,318	16,499,171
Derivative financial liabilities (Note 2)	7,304,692	(48,202)	47,917,115	(333,282)	611,310	(169)	–	–	–	–	55,833,117	(381,653)
Note 1 Derivative financial assets by counterparty type												
With banks	6,488,690	8,310	62,074,342	16,487,547	612,042	920	–	–	–	–	69,175,074	16,496,777
With other customers	760,244	2,394	–	–	–	–	–	–	–	–	760,244	2,394
Total	7,248,934	10,704	62,074,342	16,487,547	612,042	920	–	–	–	–	69,935,318	16,499,171
Note 2 Derivative financial liabilities by counterparty type												
With banks	6,540,395	(41,709)	47,917,115	(333,282)	611,310	(169)	–	–	–	–	55,068,820	(375,160)
With other customers	764,297	(6,493)	–	–	–	–	–	–	–	–	764,297	(6,493)
Total	7,304,692	(48,202)	47,917,115	(333,282)	611,310	(169)	–	–	–	–	55,833,117	(381,653)

As at 31 December 2022	Derivative type											
	Forward		SWAP		Spot		Cross currency SWAP		Interest rate SWAP		Total	
In LKR '000	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
Derivative financial assets (Note 1)	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)

8.2.4 Collateral Held and Other Credit Enhancements – Bank

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.

The following table sets out the principal types of collateral held by the Bank against loans and advances for each loan, the value of the collateral is capped at the amortised cost of the loan.

As at 31 December	2023		2022	
	Gross loan balance LKR '000	Mix %	Gross loan balance LKR '000	Mix %
Stage 1				
Cash collateral	17,367,912	6.99	18,971,263	6.81
Property, plant and machinery	50,083,170	20.17	65,289,880	23.44
Treasury guarantee	3,593,900	1.45	9,851,579	3.54
Others	126,010,107	50.75	145,601,279	52.26
Unsecured	51,248,731	20.64	38,874,768	13.95
Total	248,303,820	100.00	278,588,769	100.00
Stage 2				
Cash collateral	2,034,481	3.29	1,674,779	2.62
Property, plant and machinery	18,481,436	29.92	19,821,329	31.05
Treasury guarantee	4,885,476	7.91	–	0.00
Others	31,661,955	51.26	37,821,508	59.26
Unsecured	4,706,993	7.62	4,513,544	7.07
Total	61,770,341	100.00	63,831,160	100.00
Stage 3				
Cash collateral	598,168	0.86	480,046	1.11
Property, plant and machinery	16,998,429	24.56	13,126,419	30.31
Treasury guarantee	1,000	0.00	1,082	0.00
Others	43,012,353	62.16	22,089,904	50.99
Unsecured	8,595,644	12.42	7,620,547	17.59
Total	69,205,594	100.00	43,317,998	100.00

The above analysis does not include balances relating to lease rentals receivables, as the Bank holds the absolute ownership of lease assets.

8.2.4.1 Derivatives, Reverse Sale-and-Repurchase Agreements and Securities Borrowing

The Bank mitigates credit risk of derivatives, reverse sale-and-repurchase agreements and securities lending by entering into master 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	2023 LKR '000	2022 LKR '000
LTV ratio		
Stage 1		
Less than 50%	3,771,841	3,803,529
51%-70%	2,741,797	3,301,538
71%-90%	518,490	893,429
More than 90%	1,521,158	2,470,955
Total	8,553,286	10,469,451
Stage 2		
Less than 50%	896,929	1,018,064
51%-70%	834,575	1,122,642
71%-90%	327,011	573,291
More than 90%	421,399	817,611
Total	2,479,914	3,531,608
Stage 3		
Less than 50%	726,615	688,928
51%-70%	530,997	414,826
71%-90%	578,062	410,020
More than 90%	604,584	385,528
Total	2,440,258	1,899,302
Carrying amount – amortised cost	13,473,458	15,900,361

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.

8.2.4.4 Analysis of Credit Risk by Risk Rating

Bank		High Grade				Standard Grade				Sub – Standard Grade			
As at 31 December 2023	Note	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Exposures not subject to ECL LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Exposures not subject to ECL LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Exposures not subject to ECL LKR '000
Financial assets													
Cash and cash equivalents	25	–	–	–	11,240,140	–	–	–	3,238,328	–	–	–	–
Placement with banks	27	–	–	–	5,186,081	–	–	–	23,952,017	–	–	–	–
Balances with Central Bank of Sri Lanka	26	–	–	–	2,107,776	–	–	–	–	–	–	–	–
Derivative financial instruments	28	–	–	–	16,485,173	–	–	–	9,230	–	–	–	–
Financial assets measured at fair value through profit and loss	29	882,635	–	–	–	545,876	–	–	–	20,000	–	–	–
Financial assets measured at amortised cost loans and advances to customers (gross)*	30	56,736,906	7,497,201	42,275	–	121,600,669	23,803,447	193,727	–	45,560,791	18,836,470	11,002,523	–
Financial assets measured at amortised cost debt and other instruments	31	65,517,216	4,593,551	–	–	217,340	–	–	–	–	–	–	–
Financial assets measured at fair value through other comprehensive income	32	119,481,050	–	–	–	14,654,906	–	–	–	–	–	–	–
Other financial assets	40	7,926,054	–	–	–	–	–	–	–	–	–	–	–
Off balance sheet exposures													
Contingent liabilities and commitments*	55	38,508,392	749,657	843	–	52,975,382	7,880,571	74,646	–	8,933,205	3,836,938	577,714	–

* Categorisation based on Bank's internal risk rating. Accordingly, AAA to AA- considered as "High grade", A+ to BBB- as "Standard Grade", BB+ to B- as "Sub Standard Grade", CCC+ and below as "Low Grade".

Contingent liabilities and commitments includes Guarantees and Bonds, Documentary Credit and Commitments for Unutilised Credit Facilities.

Low Grade				Unrated				Exposures not subject to Rating				
Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Exposures not subject to ECL LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Exposures not subject to ECL LKR '000	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Exposures not subject to ECL LKR '000	Total LKR '000
–	–	–	–	–	–	–	–	–	–	–	–	14,478,468
–	–	–	–	–	–	–	–	–	–	–	–	29,138,098
–	–	–	–	–	–	–	–	–	–	–	–	2,107,776
–	–	–	–	–	–	–	4,768	–	–	–	–	16,499,171
–	–	–	–	292,417	–	–	–	–	–	–	–	1,740,928
13,292,938	15,952,354	58,518,102		1,368,864	186,251	13,046	–	18,045,150	462,363	1,571,645	–	394,684,722
–	–	–	–	–	–	–	–	–	–	–	–	70,328,107
–	–	–	–	–	766,809	–	–	–	–	–	–	134,902,765
–	–	–	–	–	–	–	–	–	–	–	2,643,496	10,569,550
1,899,198	2,958,571	591,770	–	2,352,547	2,247	–	–	7,392,313	189,775	244,918	–	129,168,687

8.2.5 Amounts Arising from ECL – Bank

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 16.

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

	2023				2022			
	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	4,495,287	5,677,290	23,731,223	33,903,800	2,202,668	1,989,584	14,865,798	19,058,050
Transfer to Stage 1	947,558	(764,963)	(182,595)	–	839,493	(665,794)	(173,699)	–
Transfer to Stage 2	(961,858)	1,163,680	(201,822)	–	(298,877)	418,169	(119,292)	–
Transfer to Stage 3	(170,592)	(1,450,850)	1,621,442	–	(73,938)	(259,735)	333,673	–
Net remeasurement of loss allowance	(2,319,768)	(720,807)	3,214,225	173,650	754,086	2,396,757	5,602,375	8,753,218
New financial assets originated or purchased	1,510,031	3,331,575	7,516,555	12,358,161	1,071,855	1,798,309	2,304,774	5,174,938
Write-off	–	–	(96,971)	(96,971)	–	–	(46,612)	(46,612)
Foreign exchange and other movement	–	–	(421,384)	(421,384)	–	–	964,206	964,206
Balance as at 31 December	3,500,658	7,235,925	35,180,673	45,917,256	4,495,287	5,677,290	23,731,223	33,903,800

Financial assets at amortised cost-debt and other instruments – ECL

	2023			2022		
	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	163	1,955,909	1,956,072	163	563,311	563,474
Transferred from FVOCI during the year	–	–	–	–	215,095	215,095
Transferred to other assets	–	(124,470)	(124,470)	–	(607,764)	(607,764)
Exchange rate impact	–	(29,007)	(29,007)	–	–	–
Net remeasurement of loss allowance	(144)	494,343	494,199	–	1,785,267	1,785,267
Balance on 31 December	19	2,296,775	2,296,794	163	1,955,909	1,956,072

Loan commitments and financial guarantee contracts

	2023			2022		
	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	519,425	97,300	616,725	576,290	31,962	608,252
Net remeasurement of loss allowance	105,764	(16,151)	89,613	(56,865)	65,338	8,473
Balance as at 31 December	625,189	81,149	706,338	519,425	97,300	616,725

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 2023 to a reasonably possible change in PDs, LGDs, and forward-looking information.

	Sensitivity effect on statement of financial position increase/(decrease) in impairment provision				Sensitivity effect on income statement
	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	LKR '000
PD 1% increase across all age buckets	1,249,542	505,343	–	1,754,885	1,754,885
PD 1% decrease across all age buckets*	(1,234,199)	(505,343)	–	(1,739,542)	(1,739,542)
LGD 5% increase	291,098	714,355	3,400,985	4,406,438	4,406,438
LGD 5% decrease	(291,098)	(714,355)	(3,400,985)	(4,406,438)	(4,406,438)
Worst case 5% decrease and best case 5% Increase	(83,285)	(121,005)	–	(204,290)	(204,290)
Worst case 5% Increase and best case 1% decrease	37,855	39,071	–	76,926	76,926

Probability weighted economic scenarios

* The PD/LGD decrease is capped to 0%, if applicable.

Credit Impaired Financial Assets

The following table sets out a reconciliation of changes in the net carrying amount of credit impaired loans and advances to customer

	2023 LKR '000	2022 LKR '000
Credit Impaired loans and advances to customer at the beginning	45,874,465	30,242,598
Classified as credit impaired during the year	31,014,377	17,266,489
Transferred to not credit impaired during the year and settlements	(6,929,631)	(4,212,811)
Other movement	1,382,109	2,578,189
Credit impaired loans and advances to customer at 31 December	71,341,320	45,874,465

8.2.6 Concentration of Credit Risk – Bank

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 investments shown below:

In LKR '000	Loans and advances to customers		Investments*		Loan commitments and financial guarantees issued	
As at 31 December	2023	2022	2023	2022	2023	2022
Gross carrying amount	394,684,722	402,975,830	224,697,564	134,314,418	–	–
Amount committed/guaranteed	–	–	–	–	129,168,687	119,355,420
Concentration by sector						
Agriculture, forestry, and fishing	44,259,142	46,546,272	–	–	12,336,370	13,134,553
Manufacturing	83,484,996	78,732,730	–	–	34,410,074	22,662,992
Tourism	19,208,743	19,757,213	–	–	1,691,799	834,987
Transportation and storage	9,922,045	12,053,681	–	–	1,672,581	1,344,685
Construction	36,651,087	32,713,107	–	–	13,837,015	7,990,817
Infrastructure development	27,246,566	35,197,051	–	–	10,866,089	20,111,494
Wholesale and retail trade	59,263,794	50,128,157	–	–	30,902,387	23,038,508
Information technology and communication services	2,600,034	2,821,899	–	–	1,593,220	1,397,560
Financial services	18,212,994	15,565,468	33,022,158	23,160,732	4,115,798	5,406,814
Professional, scientific, and technical activities	3,642,277	3,300,176	–	–	493,727	550,583
Arts, entertainment, and recreation	644,475	1,004,770	–	–	198,173	114,684
Education	3,903,953	5,013,693	–	–	70,595	144,646
Health care, social services, and support services	6,967,779	7,296,365	–	–	3,817,034	608,148
Consumption	65,229,541	68,856,876	–	–	13,163,825	21,651,839
Lending to ministry of finance	–	–	–	–	–	–
Lending to overseas entities	13,447,296	23,988,372	–	–	–	363,110
Government	–	–	190,725,929	111,153,686	–	–
Other	–	–	949,477	–	–	–
Total	394,684,722	402,975,830	224,697,564	134,314,418	129,168,687	119,355,420

* Investments include Government of Sri Lanka Treasury Bills, Treasury Bonds, Sovereign Bonds, Debentures, Placements with Banks, Balances held with Banks and Matured Government Security Receivables.

8.2.7 Offsetting Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

8.3 Liquidity Risk

"Liquidity risk" is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to the Bank's operations and investments.

8.3.1 Management of Liquidity Risk

The Bank's Board of Directors sets the Bank's strategy for managing liquidity risk and oversight of the implementation is administered by Assets and Liability Management Committee (ALCO). ALCO approves the Bank's liquidity policies and procedures. Treasury manages the Bank's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of both the Bank and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted to ALCO on a monthly basis or ad hoc when predefined thresholds are breached.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The key elements of the Bank's liquidity strategy are as follows:

- Monitoring maturity mismatches, behavioural characteristics of the Bank's financial assets and financial liabilities, and the extent to which the Group's assets are encumbered and so not available as potential collateral for obtaining funding.
- Monitoring the Bank's liquidity through the Liquid Assets Ratio (statutory minimum is currently 20%) and Liquidity Coverage Ratios using a stock approach.
- Effecting threshold limits relevant for liquidity management as part of the overall risk limits system of the Bank.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.

8.3.2 Exposure to Liquidity Risk – Regulatory Liquidity (Bank)

As at 31 December	2023	2022
Statutory liquid assets (LKR '000)	189,469,687	122,283,753
Statutory liquid assets ratio (minimum requirement 20%)		
Total Bank Operations (%)	36.63	26.36
Liquidity coverage ratio (minimum requirement 100% in 2023 and 90% in 2022)		
All currencies (%)	597.47	202.34
Rupee only (%)	715.50	289.85

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 2023 **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 liabilities by type								
Non-derivative liabilities								
Due to banks	52,793,464	52,793,852	49,843,778	2,950,074	–	–	–	52,793,852
Financial liabilities at amortised cost – Due to depositors	407,225,313	409,732,316	129,057,743	171,112,860	29,537,126	55,818,311	24,206,276	409,732,316
Financial liabilities at amortised cost – Due to other borrowers	72,022,734	71,905,913	12,998,555	11,560,106	22,284,106	21,277,149	3,785,997	71,905,913
Debt securities issued	16,311,577	16,311,577	4,832,618	290,688	6,777,101	–	4,411,170	16,311,577
Other liabilities	9,152,343	5,566,307	3,598,087	210,683	519,793	370,474	867,270	5,566,307
Subordinated term debt	9,072,265	9,072,265	396,257	69,537	8,401,546	204,925	–	9,072,265
	566,577,696	565,382,230	200,727,038	186,193,948	67,519,672	77,670,859	33,270,713	565,382,230
Derivative liabilities								
Derivative financial liabilities	381,653	381,653	381,653	–	–	–	–	381,653
Financial assets by type								
Non-derivative assets								
Cash and cash equivalents	14,478,468	14,478,468	14,478,468	–	–	–	–	14,478,468
Balances with Central Bank	2,107,776	2,107,776	2,107,776	–	–	–	–	2,107,776
Placements with banks	29,138,098	29,138,098	29,138,098	–	–	–	–	29,138,098
Financial assets measured at fair value through profit or loss	1,740,928	1,740,928	532,135	798	–	–	1,207,995	1,740,928
Financial assets at amortised cost – Loans to and receivables from other customers	348,767,466	394,680,723	102,832,834	88,755,164	122,647,623	44,655,071	35,790,031	394,680,723
Financial assets at amortised cost – Debt and other instruments	68,031,313	67,631,595	1,580,212	52,045	23,853,009	25,680,592	16,465,737	67,631,595
Financial assets measured at fair value through other comprehensive income	134,902,765	134,886,199	45,801,944	44,140,364	11,945,976	16,442,286	16,555,629	134,886,199
Other assets	12,963,406	10,569,550	3,371,452	254,362	22,622	19,002	6,902,112	10,569,550
	612,130,220	655,233,337	199,842,919	133,202,733	158,469,230	86,796,951	76,921,504	655,233,337
Derivative assets								
Derivative financial assets	16,499,171	16,499,171	908,974	2,448,189	7,010,475	6,131,533	–	16,499,171
The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.								
Documentary credit	–	14,175,442	6,573,130	1,642,753	162,845	5,796,714	–	14,175,442
Guarantees	–	25,691,610	9,202,056	2,914,021	1,034,100	12,541,433	–	25,691,610
Commitments for unutilised credit facilities	–	89,301,635	89,301,635	–	–	–	–	89,301,635
	–	129,168,687	105,076,821	4,556,774	1,196,945	18,338,147	–	129,168,687

As at 31 December 2023 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 liabilities by type								
Non-derivative liabilities								
Due to banks	52,793,464	52,793,852	49,843,778	2,950,074	–	–	–	52,793,852
Financial liabilities at amortised cost – Due to depositors	406,584,864	409,614,803	129,033,944	171,085,083	29,471,189	55,818,311	24,206,276	409,614,803
Financial liabilities at amortised cost – Due to other borrowers	72,022,734	71,905,913	12,998,555	11,560,106	22,284,106	21,277,149	3,785,997	71,905,913
Debt securities issue	16,311,577	16,311,577	4,832,618	290,688	6,777,101	–	4,411,170	16,311,577
Other liabilities	9,485,315	5,789,243	3,685,037	346,669	519,793	370,474	867,270	5,789,243
Subordinated term debt	9,072,265	9,072,265	396,257	69,537	8,401,546	204,925	–	9,072,265
	566,270,219	565,487,653	200,790,189	186,302,157	67,453,735	77,670,859	33,270,713	565,487,653
Derivative liabilities								
Derivative financial liabilities	381,653	381,653	381,653	–	–	–	–	381,653
Financial assets by type								
Non-derivative assets								
Cash and cash equivalents	14,483,062	14,483,062	14,483,062	–	–	–	–	14,483,062
Balances with Central Bank	2,107,776	2,107,776	2,107,776	–	–	–	–	2,107,776
Placements with banks	29,173,988	29,173,988	29,138,098	35,890	–	–	–	29,173,988
Financial assets measured at fair value through profit or loss	1,740,928	1,740,928	532,135	798	–	–	1,207,995	1,740,928
Financial assets at amortised cost – Loans to and receivables from other customers	348,767,466	394,680,710	102,832,821	88,755,164	122,647,623	44,655,071	35,790,031	394,680,710
Financial assets at amortised cost – Debt and other instruments	68,094,041	67,685,026	1,580,212	52,045	23,906,440	25,680,592	16,465,737	67,685,026
Financial assets measured at fair value through other comprehensive income	134,902,765	134,886,199	45,801,944	44,140,364	11,945,976	16,442,286	16,555,629	134,886,199
Other assets	13,170,641	10,738,637	3,371,453	338,905	107,165	19,002	6,902,112	10,738,637
	612,440,667	655,496,339	199,847,514	133,323,166	158,607,204	86,796,951	76,921,504	655,496,339
Derivative assets								
Derivative financial assets	16,499,171	16,499,171	908,974	2,448,189	7,010,475	6,131,533	–	16,499,171

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 liabilities 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	10,041,361	8,114,644	5,433,192	302,682	764,257	604,676	1,009,837	8,114,644
Subordinated term debt	18,399,991	18,420,972	3,604,056	6,215,834	8,396,255	204,827	–	18,420,972
	512,063,179	511,203,211	129,722,000	199,327,060	77,082,379	69,277,320	35,794,452	511,203,211
Derivative liabilities								
Derivative financial liabilities	84,670	84,670	82,552	2,118	–	–	–	84,670
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	9,750,568	7,804,964	2,089,920	203,126	5,274,666	104,057	133,195	7,804,964
	534,896,858	536,651,032	141,209,190	114,942,548	126,544,667	71,122,565	82,832,062	536,651,032
Derivative assets								
Derivative financial assets	20,473,544	20,473,544	206,741	1,224,873	9,610,969	7,357,529	2,073,432	20,473,544
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	15,104,534	4,250,886	–	–	–	119,355,420

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 liabilities 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	10,335,890	8,301,556	5,356,220	566,566	764,257	604,676	1,009,837	8,301,556
Subordinated term debt	18,399,991	18,420,972	3,604,056	6,215,834	8,396,255	204,827	–	18,420,972
	511,790,537	511,169,222	129,645,028	199,370,043	77,082,379	69,277,320	35,794,452	511,169,222
Derivative liabilities								
Derivative financial liabilities	84,670	84,670	82,552	2,118	–	–	–	84,670
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	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	9,933,670	7,971,424	2,089,919	369,587	5,274,666	104,057	133,195	7,971,424
	535,101,831	536,821,562	141,213,259	115,109,009	126,544,667	71,122,565	82,832,062	536,821,562
Derivative assets								
Derivative financial assets	20,473,544	20,473,544	206,741	1,224,873	9,610,969	7,357,529	2,073,432	20,473,544

Maturity Analysis of Total Assets and Total Liabilities

As at 31 December 2023	Bank			Group		
	Within 12 months LKR '000	More than 12 months LKR '000	Total LKR '000	Within 12 months LKR '000	More than 12 months LKR '000	Total LKR '000
Assets						
Cash and cash equivalents	14,478,468	–	14,478,468	14,483,062	–	14,483,062
Balances with Central Bank	2,107,776	–	2,107,776	2,107,776	–	2,107,776
Placements with banks	29,138,098	–	29,138,098	29,173,988	–	29,173,988
Derivative financial assets	3,357,163	13,142,008	16,499,171	3,357,163	13,142,008	16,499,171
Financial assets measured at fair value through profit or loss	532,135	1,208,793	1,740,928	532,135	1,208,793	1,740,928
Financial assets at amortised cost – Loans to and receivables from other customers	164,749,315	184,018,151	348,767,466	164,749,315.00	184,018,151	348,767,466
Financial assets at amortised cost – Debt and other instruments	2,031,975	65,999,338	68,031,313	2,031,975.00	66,062,066	68,094,041
Financial assets measured at fair value through other comprehensive income	89,958,874	44,943,891	134,902,765	89,958,874	44,943,891	134,902,765
Investment in subsidiaries	–	237,035	237,035	–	–	–
Investment in associate	–	33,169	33,169	–	36,844	36,844
Investment in joint venture	–	755,000	755,000	–	4,402,238	4,402,238
Investment property	–	9,879	9,879	–	468,385	468,385
Property, plant and equipment	–	3,499,737	3,499,737	–	3,704,411	3,704,411
Intangible assets	–	1,926,287	1,926,287	–	2,101,256	2,101,256
Deferred tax assets	–	5,407,626	5,407,626	–	5,415,426	5,415,426
Other assets	3,625,814	9,337,592	12,963,406	3,710,358	9,460,283	13,170,641
Total assets	309,979,618	330,518,506	640,498,124	310,104,646	334,963,752	645,068,398

As at 31 December 2023	Bank			Group		
	Within 12 months LKR '000	More than 12 months LKR '000	Total LKR '000	Within 12 months LKR '000	More than 12 months LKR '000	Total LKR '000
Liabilities						
Due to banks	52,793,464	–	52,793,464	52,793,464	–	52,793,464
Derivative financial liabilities	381,653	–	381,653	381,653	–	381,653
Financial liabilities at amortised cost – Due to depositors	297,663,600	109,561,713	407,225,313	297,663,600	108,921,264	406,584,864
Financial liabilities at amortised cost – Due to other borrowers	24,558,661	47,464,073	72,022,734	24,558,661	47,464,073	72,022,734
Debt securities issued	5,123,306	11,188,271	16,311,577	5,123,306	11,188,271	16,311,577
Retirement benefit obligation	–	1,371,126	1,371,126	–	1,400,921	1,400,921
Current tax liabilities	4,426,683	–	4,426,683	4,535,557	–	4,535,557
Deferred tax liabilities	–	–	–	–	104,276	104,276
Other liabilities	3,808,770	5,343,573	9,152,343	4,031,706	5,453,609	9,485,315
Subordinated term debt	465,794	8,606,471	9,072,265	465,794	8,606,471	9,072,265
Total shareholders' equity	–	67,740,966	67,740,966	–	71,983,613	71,983,613
Non-controlling interest	–	–	–	–	392,159	392,159
Total equity and liabilities	389,221,931	251,276,193	640,498,124	389,553,741	255,514,657	645,068,398
Maturity gap	(79,242,313)	79,242,313	–	(79,449,095)	79,449,095	–
Cumulative gap	(79,242,313)	–	–	(79,449,095)	–	–

As at 31 December 2022	Bank Within 12 months LKR '000	Bank More than 12 months LKR '000	Bank Total LKR '000	Group Within 12 months LKR '000	Group More than 12 months LKR '000	Group Total LKR '000
Assets						
Cash and cash equivalents	16,122,565	–	16,122,565	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	15,224,692	–	15,224,692	15,242,493	–	15,242,493
Derivative financial assets	20,473,544	–	20,473,544	20,473,544	–	20,473,544
Financial assets measured at fair value through profit or loss	795,434	633,715	1,429,149	795,434	633,715	1,429,149
Financial assets at amortised cost – Loans to and receivables from other customers	150,028,729	219,043,301	369,072,030	150,028,729	219,043,301	369,072,030
Financial assets at amortised cost – Debt and other instruments	1,564,840	49,383,086	50,947,926	1,564,840	49,383,086	50,947,926
Financial assets measured at fair value through other comprehensive income	46,982,550	16,336,510	63,319,060	46,982,550	16,336,510	63,319,060
Investment in subsidiaries	–	237,035	237,035	–	–	–
Investment in associate	–	33,169	33,169	–	35,394	35,394
Investment in joint venture	–	755,000	755,000	–	3,577,701	3,577,701
Investment property	–	9,879	9,879	–	439,973	439,973
Property, plant and equipment	–	3,198,553	3,198,553	–	3,389,441	3,389,441
Intangible assets	–	2,198,042	2,198,042	–	2,375,055	2,375,055
Deferred tax assets	–	4,137,828	4,137,828	–	4,143,535	4,143,535
Other assets	2,293,046	7,457,522	9,750,568	2,459,506	7,474,164	9,933,670
Total assets	262,516,268	303,423,640	565,939,908	262,704,599	306,831,875	569,536,474

As at 31 December 2022	Bank			Group		
	Within 12 months LKR '000	More than 12 months LKR '000	Total LKR '000	Within 12 months LKR '000	More than 12 months LKR '000	Total LKR '000
Liabilities						
Due to banks	15,857,994	–	15,857,994	15,857,994	–	15,857,994
Derivative financial liabilities	84,670		84,670	84,670	–	84,670
Financial liabilities at amortised cost – Due to depositors	281,483,266	88,830,760	370,314,026	281,483,266	88,263,589	369,746,855
Financial liabilities at amortised cost – Due to other borrowers	14,665,605	66,480,087	81,145,692	14,665,605	66,480,087	81,145,692
Debt securities issued	1,341,835	14,962,280	16,304,115	1,341,835	14,962,280	16,304,115
Retirement benefit obligation	–	591,550	591,550	–	615,849	615,849
Current tax liabilities	2,479,562	–	2,479,562	2,575,008	–	2,575,008
Deferred tax liabilities	–	–	–	–	149,608	149,608
Other liabilities	5,735,874	4,305,487	10,041,361	5,922,786	4,413,104	10,335,890
Subordinated term debt	9,819,890	8,580,101	18,399,991	9,819,890	8,580,101	18,399,991
Total shareholders' equity	–	50,720,947	50,720,947	–	54,014,652	54,014,652
Non-controlling interest	–	–	–	–	306,150	306,150
Total equity and liabilities	231,468,696	234,475,212	565,939,908	331,751,054	237,785,420	569,536,474
Maturity gap	(68,952,428)	68,952,428	–	(69,046,445)	69,046,455	–
Cumulative gap	(68,952,428)	–	–	(69,046,445)	–	–

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;

8.3.3.1 Carrying Value of Securities Allocated for Repurchase Transactions

As at 31 December	2023		2022	
	Amortised Cost LKR '000	Fair Value LKR '000	Amortised Cost LKR '000	Fair Value LKR '000
Financial asset at amortised cost-debt & other instrument	49,097,778	53,544,118	7,831,579	7,256,452
Total	49,097,778	53,544,118	7,831,579	7,256,452

8.3.3.2 Market Value of Securities Received for Reverse Repurchase Transactions

As at 31 December 2023, no outstanding balance on Reverse Repurchase transactions.

8.3.3.3 Bank's Policy on Haircuts for Repurchase and Reverse Repurchase Transactions

Remaining Term to Maturity of the Eligible Security	Minimum Haircut (%)	
	Repurchase Transactions	Reverse Repurchase Transactions
Up to 1 year	4.00	4.00
More than 1 year and up to 3 years	6.00	6.00
More than 3 years and up to 5 years	8.00	8.00
More than 5 years and up to 8 years	10.00	10.00
More than 8 years	12.00	12.00

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	2023 Carrying amount LKR '000	2023 Fair value LKR '000	2022 Carrying amount LKR '000	2022 Fair value LKR '000
Cash and cash equivalents	14,478,468	14,478,468	16,122,565	16,122,565
Balances with Central Bank of Sri Lanka	2,107,776	2,107,776	9,030,868	9,030,868
Placements with banks	29,138,098	29,138,098	15,224,692	15,224,692
Unencumbered debt securities issued by sovereigns	145,571,442	140,242,686	106,873,421	88,471,766
Total liquidity reserves	191,295,784	185,967,028	147,251,546	128,849,891

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 2023						
Cash and cash equivalents	25	–	–	14,478,468	–	14,478,468
Balances with Central Bank of Sri Lanka	26	–	2,107,776	–	–	2,107,776
Placements with banks	27	–	–	29,138,098	–	29,138,098
Derivative financial assets	28	–	–	16,499,171	–	16,499,171
Financial assets measured at fair value through profit or loss	29	–	–	1,740,928	–	1,740,928
Financial assets at amortised cost – Loans to and receivables to customers	30	–	–	348,767,466	–	348,767,466
Financial assets at amortised cost – Debt and other instruments	31	–	–	68,031,313	–	68,031,313
Financial assets measured at fair value through other comprehensive income	32	17,539,330	–	117,363,435	–	134,902,765
Other assets	40	–	–	–	10,569,550	10,569,550
Non-financial assets		–	–	–	14,262,589	14,262,589
Total assets		17,539,330	2,107,776	596,018,879	24,832,139	640,498,124
31 December 2022						
Cash and cash equivalents	25	–	–	16,122,565	–	16,122,565
Balances with Central Bank of Sri Lanka	26	–	9,030,868	–	–	9,030,868
Placements with banks	27	–	–	15,224,692	–	15,224,692
Derivative financial assets	28			20,473,544		20,473,544
Financial assets measured at fair value through profit or loss	29	–	–	1,429,149	–	1,429,149
Financial assets at amortised cost – Loans to and receivables to customers	30	–	–	369,072,030	–	369,072,030
Financial assets at amortised cost – Debt and other instruments	31	–	–	50,947,926	–	50,947,926
Financial assets measured at fair value through other comprehensive income	32	2,547,500	–	60,771,560	–	63,319,060
Other assets	40	–	–	–	7,804,964	7,804,964
Non-financial assets		–	–	–	12,515,110	12,515,110
Total assets		2,547,500	9,030,868	534,041,466	20,320,074	565,939,908

* Represents assets that are not pledged but that the Group believes it is restricted from using to secure funding, for legal or other reasons.

** Represents assets that are not restricted for use as collateral, but that the Group would not consider readily available to secure funding in the normal course of business.

8.4 Market Risk

"Market risk" is the possibility of losses arising from changes in market variables such as interest rates, equity prices, foreign exchange rates, and credit spreads. The objective of Bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Bank's solvency while optimising the return on risk.

8.4.1 Management of Market Risk

The Bank separates its exposure to market risks between trading and non-trading portfolios. Trading portfolios mainly include positions arising from market making and proprietary position taking together with financial assets and financial liabilities that are managed on a fair value basis and non-trading portfolios from positions arising from financial investments measured at fair value through other comprehensive income (FVOCI), and financial investments at amortised cost and from derivatives held for risk management purposes.

Overall authority for market risk management is vested with the Board of Directors through the Board Integrated Risk Management Committee (BIRMC). The operational authority for managing market risk is vested with ALCO. Foreign exchange risk is managed within approved limits of the Bank.

The Bank employs a range of tools to monitor and limit market risk exposures. These are discussed below, separately for trading and non-trading portfolios.

The following table sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios.

31 December 2023	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	25	14,478,468	–	14,478,468
Placements with banks	27	29,138,098	–	29,138,098
Derivatives financial assets	28	16,499,171	–	16,499,171
Financial assets measured at fair value through profit or loss	29	1,740,928	1,705,966	34,962
Financial assets at amortised cost – Loans to and receivables from banks		–	–	–
Financial assets at amortised cost – Loans to and receivables from other customers	30	348,767,466	–	348,767,466
Financial assets at amortised cost – Debt and other instruments	31	68,031,313	–	68,031,313
Financial assets measured at fair value through other comprehensive income	32	134,902,765	–	134,902,765
Liabilities subject to market risk				
Due to banks	41	52,793,464	–	52,793,464
Derivatives financial liabilities	28	381,653	–	381,653
Financial liabilities at amortised cost – Due to depositors	42	407,225,313	–	407,225,313
Financial liabilities at amortised cost – Due to other borrowers	43	72,022,734	–	72,022,734
Debt securities in issue	44	16,311,577	–	16,311,577
Subordinated term debt	48	9,072,265	–	9,072,265

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	25	16,122,565	–	16,122,565
Placements with banks	27	15,224,692	–	15,224,692
Derivatives financial assets	28	20,473,544	–	20,473,544
Financial assets measured at fair value through profit or loss	29	1,429,149	1,398,145	31,004
Financial assets at amortised cost – Loans to and receivables from other customers	30	369,072,030	–	369,072,030
Financial assets at amortised cost – Debt and other instruments	31	50,947,926	–	50,947,926
Financial assets measured at fair value through other comprehensive income	32	63,319,060	–	63,319,060
Liabilities subject to market risk				
Due to banks	41	15,857,994	–	15,857,994
Derivatives financial liabilities	28	84,670	–	84,670
Financial liabilities at amortised cost – Due to depositors	42	370,314,026	–	370,314,026
Financial liabilities at amortised cost – Due to other borrowers	43	81,145,692	–	81,145,692
Debt securities in issue	44	16,304,115	–	16,304,115
Subordinated term debt	48	18,399,991	–	18,399,991

8.4.2 Exposure to Market Risks – Trading Portfolios

The principal tool used to measure and control market risk exposure within the Bank's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the maximum estimated loss that can arise with a specified probability (confidence level) in the portfolio over a specified period of time (holding period) from an adverse market movement.

The VaR model used by the Bank is based on a 99% confidence level and assumes 1, 10, and 60-day holding periods (Depending on product type). The VaR model used is based mainly on historical simulation. Taking account of market data, and observed correlation between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

- 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 and does not cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent on the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if market price volatility declines and vice versa.

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position. The Bank determines the scenarios as follows:

- sensitivity scenarios consider the impact of any single risk factor or set of factors that are unlikely to be captured within the VaR models;
- technical scenarios consider the largest move in each risk factor without consideration of any underlying market correlation; and
- hypothetical scenarios consider potential 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 2023 LKR '000	Position as at 31 December 2022 LKR '000
Marked-to-market value of the total quoted equity portfolio	1,169,294	598,972
Value-at-risk (under 99% probability for a quarterly time horizon)	37.92%	56.69%
Maximum possible loss of value in the marked-to-market value of the portfolio as indicated by the VaR over a quarterly period	443,415	339,556
Unrealised gains in the trading equity portfolio reported in the fair value reserve	(422,847)	(200,202)

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 2023 LKR '000	Position as at 31 December 2022 LKR '000
Marked-to-market value of the total quoted equity portfolio	16,267,149	8,171,584
Value-at-risk (under 99% probability for a quarterly time horizon)	31.18%	37.37%
Maximum possible loss of value in the marked-to-market value of the portfolio as indicated by the VaR over a quarterly period	5,071,626	3,053,434
Unrealised gains in the equity portfolio reported in the fair value reserve	4,628,837	(2,271,901)

Equity price risk is quantified using the Value at Risk (VaR) approach based on the Historical Loss Method. Historical three-year portfolio returns is adopted to compute VaR as a measure of the equity prices risk exposure by the Bank. This VaR computation for the equity trading portfolio considers a quarterly time horizon.

8.4.4 Interest Rate Risk

The principal risk to which Fair Value through Profit or Loss (FVPL) and Fair Value through Other Comprehensive Income (FVOCI) portfolios are exposed is the potential for loss arising from variations in the future cash flows or fair values of financial instruments due to fluctuations in market interest rates.

Duration analysis as at 31 December 2023

Portfolio	Face value LKR '000	Marked-to market value LKR '000	Modified Duration	Interpretation of duration
Government Securities measured at FVPL/LKR Bills and Bonds	500,665	532,932	0.32	Portfolio value will decline approximately by 0.32% as a result of 1% increase in the interest rates.
Government Securities measured at FVOCI/LKR Bills and Bonds	119,340,638	117,448,154	0.78	Portfolio value will decline approximately by 0.78% as a result of 1% increase in the interest rates.
US Government Securities measured at FVOCI/US Treasury Bills	971,919	949,477	0.46	Portfolio value will decline approximately by 0.46% as a result of 1% increase in the interest rates.

The market risk exposure for interest rate risk in the FVPL Rupee portfolio as of 31 December 2023 is indicated by a modified duration of 0.32. This level of interest rate risk exposure in the Rupee FVPL portfolio suggests a potential loss in the marked-to-market value amounting to LKR 1.7 Mn as of 31 December 2023.

The market risk exposure for interest rate risk in the FVOCI Rupee portfolio and FVOCI US Treasuries portfolio as of 31 December 2023 is reflected in modified durations of 0.78 and 0.46 respectively. This level of interest rate risk exposure in the Rupee FVOCI portfolio and FVOCI US Treasuries portfolio may lead to potential losses in marked-to-market value amounting to LKR 911 Mn and LKR 4.4 Mn respectively, as of 31 December 2023.

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 2023 is quantified based on the assumed change in the interest rates for each time period and is given in table below:

31 December 2023	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	828,589	–	–	–	–
Placements with banks	28,583,114	74,161	–	–	–
Financial assets measured at fair value through profit or loss	–	–	532,186	748	–
Financial assets at amortised cost – Loans to and receivables from other customers	117,771,062	49,406,263	22,906,727	27,649,675	105,634,203
Financial assets at amortised cost – Debt and other instruments	–	4,276,077	244,290	–	65,807,740
Financial assets measured at fair value through other comprehensive income	16,776,751	28,142,777	37,518,437	7,571,405	28,388,261
	163,959,516	81,899,278	61,201,640	35,221,828	199,830,204
Due to banks	48,337,235	1,506,155	2,950,074	–	–
Financial liabilities at amortised cost – Due to depositors	124,662,425	72,215,659	75,780,831	78,566,344	43,242,951
Financial liabilities at amortised cost – Due to other borrowers	–	13,739,264	4,496,986	6,580,264	47,206,220
Debt securities in issue	–	4,819,254	297,082	–	11,195,241
Subordinated term debt	–	397,839	–	73,578	8,600,848
	172,999,660	92,678,171	83,524,973	85,220,186	110,245,260
Net rate sensitive assets (liabilities)	(9,040,144)	(10,778,893)	(22,323,333)	(49,998,358)	89,584,944
Assumed change in interest rates (%)	0.50	1.00	1.50	2.00	
Impact	(45,201)	(98,807)	(251,137)	(499,984)	
Total net impact if interest rates increase				(895,128)	
Total net impact if interest rates decline				895,128	

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 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
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	

The Bank has assumed that the assets and liabilities are repriced at the beginning of each time bucket and has also taken into account the remaining time from the repricing date up to one year.

8.4.4.2 Interest Rate Benchmark Reform

Overview

DFCC Bank PLC has proactively responded to the global initiative for Interest Rate Benchmark Reform, addressing operational risks, renegotiating loan contracts, and updating systems. Successfully navigating the LIBOR transition underscores the Bank's commitment to effective planning and seamless operations, meticulously adhering to accepted guidelines.

To ensure a comprehensive approach, a robust governance structure was established, facilitating a well-coordinated process overseen by senior management. Thorough examination of risks associated with LIBOR-linked exposures informed crucial decisions to mitigate potential financial and operational impacts. Mechanisms were implemented to address financial and legal impacts resulting from transitioning via fallbacks.

Focus extended to preparing operating models and technology systems in alignment with outlined guidelines for operational and technological aspects. The determination of accounting and reporting treatment showcased the Bank's commitment to transparency and compliance. A proactive stance in identifying, measuring, and monitoring risks, along with robust oversight, ensured ongoing risk management.

Throughout the transition, communication has been a cornerstone, with proactive engagement fostering open channels with stakeholders. This strategy ensured a smooth transition, demonstrating the Bank's commitment to maintaining strong relationships.

In conclusion, the successful LIBOR transition is a testament to the Bank's diligent adherence to guidelines, strategic planning, and proactive stakeholder engagement.

As at 31 December 2023, LIBOR reform in respect of currencies to which the Bank has exposure has completed the process of reforming. The table below sets out the LIBOR 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	Completed
USD	USD LIBOR	SOFR	Completed
EURO	EURIBOR	€STR	Completed

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 2023, DFCC carried a USD equivalent net open/unhedged "short" position of LKR 603 Mn. The impact of exchange rate risk is given below:

	Amount
Net exposure – USD equivalent (CBSL Return)	(1,860,000)
Value of position in LKR '000	(602,603)
Exchange rate (USD/LKR) as at 31 December 2023	323.98
Possible potential loss to Bank – LKR '000	
– If exchange rate (USD/LKR) appreciates by 1%	(6,026)
– If exchange rate appreciates by 10%	(60,260)
– If exchange rate appreciates by 15%	(90,390)

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 2023 are as follows:

	Risk-weighted assets LKR '000	Quantified possible exposure LKR '000
Interest rate risk	11,984,456	1,498,057
Equity price risk	1,372,528	171,566
Foreign exchange and gold risk	704,824	88,103
Total	14,061,808	1,757,726

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, 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 ORSC, ORMC and the BIRMC meetings in an operational risk perspective.

The primary responsibility for the development and implementation of controls to address operational risk lies with IRMD whilst implementation is assigned to Senior Management within each business unit. Operational Risk Coordinating Officers are appointed within each department/branch to assist in managing the operational risk. This responsibility is supported by the development of overall standards for management of operational risk in the following areas:

a. Requirements for appropriate segregation of duties, including independent authorisation of transactions.
b. Requirements for reconciliation and monitoring of transactions.
c. Compliance with regulatory and other legal requirements.
d. Documentation of controls and procedures.
e. Requirements for periodic assessment of operational risks faced and the adequacy of controls and procedures to address the identified risks.
f. Requirements for reporting of operational losses and propose remedial action.
g. Development of contingency plans.
h. Training and professional development to establish ethics and business standards.
i. Insurance covering risk due to threats arising from external and other events.

Compliance with the Bank's standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the business unit to which they relate, with summaries submitted to the Audit Committee and Senior Management.

Group operational risk assessments are conducted at the Board level.

8.6 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 periodically and recommendations and decisions are made accordingly. The Group capital management goals are as follows:

a. Ensure regulatory minimum capital adequacy requirements are not compromised.
b. Bank to maintain its international and local credit 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 into consideration.
d. Ensure capital consumption by business actions are adequately priced.
e. Optimising ROE

Central Bank of Sri Lanka sets and monitors regulatory capital requirement on both consolidated and solo basis. The Bank currently uses the standardised approach for credit risk and market risk and basic indicator approach for operational risk.

The Basel III capital regulations, which are currently in force, will continue to be based on the three-mutually reinforcing Pillars introduced under Basel II, i.e. minimum capital requirement, supervisory review process and market discipline. Basel III focuses on increasing the quality and quantity of capital especially the core capital, through redefining the common equity capital and introducing new capital buffers such as the Capital Conservation Buffer and a Capital Surcharge on domestic systematically important banks. DFCC Bank started reporting capital computations under the Basel III requirements from mid 2017 as per the regulatory requirements.

Regulatory capital comprises Tier 1 capital and Tier 2 capital. The Bank's policy is to maintain a strong capital base so as to ensure investor, creditor, and market confidence to sustain future development of the business. DFCC Bank and its Group have complied with the minimum capital requirements imposed by the Central Bank of Sri Lanka throughout the year.

8.6.1 Key Regulatory Ratios – Capital Adequacy

31 December	2023		2022	
Item	Bank	Group	Bank	Group
Regulatory capital (LKR '000)				
Common equity Tier 1	43,632,490	47,491,186	36,818,873	36,381,997
Tier 1 capital	43,632,490	47,491,186	36,818,873	36,381,997
Total capital	51,304,883	55,171,249	48,004,800	47,574,241
Regulatory capital ratios (%)				
Common equity Tier 1 capital ratio (minimum requirement – 7.0%)	11.49	12.46	10.09	9.94
Tier 1 capital ratio (minimum requirement – 8.5%)	11.49	12.46	10.09	9.94
Total capital ratio (minimum requirement – 12.5%)	13.51	14.48	13.15	12.99

Basel III computation of capital ratios

31 December	2023		2022	
Item	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
Common equity Tier 1 (CET 1) capital after adjustments	43,632,490	47,491,186	36,818,873	36,381,997
Common equity Tier 1 (CET 1) capital	61,524,384	66,919,617	52,778,734	56,909,693
Equity capital (stated capital)/assigned capital	13,866,557	13,866,557	13,182,025	13,182,025
Reserve fund	3,239,968	3,239,968	2,874,968	2,874,968
Published retained earnings/(accumulated retained losses)	28,250,357	33,645,590	22,600,898	26,731,857
Published accumulated other comprehensive income (OCI)	2,387,663	2,387,663	341,004	341,004
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	17,891,894	19,428,431	15,959,861	20,527,696
Goodwill (net)	–	156,226	–	156,226
Intangible assets (net)	1,926,287	1,945,030	2,198,042	2,218,827
Investment in capital of banks and financial institutions	10,114,730	11,468,498	9,204,363	13,589,480
Others	5,850,877	5,858,677	4,557,456	4,563,163
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)	–	–	–	–

31 December	2023		2022	
Item	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
Tier 2 capital after adjustments	7,672,393	7,680,063	11,185,927	11,192,244
Tier 2 capital	7,672,393	7,680,063	11,185,927	11,192,244
Qualifying Tier 2 capital instruments	3,525,812	3,525,812	7,039,040	7,039,040
Revaluation gains	–	–	–	–
Loan loss provisions	4,146,581	4,154,251	4,146,887	4,153,204
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	43,632,490	47,491,186	36,818,873	36,381,997
Total Tier 1 capital	43,632,490	47,491,186	36,818,873	36,381,997
Total capital	51,304,883	55,171,249	48,004,800	47,574,241
Total risk-weighted assets (RWA)				
RWAs for credit risk	331,726,504	332,340,053	331,750,969	332,256,324
RWAs for market risk	14,061,808	14,061,808	8,391,648	8,391,648
RWAs for operational risk	33,950,018	34,615,939	24,960,191	25,491,894
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer, and Surcharge on D-SIBs) (%)	11.49	12.46	10.09	9.94
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 (%)	11.49	12.46	10.09	9.94
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer and Surcharge on D-SIBs) (%)	13.51	14.48	13.15	12.99
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

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 judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, Government Securities and simple over the counter derivatives like forward exchange contracts and interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes that a third party market participant would take them into account in pricing a transaction.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and management uses judgement to select the most appropriate point in the range.

9.2 Valuation Framework

The established control framework with respect to the measurement of fair values, includes an oversight which is independent of front office management. Treasury Middle Office has overall responsibility for independently verifying the results of trading and investment operation.

Specific controls include:

- Verification of observable pricing
- Review and approval process for new models and changes to models involving both product control and group market risk
- Calibration and back testing of models
- Stress testing

When third party information, such as broker quotes or pricing services is used to measure fair value, the evidence so obtained to support the conclusion that such valuations meet the requirements of SLFRSs/LKASs is documented.

This includes:

- Verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument
- Several quotes obtained from randomly selected brokers for the same financial instrument and the fair value determined on this basis

Any changes to the fair value methodology is reported to the Bank's Audit Committee.

9.3 Financial Instruments Measured at Fair Value – Fair Value Hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position. The fair values include any deferred differences between the transaction price and the fair value on initial recognition when the fair value is based on a valuation technique that uses unobservable inputs.

A. Bank/Group

As at 31 December 2023	Note	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial assets					
Derivative financial assets	28				
Forward foreign exchange contracts		–	16,499,171	–	16,499,171
Financial assets measured at fair value through profit or loss	29				
Government of Sri Lanka Treasury Bills and Bonds		532,932	–	–	532,932
Equity securities – quoted		1,169,294	–	–	1,169,294
Units in unit trusts – quoted		3,740	–	–	3,740
Units in unit trusts – unquoted		–	34,962	–	34,962
Financial assets measured at fair value through other comprehensive income	32				
Government of Sri Lanka Treasury Bills and Bonds		117,448,154	–	–	117,448,154
US Treasury Bill		949,477	–	–	949,477
Sri Lanka sovereign bonds		–	–	–	–
Equity shares – quoted		16,267,149	–	–	16,267,149
Equity shares – unquoted		–	–	237,985	237,985
Preference shares		–	–	–	–
		136,370,746	16,534,133	237,985	153,142,864
Financial liabilities					
Derivative financial liabilities	28				
Forward foreign exchange contracts		–	381,653	–	381,653
		–	381,653	–	381,653

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	28				
Forward foreign exchange contracts		–	20,473,544	–	20,473,544
Financial assets measured at fair value through profit or loss	29				
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	32				
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

As at 31 December 2022	Note	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial liabilities					
Derivative financial liabilities	28				
Forward foreign exchange contracts		–	84,670	–	84,670
		–	84,670	–	84,670

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. US Treasury Bill valued using Bloomberg publish rates.

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 2023 and no transfers in either direction in 2023.

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	
	2023 LKR '000	2022 LKR '000
Balance at 1 January	221,419	216,602
Purchased during the year	–	–
Gains included in OCI	–	–
Net change in fair value (unrealised)	16,567	4,817
Balance at 31 December	237,985	221,419

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 2023.

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 2023	Increase LKR '000	Decrease LKR '000
Equity securities	–	–
Adjusted net assets value (5% movement)	11,899	(11,899)

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 28 Derivative Financial Instruments) to reflect the Group's assessment of factors that market participants would consider in setting fair value.

9.4 Financial Instruments not Measured at Fair Value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised:

A. Bank

As at 31 December 2023	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	25	–	14,478,468	–	14,478,468	14,478,468
Balances with Central Bank of Sri Lanka	26	–	2,107,776	–	2,107,776	2,107,776
Placements with banks	27	–	29,138,098	–	29,138,098	29,138,098
Financial assets at amortised cost – Loans to and receivables from other customers	30	–	–	322,590,049	322,590,049	348,767,466
Financial assets at amortised cost – Debt and other instruments	31	71,415,548	2,296,775	–	73,712,323	68,031,313
Other financial assets	40	–	–	10,569,550	10,569,550	10,569,550
		71,415,548	48,021,117	333,159,599	452,596,264	473,092,671
Liabilities						
Due to banks	41	–	52,793,464	–	52,793,464	52,793,464
Financial liabilities at amortised cost – Due to depositors	42	–	–	427,279,084	427,279,084	407,225,313
Financial liabilities at amortised cost – Due to other borrowers	43	–	–	72,022,734	72,022,734	72,022,734
Debt securities in issue	44	–	15,579,739	–	15,579,739	16,311,577
Other financial liabilities	47	–	–	5,566,307	5,566,307	5,566,307
Subordinated term debt	48	–	8,340,427	–	8,340,427	9,072,265
		–	76,713,630	504,868,125	581,581,755	562,991,660

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	25	–	16,122,565	–	16,122,565	16,122,565
Balances with Central Bank of Sri Lanka	26	–	9,030,868	–	9,030,868	9,030,868
Placements with banks	27	–	15,224,692	–	15,224,692	15,224,692
Financial assets at amortised cost – Loans to and receivables from other customers	30	–	–	339,333,283	339,333,283	369,072,030
Financial assets at amortised cost – Debt and other instruments	31	37,049,928	2,607,280	240,533	39,897,741	50,947,926
Other financial assets	40	–	–	7,804,964	7,804,964	7,804,964
		37,049,928	42,985,405	347,378,780	427,414,113	468,203,045
Liabilities						
Due to banks	41	–	15,857,994	–	15,857,994	15,857,994
Financial liabilities at amortised cost – Due to depositors	42	–	–	361,987,182	361,987,182	370,314,026
Financial liabilities at amortised cost – Due to other borrowers	43	–	–	81,145,692	81,145,692	81,145,692
Debt securities in issue	44	–	11,786,903	–	11,786,903	16,304,115
Other financial liabilities	47	–	–	8,114,644	8,114,644	8,114,644
Subordinated term debt	48	–	15,010,515	–	15,010,515	18,399,991
		–	42,655,412	451,247,518	493,902,930	510,136,462

B. Group

As at 31 December 2023	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	25	–	14,483,062	–	14,483,062	14,483,062
Balances with Central Bank of Sri Lanka	26	–	2,107,776	–	2,107,776	2,107,776
Placements with banks	27	–	29,173,988	–	29,173,988	29,173,988
Financial assets at amortised cost – Loans to and receivables from other customers	30	–	–	322,590,049	322,590,049	348,767,466
Financial assets at amortised cost – Debt and other instruments	31	71,415,548	2,296,775	–	73,712,323	68,094,041
Other financial assets	40	–	–	10,738,637	10,738,637	10,738,637
		71,415,548	48,061,601	333,328,686	452,805,835	473,364,970

As at 31 December 2023	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	41	–	52,793,464	–	52,793,464	52,793,464
Financial liabilities at amortised cost – Due to depositors	42	–	–	427,279,084	427,279,084	406,584,864
Financial liabilities at amortised cost – Due to other borrowers	43	–	–	72,022,734	72,022,734	72,022,734
Debt securities in issue	44	–	15,579,739	–	15,579,739	16,311,577
Other financial liabilities	47	–	–	5,789,243	5,789,243	5,789,243
Subordinated term debt	48	–	8,340,427	–	8,340,427	9,072,265
		–	76,713,630	505,091,061	581,804,691	562,574,147

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	25	–	16,126,635	–	16,126,635	16,126,635
Balances with Central Bank of Sri Lanka	26	–	9,030,868	–	9,030,868	9,030,868
Placements with banks	27	–	15,242,493	–	15,242,493	15,242,493
Financial assets at amortised cost – Loans to and receivables from other customers	30	–	–	339,333,283	339,333,283	369,072,030
Financial assets at amortised cost – Debt and other instruments	31	37,049,928	2,607,280	240,533	39,897,741	50,947,926
Other financial assets	40	–	–	7,971,424	7,971,424	7,971,424
		37,049,928	43,007,276	347,545,240	427,602,444	468,391,376
Liabilities						
Due to banks	41	–	15,857,994	–	15,857,994	15,857,994
Financial liabilities at amortised cost – Due to depositors	42	–	–	369,746,855	369,746,855	369,746,855
Financial liabilities at amortised cost – Due to other borrowers	43	–	–	81,145,692	81,145,692	81,145,692
Debt securities in issue	44	–	16,304,115	–	16,304,115	16,304,115
Other financial liabilities	47	–	–	8,301,556	8,301,556	8,301,556
Subordinated term debt	48	–	–	18,399,991	18,399,991	18,399,991
		–	32,162,109	477,594,094	509,756,203	509,756,203

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	63
Fixed rate loans	37
– With remaining maturity less than one year	7
– Others	30

Since the floating rate loans can be repriced monthly, quarterly, and semi-annually in tandem with market rates fair value of these loans is approximately same as the carrying value. Carrying amount of fixed rate loans with a remaining maturity of less than one year approximates the fair value.

Based on the results of the fair value computed on the lease rentals receivable, it is estimated that the fair value of the other loans at fixed interest rates with maturity of more than one year is not materially different to its carrying value as at the reporting date.

9.4.4 Financial Assets at Amortised Cost – Debt and Other Instruments

Fair value of the fixed rate debentures are based on prices quoted in the Colombo Stock Exchange, where there is an active market for quoted debentures.

Where there is no active market, fair value of the fixed rate debentures has been determined by discounting the future cash flows by the interest rates derived with reference to Government Treasury Bond rates with adjustments to risk premiums at the time of investment.

9.4.5 Due to Banks

The carrying value of amounts due to banks 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 Other Customers

The carrying value of deposits with a remaining maturity of less than one year approximates the fair value.

Fair values of deposits with a remaining maturity of more than one year is estimated using discounted cash flows applying current interest rates offered for deposits of similar remaining maturities.

The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the reporting date and the savings account balances are repriced frequently to match with the current market rates, therefore the demand and saving deposits carrying amounts are reasonable approximation to the fair values as at the reporting date.

9.4.7 Due to Other Borrowers

This consists of borrowings sourced from multilateral and bilateral institutions.

Fixed rate borrowings which relates 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 Sri Lanka Rupee debentures. The Sri Lanka Rupee debentures are fair valued by reference to current Government Treasury Bond rates with a risk premium.

9.4.9 Subordinated term debts

The fair value of fixed rate subordinated debentures has been determined by discounting the future cash flows by the interest rates prevailing as at the reporting date for similar instruments.

The carrying values of balances with Central Bank of Sri Lanka, other financial assets and other financial liabilities are reasonable approximation of their fair values since, those are short term in nature or re-priced to current market rates frequently.

10. Gross Income

For the year ended 31 December	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Interest income (Note 11.1.1)	96,921,523	69,863,356	96,924,661	69,867,327
Net fee and commission income (Note 12.1.1)	5,239,924	3,643,039	5,238,670	3,641,487
Net gains from trading (Note 13)	1,055,107	63,216	1,055,107	63,216
Net gains from derecognition of financial assets (Note 14)	2,838,626	99,112	2,838,626	99,112
Net other operating income (Note 15)	828,270	1,290,793	1,384,474	1,800,241
	106,883,450	74,959,516	107,441,538	75,471,383

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

For the year ended 31 December	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Interest income (Note 11.1.1)	96,921,523	69,863,356	96,924,661	69,867,327
Interest expenses (Note 11.1.2)	(65,697,026)	(43,342,290)	(65,584,019)	(43,268,327)
Net interest income	31,224,497	26,521,066	31,340,642	26,599,000

11.1.1 Interest Income

For the year ended 31 December	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Placements with banks	745,983	559,190	749,121	563,162
Financial assets measured at fair value through profit or loss	61,044	25,694	61,044	25,694
Financial assets at amortised cost – Loans to and receivables from banks	260,650	111,038	260,650	111,037
Financial assets at amortised cost – Loans to and receivables from other customers (Note 11.1.1.1)	62,540,000	58,052,403	62,540,000	58,052,403
Financial assets at amortised cost – Debt and other instruments	11,423,353	4,397,052	11,423,353	4,397,052
Financial assets measured at fair value through other comprehensive income	21,876,959	4,314,980	21,876,959	4,314,980
Securities purchased under resale agreements	13,534	2,402,999	13,534	2,402,999
Total interest income	96,921,523	69,863,356	96,924,661	69,867,327

11.1.1.1 Interest Income from loans to and receivables from other customers includes modifications made 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 2023.

11.1.2 Interest Expenses

For the year ended 31 December	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Due to banks	1,105,866	521,361	1,105,866	521,361
Financial liabilities at amortised cost – Due to depositors	54,418,072	33,314,183	54,303,840	33,240,219
Financial liabilities at amortised cost – Due to other borrowers	3,227,370	3,389,930	3,227,370	3,389,930
Debt securities in issue	3,640,799	4,023,673	3,640,799	4,023,674
Interest expense on lease liabilities (Note 49.5)	153,345	141,899	154,570	141,899
Securities sold under repurchase agreements	3,151,574	1,951,244	3,151,574	1,951,244
Total interest expenses	65,697,026	43,342,290	65,584,019	43,268,327

The amounts reported above include interest income and interest expenses, calculated using the effective interest method, that relate to the following financial assets and financial liabilities.

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Financial assets measured at amortised cost (Note 24)	473,092,671	468,203,045	473,364,970	468,391,376
Financial assets measured at FVOCI (Note 32)	118,397,631	54,926,057	118,397,631	54,926,057
Financial assets measured at FVTPL (Note 29)	532,932	795,433	532,932	795,433
Total	592,023,234	523,924,535	592,295,533	524,112,866
Financial liabilities measured at amortised cost (Note 24)	562,991,660	510,136,462	562,574,147	509,756,203

11.1.3 Interest Income from Government Securities – Bank/Group

For the year ended 31 December	2023 LKR '000	2022 LKR '000
Financial assets measured at fair value through profit or loss	61,044	25,694
Financial assets at amortised cost – Debt and other instruments	11,384,648	4,327,593
Financial assets measured at fair value through other comprehensive income	21,859,770	4,314,980
	33,305,462	8,668,267

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 drawdown of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of SLFRS 9 and partially in the scope of SLFRS 15. If this is the case, then the Group first applies SLFRS 9 to separate and measure the part of the contract that is in the scope of SLFRS 9 and then applies SLFRS 15 to the residual.

Fees for guarantees and trade related commissions are recognised on a straight-line basis over the period of the contract. Other fees and commission expense relate mainly to transaction and service fees, which are expensed, as the services are received.

12.1 Composition

For the year ended 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Fee and commission income (Note 12.1.1)	5,239,924	3,643,039	5,238,670	3,641,487
Fee and commission expenses	(1,335,294)	(766,002)	(1,335,294)	(766,002)
Net fee and commission income	3,904,630	2,877,037	3,903,376	2,875,485

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

For the year ended 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Loans and advances	759,249	611,997	759,249	611,997
Credit cards	1,541,517	947,624	1,541,517	947,624
Trade and remittances	1,928,154	1,325,237	1,928,154	1,325,237
Customer accounts	415,223	281,298	415,223	281,298
Guarantees	411,376	340,983	411,376	340,983
Others (management, consulting and other fees)	184,405	135,900	183,151	134,348
Fee and commission income	5,239,924	3,643,039	5,238,670	3,641,487

12.1.2 Performance Obligations and Revenue Recognition Policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under SLFRS 15
Retail and corporate banking service	The Group provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees.	Revenue from account service and servicing fees is recognised over time as the services are provided.
	Fees for ongoing account management are charged to the customer's account on a monthly basis. The Group sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
	Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place.	
	Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Group.	

13. Net Gains 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.

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.

	BANK		GROUP	
For the year ended 31 December	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Derivative Financial Instruments				
Forward exchange fair value changes from banks and other customers	(384,709)	279,024	(384,709)	279,024
Gains/(losses) on financial assets fair value through profit or loss equity securities	3,958	(2,705)	3,958	(2,705)
Foreign exchange from Banks and Other Customers	1,582,011	(11,024)	1,582,011	(11,024)
Financial assets recognised through profit or loss – measured at fair value				
Government securities				
Net marked to market (losses)/gains	(8,863)	9,994	(8,863)	9,994
Net capital gains	12,056	11,800	12,056	11,800
Equities				
Net marked to market losses	(222,643)	(249,217)	(222,643)	(249,217)
Net capital gains	36,413	16,669	36,413	16,669
Dividend income	36,884	8,675	36,884	8,675
	1,055,107	63,216	1,055,107	63,216

14. 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.

For the year ended 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Fair value through other comprehensive income gains on sale of Government securities	2,838,626	99,112	2,838,626	99,112
	2,838,626	99,112	2,838,626	99,112

15. Net Other Operating Income

Accounting Policy

Net other operating income includes realised gains or losses 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 venture and associate are accounted for, in the statement of profit or loss after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

Foreign Exchange Gains/(Losses)

Foreign currency positions are revalued at each reporting date. Gains and losses arising from changes in fair value are included in the income statement in the period in which they arise.

For the year ended 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Financial assets measured at fair value through other comprehensive income				
Dividend income	626,553	1,110,577	626,553	1,110,577
Dividend income from subsidiaries, joint venture and associate	78,118	89,861	–	–
Premises rental income	–	–	426,502	383,792
Net gains on sale of property, plant and equipment	18,101	8,744	18,101	8,744
Foreign exchange losses	(18,990)	(159,510)	(33,936)	(140,929)
Recovery of loans written-off	16,767	162,518	16,767	162,518
Others	107,721	78,603	330,487	275,539
	828,270	1,290,793	1,384,474	1,800,241

16. 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 credit impaired exposures are individually significant include the size of the loan.

For all loans and amortised cost debt instruments that are considered individually significant, Bank assesses on a case by case basis, whether there is any objective evidence of impairment. The criteria used by the Bank to determine that there is such objective evident include –

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Impairment allowance on loans and advances and other financial instruments measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Collective Assessment

This includes all loans and advances of smaller value where there is no evidence of impairment and those individually assessed for which no evidence of impairment has been specifically identified on an individual basis.

These loans and advances are grouped together as per Basel Guidelines and product level according to their credit risk characteristics for the purpose of calculating an estimated collective impairment.

In making an assessment of whether an investment in debt instrument is credit-impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as "lender of last resort" to that country, as well as the intention, reflected in public statements, of Governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

The Bank manages credit quality using a three stage approach which is in line with SLFRS 9.

12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognised are referred to as "Stage 1 financial instruments". Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognised but that are not credit-impaired are referred to as “Stage 2 financial instruments”. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as “Stage 3 financial instruments”.

Significant Increase in Credit Risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank’s historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where appropriate for changes in prepayment expectations).

The Bank considers an exposure to have significant increase in credit risk (SICR) when the contractual payment of a customer are more than 30 days past due in accordance with rebuttable presumption in SLFRS 9, or other qualitative indicators reveal that there had been SICR.

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 categorised into risk categories (identifying risk elevated industries). SICR is then determined based on the resulting risk categorisation 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; except for, for which a backstop of 60 days past due is applied.

- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).
- 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.
- 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 action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/to have SICR or the PD is considered to have decreased such that it falls within the 12-month PD ranges for the asset to be considered Stage 1.

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

When discounting future cash flows, the following discount rates are used:

- financial assets other than purchased or originated credit-impaired (POCI) financial assets and lease receivables: the original effective interest rate or an approximation thereof;
- POCI assets: a credit-adjusted effective interest rate;
- lease receivables: the discount rate used in measuring the lease receivable;
- undrawn loan commitments: the effective interest rate, or an approximation thereof, that will be applied to the financial asset resulting from the loan commitment; and
- financial guarantee contracts issued: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

ECL for exposures in Stage 1 are calculated by multiplying the 12-month PD by LGD and EAD.

Lifetime ECL are calculated by multiplying the lifetime PD by LGD and EAD.

The methodology for estimating PDs is discussed above under the heading "Generating the term structure of PD".

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery, costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios and, for lending collateralised by property, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are Grouped on the basis of shared risk characteristics, which may include:

- instrument type;
- credit risk grade;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- client segment.

The Groupings are subject to regular review to ensure that exposures within a particular Group remain appropriately homogeneous.

Restructured Financial Assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Purchase of Credit-Impaired (Poci) Financial Assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition.

Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Reversals of Impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written-back by reducing the loan impairment allowance accordingly. The write-back is recognised in the income statement.

Renegotiated Loans

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as up-to-date loans for measurement purposes once a minimum number of payments required have been received.

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired. The carrying amounts of loans that have been classified as renegotiated retain this classification until it is upgraded.

Financial Guarantee Contracts Held

The Group assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Group considers when making this assessment:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Group determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Group considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Group determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in "other assets". The Group presents gains or losses on a compensation right in profit or loss in the line item "impairment losses on financial instruments".

Presentation of allowance for ECL in the statement of financial position loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in fair value reserve.

16.1 Composition

For the year ended 31 December	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Financial assets at amortised cost – Loans to and receivables from other customers	12,531,811	13,928,156	12,531,811	13,928,156
Financial assets at amortised cost – SLISB (Note 31.5)	494,199	1,785,267	494,199	1,785,267
Financial assets measured at fair value through other comprehensive income	–	137,570	–	137,570
Loan commitments and financial guarantee contracts	89,613	8,473	89,613	8,473
Impairment allowance for Intangible Assets	17,701	–	17,701	–
Other assets – Matured SLISB (Note 40.1.2)	825,434	1,165,107	825,434	1,165,107
Other debts and investments	26,072	34,397	26,072	34,397
Reversal of provision made on investment in subsidiaries	–	(17,499)	–	–
	13,984,830	17,041,471	13,984,830	17,058,972

SLISB – Sri Lanka International Sovereign Bond

16.2 Impairment Charge

For the year ended 31 December 2023	Note	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Gross impairment charge		1,186,790	5,912,763	14,239,209	21,338,762
Transfer to other stages/Impairment reversals due to the recoveries		(2,181,419)	(4,354,128)	(2,271,404)	(8,806,951)
Financial assets at amortised cost – Loans to and receivables from other customers	30.1.4	(994,629)	1,558,635	11,967,805	12,531,811
Financial assets at amortised cost – Debt and other instruments	31.5	(144)	494,343	–	494,199
Other assets – Matured SLISB	40.1.2	–	825,434	–	825,434
Loan commitments and financial guarantee contracts	54.1.1	105,764	(16,151)	–	89,613
		(888,865)	2,862,117	11,967,805	13,941,057
Impairment charge for Intangible Assets					17,701
Impairment on other debts					26,072
Total impairment charge – Bank/Group					13,984,830

For the year ended 31 December 2022	Note	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000
Gross 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	30.1.4	2,292,619	3,687,706	7,947,831	13,928,156
Financial assets at amortised cost – Debt and other instruments and other instruments	31.5	–	1,785,267	–	1,785,267
Other assets	40.1.2	–	1,165,107	–	1,165,107
Financial assets measured at fair value through other comprehensive income	32.7	137,570	–	–	137,570
Loan commitments and financial guarantee contracts	54.1.1	(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 – reversals	33.1				(19,600)
Investment in associate	34				2,101
Total impairment charge – Bank					17,041,471
Investment in subsidiaries/associate					17,499
Total impairment charge – Group					17,058,972

16.3 Judgemental Adjustment

where appropriate, the Bank makes adjustments to the ECL estimate outside the Bank's regular modelling process to reflect management judgement.

For the year ended 31 December	BANK	
	2023 LKR '000	2022 LKR '000
Financial assets at amortised cost – Loans to and receivables		
Loss allowance before judgemental adjustment	11,834,394	11,112,544
Management judgemental adjustment	697,417	2,815,612
Loss allowance after judgemental adjustment	12,531,811	13,928,156

16.4 Impairment Charge for International Sovereign Bonds and Sri Lanka Development Bonds

The Bank's total exposure to foreign currency denominated matured and ongoing investments are presented in Note 31 and 40. 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 to recoverable value. Accordingly an impairment charge has been recognised. (Please refer Note 31.1.1 for more details).

This is more fully explained in note 31.1 to these financial statements.

17. Personnel Expenses

Accounting policy in Note 45.

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.

17.1 Composition

For the year ended 31 December	Note	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Salaries and other benefits		4,325,494	3,835,013	4,548,971	4,039,967
Contributions to defined benefit plans	17.1.1	695	187,348	7,540	194,351
Contributions to defined contribution plans	17.1.2	451,755	421,851	480,788	443,805
		4,777,944	4,444,212	5,037,299	4,678,123

17.1.1 Contributions to Defined Benefit Plans

For the year ended 31 December	Note	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Funded pension liability					
Current service cost		27,020	38,673	27,020	38,673
Interest on obligation		297,396	242,304	297,396	242,304
Expected return on pension assets		(506,226)	(243,074)	(506,226)	(243,074)
		(181,810)	37,903	(181,810)	37,903
Unfunded pension liability					
Interest on obligation		6,269	5,322	6,269	5,322
		6,269	5,322	6,269	5,322
Unfunded end of service gratuity liability					
Current service cost		79,647	87,812	83,824	90,872
Interest on obligation		96,589	56,311	99,257	60,254
		176,236	144,123	183,081	151,126
Total contribution to defined benefit plans		695	187,348	7,540	194,351

17.1.2 Contributions to Defined Contribution Plans

For the year ended 31 December	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Employer's contribution to Employees' Provident Fund	376,490	351,543	399,779	369,220
Employer's contribution to Employees' Trust Fund	75,265	70,308	81,009	74,585
Total defined contribution plans	451,755	421,851	480,788	443,805

18. Depreciation and Amortisation

Accounting policy in Note 37 and 38.

For the year ended 31 December	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Depreciation				
– Investment property (Note 36)	–	–	33,067	33,864
– Property, plant and equipment (Note 37.1)	382,427	400,320	405,826	421,921
– Right-of-use assets (Note 37.1)	326,149	309,678	328,099	309,678
Amortisation				
– Intangible assets (Note 38.1)	415,277	414,668	423,671	422,970
	1,123,853	1,124,666	1,190,663	1,188,433

19. Other Expenses

Accounting Policy

Expenses are recognised in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the income statement.

For the year ended 31 December	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Directors' emoluments	21,960	20,445	24,810	22,613
Auditors' remuneration				
Audit fees and expenses	9,939	8,009	11,417	8,911
Audit related fees and expenses	4,929	1,437	5,740	1,437
Fees for non-audit services	1,500	180	1,500	332
Professional and legal expenses	1,758	3,807	1,758	3,807
Premises, equipment and establishment expenses	3,489,960	2,772,494	3,489,960	2,772,494
Other overhead expenses	2,288,174	1,741,729	2,221,123	1,669,138
	5,818,220	4,548,101	5,756,308	4,478,732

Directors emolument include fees paid to Non-Executive Directors. Remuneration paid to Executive Directors are included under salaries and other benefits in Note 17.1.

20. Taxes on Financial Services

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 1 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 same base used for calculation of VAT on financial services. SSCL is effective from 01 October 2022 onwards.

20.1 Composition

For the year ended 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Value added tax on financial services (Note 20.1.1)	2,797,426	1,209,964	2,797,426	1,209,964
Social security contribution levy	388,531	42,268	388,531	42,268
Change in estimates related to prior years				
– Debt repayment levy	–	1,685	–	1,685
– Nation building tax	–	(616)	–	(616)
Total	3,185,957	1,253,301	3,185,957	1,253,301

20.1.1 Value Added Tax on Financial Services

For the year ended 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Current year	2,797,426	1,235,451	2,797,426	1,235,451
Change in estimates related to prior years	–	(25,487)	–	(25,487)
Total	2,797,426	1,209,964	2,797,426	1,209,964

21. 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.

As per the Inland Revenue (Amendment) Act No. 45 of 2022 the standard rate of Income Tax has been increased to 30% from 24% w.e.f. 1 October 2022. 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. The current tax expense for the year of Assessment 2023/24 has been computed based on the revised tax rate of 30%.

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 assets 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.

The Group applied deferred tax related to assets and liabilities arising from a single transaction (Amendments to LKAS 12) from 1 January 2023. Following the amendments, the Group has recognised a separate deferred tax assets in relation to its lease liabilities and a deferred tax liabilities in relation to its right-of-use assets. For further discussion about the impact of adopting the amendments, see Note 39.3

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 assets/liabilities 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.

21.1 Amount Recognised in Income Statement

For the year ended 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Current tax expense				
Current year	6,260,241	3,136,881	6,416,490	3,251,658
Change in estimates related to prior years	–	(77,431)	(355)	(77,431)
	6,260,241	3,059,450	6,416,135	3,174,227
Deferred tax expense				
(Reversal)/origination of deferred tax liabilities (Note 39.1)	(7,147)	144,408	(46,628)	183,956
Origination of deferred tax assets (Note 39.2)	(2,512,470)	(3,277,737)	(2,519,897)	(3,287,882)
	(2,519,617)	(3,133,329)	(2,566,525)	(3,103,926)
Tax expense/(reversal) on continuing operations	3,740,624	(73,879)	3,849,610	70,301

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.

21.2 Amount Recognised in Other Comprehensive Income

For the year ended 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Items that are or may be reclassified subsequently to income statement				
Movement in fair value reserve (FVOCI debt instruments)	(927,873)	(45,409)	(927,873)	(45,409)
Cash flow hedges	(530,759)	(153,495)	(530,759)	(153,495)
	(1,458,632)	(198,904)	(1,458,632)	(198,904)
Items that will not be reclassified to income statement				
Gain on remeasurement of defined benefit liability – Gratuity (Note 45.1.1.2)	211,489	(38,296)	212,070	(40,281)
Gain on remeasurement of defined benefit liability – Pension fund (Note 45.1.2.1, 45.1.2.2)	2,295	(52,962)	2,295	(52,962)
Equity investments at FVOCI – Net change in fair value (Note 33.2)	(4,970)	(64,234)	(4,970)	(64,234)
	208,814	(155,492)	209,395	(157,477)
Total deferred tax reversal recognised in OCI	(1,249,818)	(354,396)	(1,249,237)	(356,381)

21.3 Amounts recognised in Other Comprehensive Income – Analysis of tax expenses

	BANK					
	2023			2022		
	Before tax LKR 000	Tax (expense) benefit LKR 000	Net of tax LKR 000	Before tax LKR 000	Tax (expense) benefit LKR 000	Net of tax LKR 000
Items that are or may be reclassified subsequently to Income statement						
Movement in fair value reserve (FVOCI debt instruments)	3,093,155	(927,873)	2,165,282	802,797	(45,409)	757,388*
Movement in hedging reserve	1,769,198	(530,759)	1,238,439	598,344	(153,495)	444,849
Items that will not be reclassified to income statement						
Gain /(Losses) on remeasurement of defined benefit (assets)/liabilities	(712,612)	213,784	(498,828)	325,828	(91,257)	234,571
Equity investment at FVOCI – net change in fair value	7,015,939	(4,970)	7,010,969	(4,505,992)	(64,235)	(4,570,227)**
Total	11,165,680	(1,249,818)	9,915,862	(2,779,023)	(354,396)	(3,133,419)

* Deferred tax is calculated only for Mark to Market gains on treasury bills and bonds and no deferred tax liability is created for international sovereign bonds as the gains and income are exempted from income taxes.

** Deferred tax is calculated only for the Mark to Market gain on unquoted shares as the disposal gains on quoted shares is exempted for income taxes.

GROUP					
2023			2022		
Before tax LKR 000	Tax (expense) benefit LKR 000	Net of tax LKR 000	Before tax LKR 000	Tax (expense) benefit LKR 000	Net of tax LKR 000
3,093,155	(927,873)	2,165,282	802,797	(45,409)	757,388
1,769,198	(530,759)	1,238,439	598,344	(153,495)	444,849
(714,335)	214,365	(499,970)	332,442	(93,242)	239,200
7,015,939	(4,970)	7,010,969	(4,494,947)	(64,235)	(4,559,182)
11,163,957	(1,249,237)	9,914,720	(2,761,364)	(356,381)	(3,117,745)

21.4 Reconciliation of Effective Tax Rate with Income Tax Rate

For the year ended 31 December	BANK				GROUP			
	2023		2022		2023		2022	
	%	LKR '000	%	LKR '000	%	LKR '000	%	LKR '000
Tax using 24%, 30% tax rate on profit before tax (PBT)	30.00	3,288,098	27.00*	658,658	30.00	3,752,445	27.00*	840,297
Adjustment in respect of current income tax of prior periods	–	–	(3.17)	(77,431)	–	–	(2.49)	(77,431)
Non-deductible expenses	64.52	7,071,778	216.07	5,270,934	55.48	6,763,152	167.76	5,267,252
Allowable deductions	(33.77)	(3,701,470)	(108.85)	(2,655,381)	(29.64)	(3,708,005)	(85.44)	(2,705,444)
Dividend income	(2.03)	(222,466)	(13.42)	(327,350)	(1.78)	(222,466)	(10.52)	(327,350)
Tax incentives	(2.02)	(221,484)	(2.55)	(62,109)	(1.81)	(225,803)	(2.24)	(69,631)
Taxable timing difference from capital allowances on assets	0.42	45,786	3.33	81,180	0.37	45,786	2.61	81,180
Tax losses from prior year	–	–	–	–	0.09	11,026	(0.22)	(6,724)
Taxed at different rates	–	–	7.01	170,949	–	–	5.53	172,078
Current tax expense	57.12	6,260,241	125.42	3,059,450	52.71	6,416,135	101.99	3,174,227

* Average of applicable income tax rates of 24% and 30% applicable for the year of assessment 2022/23.

22. 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.

22.1 Basic Earnings per Share

For the year ended 31 December	BANK		GROUP	
	2023	2022	2023	2022
Profit attributable to equity holders of the Bank (LKR '000)	7,219,702	2,513,352	8,485,146	2,932,475
Weighted average number of ordinary shares	417,933,648	372,172,073	417,933,648	372,172,073
Basic earnings per ordinary share – LKR	17.27	6.75	20.30	7.88

22.2 Weighted Average Number of Ordinary Shares for Basic Earnings per Share

For the year ended 31 December	Outstanding number of shares		Weighted average number of shares	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Number of shares in issue at beginning	402,666,056	320,522,436	402,666,056	320,522,436
Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2022, 2021	19,282,599	16,325,421	15,267,592	13,060,337
Rights issue	–	65,818,199	–	38,589,300
Weighted average number of ordinary shares for basic earnings per ordinary share calculation	421,948,655	402,666,056	417,933,648	372,172,073

22.3 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 22.1.

23. Dividend per Share

The Board of Directors of the Bank has approved the payment of a first and final dividend of LKR 5.00 per share which is to be satisfied in the form of cash and allotment of new ordinary shares for the year ended 31 December 2023. (The Bank approved a final dividend of LKR 2.00 per share for the year ended 31 December 2022 and this was satisfied in the form of allotment of new ordinary shares).

For the year ended 31 December	BANK	
	2023	2022
Dividend per share (LKR)	5.00	2.00

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 19 February 2024 have been audited by Messrs KPMG.

Dividend paid during the Year

For the year ended 31 December	BANK	
	2023 LKR '000	2022 LKR '000
First and Final scrip dividend paid – LKR 2.00 per share (2022 – LKR 3.00)	805,332	961,567

24. 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.

As at 31 December 2023	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	25	–	–	14,478,468	14,478,468
Balances with Central Bank of Sri Lanka	26	–	–	2,107,776	2,107,776
Placements with banks	27	–	–	29,138,098	29,138,098
Derivatives financial assets	28	16,499,171	–	–	16,499,171
Financial assets measured at fair value through profit or loss	29	1,740,928	–	–	1,740,928
Financial assets at amortised cost – Loans to and receivables from other customers	30	–	–	348,767,466	348,767,466
Financial assets at amortised cost – Debt and other instruments	31	–	–	68,031,313	68,031,313
Financial assets measured at fair value through other comprehensive income	32	–	134,902,765	–	134,902,765
Other assets	40	–	–	10,569,550	10,569,550
Total financial assets		18,240,099	134,902,765	473,092,671	626,235,535
Financial liabilities					
Due to banks	41	–	–	52,793,464	52,793,464
Derivatives financial liabilities	28	381,653	–	–	381,653
Financial liabilities at amortised cost – Due to depositors	42	–	–	407,225,313	407,225,313
Financial liabilities at amortised cost – Due to other borrowers	43	–	–	72,022,734	72,022,734
Debt securities in issue	44	–	–	16,311,577	16,311,577
Other liabilities	47	–	–	5,566,307	5,566,307
Subordinated term debt	48	–	–	9,072,265	9,072,265
Total financial liabilities		381,653	–	562,991,660	563,373,313

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
–	–	14,483,062	14,483,062
–	–	2,107,776	2,107,776
–	–	29,173,988	29,173,988
16,499,171	–	–	16,499,171
1,740,928	–	–	1,740,928
–	–	348,767,466	348,767,466
–	–	68,094,041	68,094,041
–	134,902,765	–	134,902,765
–	–	10,738,637	10,738,637
18,240,099	134,902,765	473,364,970	626,507,834
–	–	52,793,464	52,793,464
381,653	–	–	381,653
–	–	406,584,864	406,584,864
–	–	72,022,734	72,022,734
–	–	16,311,577	16,311,577
–	–	5,789,243	5,789,243
–	–	9,072,265	9,072,265
381,653	–	562,574,147	562,955,800

As at 31 December 2022	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	25	–	–	16,122,565	16,122,565
Balances with Central Bank of Sri Lanka	26	–	–	9,030,868	9,030,868
Placements with banks	27	–	–	15,224,692	15,224,692
Derivative financial assets	28	20,473,544	–	–	20,473,544
Financial assets measured at fair value through profit or loss	29	1,429,149	–	–	1,429,149
Financial assets at amortised cost – Loans to and receivables from other customers	30	–	–	369,072,030	369,072,030
Financial assets at amortised cost – Debt and other instruments	31	–	–	50,947,926	50,947,926
Financial assets measured at fair value through other comprehensive income	32	–	63,319,060	–	63,319,060
Other assets	40	–	–	7,804,964	7,804,964
Total financial assets		21,902,693	63,319,060	468,203,045	553,424,798
Financial liabilities					
Due to banks	41	–	–	15,857,994	15,857,994
Derivative financial liabilities	28	84,670	–	–	84,670
Financial liabilities at amortised cost – Due to depositors	42	–	–	370,314,026	370,314,026
Financial liabilities at amortised cost – Due to other borrowers	43	–	–	81,145,692	81,145,692
Debt securities in issue	44	–	–	16,304,115	16,304,115
Other liabilities	47	–	–	8,114,644	8,114,644
Subordinated term debt	48	–	–	18,399,991	18,399,991
Total financial liabilities		84,670	–	510,136,462	510,221,132

	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
	–	–	7,971,424	7,971,424
	21,902,693	63,319,060	468,391,376	553,613,129
	–	–	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
	–	–	8,301,556	8,301,556
	–	–	18,399,991	18,399,991
	84,670	–	509,756,203	509,840,873

25. 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.

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Cash in hand	10,811,748	8,950,160	10,811,888	8,950,300
Balances with banks	3,666,720	7,172,405	3,671,174	7,176,335
	14,478,468	16,122,565	14,483,062	16,126,635

25.1 Analysis by Currency

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Cash in hand	10,811,748	8,950,160	10,811,888	8,950,300
Held in local currency	10,599,533	8,798,108	10,599,673	8,798,248
Held in foreign currency	212,215	152,052	212,215	152,052
Balances with banks	3,666,720	7,172,405	3,671,174	7,176,335
Local banks	333,191	–	337,645	3,930
Foreign banks	3,333,529	7,172,405	3,333,529	7,172,405
	14,478,468	16,122,565	14,483,062	16,126,635

26. Balances with Central Bank of Sri Lanka

Accounting Policy

Balances with Central Banks are carried at amortised cost in the statement of financial position.

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Statutory balances with Central Bank of Sri Lanka	2,107,776	9,030,868	2,107,776	9,030,868

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 reduced to 2% with effective from 16 August 2023 (2022–4%). There are no reserve requirements for deposit liabilities of the Foreign Currency Banking Unit and foreign currency deposit liabilities in the Domestic Banking Unit.

27. Placements with Banks

See accounting policies in Note 5.3.

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Central Bank of Sri Lanka	4,543,199	3,877,932	4,543,199	3,877,932
Bank of Ceylon London	1,339,425	–	1,339,425	–
Cargills Bank PLC	200,155	–	200,155	–
ICICI IBU Gift City	2,434,669	–	2,434,669	–
Indian Overseas Bank Colombo	162,059	–	162,059	–
Mashreq Bank PSC Dubai UAE	9,814,759	–	9,814,759	–
Commercial Bank of Ceylon PLC	438,750	–	474,640	17,801
Nations Trust Bank PLC	750,579	1,816,155	750,579	1,816,155
National Development Bank PLC	–	3,299,218	–	3,299,218
Standard Chartered Bank Singapore	42,073	–	42,073	–
Standard Chartered Bank London	331,224	–	331,224	–
National Bank of Ras Ai Khaimah	9,081,206	6,231,387	9,081,206	6,231,387
Total	29,138,098	15,224,692	29,173,988	15,242,493

28. 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.

28.1 Cash Flow Hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in the hedging reserve is reclassified from OCI to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the income statement and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a Central Counterparty (CCP) by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated. If the hedged cash flows are no longer expected to occur, then the Group immediately reclassifies the amount in the hedging reserve from OCI to profit or loss. For terminated hedging relationships, if the hedged cash flows are still expected to occur, then the amount accumulated in the hedging reserve is not reclassified until the hedged cash flows affect profit or loss; if the hedged cash flows are expected to affect profit or loss in multiple reporting periods, then the Group reclassifies the amount in the hedging reserve from OCI to profit or loss on a straight line basis.

The Bank uses cross currency swaps (CCS) to hedge the interest rate risk and exchange rate risk arising from a floating rate borrowing denominated in foreign currencies. The hedging relationship is designated as cash flow hedge since the Bank is expecting to hedge the variability arise by the interest rate risk and exchange rate risk, where the USD borrowing can be identified as the hedged item, the CCS can be identified as the hedge instrument and interest rate risk and exchange rate risk can be identified as the hedged risk.

Derivatives are classified as assets, when their fair value is positive or as liabilities, when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset, if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

28.2 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 01 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.

28.3 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.

28.4 Derivative Financial Assets/Liabilities

The following table describes the fair values of derivatives held-for-risk management purposes by type of instrument:

28.4.1 Assets

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Foreign exchange				
Forward foreign exchange contracts – Currency swaps	16,487,547	20,287,713	16,487,547	20,287,713
– Other	11,624	185,831	11,624	185,831
	16,499,171	20,473,544	16,499,171	20,473,544

28.4.2 Liabilities

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Instrument type				
Foreign exchange				
Forward foreign exchange contracts – Currency swaps	333,282	22,606	333,282	22,606
– Other	48,371	62,064	48,371	62,064
	381,653	84,670	381,653	84,670

28.4.3 Accounting Hedge

Hedging instruments		BANK			
		2023		2022	
Foreign currency risk	Line item in the statement of financial position	Asset LKR '000	Amount set off in the income statements LKR '000	Asset LKR '000	Amount set off in the income statements LKR '000
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	16,364,160	5,657,125	20,266,803	(20,207,470)

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 follows:

Line item in the statement of financial position in which the hedged items are included.	BANK			
	2023		2022	
	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 borrowers	38,472,625	5,657,125	51,198,510	(20,207,470)

Following table summarises the impact on the line items in income statement.

Impact on income statements	BANK					
	2023			2022		
	Balance before the hedging adjustment LKR '000	Hedging adjustment LKR '000	Balance after the hedging adjustment LKR '000	Balance before the hedging adjustment LKR '000	Hedging adjustment LKR '000	Balance after the hedging adjustment LKR '000
Foreign exchange gain/(loss) (Note 13)	7,239,136	(5,657,125)	1,582,011	(20,218,494)	20,207,470	(11,024)

29. Financial Assets Measured at Fair Value Through Profit or Loss

Accounting Policy

See accounting policies in Note 5.3.

Financial assets measured at FVTPL are measured initially at fair value and subsequently recorded in the statement of financial position at fair value. Changes in fair value are recognised in income statement.

As at 31 December	Note	BANK/GROUP 2023 Fair value LKR '000	BANK/GROUP 2022 Fair value LKR '000
Quoted equity securities	29.1	1,169,294	598,972
Quoted units in Unit Trust	29.2	3,740	3,740
Unquoted units in Unit Trust	29.3	34,962	31,004
Treasury Bills		746	795,433
Treasury Bonds		532,186	–
		1,740,928	1,429,149

29.1 Quoted Equity Securities – Bank/Group

As at 31 December	2023			2022		
	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	295,084	43,312	56,361	–	–	–
Hayleys PLC	997,096	101,500	71,193	997,096	101,500	67,802
Lanka Tiles PLC	721,393	74,155	30,443	721,393	74,155	33,256
Kelani Cables PLC	45,000	11,928	10,980	87,450	23,179	22,715
ACL Cables PLC	1,400,000	135,846	96,320	800,000	85,673	56,080
Sunshine Holdings PLC	1,000,000	51,403	51,000	1,000,000	51,403	34,800
Hayleys Fabric PLC	962,168	31,377	38,968	1,842,168	60,074	41,633
Hela Apparel Holdings PLC	4,000,000	54,157	20,000	4,000,000	54,157	34,000
Expolanka Holdings PLC	910,000	170,870	130,358	110,000	24,082	20,048
Agstar PLC	4,000,000	74,238	34,000	4,000,000	74,238	61,600
Royal Ceramic Lanka PLC	900,000	33,848	23,760	500,000	20,563	14,150
Lank IOC PLC	1,550,000	319,950	158,100	1,050,000	230,150	212,888
Softlogic Life Insurance PLC	242,986	28,174	13,072	–	–	–
Sampath Bank PLC	2,195,794	141,146	154,803	–	–	–
Vallibel One PLC	400,000	16,915	15,360	–	–	–
Nations Trust Bank PLC	586,192	53,207	63,016	–	–	–
Commercial Credit and Finance PLC	1,974,975	71,099	57,472	–	–	–
National Development Bank PLC	2,000,000	166,495	129,800	–	–	–
Access Engineering PLC	703,854	12,521	14,288	–	–	–
		1,592,141	1,169,294		799,174	598,972

29.2 Quoted Units in Unit Trust – Bank/Group

As at 31 December	2023			2022		
	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

29.3 Unquoted Units in Unit Trust – Bank/Group

As at 31 December	2023			2022		
	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	25,365	155,000	1,539	22,541
National Equity Fund	250,000	2,657	9,597	250,000	2,657	8,463
		4,196	34,962		4,196	31,004

30. Financial Assets at Amortised Cost – Loans to and Receivables from Other Customers

Accounting Policy

See accounting policies in Notes 5.3 and 16.

Loans to and receivables from other customers include loans and advances and lease receivables of the Group.

Principal amount of loans and advances (for example, over drawn balances in current account) are recognised when cash is advanced to a borrower. They are derecognised when either the borrower repays its obligations, or the loans are written-off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less any reduction for impairment or uncollectibility.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risk and rewards incidental to the ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

Loans and receivables from other customers are normally written off, either partially or in full, when there is no realistic prospect of recovery and all possible steps have been executed in recovering dues. Where loans are secured, this is generally after receipt of any proceeds from the realisation of the security. If the write-off is later recovered, the recovery is credited to "Net other operating income".

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Gross loans and receivables	394,684,722	402,975,830	394,684,722	402,975,830
Allowance for impairment (Note 30.1.4)	(45,917,256)	(33,903,800)	(45,917,256)	(33,903,800)
Net loans and advances	348,767,466	369,072,030	348,767,466	369,072,030
Gross loans and receivables				
Stage 1	256,605,317	286,295,382	256,605,317	286,295,382
Stage 2	66,738,085	70,805,983	66,738,085	70,805,983
Stage 3	71,341,320	45,874,465	71,341,320	45,874,465
	394,684,722	402,975,830	394,684,722	402,975,830
Allowance for impairment				
Stage 1	3,500,658	4,495,287	3,500,658	4,495,287
Stage 2	7,235,925	5,677,290	7,235,925	5,677,290
Stage 3	35,180,673	23,731,223	35,180,673	23,731,223
	45,917,256	33,903,800	45,917,256	33,903,800
Net loans and receivables	348,767,466	369,072,030	348,767,466	369,072,030

30.1 Analysis

30.1.1 By Product

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Overdrafts	51,236,884	54,838,518	51,236,884	54,838,518
Trade finance	48,731,070	42,210,283	48,731,070	42,210,283
Lease rentals receivable (Note 30.1.1.1)	15,404,967	17,237,903	15,404,967	17,237,903
Credit cards	6,820,265	5,552,272	6,820,265	5,552,272
Pawning	13,258,894	9,619,908	13,258,894	9,619,908
Staff loans	2,365,949	2,722,811	2,865,949	2,722,811
Term loans	256,866,693	270,698,863	256,866,693	270,698,863
Asset back notes	–	95,272	–	95,272
Gross loans and receivables	394,684,722	402,975,830	394,684,722	402,975,830

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 30.1.4 for details of the impact of deferrals when determining if there has been a Significant Increase in Credit Risk (SICR).

30.1.1.1 Lease Rentals Receivable

As at 31 December	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Gross investment in leases:				
Lease rental receivables				
– within one year	9,248,004	9,837,439	9,248,004	9,837,439
– one to five years	9,538,858	10,307,437	9,538,858	10,307,437
	18,786,862	20,144,876	18,786,862	20,144,876
Less: Deposit of rentals	10,562	11,430	10,562	11,430
Unearned income on rental receivables				
– within one year	1,948,715	1,787,982	1,948,715	1,787,982
– one to five years	1,422,618	1,107,561	1,422,618	1,107,561
	3,371,333	2,895,543	3,371,333	2,895,543
	15,404,967	17,237,903	15,404,967	17,237,903

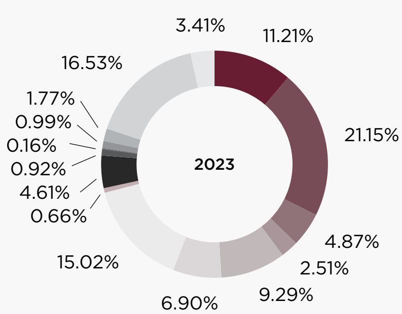
30.1.2 By Currency

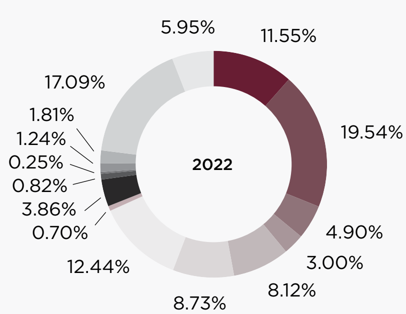
As at 31 December	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Sri Lankan Rupee	341,475,833	329,382,371	341,475,833	329,382,371
United States Dollar	52,017,419	72,398,864	52,017,419	72,398,864
Great Britain Pound	1,037,494	970,884	1,037,494	970,884
Australian Dollar	140	45,966	140	45,966
Euro	153,836	177,745	153,836	177,745
Gross loans and receivables	394,684,722	402,975,830	394,684,722	402,975,830

30.1.3 By Industry

As at 31 December	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Agriculture, forestry and fishing	44,259,142	46,546,272	44,259,142	46,546,272
Manufacturing	83,484,996	78,732,730	83,484,996	78,732,730
Tourism	19,208,743	19,757,213	19,208,743	19,757,213
Transportation and storage	9,922,045	12,053,681	9,922,045	12,053,681
Construction	36,651,087	32,713,107	36,651,087	32,713,107
Infrastructure development	27,246,566	35,197,051	27,246,566	35,197,051
Wholesale and retail trade	59,263,794	50,128,157	59,263,794	50,128,157
Information technology and communication services	2,600,034	2,821,899	2,600,034	2,821,899
Financial services	18,212,994	15,565,468	18,212,994	15,565,468
Professional, scientific and technical activities	3,642,277	3,300,176	3,642,277	3,300,176
Arts, entertainment and recreation	644,475	1,004,770	644,475	1,004,770
Education	3,903,953	5,013,693	3,903,953	5,013,693
Health care, social services and support services	6,967,779	7,296,365	6,967,779	7,296,365
Consumption	65,229,541	68,856,876	65,229,541	68,856,876
Lending to overseas entities	13,447,296	23,988,372	13,447,296	23,988,372
Gross loans and receivables	394,684,722	402,975,830	394,684,722	402,975,830

Analysis by Industry





- Agriculture, forestry and fishing
- Manufacturing
- Tourism
- Transportation and storage
- Construction
- Infrastructure development
- Wholesale and retail trade
- Information technology and communication services
- Financial services
- Professional, scientific and technical activities
- Arts, entertainment and recreation
- Education
- Health care, social services and support services
- Consumption
- Lending to overseas entities

30.1.4 Movements in Impairment during the Year

As at 31 December	BANK/GROUP 2023 LKR '000	BANK/GROUP 2022 LKR '000
Stage 1		
Balance at beginning	4,495,287	2,202,668
Charge to income statement	(994,629)	2,292,619
Balance as at 31 December	3,500,658	4,495,287
Stage 2		
Balance at beginning	5,677,290	1,989,584
Charge to income statement	1,558,635	3,687,706
Balance as at 31 December	7,235,925	5,677,290
Stage 3		
Balance at beginning	23,731,223	14,865,798
Charge to income statement	11,967,805	7,947,831
Effect of foreign currency and other movement	(518,355)	917,594
Balance as at 31 December	35,180,673	23,731,223
Total impairment	45,917,256	33,903,800

Key judgements and estimates

In estimating collectively assessed ECL, the Bank makes judgements and assumptions in relation to:

- The selection of an estimation technique or modelling methodology, noting that the modelling of the Group's ECL estimates are complex; and
- The selection of inputs for those models, and the interdependencies between those inputs.

The following table summarises the key judgements and assumptions used by the Bank in relation to the ECL model inputs, the interdependencies between those inputs, and highlights the significant changes during the current year.

The judgements and associated assumptions have been made 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 characterises 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.

Judgement/Assumption	Description	Considerations for the year ended 31 December 2023/22
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 2023. Due to the implications of on going economic crisis 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 2023, the base case assumptions have been updated to reflect the rapidly evolving situation with respect to economic crisis by using the economic forecast.
Probability weighting of each economic scenario (base case, best and worst scenarios)	Probability weighting of each economic scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario at each measurement date.	The key consideration for probability weightings in the current period is the continuing impact of 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.

Judgement/Assumption	Description	Considerations for the year ended 31 December 2023/22
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 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.

31. Financial Assets at Amortised Cost – Debt and Other Instruments

Accounting Policy

See accounting policies in Notes 5.3 and 16.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

	BANK					
	2023			2022		
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
Government of Sri Lanka Treasury Bonds	65,517,216	–	65,517,216	44,821,353	–	44,821,353
Sri Lanka developments bonds	–	–	–	–	370,671	370,671
Government of Sri Lanka sovereign bonds (Note 31.1)	–	4,593,551	4,593,551	–	5,215,810	5,215,810
Other Investments						
Quoted debentures (Note 31.4)	217,340	–	217,340	763,635	–	763,635
Allowance for Impairment on financial assets at amortised cost – Debt and other instruments (Note 31.5)	(19)	(2,296,775)	(2,296,794)	(163)	(1,955,909)	(1,956,072)
Total	65,734,537	2,296,776	68,031,313	47,317,354	3,630,572	50,947,926

As at 31 December	GROUP					
	2023			2022		
	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
Government of Sri Lanka Treasury Bonds	65,570,648	–	65,570,648	44,821,353	–	44,821,353
Sri Lanka developments bonds	–	–	–	–	370,671	370,671
Government of Sri Lanka sovereign bonds (Note 31.1)	–	4,593,551	4,593,551	–	5,215,810	5,215,810
Other Investments			–	–	–	–
Quoted debentures (Note 31.4)	226,636	–	226,636	763,635	–	763,635
Allowance for Impairment on financial assets at amortised cost – Debt and other instruments (Note 31.5)	(19)	(2,296,775)	(2,296,794)	(163)	(1,955,909)	(1,956,072)
Total	65,797,266	2,296,776	68,094,041	47,317,354	3,630,572	50,947,926

As explained in note 4 Sri Lanka has been facing a very challenging economic situation amid an increasingly difficult global economic environment. The Government of Sri Lanka announced its plans to restructure its foreign currency denominated Treasury Bonds Sri Lanka International Sovereign Bonds – (SLISB) in April 2022. The Government has not defaulted on repayment of principal or interest of local currency bonds to date.

In June 2023, the Government announced the International Monetary Fund (IMF) supported Domestic Debt Optimisation program (DDO) . The DDO announced and designed to achieve a target level of debt sustainability, clearly stated that it will carve out the Local currency Treasury bills and bonds held by the Employees Provident Funds and the Central Bank of Sri Lanka (CBSL), hence excluding the rest of the local currency Treasury bills and bonds. The said DDO has been completed by the reporting date with the specified portfolio referred to above.

Accordingly, it is visible that the DDO has not restricted the government's ability to continue to repay the principal and interest on local currency-denominated Treasury bills and Bonds.

Further, the Banking Act Direction No. 14 of 2021, Classification, Recognition, and Measurement of Financial Assets Other than Credit Facilities in Licensed Banks, issued by the Monetary Board, Central Bank of Sri Lanka requires LGD of zero to be applied to these Government securities, accordingly, the Bank's overall Expected Credit Loss (ECL) on these instruments has been considered to be effectively zero.

Considering the above, the restructuring of the bills and bonds held by superannuation funds should not be considered as an automatic indicator of significant increase in credit risk (SICR) for the rest of the LKR T bonds/bills that were not subjected to the restructuring and hence such Tbills and Tbonds continue to remain under Stage 1.

Refer Note 31.1.1 for the classification of SLISBs and assessment of expected credit loss carried out by Bank as at reporting date.

31.1 Government of Sri Lanka International Sovereign Bonds (SLISB)

As at 31 December	BANK/GROUP	
	2023 LKR '000	2022 LKR '000
Balance at beginning	5,215,810	4,652,352
Transfer from fair value through other comprehensive income	–	1,738,665
Coupon accrual/discount amortisation	448,048	712,719
Matured and cash received	–	(374,683)
Transfers to other assets (Matured)	(552,790)	(5,036,528)
Exchange gain	(517,517)	3,523,285
Balance as at 31 December	4,593,551	5,215,810

31.1.1 Sri Lanka International Sovereign Bonds (SLISB)

As explained in Note 31, the Government of Sri Lanka announced its plans to restructure the SLISBs in April 2022 and the negotiations are ongoing with the lenders as of 31 December 2023. The Government announcement of its restructuring plans was considered to be a Significant Increase in Credit Risk indicator and accordingly, the said ISBs were classified under Stage 2 by the Bank in 2022. As the negotiations are yet to commence, and no further changes have taken place in relation to these ISBs, whilst the macro-economic environment have improved relatively to that of last year, the ISBs can continue to be reported under Stage 2 as of 31 December.

As at the reporting date the negotiations between GoSL and external creditors (Both market borrowings and bilateral borrowings) are still ongoing. As the final outcome is yet to be known, the Bank has carried out a worst case scenario assessment of expected credit loss on the SLISBs on conclusion of the negotiations , based on the assumptions on possible hair cut, features of the new instrument that may be issued and resultant fair value loss. Considering these uncertainties around the final haircut amount and a possible fair value loss, the Bank has made a worst case scenario provision of 50% on the outstanding as at reporting date which amounted to LKR 2,296 Mn. Accordingly the Bank has made an impairment loss provision of LKR 494 Mn during the year to arrive at the said 50% provision cover. This has been included under the Note No. 16 in the Income Statement and on Page 234.

The above assessment has been carried out based on the facts and circumstances as of 31 December 2023 and the Bank will continue reassess the judgments and assumptions used on an ongoing basis based on facts and circumstances prevailing as of the future reporting dates.

31.2 By Collateralisation

As at 31 December	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Pledged as collateral	25,198,422	5,109,190	25,198,422	5,109,190
Unencumbered	45,129,685	47,794,808	45,192,413	47,794,808
	70,328,107	52,903,998	70,390,835	52,903,998

31.3 By Currency

As at 31 December	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Sri Lankan Rupee	65,734,556	47,317,517	65,797,284	47,317,517
United States Dollar	4,593,551	5,586,481	4,593,551	5,586,481
	70,328,107	52,903,998	70,390,835	52,903,998

31.4 Quoted Debentures

As at 31 December	2023 Number of debentures	2023 Cost of investment LKR '000	2022 Number of debentures	2022 Cost of investment LKR '000
People's Leasing and Finance PLC	–	–	2,500,000	272,217
Singer (Sri Lanka) PLC	–	–	2,500,000	273,380
Lanka ORIX Leasing Company PLC	2,000,000	217,340	2,000,000	218,038
Total investments in quoted debentures – Bank		217,340		763,635
Sampath Bank PLC	74,600	9,296	–	–
Total investments in quoted debentures – Group		226,636		763,635

31.5 Movement in Impairment during the Year

As at 31 December	BANK/GROUP 2023 LKR '000			BANK/GROUP 2022 LKR '000		
Stage 1	**Stage 1**	**Stage 2**	**Total**	**Stage 01**	**Stage 02**	**Total**
Balance at beginning	163	1,955,909	1,956,072	163	563,311	563,474
Transferred from FVOCI during the year (Note 32.7)	–	–	–	–	215,095	215,095
Transferred to other assets (Note 40.1.2)	–	(124,470)	(124,470)	–	(607,764)	(607,764)
Exchange rate impact	–	(29,007)	(29,007)	–	–	–
Charge to income statement (Note 16)	(144)	494,343	494,199	–	1,785,267	1,785,267
Balance as at 31 December	19	2,296,775	2,296,794	163	1,955,909	1,956,072

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.

31.5.1 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 (FVOCI) 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 2023 amounted to LKR 10.7 Bn and cumulative fair value loss thereon amounted to LKR 1.2 Bn (net of tax LKR 0.96 Bn).

32. Financial Assets Measured at Fair Value Through Other Comprehensive Income

Accounting Policy

See accounting policies in Notes 5.3 and 16.

A financial asset is measured at Fair Value Through Other Comprehensive Income (FVOCI) only if it meets both of the following conditions and is not designated as FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- On initial recognition of an equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment – by investment basis.

As at 31 December	BANK		GROUP	
	2023 Fair value LKR '000	2022 Fair value LKR '000	2023 Fair value LKR '000	2022 Fair value LKR '000
Equity Securities				
Quoted (Note 32.1)	16,267,149	8,171,584	16,267,149	8,171,584
Unquoted (Note 32.2)	237,985	221,419	237,985	221,419
	16,505,134	8,393,003	16,505,134	8,393,003

As at 31 December	BANK		GROUP	
	2023 Fair value Stage 1 LKR '000	2022 Fair value Stage 1 LKR '000	2023 Fair value Stage 1 LKR '000	2022 Fair value Stage 1 LKR '000
Government Securities				
Government of Sri Lanka Treasury Bills	87,903,100	46,559,930	87,903,100	46,559,930
Government of Sri Lanka Treasury Bonds	29,545,054	8,366,127	29,545,054	8,366,127
	117,448,154	54,926,057	117,448,154	54,926,057
US Securities				
US Treasury Bill	949,477	–	949,477	–
	949,477	–	949,477	–
	118,397,631	54,926,057	118,397,631	54,926,057
Total	134,902,765	63,319,060	134,902,765	63,319,060

Please refer Note 31 on the explanation of DDO and the assessment of the impact of DDO to the Banks assessment of SICR of Government Securities.

32.1 Quoted Ordinary Shares

As at 31 December	2023			2022		
	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	149,777,568	9,350,002	14,303,758	141,453,570	8,808,942	7,100,969
Commercial Bank of Ceylon PLC – non-voting	312,922	24,750	25,159	292,541	23,631	12,082
National Development Bank PLC	3,544,609	502,670	230,045	3,372,735	494,971	107,928
Central Finance Co. PLC	84,218	6,900	8,864	–	–	–
Browns Investments PLC	4,000,000	26,898	18,800	–	–	–
		9,911,220	14,586,626		9,327,544	7,220,979
Chemicals and Pharmaceuticals						
Chemical Industries (Colombo) PLC – voting	393,750	5,611	25,200	393,750	5,611	33,469
Chemical Industries (Colombo) PLC – non-voting	1,630,000	62,259	69,275	630,000	6,301	35,028
		67,870	94,475		11,912	68,497
Construction and Engineering						
Access Engineering PLC	1,600,000	39,527	32,480	1,600,000	39,527	17,120
		39,527	32,480		39,527	17,120
Diversified Holdings						
Hayleys PLC	2,293,330	196,707	163,744	643,330	58,854	43,746
Hemas Holdings PLC	2,642,933	190,075	176,284	1,392,933	100,977	78,562
John Keells Holdings PLC	1,659,005	256,944	316,870	1,976,482	284,563	267,319
Melstacorp Ltd	1,669,940	86,448	140,776	2,069,940	90,053	95,631
		730,174	797,674		534,447	485,258
Hotels and Travels						
John Keells Hotels PLC	2,500,000	43,128	47,000	290,200	3,199	4,788
Investment Trusts						
Ceylon Guardian Investment Trust PLC	74,734	2,904	6,225	75,702	2,941	4,754
Ceylon Investment PLC	167,623	5,503	7,543	174,825	5,740	5,455
		8,407	13,768		8,681	10,209
Telecommunications						
Dialog Axiata PLC	4,000,000	41,158	36,000	–	–	–

As at 31 December	2023			2022		
	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	650,000	51,487	44,720	–	–	–
Ceylon Grain Elevators PLC	–	–	–	148,997	9,197	11,994
Royal Ceramics Lanka PLC	2,000,000	81,619	52,800	500,000	29,224	14,150
Teejay Lanka PLC	–	–	–	775,000	31,678	24,568
Tokyo Cement Company (Lanka) PLC – voting	2,775,076	139,388	127,653	1,570,000	97,985	51,810
Tokyo Cement Company (Lanka) PLC – non-voting	1,871,026	71,380	71,099	1,695,025	69,335	44,070
Aitken Spence PLC	78,875	4,750	4,969	–	–	–
Hayleys Fabric PLC	2,000,000	79,828	81,000	2,000,000	79,828	45,200
Swisstek Ceylon PLC	109,998	3,371	1,716	109,998	3,371	1,727
Haycarb PLC	1,000,000	88,208	64,300	500,000	50,920	28,800
JAT Holdings PLC	101,200	2,732	1,548	101,200	2,732	1,255
Agstar PLC	1,808,385	31,703	15,372	1,808,385	31,703	27,849
Dipped Products PLC	750,006	26,394	20,925	–	–	–
Sunshine Holdings PLC	608,062	32,290	31,011	–	–	–
Lanka Tiles PLC	313,335	15,168	13,223	–	–	–
Richard Pieris & Company PLC	2,000,000	46,216	41,000	–	–	–
		674,534	571,336		405,973	251,423
Power and Energy						
Lanka IOC PLC	408,923	82,511	41,710	360,000	72,419	72,990
Vallibel Power Erathna PLC	6,400,000	39,783	46,080	6,400,000	39,783	40,320
		122,294	87,790		112,202	113,310
Total quoted ordinary shares – Bank		11,638,312	16,267,149		10,443,485	8,171,584
Commercial Bank of Ceylon PLC – Equity Adjustment**		1,454,863	–		1,454,863	–
Total quoted ordinary shares – Group		13,093,175	16,267,149		11,898,348	8,171,584

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.

32.2 Unquoted Ordinary Shares

As at 31 December	2023			2022		
	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	200,674	9,184	918	194,722
Lanka Clear (Private) Limited	100,000	1,000	28,267	100,000	1,000	23,312
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	–	5,659	9,059,013	–	–
The Video Team (Private) Limited	30,000	–	–	30,000	–	–
Total unquoted ordinary shares – Bank/Group		7,303	237,985		7,303	221,419

* Cost is reduced by write off of diminution in value other than temporary in respect of Investments.

32.3 Government of Sri Lanka Treasury Bills and Treasury Bonds – By Collateralisation

As at 31 December	BANK		GROUP	
	2023 Fair value LKR '000	2022 Fair value LKR '000	2023 Fair value LKR '000	2022 Fair value LKR '000
Pledged as collateral	17,539,330	2,547,500	17,539,330	2,547,500
Unencumbered	99,908,824	52,378,557	99,908,824	52,378,557
	117,448,154	54,926,057	117,448,154	54,926,057

32.4 Government of Sri Lanka Treasury Bills and Treasury Bonds – By Currency

As at 31 December	BANK		GROUP	
	2023 Fair value LKR '000	2022 Fair value LKR '000	2023 Fair value LKR '000	2022 Fair value LKR '000
Sri Lankan Rupee	117,448,154	54,926,057	117,448,154	54,926,057
	117,448,154	54,926,057	117,448,154	54,926,057

32.5 US Treasury Bills – By Collateralisation

As at 31 December	BANK		GROUP	
	2023 Fair value LKR '000	2022 Fair value LKR '000	2023 Fair value LKR '000	2022 Fair value LKR '000
Unencumbered	949,477	–	949,477	–

32.6 US Treasury Bills – By Currency

As at 31 December	BANK		GROUP	
	2023 Fair value LKR '000	2022 Fair value LKR '000	2023 Fair value LKR '000	2022 Fair value LKR '000
United States Dollar	949,477	–	949,477	–

32.7 Movement in Impairment during the Year

As at 31 December	BANK/GROUP	
	2023 Fair value LKR '000	2022 Fair value LKR '000
Stage 01		
Balance at beginning	–	77,525
Charge to income statement	–	137,570
Transferred to financial assets at amortised cost (Note 31.5)	–	(215,095)
Balance as at 31 December	–	–

33. 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			2023		2022	
	Holdings %	Number of shares	Cost LKR '000	Market value*/ Directors' valuation LKR '000	Cost LKR '000	Market value*/ Directors' valuation LKR '000
Unquoted						
DFCC Consulting (Pvt) Limited	100	500,000	5,000	82,417	5,000	82,417
Lanka Industrial Estates Limited	51.16	204,230,000	97,035	320,637	97,035	320,637
Synapsys Limited	100	31,216,649	135,000	195,726	135,000	195,726
			237,035	598,780	237,035	598,780

33.1 Movements in Impairment Allowance

As at 31 December	2023 LKR '000	2022 LKR '000
Balance at beginning	–	19,600
Reversal to income statement (Note 16)	–	(19,600)
Balance as at 31 December	–	–

* Market value is arrived by using the audited/reviewed financial statements as at the reporting date.

34. Investment in Associate

Accounting Policy

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interest in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs and attributable goodwill. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence ceases.

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
National Asset Management Limited (Ownership 30%)				
Balance at beginning	33,169	35,270	35,394	35,608
Share of profit after tax	–	–	1,614	745
Share of other comprehensive expenses	–	–	(164)	(959)
Impairment charge to income statement (Note 16)	–	(2,101)	–	–
Balance as at 31 December	33,169	33,169	36,844	35,394

34.1 Summarised Financial Information of Associate

As at 31 December	2023 LKR '000	2022 LKR '000
Percentage ownership interest (%)	30	30
Non-current assets	19,429	25,597
Current assets	130,279	134,014
Non-current liabilities	(15,176)	(21,351)
Current liabilities	(11,770)	(20,330)
Net assets (100%)	122,762	117,930
Group's share of net assets (30%)	36,829	35,379
Goodwill on acquisition	15	15
Adjusted Group's share of net assets (30%)	36,844	35,394

For the year ended 31 December	2023 LKR '000	2022 LKR '000
Revenue	44,143	42,207
Profit after tax (100%)	5,379	2,483
Other comprehensive expenses (100%)	(547)	(3,197)
Total comprehensive income/(expenses) (100%)	4,832	(714)
Group's share in profit	1,614	745
Group's share in other comprehensive expenses	(164)	(959)
Group's share in total comprehensive income/(expenses)	1,450	(214)
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.

35. Investment 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.

35.1 Investment in Joint Venture – Bank

As at 31 December	2023 Cost of investment LKR '000	2022 Cost of investment LKR '000
Acuity Partners (Pvt) Limited (ownership 50%)	755,000	755,000
	755,000	755,000

35.2 Investment in Joint Venture – Group

As at 31 December	2023 LKR '000	2022 LKR '000
Balance at beginning	3,577,701	2,804,871
Share of profit net of tax	1,139,367	331,974
Share of other comprehensive (expenses)/income	(316,336)	440,856
Change in holding-through subsidiary of joint venture	1,506	–
Group's share of net assets – 50%	4,402,238	3,577,701

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	2023 LKR '000	2022 LKR '000
Percentage ownership interest (%)	50	50
Revenue	4,594,274	1,628,136
Expenses	(2,345,953)	(1,425,657)
Share of profit of equity accounted investees	43,376	955,115
Income tax expense	(275,246)	(344,664)
Profit after tax (100%)	2,016,451	812,930
Other comprehensive (expenses)/income (100%)	(1,416,016)	1,961,384
Total comprehensive income (100%)	600,435	2,774,314
Profit attributable to equity holders	2,278,735	663,947
Other comprehensive (expenses)/income attributable to equity holders	(632,672)	881,920
Total comprehensive income attributable to equity holders	1,646,063	1,545,867
Group's share in profit (50%)	1,139,367	331,974
Group's share in other comprehensive (expenses)/income (50%)	(316,336)	440,960
Group's share in total comprehensive income (50%)	823,031	772,934

As at 31 December	2023 LKR '000	2022 LKR '000
Current assets	25,835,605	14,248,784
Non-current assets	29,788,563	14,351,970
Current liabilities	(39,822,660)	(13,723,115)
Non-current liabilities	(3,312,575)	(3,003,876)
Total net assets	12,488,933	11,873,763
Non controlling interest	(3,315,081)	(4,348,985)
Net assets attributable to equity holders	9,173,852	7,524,778
Group's share of net assets (50%) – before consolidation adjustment	4,586,926	3,762,389
Share of unrealised profit on disposal investment*	(184,688)	(184,688)
Group's share of net assets 50%	4,402,238	3,577,701
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.

36. 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 is 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.

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Cost				
Balance at beginning	9,879	9,879	706,880	702,884
Acquisition	–	–	67,701	105,018
Transferred to property, plant and equipment	–	–	(6,222)	(101,022)
Cost as at 31 December	9,879	9,879	768,359	706,880
Less: Accumulated Depreciation				
Balance at beginning	–	–	266,907	233,043
Charge for the year	–	–	33,067	33,864
Accumulated depreciation as at 31 December	–	–	299,974	266,907
Carrying amount as at 31 December	9,879	9,879	468,385	439,973

36.1 Details of Investment Properties

As at 31 December 2023	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	40,000	20.05.2023
259/30, Kandy Road, Bambarakelle, Nuwara-Eliya	–	93.5	–	7,279	–	7,279	112,200	22.05.2023
Bank				9,879	–	9,879	152,200	
Pattiwila Road, Sapugaskanda, Makola	482,150	21,920	18	758,480	299,974	458,506	9,417,000	31.03.2023
Group				768,359	299,974	468,385	9,569,200	

* 1 perch = 25.2929 m^2 ; 1sq.ft = 0.0929 m^2

The fair value of investment property as at 31 December 2023 situated at Pattiwila Road, Sapugaskanda, Makola was based on market valuations carried out on 31 March 2023 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.

36.2 Amounts Recognised in Income Statement

Rental income from investment property of Group for 2023 – LKR 426 Mn (2022 – LKR 385 Mn)

Operating expenses on investment property of Group for 2023 – LKR 82 Mn (2022 – LKR 72 Mn)

37. 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 it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance costs are expensed as incurred.

Capital Work-in-Progress

There are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the statement of financial position at cost. Capital work-in-progress would be transferred to the relevant asset when it is available for use i.e. When it is in the location and condition necessary for it to be capable of operating in the manner intended by the Management. Capital work-in-progress is stated at cost less any accumulated impairment losses.

Depreciation

Items of property, plant and equipment are depreciated from the month they are available-for-use up to the month of disposal. Depreciation is calculated to write-off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods of significant items of property, plant and equipment are as follows:

	Years
Buildings	20-40
Office equipment and motor vehicles	3-5
Fixtures and fittings	10

Derecognition

The carrying amount of property and equipment is de-recognised on disposal or when non future economic benefits are expected from its use of the gain or loss arising from the de-recognition (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the income statement.

Reclassification to Investment Property

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified accordingly. Any gain arising on this remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in OCI and presented in the revaluation reserve. Any loss is recognised in profit or loss.

37.1 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 2023 LKR '000	Total 31 December 2022 LKR '000
Cost at beginning	1,113,508	12,071	2,336,021	2,950,147	1,518,168	251,324	8,181,239	7,651,652
Acquisitions	77,509		254,733	536,203	170,106	–	1,038,551	700,276
Less: Disposals	–	–	147,297	113	8,718	18,164	174,292	170,689
Cost as at 31 December	1,191,017	12,071	2,443,457	3,486,237	1,679,556	233,160	9,045,498	8,181,239
Accumulated depreciation at beginning	310,135	3,349	953,629	2,495,793	983,310	236,470	4,982,686	4,414,528
Depreciation for the year	23,677	1,757	326,149	242,102	100,043	14,848	708,576	709,998
Less: Accumulated depreciation on disposals	–	–	124,422	101	2,814	18,164	145,501	141,840
Accumulated depreciation as at 31 December	333,812	5,106	1,155,356	2,737,794	1,080,539	233,154	5,545,761	4,982,686
Carrying value as at 31 December	857,205	6,965	1,288,101	748,443	599,017	6	3,499,737	3,198,553

37.1.1 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	120,282	82,897	37,385
5, Deva Veediya, Kandy	1	4,600	12.54	16,196	8,457	7,739
73, W A D Ramanayake Mawatha, Colombo 2	1	37,528	45.00	240,970	141,528	99,442
No. 454, Main Street, Negombo	1	19,087	29.00	170,325	44,394	125,931
No. 77, Colombo Road, Kurunegala	1	31,459	30.00	643,244	56,536	586,708
Bank				1,191,017	333,812	857,205
Pattiwila Road, Sapugaskanda, Makola	1	27,824	102.20	422,032	241,866	180,166
Group				1,613,049	575,678	1,037,371

* 1 perch = 25.2929 m^2; 1 sq ft = 0.0929 m^2

37.1.2 Market Value of Properties

	LKR Mn	Date of valuation
No. 73/5, Galle Road, Colombo 3	2,081	31.12.2022
No. 5, Deva Veediya, Kandy	149	31.12.2022
No. 73, W A D Ramanayake Mawatha, Colombo 2	969	31.12.2022
No. 454, Main Street, Negombo	332	31.12.2022
No. 77, Colombo Road, Kurunegala	685	31.12.2022

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.

37.1.3 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	2023 LKR '000	2022 LKR '000
Buildings	235,384	231,536
Office equipment	2,217,701	1,926,544
Furniture and fittings	659,203	590,257
Motor vehicles	232,772	152,341
	3,345,060	2,900,678

37.2 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 2023 LKR '000	Total 31 December 2022 LKR '000
Cost at beginning	1,527,683	12,070	2,338,121	3,015,566	1,531,118	272,840	400	8,697,798	8,107,700
Acquisitions	85,079		273,456	548,194	171,012	–	–	1,077,741	760,787
Transfer from Work-in-progress	350						(350)	–	–
Less: Disposals	63	–	147,297	4,467	8,717	18,164	–	178,708	170,689
Cost as at 31 December	1,613,049	12,070	2,464,280	3,559,293	1,693,413	254,676	50	9,596,831	8,697,798

	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 2023 LKR '000	Total 31 December 2022 LKR '000
Accumulated depreciation at beginning	534,740	3,349	955,729	2,555,387	1,000,599	258,553	–	5,308,357	4,718,598
Depreciation for the year	40,938	1,757	328,099	247,638	100,645	14,848	–	733,925	731,599
Less: Accumulated depreciation on disposals	–	–		4,455	2,254	18,731	–	25,440	141,840
Transfer from Investment property			124,422					124,422	–
Accumulated depreciation as at 31 December	575,678	5,106	1,159,406	2,798,570	1,098,990	254,670	–	5,892,420	5,308,357
Carrying amount as at 31 December	1,037,371	6,964	1,304,874	760,723	594,423	6	50	3,704,411	3,389,441

37.3 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.

37.4 Acquisition of Property, Plant and Equipment during the Year

During the financial year, the Bank and Group acquired property, plant and equipment to the aggregate value of LKR 1,039 Mn and LKR 1,078 Mn respectively (2022 – LKR 700 Mn and LKR 760 Mn respectively).

37.5 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 174 Mn and LKR 179 Mn respectively (2022 – LKR 170 Mn and LKR 170 Mn respectively). Gain/(loss) on disposal of Property, Plant and Equipment is disclosed in Note 15 to the financial statements.

37.6 Capitalisation of Borrowing Costs

There were no capitalised borrowing costs relating to the acquisition of property, plant and equipment during the year (2022 – Nil).

37.7 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 862 Mn.

37.8 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 2023. 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.

37.9 Property, Plant and Equipment pledged as Security

None of the property, plant or equipment have been pledged as security as at the reporting date.

37.10 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.

37.11 Temporarily idle Property, Plant and Equipment

There are no temporarily idle property, plant or equipment as at the reporting date.

37.12 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.

38. Intangible Assets and Goodwill

Accounting Policy

Recognition and Measurement

Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Other Intangible Assets

Other intangible assets, including customer relationships, patents and trademarks, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent Expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation

Amortisation is calculated to write-off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill is not amortised.

The estimated useful lives for current and comparative periods are as follows:

Computer software – 3-15 years

Amortisation methods, useful lives, and residual values are reviewed at each reporting date and adjusted if appropriate.

Derecognition

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use and subsequent disposal.

As at 31 December	Note	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Computer software	38.1	1,926,287	2,180,341	1,945,030	2,201,128
Software under development	38.2	–	17,701	–	17,701
Goodwill on consolidation	38.3	–	–	156,226	156,226
Total		1,926,287	2,198,042	2,101,256	2,375,055

38.1 Computer Software

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Cost at beginning	4,326,408	3,915,726	4,378,054	3,963,296
Acquisitions	252,409	410,682	258,759	414,758
Disposals	(110,185)	–	(110,185)	–
Cost as at 31 December	4,468,632	4,326,408	4,526,628	4,378,054
Accumulated amortisation at beginning	2,146,067	1,731,399	2,176,926	1,753,956
Amortisation for the year	415,277	414,668	423,671	422,970
Less: Write-off	(18,999)	–	(18,999)	–
Accumulated amortisation as at 31 December	2,542,345	2,146,067	2,581,598	2,176,926
Carrying amount as at 31 December	1,926,287	2,180,341	1,945,030	2,201,128

38.2 Software under Development

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Cost at beginning	17,701	43,250	17,701	43,250
Addition to work-in-progress	–	61,514	–	61,514
Transfers/adjustments	–	(87,063)	–	(87,063)
Cost as at 31 December	17,701	17,701	17,701	17,701
Impairment provision	17,701	–	17,701	–
Net of Impairment	–	17,701	–	17,701

38.2.1 Impairment Provision

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
As at beginning	–	–	–	–
Charge for the year	17,701	–	17,701	–
As at 31 December	17,701	–	17,701	–

38.3 Goodwill on Consolidation

As at 31 December	GROUP	
	2023 LKR '000	2022 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 01 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 2023.

38.4 Assessment of Impairment of Intangible Assets

The Board of Directors has assessed the potential impairment loss of intangible assets as at 31 December 2023. Based on the assessment, LKR 17.7 Mn impairment provision is recognised in the financial statements as at the reporting date.

38.5 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.

38.6 Intangible Assets pledged as Security

None of the intangible assets have been pledged as security as at the reporting date.

38.7 Acquisition of Intangible Assets during the Year

During the financial year, the Bank and the Group acquired intangible assets to the aggregate value of LKR 252 Mn and LKR 259 Mn respectively (2022 – LKR 411 Mn and LKR 415 Mn respectively).

38.8 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.

39. Deferred Tax Assets/Liabilities

See accounting policy in Note 22.

As at 31 December	Note	BANK		GROUP	
		2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Deferred tax liabilities/assets					
Deferred tax liabilities	39.1	–	–	104,276	149,608
Deferred tax assets	39.2	5,407,626	4,137,828	5,415,426	4,143,535
Net deferred tax liabilities/assets		5,407,626	4,137,828	5,311,150	3,993,927

39.1 Deferred Tax Liabilities

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Balance at beginning	1,101,022	744,548	1,255,786	859,764
Recognised in income statement	(7,147)	144,408	(46,628)	183,956
Recognised in other comprehensive income	1,465,606	212,066	1,465,606	212,066
	2,559,481	1,101,022	2,674,764	1,255,786
Transferred from deferred tax assets	(2,559,481)	(1,101,022)	(2,570,488)	(1,106,178)
	–	–	104,276	149,608

39.2 Deferred Tax Assets

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Balance at beginning	5,238,850	2,103,443	5,249,648	2,106,144
Recognised in income statement	2,512,470	3,277,737	2,519,897	3,287,818
Recognised in other comprehensive income	215,788	(142,330)	216,369	(144,315)
	7,967,107	5,238,850	7,985,914	5,249,647
Offset against deferred tax liabilities	(2,559,481)	(1,101,022)	(2,570,488)	(1,106,112)
	5,407,626	4,137,828	5,415,426	4,143,535

39.3 Recognised Deferred Tax Assets and Liabilities

As at 31 December	BANK				Group			
	2023		2022		2023		2022	
	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								
Property, equipment and software	–	–	–	–	560	168	–	–
Gratuity liability and actuarial losses on defined benefit plans	1,317,911	395,373	551,933	165,580	1,347,712	404,313	576,237	172,871
Lease liability	1,457,895	437,369	1,517,808	455,343	1,475,178	442,554	1,517,808	455,343
Unfunded pension liability	53,214	15,964	–	–	53,214	15,964	–	–
Short-term employment benefits	732,840	219,852	410,987	123,296	739,180	221,754	410,987	123,296
Expected credit loss – loans to and receivable from banks and other customers	18,475,176	5,542,553	11,084,350	3,325,305	18,483,883	5,545,165	11,096,254	3,328,812
Expected credit loss – Debt and other instruments	4,519,987	1,355,996	3,897,753	1,169,326	4,519,987	1,355,996	3,897,753	1,169,325
	26,557,023	7,967,107	17,462,831	5,238,850	26,619,714	7,985,914	17,499,039	5,249,647

As at 31 December	BANK				Group			
	2023		2022		2023		2022	
	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
Liabilities								
Property, equipment and software	812,374	243,712	786,913	236,074	965,791	289,738	1,138,733	341,620
Finance leases	412,764	123,829	550,747	165,224	412,764	123,829	550,747	165,224
Right-of-use asset	1,288,101	386,431	1,381,212	414,364	1,304,874	391,463	1,381,212	414,364
Fair value through other comprehensive income financial assets	3,410,365	1,023,110	317,457	95,237	3,410,365	1,023,110	317,457	95,237
Equity investments at FVOCI – unquoted shares	230,681	69,204	214,113	64,234	230,681	69,204	214,113	64,234
Funded pension liability and actuarial gains on defined benefit plans	443,250	132,975	254,760	76,428	443,250	132,975	254,760	76,428
Cross currency SWAP	1,934,067	580,220	164,870	49,461	1,934,067	580,220	164,870	49,461
Undistributed profits of the Group	–	–	–	–	428,167	64,225	164,060	49,218
	8,531,602	2,559,481	3,670,072	1,101,022	9,129,959	2,674,764	4,185,952	1,255,786

As described Note 31.5 and 40.1.2, the total impairment loss provision made for SLISBs as at reporting date is LKR 4,877 Mn. Based on the interpretation of the tax law and information available as at reporting date , the Bank has recognised a deferred tax asset of LKR 1,355 Mn arising from the temporary differences of the provisions made at the prevailing tax rate of 30%.

40. Other Assets

See accounting policy in Note 5.3

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Financial assets				
Refundable deposits	17,381	16,004	17,381	16,004
Receivable from Government of Sri Lanka (Note 40.1)	3,092,720	5,075,029	3,092,720	5,075,029
Other receivables*	5,368,099	1,145,732	5,537,454	1,313,387
Clearing account balances	2,091,082	1,567,004	2,091,082	1,567,004
Due from subsidiaries (Note 40.2)	268	1,195	–	–
	10,569,550	7,804,964	10,738,637	7,971,424
Non-financial assets				
Advances and prepayments	1,950,606	1,690,844	1,988,754	1,707,486
Defined benefit asset (Note 45.1.2)	443,250	254,760	443,250	254,760
	2,393,856	1,945,604	2,432,004	1,962,246
	12,963,406	9,750,568	13,170,641	9,933,670

* This includes the receivables relating to a standing lending facility (SLF) of LKR 4,833 Mn to be received from the Central Bank of Sri Lanka as at 31 December 2023. This was received by the Bank in January 2024.

40.1 Receivable from Government of Sri Lanka

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Matured government security receivables (Note 40.1.1)	5,161,285	5,064,704	5,161,285	5,064,704
Provision made for matured government security receivables (Note 40.1.2)	(2,580,642)	(1,772,871)	(2,580,642)	(1,772,871)
Reimbursement of additional interest paid on Special Deposit Accounts (SDA)	195,299	176,497	195,299	176,497
Interest differential on special senior citizen fixed deposit	–	1,326,057	–	1,326,057
Interest subsidy on credit lines	316,778	280,642	316,778	280,642
	3,092,720	5,075,029	3,092,720	5,075,029

40.1.1 Matured Government Security Receivables

This includes matured Sri Lanka International Sovereign Bonds (SLISBs) with matured coupon interest receivables. Refer Note 31.1.1 which explains the background and basis of SLISBs Provision.

40.1.2 Movement in Impairment During the Year

As at 31 December	BANK/GROUP	
	2023 LKR '000	2022 LKR '000
Balance at beginning	1,772,871	–
Transferred from financial assets at amortised cost (Note 31.5)	124,470	607,764
Exchange rate impact	(142,133)	–
Charge to income statement (Note 16)	825,434	1,165,107
Balance as at 31 December	2,580,642	1,772,871

The Bank's total exposure to matured SLISBs are presented in Note 40.1.1. 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. Refer Note 31.1.1 which explains the background and basis of SLISBs provision.

40.2 Due from Subsidiaries

As at 31 December	Bank	
	2023 LKR '000	2022 LKR '000
DFCC Consulting (Pvt) Limited	268	1,195
	268	1,195

41. 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.

As at 31 December	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Borrowing – Foreign banks	1,960,670	5,482,735	1,960,670	5,482,735
– Local banks	50,832,794	10,375,259	50,832,794	10,375,259
	52,793,464	15,857,994	52,793,464	15,857,994

The maturity analysis of due to banks is given in Note 8.3.3 on pages 266 to 269.

42. Financial Liabilities at Amortised Cost – Due to Depositors

See accounting policy in Note 5.3.2.2.1.

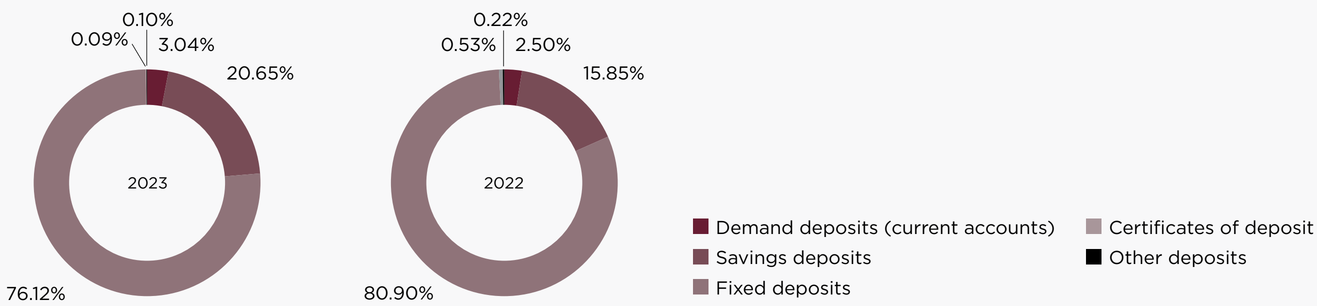
As at 31 December	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Total amount due to depositors	407,225,313	370,314,026	406,584,864	369,746,855

42.1 Analysis

42.1.1 By Product

As at 31 December	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Demand deposits (current accounts)	12,363,893	9,271,387	12,363,628	9,271,372
Savings deposits	84,105,805	58,660,062	84,021,644	58,598,138
Fixed deposits	309,983,634	299,582,500	309,427,611	299,077,268
Certificates of deposit	375,333	1,976,859	375,333	1,976,859
Other deposits	396,648	823,218	396,648	823,218
	407,225,313	370,314,026	406,584,864	369,746,855

Deposit Mix



42.1.2 By Currency

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Sri Lankan Rupee (LKR)	320,273,847	303,304,575	319,671,526	302,775,531
United States Dollar (USD)	76,446,386	57,211,715	76,408,258	57,173,588
Great Britain Pound (GBP)	4,509,446	4,259,917	4,509,446	4,259,917
Others	5,995,634	5,537,819	5,995,634	5,537,819
	407,225,313	370,314,026	406,584,864	369,746,855

42.1.3 By Institution/Customers

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Deposits from banks	2,235,589	511,753	2,235,589	511,753
Deposits from finance companies	1,133,644	2,519,909	1,133,644	2,519,909
Deposits from other customers	403,856,080	367,282,364	403,215,631	366,715,193
	407,225,313	370,314,026	406,584,864	369,746,855

The maturity analysis of deposits from customers is given in Note 8.3.3 on pages 266 to 269.

43. Financial Liabilities at Amortised Cost – Due to Other Borrowers

See accounting policy in Note 5.3.2.2.1

As at 31 December	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Repayable in foreign currency				
Borrowing sourced from				
Multilateral institutions	823,713	1,694,928	823,713	1,694,928
Bilateral institutions	48,094,051	60,381,293	48,094,051	60,381,293
	48,917,764	62,076,221	48,917,764	62,076,221
Repayable in rupees				
Borrowing sourced from				
Multilateral institutions	11,912,387	13,478,389	11,912,387	13,478,389
Bilateral institutions	677,296	696,690	677,296	696,690
Central Bank of Sri Lanka – refinance loans (secured)	173,394	1,748,182	173,394	1,748,182
Securities sold under repurchase (Repo) agreements	10,341,893	3,146,209	10,341,893	3,146,209
	23,104,970	19,069,470	23,104,970	19,069,470
	72,022,734	81,145,692	72,022,734	81,145,692

43.1 Assets Pledged as Security

As at 31 December	2023 LKR '000	2022 LKR '000
Assignment in terms of Section 88 A of the Monetary Law of Loans refinanced by Central Bank	173,394	557,933

44. Debt Securities in Issue

See accounting policy in Note 5.3.2.2.1.

44.1 Debt Securities at Amortised Cost Issued by Bank

	Face value LKR '000	Interest rate %	Repayment terms	Issue date	Maturity date	BANK/GROUP 31 December 2023 LKR '000	BANK/GROUP 31 December 2022 LKR '000
Debenture issue – Listed (LKR)	3,804,760	13.50	5 years	28 March 2019	28 March 2024	4,190,458	4,187,527
	1,784,070	13.75	7 years	28 March 2019	28 March 2026	1,966,124	1,965,315
	4,411,170	13.90	10 years	28 March 2019	28 March 2029	4,861,776	4,860,926
Unlisted (LKR)	5,000,000	11.00	5 years	12 June 2020	12 June 2025	5,293,219	5,290,347
	15,000,000					16,311,577	16,304,115

44.2 Carrying values are the discounted amounts of principal and interest.

44.3 There were no debt securities in issue designated as FVTPL.

44.4 The Bank/Group did not have any defaults of principal or interest or other breaches with respect to its debt securities during the year ended 31 December 2023.

44.5 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 2023 LKR '000	Market price Highest	Market price Lowest	Yield last traded %
Fixed rate							
2019/2024	Annually	13.50	13.66	4,190,458	N/T	N/T	N/A
2019/2026	Annually	13.75	13.61	1,966,124	N/T	N/T	N/A
2019/2029	Annually	13.90	13.59	4,861,776	N/T	N/T	N/A
Unlisted							
2020/2025	Annually	11.00	13.47	5,293,219	N/T	N/T	N/A
				16,311,577			

N/T – Not traded

N/A – Not applicable

44.6 Debt Securities at Amortised Cost – by Maturity

As at 31 December	BANK/GROUP 2023 LKR '000	BANK/GROUP 2022 LKR '000
Payable within one year	4,190,458	–
Payable after one year	12,121,119	16,304,115

As at 31 December	31 December 2023 LKR '000	31 December 2022 LKR '000
Other ratios		
Debt to equity ratio (times)	2.54	2.51
Interest cover (times)	2.27	1.47
Liquid asset ratio (%)	36.63	26.36

45. 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 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.

45.1 Composition

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Unfunded defined benefit plans (Note 45.1.1)	1,371,126	591,550	1,400,921	615,849
	1,371,126	591,550	1,400,921	615,849

45.1.1 Unfunded Defined Benefit Plans

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Defined benefit – unfunded pension (Note 45.1.1.1)	53,214	39,612	53,214	39,612
– unfunded end of service gratuity (Note 45.1.1.2)	1,317,912	551,938	1,347,707	576,237
	1,371,126	591,550	1,400,921	615,849

45.1.1.1 Unfunded Pension Liabilities

As at 31 December	BANK/GROUP	
	2023 LKR '000	2022 LKR '000
Balance at beginning	39,612	62,923
Interest on obligation	6,269	5,322
Benefits paid	(6,995)	(6,993)
Actuarial experience loss	740	1,075
Loss/(gain) due to changes in assumptions	13,588	(22,715)
Present value of defined benefit pension obligations	53,214	39,612

This relates to pension liability of an ex-employee, not funded through the DFCC Bank PLC Pension Fund. The liability covers the pension benefit to retiree and survivor.

45.1.1.2 Unfunded end of Service Gratuity

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Balance at beginning	551,938	625,675	576,237	653,554
Current service cost	79,647	87,812	83,824	90,872
Interest on obligation	96,589	56,311	99,257	60,254
Benefits paid	(115,226)	(90,212)	(118,297)	(94,180)
Actuarial experience loss/(gain)	64,138	(10,548)	65,861	(17,163)
Loss/(gain) due to changes in assumptions	640,826	(117,100)	640,825	(117,100)
Present value of defined benefit pension obligations	1,317,912	551,938	1,347,707	576,237

45.1.2 Funded Pension Assets

As at 31 December	Note	BANK/GROUP	
		2023 LKR '000	2022 LKR '000
Present value of defined benefit pension obligations	45.1.2.1	2,670,723	1,699,403
Fair value of pension assets	45.1.2.2.2	(3,113,973)	(1,954,163)
Defined benefit assets		(443,250)	(254,760)

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 2023 to be LKR 443 Mn in his report dated 23 January 2024.

45.1.2.1 Movement in Defined Pension Obligation

As at 31 December	BANK/GROUP	
	2023 LKR '000	2022 LKR '000
Present value of defined benefit pension obligations at the beginning	1,699,403	2,692,271
Current service cost	27,020	38,673
Interest on obligation	297,396	242,304
Benefits paid	(247,826)	(198,575)
Actuarial experience loss	375,427	14,142
Loss/(gain) due to changes in assumptions	519,303	(1,089,412)
Present value of defined benefit pension obligations	2,670,723	1,699,403

45.1.2.2 Movement in Pension Assets

As at 31 December	BANK/GROUP	
	2023 LKR '000	2022 LKR '000
Pension assets at the beginning	3,026,968	2,808,394
Expected return on pension assets	506,226	243,074
Benefits paid	(247,826)	(198,575)
Actuarial experience gain	109,605	174,075
Pension assets	3,394,973	3,026,968

45.1.2.2.1 Assets ceiling adjustment

Current year assets ceiling adjustment	(281,000)	(1,072,805)
Reversal of previous year adjustment	1,072,805	–
Net asset ceiling adjustment for the year	791,805	(1,072,805)

45.1.2.2.2 Pension asset adjusted for the asset ceiling

Pension assets	3,394,973	3,026,968
Current year assets ceiling adjustment	(281,000)	(1,072,805)
Pension asset adjusted for the asset ceiling	3,113,973	1,954,163

45.1.2.3 Plan Assets Consist of the following:

As at 31 December	BANK/GROUP	
	2023 LKR '000	2022 LKR '000
Debentures	–	195,562
Treasury bills	1,180,196	1,041,657
Balances with banks	32,326	9,006
Fixed deposits	1,979,062	1,819,249
Others	203,389	(38,506)
	3,394,973	3,026,968

45.1.2.4 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 2023 LKR '000	31 December 2023 LKR '000	31 December 2023 LKR '000
Within next 12 months	6,995	77,055	225,319
Between 2 and 5 years	27,982	386,895	975,416
Beyond 5 years	34,977	1,304,580	1,900,597

* Based on expected benefits pay-out in next 10 years

45.2 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 2023.

45.2.1 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.

45.2.2 Principal Actuarial Assumptions

	31 December 2023		31 December 2022	
	Pension benefit (%)	End of service gratuity (%)	Pension benefit (%)	End of service gratuity (%)
Discount rate per annum				
Pre–retirement	11.5	11.5	17.5	17.5
Post–retirement	11.5	Not applicable	17.5	Not applicable
Future salary increases per annum	15	15	15	15
Expected rate of return on pension assets	11.5	–	17.5	–
Actual rate of return on pension assets	20.1	–	15.3	–
Mortality	UP 1984 mortality table	RP-2000 mortality table	UP 1984 mortality table	RP-2000 mortality table
Retirement age	57-60 years	57-60 years	57-60 years	57-60 years
Normal form of payment:	lump sum commuted pension payment followed by reduced pension for 10 years (25% reduction) (for new entrants recovery period is 15 years)	lump sum	lump sum commuted pension payment followed by reduced pension for 10 years (25% reduction) (for new entrants recovery period is 15 years)	lump sum
Turnover rate –				
Age				
20	10.0	10.0	10.0	10.0
25	10.0	10.0	10.0	10.0
30	10.0	10.0	10.0	10.0
35	7.5	7.5	7.5	7.5
40	5.0	5.0	5.0	5.0
45	2.5	2.5	2.5	2.5
50/55	1.0	1.0	1.0	1.0

The principal actuarial assumptions in the current year have changed from previous year as presented in the Note 45.2.2. The discount rate is the yield rate on 31 December 2023 with a term equalling the estimated period for which all benefit payments will continue. This period is approximately 17.68 years for pension and 9.09 years for end of service gratuity.

Principal Actuarial Assumptions – Group

The subsidiaries have used discount rates of 9.5% – 11.5% and the salary increment rate ranging 6% – 12.99%.

The differences in the rate of future annual salary increases reflect the remaining working life of participants for each plan.

45.2.3 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%	198,153	(198,153)
–1%	(227,890)	227,890
Salary increment rate		
1%	(55,687)	55,687
–1%	52,331	(52,331)
Unfunded pension liability*		
Discount rate		
1%	2,841	(2,841)
–1%	(3,151)	3,151
Unfunded end of service gratuity		
Discount rate		
1%	157,656	(157,656)
–1%	(189,737)	189,737
Salary increment rate		
1%	(181,689)	181,689
–1%	154,497	(154,497)

*Salary increment not applicable for ex-employee

45.3 Historical Information

As at 31 December	2023 LKR '000	2022 LKR '000	2021 LKR '000	2020 LKR '000	2019 LKR '000
Present value of the defined benefit obligation	2,670,723	1,699,403	2,692,271	2,827,321	2,594,387
Fair value of plan assets	(3,113,973)	(1,954,163)	(2,808,394)	(2,767,072)	(2,725,572)
(Surplus)/deficit in the plan	(443,250)	(254,760)	(116,123)	60,249	(131,185)

46. Current Tax Liabilities

Accounting policy in Note 21.

As at 31 December	Note	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Balance at beginning		2,479,562	951,645	2,575,008	1,031,557
Provision for the year	21.1	6,260,241	3,136,881	6,416,491	3,251,658
Reversal of over provision	21.1	–	(77,431)	(355)	(77,431)
Self-assessment payments		(4,305,780)	(1,531,379)	(4,446,618)	(1,630,622)
Withholding tax/other credits		(7,340)	(154)	(8,969)	(154)
Balance as at 31 December		4,426,683	2,479,562	4,535,557	2,575,008

47. 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.

As at 31 December	Note	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Financial liabilities					
Prior year's dividends		25,624	31,056	25,624	31,056
Security deposit for leases		–	–	204,300	174,515
Lease liabilities	49.3	1,455,858	1,512,565	1,473,145	1,512,565
Account payables		4,069,333	6,560,565	4,086,174	6,583,420
Due to subsidiaries	47.2	15,492	10,458	–	–
		5,566,307	8,114,644	5,789,243	8,301,556
Non-financial liabilities					
Accruals		1,098,475	885,993	1,135,769	911,349
Prepaid loan and lease rentals		1,048,699	13,014	1,104,041	73,299
Provision for loan commitments and financial guarantee contracts	55.1.1	706,338	616,725	706,338	616,725
Other provisions	47.1	732,524	410,985	749,924	432,961
		3,586,036	1,926,717	3,696,072	2,034,334
		9,152,343	10,041,361	9,485,315	10,335,890

47.1 Other Provisions

Other provisions includes benefit payable to employees.

As at 31 December	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Balance at 1 January	410,985	567,000	432,961	569,542
Provisions for the financial year	732,840	573,288	750,439	605,570
Provisions used during the year	(359,654)	(682,837)	(381,829)	(695,685)
Provisions reversed during the year	(51,647)	(46,466)	(51,647)	(46,466)
Balance as at 31 December	732,524	410,985	749,924	432,961

47.2 Due to Subsidiaries

As at 31 December	BANK 2023 LKR '000	BANK 2022 LKR '000
Synapsys Limited	15,492	10,458
	15,492	10,458

48. Subordinated Term Debt

Accounting policy in Note 5.3

These represent the funds borrowed by the Bank/Group for long-term funding requirements. Subsequent to initial recognition these are measured at their amortised cost using the EIR method, except where the Bank/Group designates them at fair value through profit or loss. Interest paid/payable is recognised in income statement.

	Face value LKR '000	Interest rate %	Repayment terms	Issued date	Maturity date	BANK/GROUP 31 December 2023 LKR '000	BANK/GROUP 31 December 2022 LKR '000
Listed debentures							
Issued by Bank	4,086,530	13.00	7 years	29 March 2018	28 March 2025	4,481,179	4,478,704
	4,318,000	9.00	5 years	23 October 2020	23 October 2025	4,383,031	4,380,599
	205,000	9.25	7 years	23 October 2020	23 October 2027	208,055	207,982
	6,043,140	12.75	7 years	9 November 2016	9 November 2023	–	6,144,475
	2,913,470	12.60	5 years	29 March 2018	29 March 2023	–	3,188,231
	17,566,140					9,072,265	18,399,991

48.1 Subordinated Term Debt – Listed Debentures

Debenture category	Interest frequency payable	Applicable interest rate %	Interest rate of comparative Government securities (Gross) p.a. %	Balance as at 31 December 2023 LKR '000	Market price		
					Highest	Lowest	Last traded
Fixed rate							
2018-2025	Annually	13.00	13.38	4,481,179	N/T	N/T	N/T
2020-2025	Annually	9.00	13.45	4,383,031	N/T	N/T	N/T
2020-2027	Annually	9.25	13.56	208,055	N/T	N/T	N/T
				9,072,265			

N/T – Not traded.

Debt equity ratio, interest cover and liquid asset ratio is given in Note 44.6.

48.2 Subordinated Liabilities by Maturity

As at 31 December	BANK/GROUP 2023 LKR '000	BANK/GROUP 2022 LKR '000
Payable within one year	–	9,332,706
Payable after one year	9,072,265	9,067,285
Total	9,072,265	18,399,991

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 2023.

The maturity analysis of subordinated liabilities is given in Note 8.3.3 on pages 266 to 269.

49. Leases

Accounting Policy

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in SLFRS 16.

As a Lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made or payable at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from the Bank's internal records (weighted average cost of funds) to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments:
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term Leases and Leases of Low-value Assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a Lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies SLFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in SLFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

49.1 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:

49.2 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 37).

As at 31 December	BANK		GROUP	
	Branch and office premises		Branch and office premises	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Balance at 1 January	1,382,393	1,284,488	1,382,393	1,284,488
Additions to right-of-use assets	254,733	431,461	273,456	431,461
Depreciation charge for the year	(326,149)	(309,678)	(328,099)	(309,678)
Derecognition of right-of-use assets	(22,876)	(23,878)	(22,876)	(23,878)
Balance at 31 December	1,288,101	1,382,393	1,304,874	1,382,393

See Note 8.3.3 for maturity analysis of lease liabilities as at 31 December 2023.

49.3 Lease Liability

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Balance at the beginning	1,512,565	1,365,052	1,512,565	1,365,052
Interest charged during the year	153,345	141,899	154,570	141,899
Payment to lease creditors	(417,219)	(360,025)	(419,881)	(360,025)
Termination of operating lease agreements during the year	(816)	(4,242)	(816)	(4,242)
Additions/renewals of operating lease agreements during the year	207,983	369,881	226,707	369,881
Balance as at 31 December	1,455,858	1,512,565	1,473,145	1,512,565

49.4 The Future Minimum Lease Payments under Non-cancellable Operating Leases

As at 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Maturity analysis – Contractual undiscounted cash flows				
Less than one year	136,272	359,546	142,663	359,546
Between one and five years	894,889	1,282,197	911,398	1,282,197
More than five years	602,440	616,747	602,440	616,747
Total undiscounted lease liabilities at 31 December	1,633,601	2,258,490	1,656,501	2,258,490
Total discounted lease liabilities at 31 December	1,455,858	1,512,565	1,473,145	1,512,565

49.5 Amounts Recognised in Income Statement

For the year ended 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Leases under SLFRS 16				
Interest on lease liabilities	153,345	141,899	154,570	141,899
Depreciation charge for the year	326,149	309,678	328,099	309,678
	479,494	451,577	482,669	451,577

49.6 Extension options

Some property leases contain extension options exercisable by the Bank. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

50. Stated Capital

Accounting Policy

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets.

As at 31 December	Number of ordinary voting shares		BANK/GROUP	
	2023	2022	2023 LKR '000	2022 LKR '000
Balance at beginning	402,666,056	320,522,436	13,182,025	8,600,457
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	19,282,599	16,325,421	684,532	961,567
Balance as at 31 December	421,948,655	402,666,056	13,866,557	13,182,025

Ordinary shares in the Bank are recognised at the amount paid per ordinary share. The shares of the Bank are 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. Statutory Reserve

Reserve Fund

As at 31 December	BANK/GROUP	
	2023 LKR '000	2022 LKR '000
Balance at beginning	2,874,968	2,746,968
Transfers	365,000	128,000
Balance as at 31 December	3,239,968	2,874,968

Nature and purpose of reserve

Statutory reserve fund is maintained as per the statutory requirements in terms of Section 20 (1) and (2) of the Banking Act No. 30 of 1988.

This fund is built by transferring a sum of equivalent to not less than 5% of the profit after tax before any dividend is declared or any profits are transferred until the fund equals 50% of the Bank's stated capital. Thereafter, a further sum equal to 2% of profit after tax is transferred until the fund equals to the stated capital of the Bank.

52. Retained Earnings

As at 31 December	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Balance at beginning	22,600,898	22,091,649	26,731,857	25,831,589
Surcharge tax paid	–	(1,232,490)	–	(1,274,906)
Profit for the year	7,219,702	2,513,352	8,485,146	2,932,475
Other comprehensive (expenses)/income net of tax	(503,798)	170,336	(506,474)	173,556
Transfers to statutory reserve	(365,000)	(128,000)	(365,000)	(128,000)
Dividends paid	(805,332)	(961,567)	(805,332)	(961,567)
Forfeiture of unclaimed dividends	5,255	3,494	5,255	3,494
Net gains on disposal of equity investments	98,632	180,213	98,632	191,258
Rights issue expenses	–	(36,089)	–	(36,089)
Change in holding through joint venture	–	–	1,506	47
Balance as at 31 December	28,250,357	22,600,898	33,645,590	26,731,857

This represents cumulative net earnings, inclusive of final dividend approved amounting to LKR 2,110 Mn.

The balance is retained and reinvested in the business of the Bank.

53. Other Reserves

As at 31 December 2023	BANK Fair value reserve LKR '000	BANK Hedging reserve LKR '000	BANK General reserve LKR '000	BANK Total LKR '000
Balance at beginning	(1,832,190)	115,407	13,779,839	12,063,056
Movements/transfers	9,082,589	1,238,439	–	10,321,028
Balance as at 31 December	7,250,399	1,353,846	13,779,839	22,384,084

As at 31 December 2022	BANK Fair value reserve LKR '000	BANK Hedging reserve LKR '000	BANK General reserve LKR '000	BANK Total LKR '000
Balance at the beginning	2,096,627	(329,442)	13,779,839	15,547,024
Movements/transfers	(3,928,817)	444,849	–	(3,483,968)
Balance as at 31 December	(1,832,190)	115,407	13,779,839	12,063,056

As at 31 December 2023	GROUP				
	Fair value reserve LKR '000	Exchange equalisation reserve LKR '000	Hedging reserve LKR '000	General reserve LKR '000	Total LKR '000
Balance at the beginning	(3,273,562)	822,582	(103,057)	13,779,839	11,225,802
Movements/transfers	9,092,353	(261,511)	1,174,854	–	10,005,696
Balance as at 31 December	5,818,791	561,071	1,071,797	13,779,839	21,231,498

As at 31 December 2022	GROUP				
	Fair value reserve LKR '000	Exchange equalisation reserve LKR '000	Hedging reserve LKR '000	General reserve LKR '000	Total LKR '000
Balance at the beginning	655,255	163,201	(329,442)	13,779,839	14,268,853
Movements/transfers	(3,928,817)	659,381	226,385	–	(3,043,051)
Balance as at 31 December	(3,273,562)	822,582	(103,057)	13,779,839	11,225,802

53.1 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.

53.2 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.

53.3 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.

54. Non-Controlling Interests

Accounting Policy

Non-controlling interests (NCI) are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

The following table summarises the information relating to each of the Group's subsidiaries that has material NCI, before any intra-group eliminations:

As at 31 December	Lanka Industrial Estates Limited	
	2023 LKR '000	2022 LKR '000
Non-current assets	640,229	610,942
Current assets	618,014	479,907
Non-current liabilities	(182,864)	(182,398)
Current liabilities	(272,508)	(281,668)
Net assets*	802,871	626,783
Net assets attributable to NCI – 48.84%	392,159	306,150

* See Note 33

For the year ended 31 December	2023 LKR '000	2022 LKR '000
Revenue	606,653	531,262
Profit	354,994	224,050
Other comprehensive income	749	701
Total comprehensive income	355,743	224,751
Profit allocated to NCI – 48.84%	173,393	109,436
Other comprehensive expense allocated to NCI	366	342
Cash flows from operating activities	263,043	96,008
Cash flows from investment activities	(5,219)	(1,885)
Cash flows from financing activities	(179,654)	(175,661)
Net increase/(decrease) in cash and cash equivalents	78,170	(81,538)

55. 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 55.1 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.

55.1 Contingent Liabilities and Commitments

As at 31 December	BANK 2023 LKR '000	BANK 2022 LKR '000	GROUP 2023 LKR '000	GROUP 2022 LKR '000
Guarantees issued to –				
Banks in respect of indebtedness of customers of the Bank	381,307	21,081	381,307	21,081
Companies in respect of indebtedness of customers of the Bank	12,159,411	14,922,120	12,159,411	14,922,120
Principal collector of customs (duty guarantees)	717,051	1,444,286	717,051	1,444,286
Shipping guarantees	5,232,263	1,893,163	5,232,263	1,893,163
Documentary credit	14,175,442	5,629,169	14,175,442	5,629,169
Performance bonds	7,201,578	7,748,815	7,201,578	7,748,815
Forward exchange contracts	63,934,697	49,480,528	63,934,697	49,480,528
Commitments in ordinary course of business – Commitments for unutilised credit facilities	89,301,635	87,696,786	89,301,635	87,696,786
Capital expenditure approved by the Board of Directors				
Contracted	862,070	281,509	862,070	281,509
Not contracted	27,316	15,050	27,316	15,050
	193,992,770	169,132,507	193,992,770	169,132,507

55.1.1 Movement in Impairment during the Year

As at 31 December	BANK/GROUP 2023 LKR '000	BANK/GROUP 2022 LKR '000
Stage 1		
Balance at beginning	519,425	576,290
Charge to income statement	105,764	(56,865)
Balance as at 31 December	625,189	519,425
Stage 2		
Balance at beginning	97,300	31,962
(Reversal)/charge to income statement	(16,151)	65,338
Balance as at 31 December	81,149	97,300
Total	706,338	616,725

Classified under other liabilities in Note 47 on page 366.

55.2 Litigation Against the Bank

55.2.1 A client has initiated action against five Defendants including the Bank in the District Court of Kurunegala, claiming that a property mortgaged by him to the Bank had been unlawfully transferred to a third party under the parate process, and also claiming damages from the Bank. The Bank is defending the action before the District Court.

55.2.2 There are two actions initiated in the District Court of Kandy and one action initiated in District Court of Negombo, where third parties are claiming ownership of properties acquired by the Bank under recovery action. The Bank is defending these actions before the respective District Courts.

55.2.3 There are three actions initiated in the District court of Theldeniya, where third parties are claiming ownership of a properties mortgaged to the Bank. The bank is defending the actions before the District Court of Theldeniya.

55.2.4 A client has initiated an action in the District court of Matara claiming damages from the Bank claiming that 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.

55.2.5 Action has been initiated in the Labour Tribunal by one ex-employee of the Bank, claiming compensation from the Bank. This action has been laid by the President of the Labour Tribunal since a connected money recovery action initiated by the Bank has commenced.

55.2.6 Action has been initiated in High Court of Galle (Appeal case against the order of the Labour Tribunal Galle) against the Bank by the ex employee.

55.2.7 One of the directors of a company where several actions initiated by the Bank are pending against the company, has initiated an action in the District Court of Colombo, where the plaintiff is claiming damages against the Bank. The Bank is defending this action before the District Court of Colombo.

55.2.8 An action initiated in the District Court of Galle, in which a customer was claiming damages against the Bank, was dismissed by the court. The customer has preferred an appeal against the said decision. The Bank is defending the appeal in the civil Appellate High Court of Galle.

55.2.9 Three Defendants in a money recovery action initiated by the bank has made counter claims for damages. The bank is defending the said counter claims.

55.3 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.

56. 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.

56.1 Parent and Ultimate Controlling Party

The Bank does not have an identifiable parent of its own.

56.2 Transaction with Key Management Personnel

56.2.1 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".

56.2.2 Compensation of Directors and Other Key Management Personnel

For the year ended 31 December	BANK		GROUP	
	2023 LKR '000	2022 LKR '000	2023 LKR '000	2022 LKR '000
Number of persons	16	16	18	18
Short-term employment benefits	138,703	133,670	165,122	156,317
Post-employment benefits – Pension*	(1,812)	1,534	(1,812)	1,534
– Others	17,088	15,481	17,694	15,922
	153,979	150,685	181,004	173,773

* In year 2023, the after tax return on pension assets was 20.1% vs. 17.5% assumed. An actuarial gain resulted, as the actual asset value was more than what was expected. This net interest reversal on the net asset has been recognised in the statement of profit or loss in compliance with the Sri Lanka Accounting Standard "LKAS 19-Employee Benefits".

56.2.3 Other Transactions with Key Management Personnel and their Close Family Members

56.2.3.1 Statement of financial position – Bank

As at 31 December	2023		2022	
	Number of KMPs	LKR '000	Number of KMPs	LKR '000
Assets				
Financial assets at amortised cost – Loans to and receivables from other customers	18	73,555	16	71,882
		73,555		71,882
Liabilities				
Financial liabilities at amortised cost – Due to depositors	33	527,397	28	481,686
		527,397		481,686
Contingent liabilities and commitments		52,994		32,222

Income statement – Bank

For the year ended 31 December	2023 LKR '000	2022 LKR '000
Interest income	6,972	3,316
Interest expense	73,385	46,213
Fee and commission income	41	114
Net gains from trading	18	58
Net gains from derecognition of financial assets	101	7
Net other operating income	419	3,991

56.3 Transaction with Entities in which Directors of the Bank have Significant Influence

Statement of Financial Position – Bank

As at 31 December	2023 LKR '000	2022 LKR '000
Assets		
Financial assets at amortised cost – Loans to and receivables from other customers	1,370,002	1,570,813
	1,370,002	1,570,813
Liabilities		
Financial liabilities at amortised cost – Due to depositors	4,771,430	1,040,219
	4,771,430	1,040,219
Contingent liabilities and commitments	–	2

Income Statement – Bank

For the year ended 31 December	2023 LKR '000	2022 LKR '000
Interest income	306,550	307,847
Interest expenses	263,952	101,138
Fee and commission income	99	6,167
Other operating expenses	6,059	621
Net other operating income	115	231

56.4 Transaction with Group Entities

The Group entities include the subsidiaries, associate and joint venture of the Bank.

56.4.1 Transactions with Subsidiaries

Statement of financial position – Bank

As at 31 December	2023 LKR '000	2022 LKR '000
Assets		
Other assets	61,441	56,872
	61,441	56,872
Liabilities		
Financial liabilities at amortised cost – Due to depositors	640,947	556,332
Financial liabilities at amortised cost – Due to other borrowers	15,492	10,458
	656,439	566,790
Contingent liabilities and commitments	2,000	–

Income statement – Bank

For the year ended 31 December	2023 LKR '000	2022 LKR '000
Interest income	67	–
Interest expense	104,758	74,030
Fee and commission income	250	305
Net other operating income	78,443	90,890
Other operating expenses net of reimbursements	217,065	228,610

Other transactions – Bank

For the year ended 31 December	2023 LKR '000	2022 LKR '000
Payments made for purchase of computer software	25,546	14,647

56.4.2 Transactions with Joint Venture

Statement of financial position – Bank

As at 31 December	2023 LKR '000	2022 LKR '000
Assets		
Financial assets at amortised cost – Loans to and receivables from other customers	62,071	208,513
	62,071	208,513
Liabilities		
Financial liabilities at amortised cost – Due to depositors	7,705	888
	7,705	888
Contingent liabilities and commitments	1,194,550	1,057,090

Income statement – Bank

For the year ended 31 December	2023 LKR '000	2022 LKR '000
Interest income	57,864	138,439
Fee and commission income	35	143

56.4.3 Transactions with Associate

Statement of financial position – Bank

As at 31 December	2023 LKR '000	2022 LKR '000
Liabilities		
Financial liabilities at amortised cost – Due to depositors	35	29
	35	29

Income statement – Bank

For the year ended 31 December	2023 LKR '000	2022 LKR '000
Fee and commission income	–	2

56.5 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	2023 LKR '000	2022 LKR '000
Contribution prepaid as at beginning	254,760	116,123
Contribution due for the financial year recognised as expense in income statement	181,810	(37,904)
Recognition of actuarial gain in the other comprehensive income	6,680	176,541
Contribution prepaid (Note 45.1.2)	443,250	254,760

During the year 2023, DFCC Bank has carried out transactions related to sale of Treasury Bills amounting to LKR 1.52 Bn with DFCC Bank Pension Fund at the prevailing market rates.

56.6 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	2023 LKR '000	2022 LKR '000
Statement of Financial Position – Bank		
Assets		
Balances with Central Bank of Sri Lanka	2,107,776	9,030,868
Placements with banks	5,882,624	3,877,932
Financial assets measured at fair value through profit or loss	532,933	795,433
Financial assets at amortised cost – Loans to and receivables from other customers	12,362,367	13,017,874
Financial assets at amortised cost – Debt and other instruments	67,867,424	50,459,792
Financial assets measured at fair value through other comprehensive income	117,448,154	54,926,057
Other assets	7,926,053	5,075,029
	214,127,331	137,182,985
Liabilities		
Due to Banks	45,259,333	–
Financial liabilities at amortised cost – Due to depositors	3,969,556	2,329,204
Financial liabilities at amortised cost – Due to other borrowers	16,187,151	17,676,413
Debt securities in issue	7,324,761	5,414,492
Subordinated term debt	3,830,534	10,770,137
	76,571,335	36,190,246
Commitments		
Undrawn credit facilities	150,000	–
Forward exchange contracts	56,478,281	52,444,224

For the year ended 31 December	2023 LKR '000	2022 LKR '000
Income Statement – Bank		
Interest income	36,475,182	10,568,707
Interest expense	4,998,752	3,754,452
Fee and commission income	893	643
Net gains from derecognition of financial assets	318,325	11,440
Net other operating income	5	856
Impairment charge	1,319,633	2,950,374

There are no other transactions that are collectively significant with Government related entities.

56.7 Disclosure Requirement Under Section 9.14.8 (1) and 9.14.8 (2) of the CSE Listing Rules

As per Rule No. 9.14.8 (1) 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. 9.14.8 (2) the Bank does not have any recurrent related party transactions (loans and advances) 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.

56.8 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.

57. 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 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 head office), expenses, tax assets and liabilities.

57.1 Basis for Segmentation

The Group has the following four strategic divisions, which are reportable segments. These divisions offer different products and services, and are managed separately based on the Group's management and internal reporting structure.

Corporate Banking	Loans, deposits and other transactions and balances with corporate customers
Retail Banking	Loans, deposits and other transactions and balances with retail customers
Treasury	Funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short term placements and corporate and government debt securities
Other	Revenue and expenses attributable to the incorporated business segments of industrial estate management, unit trust management, investment banking related services, Information Technology 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.

57.2 Information about Reportable Segments

Information related to each reportable segment is set out below. Segment profit before tax, as included in internal management reports reviewed by the Group's Management Committee, is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate within the same industries. Inter-segment pricing is determined on an arm's length basis. Eliminations are the consolidation adjustments for inter company transactions, dividend and dividend payable attributable to minority shareholders.

	31 December 2023				
	Corporate Banking LKR '000	Retail Banking LKR '000	Treasury LKR '000	Other LKR '000	Total LKR '000
External revenue					
Interest income	24,436,691	37,867,355	34,120,873	117,372	96,542,291
Net fees and commission income	2,675,830	2,455,326	(6,456)	–	5,124,700
Net gains from trading	419,739	213,147	422,221	–	1,055,107
Net gains from derecognition of financial assets	–	–	2,838,626	–	2,838,626
Net other operating income	6,622	(231)	95,995	919,148	1,021,534
Income from external customers	27,538,882	40,535,597	37,471,259	1,036,520	106,582,258
Inter segment revenue	–	–	–	(478,432)	(478,432)
Total segment revenue	27,538,882	40,535,597	37,471,259	558,088	106,103,826
Interest expense	–	–	–	–	65,584,019
Impairment for loans and other losses	–	–	–	–	13,984,830
Net operating income	–	–	–	–	26,534,977
Profit from operations	–	–	–	–	11,367,168
Share of profits of associate and joint venture	–	–	–	–	1,140,981
Income tax expense	–	–	–	–	3,849,610
Non-controlling interests	–	–	–	–	173,393
Equity holders of the Bank	–	–	–	–	8,485,146
Segment assets	146,988,400	195,869,059	256,957,751	1,093,643	600,908,853
Segment liabilities	64,002,310	343,011,101	150,581,693	570,621	558,165,725
Information on cash flows					
Cash flows from operating activities	–	–	–	–	70,868,270
Cash flows from investing activities	–	–	–	–	(84,436,918)
Cash flows from financing activities	–	–	–	–	25,856,630
Net cash flows generated during the year	–	–	–	–	12,287,922
Capital expenditure:					
Property, plant and equipment	–	73,370	–	297,573	370,943
Intangible assets	–	–	–	30,182	30,182

31 December 2022				
Corporate Banking LKR '000	Retail Banking LKR '000	Treasury LKR '000	Other LKR '000	Total LKR '000
22,385,937	34,462,091	12,148,231	77,936	69,074,195
1,664,383	2,744,657	–	–	4,409,040
–	–	63,216	–	63,216
–	–	99,112	–	99,112
62,043	88,181	292,246	875,019	1,317,489
24,112,363	37,294,929	12,602,805	952,955	74,963,052
–	–	–	(441,086)	(441,086)
24,112,363	37,294,929	12,602,805	511,869	74,521,966
–	–	–	–	43,268,327
–	–	–	–	17,058,972
–	–	–	–	14,194,667
–	–	–	–	2,779,493
–	–	–	–	332,719
–	–	–	–	70,301
–	–	–	–	109,436
–	–	–	–	2,932,475
153,349,786	208,906,129	170,872,250	1,008,643	534,136,808
66,602,856	303,560,345	131,943,287	558,889	502,665,377
–	–	–	–	50,594,980
–	–	–	–	(31,413,734)
–	–	–	–	(5,270,593)
–	–	–	–	13,910,653
–	123,551	–	144,689	268,240
–	–	–	414,668	414,668

57.3 Reconciliations of Information on Reportable Segments to the Amounts Reported in the Financial Statements

For the year ended	2023 LKR '000	2022 LKR '000
Revenue		
Total revenue for reportable segments	106,582,258	74,963,052
Unallocated amounts	1,337,712	949,417
Elimination of inter-segment revenue	(478,432)	(441,086)
Consolidated revenue	107,441,538	75,471,383
Net operating income		
Total net operating income for reportable segments	26,534,977	14,194,667
Unallocated amounts	2,418	183,415
Consolidated net operating income	26,537,395	14,378,082

As at 31 December	2023 LKR '000	2022 LKR '000
Assets		
Total assets for reportable segments	600,908,853	534,136,808
Other unallocated amounts	44,159,545	35,399,666
Consolidated total assets	645,068,398	569,536,474
Liabilities		
Total liabilities for reportable segments	558,165,725	502,665,377
Other unallocated amounts	14,526,901	12,550,295
Consolidated total liabilities	572,692,626	515,215,672

58. 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;

58.1 First and Final Dividend

The Directors have approved the payment of a first and final dividend of LKR 5.00 per share which will consist of LKR 3.00 per share in cash and LKR 2.00 in the form of a scrip dividend, for the financial year ended 31 December 2023. 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.

58.2 Proposed Debenture Issue

The shareholders at the extra ordinary general meeting (EGM) on 30 March 2023 approved an issuance of 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 approvals. The debentures were alloted on 16 January 2024.

59. Comparative Figures

The information has been reclassified with the current year's classification in order to provide a better presentation.

As at 31 December 2023	Current presentation		As disclosed previously	
	BANK LKR '000	GROUP LKR '000	BANK LKR '000	GROUP LKR '000
Statement of Financial Position				
Other assets	9,750,568	9,933,670	9,737,079	9,920,180
Other liabilities	10,041,361	9,485,315	10,027,872	10,322,400
Net differed tax asset on right-of-use asset	–	–	40,979	40,979
Deferred tax assets on lease liability	455,343	455,343	–	–
Deferred tax liabilities on right-of-use asset	(414,364)	(414,364)	–	–

For the year ended 31 December 2023	Current presentation		As disclosed previously	
	BANK LKR '000	GROUP LKR '000	BANK LKR '000	GROUP LKR '000
Income statement				
Interest income	69,863,356	69,867,327	67,460,357	67,464,328
Interest expense	43,342,290	43,268,327	41,391,046	41,317,083
Net other operating income	1,290,793	1,800,241	1,742,548	2,251,996
Statement of Cash Flows				
Cash flows from operating activities				
Interest receipts	61,237,255	61,317,563	53,603,227	53,608,427
Cash flows from investing activities				
Interest received	–	–	7,634,028	7,709,136

60. 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 225 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 24 – Classification of financial assets and financial liabilities	316-319
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	252
		Notes to the financial statements: Note 08 – Financial risk review	254-285
	ii. Reclassifications of financial instruments from one category to another.	Principal accounting policies: Note 5.3.3 – Reclassification of financial assets	250
	iii. Information about financial assets pledged as collateral and about financial or non–financial assets held as collateral.	Notes to the financial statements: Note 43.1 – Assets pledged as security	358
	iv. Reconciliation of the allowance account for credit losses by class of financial assets.	Note the financial statements: Note 31.5 – Movement in impairment during the year	335
	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 22	293-315
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	293-295
	ii. Fee income and expense.	Notes to the financial statements: Note 12 – Net fee and commission income	295-296
	iii. Amount of impairment losses by class of financial assets.	Notes to the financial statements: Note 16 – Impairment for loans and other losses	299-306
	iv. Interest income on impaired financial assets.	Notes to the financial statements: Note 11 – Net interest income	
1.3	Other Disclosures	Principal accounting policies:	
1.3.1	Accounting policies for financial instruments.	Note 5.3 – Financial assets and Financial liabilities	249-252
1.3.2	Financial liabilities designated as at FVTPL	Notes to the financial statements: Note 29 – Financial Assets Measured at Fair Value Through Profit or Loss	325

Disclosure Requirements		Description	Page No.
1.3.3	Investments in equity instruments designated as at FVOCI	Notes to the financial statements:	
	i. Details of equity instruments that have been designated as at FVOCI and the reasons for the designation;	Note 32 – Financial Assets Measured at Fair Value Through Other Comprehensive Income	336-340
	ii. Fair value of each investment at the reporting date;	Notes 32.1 – Quoted Ordinary Shares and Notes 32.2 – Unquoted Ordinary Shares	337-339
	iii. Dividends recognised during the period, separately for investments derecognised during the reporting period and those held at the reporting date;	Note 15 – Net Other Operating Income	298
	iv. Any transfers of the cumulative gain or loss within equity during the period and the reasons for those transfers	Statement of Profit or Loss and Other Comprehensive Income and Statement of Changes in Equity	235 and 238-239
	v. If investments in equity instruments measured at FVOCI are derecognised during the reporting period, – reasons for disposing of the investments; – fair value of the investments at the date of derecognition; and – the cumulative gain or loss on disposal.	Statement of Profit or Loss and Other Comprehensive Income and Statement of Changes in Equity	235 and 238-239
1.3.4	Reclassifications of financial assets	There were no reclassifications during the year under review	
1.3.5	Information on hedge accounting.	Notes to the financial statements: Note 28 – Derivative financial assets/liabilities	321-324
1.3.6	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 9.4.9 – Fair values of financial instruments	285-292
	ii. Description of how fair value was determined.	Notes to the financial statements: Note 9 – Fair values of financial instruments	285-292
	iii. The level of inputs used in determining fair value.	Notes to the financial statements: Notes 9.1 – Valuation models	285
	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 9.4.9	292
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	
2.1.2	Management's objectives, policies, and processes for managing those risks.	Notes to the financial statements: Note 8 – Financial risk review	
2.1.3	Changes from the prior period.	Notes to the financial statements: Note 59 – Comparative figures	385

Disclosure Requirements		Description	Page No.
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	254-285
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	256-257 258-261
	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	256-257 258-261 262
	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	258-261
	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)	255-265
	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	265-274
	b. Description of approach to risk management.	Notes to the financial statements: Note 8 – Financial risk review	254-285
	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)	265-275
	d. For other disclosures, refer Pillar III disclosures of the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks.	Supplementary Information Quantitative Disclosures as per Schedule III of the Banking Act Direction No. 01 of 2016, Capital Requirements Under Basel III	
	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	276-282
	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	276–282

Disclosure Requirements	Description	Page No.
d. For other disclosures, refer Pillar III disclosures of the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks.	Supplementary Information Quantitative Disclosures as per Schedule III of the Banking Act Direction No. 01 of 2016, Capital Requirements Under Basel Iii	392-413
iv. Operational Risk a. 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	283
b. For other disclosures, refer Pillar III disclosures of the Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks.	Supplementary Information Quantitative Disclosures as per Schedule III of the Banking Act Direction No. 01 of 2016, Capital Requirements Under Basel III	392-413
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	278
• 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 33 – Investments in subsidiaries Note 34 – Investments in associates Note 35 – Investments in joint venture	247-248 341 342-343 343-344
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 29 – Financial assets measured at fair value through profit or loss Note 32 – Financial assets measured at fair value through other comprehensive income	 325-326 336-340
• 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 gains from trading Note 14 – Net gains from derecognition of financial assets Note 15 – Net other operating income	 297 298 298
vi. Interest Rate Risk in the Banking Book a. Qualitative Disclosures • Nature of interest rate risk in the banking book (IRRBB) and key assumptions.	Notes to the financial statements: Note 8 – Financial risk review	254-285
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	 254-285 280-281
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).		

Disclosure Requirements		Description	Page No.
2.2.3	Information on concentrations of risk.	Notes to the financial statements: Note 8 – Financial risk review	
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	284-285
	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	284-285
	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	283-285
	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	283-285
	b. Total and Tier 1 capital ratio	Notes to the financial statements: Note 8.6.1 – Key regulatory ratios – capital adequacy	284-285

Supplementary Information

QUANTITATIVE DISCLOSURES AS PER SCHEDULE III OF THE 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 2023		31 December 2022	
	Total un-weighted value	Total weighted value	Total un-weighted value	Total weighted value
Total stock of High-Quality Liquid Assets (HQLA)	152,762,344	151,562,260	102,328,523	101,602,039
Total adjusted level 1A assets	148,747,554	148,747,554	99,703,368	99,703,368
Level 1 assets	148,747,554	148,747,554	99,703,368	99,703,368
Total adjusted level 2A assets	2,306,603	1,960,612	1,674,550	1,423,368
Level 2A assets	2,306,603	1,960,612	1,674,550	1,423,368
Total adjusted level 2B assets	1,708,187	854,094	950,605	475,303
Level 2B assets	1,708,187	854,094	950,605	475,303
Total cash outflows	584,446,642	89,080,919	504,176,302	89,429,232
Deposits	300,166,130	26,997,638	272,209,694	24,203,659
Unsecured wholesale funding	109,168,821	53,262,615	106,359,474	53,600,766
Secured funding transactions	43,752,861	–	4,092,627	–
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	130,623,427	8,085,263	117,507,661	7,617,961
Additional requirements	735,403	735,403	4,006,846	4,006,846
Total cash inflows	77,169,785	63,713,421	54,047,087	39,216,667
Maturing secured lending transactions backed by collateral	26,780,604	25,793,392	22,184,855	21,240,548
Committed facilities	–	–	–	–
Other inflows by counterparty which are maturing within 30 Days	46,800,877	37,755,736	24,533,688	17,898,106
Operational deposits	3,259,718	–	7,172,519	–
Other cash inflows	328,586	164,293	156,025	78,013
Liquidity coverage Ratio (%) (Stock of high quality liquid assets/ total net cash outflows over the next 30 calendar days) *100		597.47		202.34

Basel III Computation of Liquidity Coverage Ratio – LKR only

Item	Amount (LKR'000)			
	31 December 2023		31 December 2022	
	Total un-weighted value	Total weighted value	Total un-weighted value	Total weighted value
Total stock of High-Quality Liquid Assets (HQLA)	150,243,525	149,389,432	100,501,922	100,026,620
Total adjusted level 1A assets	148,535,338	148,535,338	99,551,317	99,551,317
Level 1 assets	148,535,338	148,535,338	99,551,317	99,551,317
Total adjusted Level 2A assets	–	–	–	–
Level 2A assets	–	–	–	–
Total adjusted level 2B assets	1,708,187	854,094	950,605	475,303
Level 2B assets	1,708,187	854,094	950,605	475,303
Total cash outflows	464,356,185	58,215,737	407,234,696	61,192,077
Deposits	264,288,518	23,433,959	242,096,752	21,192,364
Unsecured wholesale funding	55,509,591	28,093,184	62,200,762	30,953,525
Secured funding transactions	43,752,860	–	4,092,627	–
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	100,069,813	5,953,191	95,675,249	5,876,882
Additional requirements	735,403	735,403	3,169,306	3,169,306
Total cash inflows	46,552,914	37,336,837	32,372,540	26,682,615
Maturing secured lending transactions backed by collateral	24,551,225	23,564,013	20,794,949	19,850,642
Committed facilities	–	–	–	–
Other inflows by counterparty which are maturing within 30 Days	21,673,103	13,608,531	11,421,566	6,753,960
Operational deposits	–	–	–	–
Other cash inflows	328,586	164,293	156,025	78,013
Liquidity coverage Ratio (%) (Stock of high quality liquid assets/ total net cash outflows over the next 30 calendar days) *100		715.50		289.85

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 2023	Up to 1 month LKR '000	1-3 months LKR '000	3-6 months LKR '000
Financial assets			
Cash and cash equivalents	14,478,468	–	–
Balances with Central Bank of Sri Lanka	2,107,776	–	–
Placement with banks	29,138,098	–	–
Derivative financial assets	98,653	810,321	796,764
Financial assets measured at fair value through profit or loss	–	532,135	–
Financial assets at amortised cost – Loans to and receivables from other customers	48,084,553	54,748,269	40,674,588
Financial assets at amortised cost – Debt and other instruments	–	1,979,930	52,045
Financial assets measured at fair value through other comprehensive income	16,726,256	29,092,254	36,568,960
Other assets	2,825,314	548,088	232,347
Total financial assets	113,459,118	87,710,997	78,324,704
Financial liabilities			
Due to banks	43,372,338	6,471,052	2,950,074
Derivative financial liabilities	147,240	234,413	–
Financial liabilities at amortised cost – Due to depositors	44,666,732	81,884,008	82,358,004
Financial liabilities at amortised cost – Due to other borrowers	3,229,347	9,886,030	3,949,723
Debt securities in issue	–	4,832,618	290,688
Other liabilities	2,714,034	884,053	68,956
Subordinated term debt	–	396,257	–
Total financial liabilities	94,129,691	104,588,431	89,617,445
Total net financial assets/(liabilities)	19,329,427	(16,877,434)	(11,292,741)
Contingencies			
Guarantees	18,942	27,161	151,660
Acceptance	2,615,760	2,403,046	607,234
Performance bonds	1,563,866	2,573,281	709,602
Forward contracts	7,243,553	16,137,790	2,068,220
Documentary credit	2,621,469	3,951,661	825,789
Total contingencies	14,063,590	25,092,939	4,362,505
Commitments			
Commitments in ordinary course of business – Commitments for unutilised credit facilities	89,301,635	–	–
Capital commitments	889,386	–	–
Total commitments	90,191,021	–	–
Total commitments and contingencies	104,254,611	25,092,939	4,362,505

6-12 months LKR '000	1-3 years LKR '000	3-5 years LKR '000	Over 5 years LKR '000	Total LKR '000
–	–	–	–	14,478,468
–	–	–	–	2,107,776
–	–	–	–	29,138,098
1,651,425	7,010,475	6,131,533	–	16,499,171
798	–	–	1,207,995	1,740,928
21,241,905	122,647,623	25,580,497	35,790,031	348,767,466
–	23,853,009	25,680,592	16,465,737	68,031,313
7,571,404	11,945,976	16,442,286	16,555,629	134,902,765
20,066	22,622	19,002	6,902,111	10,569,550
30,485,598	165,479,705	73,853,910	76,921,503	626,235,535
–	–	–	–	52,793,464
–	–	–	–	381,653
88,754,856	29,537,126	55,818,311	24,206,276	407,225,313
7,610,382	22,284,106	21,277,149	3,785,997	72,022,734
–	6,777,101	–	4,411,170	16,311,577
141,728	519,793	370,474	867,269	5,566,307
69,537	8,401,546	204,925	–	9,072,265
96,576,503	67,519,672	77,670,859	33,270,712	563,373,313
(66,090,905)	97,960,033	(3,816,949)	43,650,791	62,862,222
6,889	6,506	5,018,307	2,797	5,232,262
53,625	77,310	7,500,795	–	13,257,770
1,385,011	950,284	19,534	–	7,201,578
4,221,152	17,717,145	16,546,837	–	63,934,697
816,964	162,845	5,796,714	–	14,175,442
6,483,641	18,914,090	34,882,187	2,797	103,801,749
–	–	–	–	89,301,635
–	–	–	–	889,386
–	–	–	–	90,191,021
6,483,641	18,914,090	34,882,187	2,797	193,992,770

Quantitative Disclosures as per Schedule III of Banking act
Direction No. 01 of 2016, Capital Requirements under Basel III

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	2,070,333	19,592	91,545
Total financial assets	88,330,629	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	5,783,555	362,616	75,273
Subordinated term debt	–	3,583,075	–
Total financial liabilities	52,723,924	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	–	–
Acceptance	–	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

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	7,804,964
66,290,670	126,544,667	71,122,565	82,832,062	553,424,798
–	–	–	–	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	8,114,644
6,215,834	8,396,255	204,827	–	18,399,991
109,692,759	76,738,145	68,811,880	35,602,108	510,221,132
(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

Maturity Gap Analysis of Foreign Currency Denominated Assets and Liabilities – USD

As at 31 December 2023	Up to 1 month USD '000	1-3 months USD '000	3-6 months USD '000
Total assets	88,182	51,823	22,253
Total liabilities	21,800	66,700	57,338
Total net financial assets/(liabilities)	66,382	(14,877)	(35,085)

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)

6-12 months USD '000	1-3 years USD '000	3-5 years USD '000	Over 5 years USD '000	Total USD '000
30,111	51,801	34,200	26,899	305,269
113,435	85,318	74,311	21,607	440,509
(83,324)	(33,517)	(40,111)	5,292	(135,240)

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)

Sensitivity of Financial Assets and Financial Liabilities

BANK As at 31 December 2023	Up to 1 month LKR '000	1-3 months LKR '000	3-6 months LKR '000
Financial assets			
Cash and cash equivalents	828,589	–	–
Balances with Central Bank of Sri Lanka	–	–	–
Placements with banks	28,583,114	74,161	–
Derivative financial assets	–	–	–
Financial assets measured at fair value through profit or loss	–	–	532,186
Financial assets at amortised cost – Loans to and receivables from other customers	117,771,062	49,406,263	22,906,727
Financial assets at amortised cost – Debt and other Instruments	–	4,276,077	244,290
Financial assets measured at fair value through other comprehensive income	16,776,751	28,142,777	37,518,437
Other assets	–	–	–
Total financial assets	163,959,516	81,899,278	61,201,640
Financial Liabilities			
Due to banks	48,337,235	1,506,155	2,950,074
Derivative financial liabilities	–	–	–
Financial liabilities at amortised cost – Due to depositors	124,662,425	72,215,659	75,780,831
Financial liabilities at amortised cost – Due to other borrowers	–	13,739,264	4,496,986
Debt securities in issue	–	4,819,254	297,082
Other liabilities	–	–	–
Subordinated term debt	–	397,839	–
Total financial liabilities	172,999,660	92,678,171	83,524,973
Interest rate sensitivity gap	(9,040,144)	(10,778,893)	(22,323,333)

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
–	–	–	–	13,649,879	14,478,468
–	–	–	–	2,107,776	2,107,776
–	–	–	–	480,823	29,138,098
–	–	–	–	16,499,171	16,499,171
748	–	–	–	1,207,994	1,740,928
27,649,675	23,576,099	38,290,720	43,767,384	25,399,536	348,767,466
–	21,364,617	25,680,592	16,465,737	–	68,031,313
7,571,405	11,945,975	16,442,286	–	16,505,134	134,902,765
–	–	–	–	10,569,550	10,569,550
35,221,828	56,886,691	80,413,598	60,233,121	86,419,863	626,235,535
–	–	–	–	–	52,793,464
–	–	–	–	381,653	381,653
78,566,344	8,432,074	34,722,025	88,852	12,757,103	407,225,313
6,580,264	22,336,315	21,288,244	3,581,661	–	72,022,734
–	6,784,070	–	4,411,171	–	16,311,577
–	–	–	–	5,566,306	5,566,306
73,578	8,395,848	205,000	–	–	9,072,265
85,220,186	45,948,307	56,215,269	8,081,684	18,705,062	563,373,312
(49,998,358)	10,938,384	24,198,329	52,151,437	67,714,801	

Quantitative Disclosures as per Schedule III of Banking act
Direction No. 01 of 2016, Capital Requirements under Basel III

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 banks			
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)

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
–	–	–	–	7,804,964	7,804,964
55,883,337	50,555,614	34,676,015	12,758,561	72,494,268	553,424,798
–	–	–	–	–	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
–	–	–	–	8,144,644	8,144,644
6,223,229	8,404,530	205,000	–	–	18,399,991
100,705,299	59,128,570	53,823,047	17,519,013	18,040,276	510,221,132
(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

Key Regulatory Ratios – Capital and Liquidity

Item	31 December 2023		31 December 2022	
	Bank	Group	Bank	Group
Regulatory capital (LKR '000)				
Common equity Tier 1	43,632,490	47,491,186	36,818,873	36,381,997
Tier 1 capital	43,632,490	47,491,186	36,818,873	36,381,997
Total capital	51,304,883	55,171,249	48,004,800	47,574,241
Regulatory capital ratios (%)				
Common equity Tier 1 capital ratio (Minimum requirement – 7.00%)	11.49	12.46	10.09	9.94
Tier 1 capital ratio (Minimum requirement – 8.50%)	11.49	12.46	10.09	9.94
Total capital ratio (Minimum requirement – 12.50%)	13.51	14.48	13.15	12.99
Computation of leverage ratio				
Tier 1 capital	43,632,490	47,491,186	36,818,873	36,581,997
Total exposures	698,237,531	701,271,268	621,004,625	620,033,354
On-Balance sheet items (excluding securities financing transactions, but including collateral)	604,132,634	607,166,371	527,140,776	526,169,505
Derivative exposures	72,602,003	72,602,003	68,966,546	68,966,546
Securities financing transaction exposures	1,974,425	1,974,425	2,467,643	2,467,643
Other off-balance sheet exposures	19,528,469	19,528,469	22,429,660	22,429,660
Basel III leverage ratio (%) (Tier 1/total exposure)	6.25	6.77	5.93	5.87
Computation of net stable funding ratio				
Total available stable funding	448,446,564	N/A	438,464,296	N/A
Required stable funding – On balance sheet assets	358,713,526	N/A	341,855,944	N/A
Required stable funding – Off balance sheet items	1,181,497	N/A	4,629,317	N/A
Total required stable funding	359,895,023	N/A	346,485,261	N/A
Net stable funding ratio (%)	124.60	N/A	126.55	N/A

Basel III Computation of Capital Ratios

Item	31 December 2023		31 December 2022	
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
Common equity Tier 1 (CET1) capital after adjustments	43,632,490	47,491,186	36,818,873	36,381,998
Common equity Tier 1 (CET1) capital	61,524,384	66,919,617	52,778,734	56,909,694
Equity capital (stated capital)/assigned capital	13,866,557	13,866,557	13,182,025	13,182,025
Reserve fund	3,239,968	3,239,968	2,874,968	2,874,968
Published retained earnings/(accumulated retained losses)	28,250,357	33,645,590	22,600,898	26,731,858
Published accumulated Other Comprehensive Income (OCI)	2,387,663	2,387,663	341,004	341,004
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	17,891,894	19,428,431	15,959,861	20,527,696
Goodwill (net)	–	156,226	–	156,226
Intangible assets (net)	1,926,287	1,945,030	2,198,042	2,218,827
Investment in capital of banks and financial institutions	10,114,730	11,468,498	9,204,363	13,589,480
Others	5,850,877	5,858,677	4,557,456	4,563,163
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	7,672,393	7,680,063	11,185,927	11,192,244
Tier 2 capital	7,672,393	7,680,063	11,185,927	11,192,244
Qualifying Tier 2 capital instruments	3,525,812	3,525,812	7,039,040	7,039,040
Revaluation gains	–	–	–	–
Loan loss provisions	4,146,581	4,154,251	4,146,887	4,153,204
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	43,632,490	47,491,186	36,818,873	36,381,998
Total Tier 1 capital	43,632,480	47,491,186	36,818,873	36,381,998
Total capital	51,304,883	55,171,249	48,004,800	47,574,242

Quantitative Disclosures as per Schedule III of Banking act
Direction No. 01 of 2016, Capital Requirements under Basel III

Item	31 December 2023		31 December 2022	
	Bank	Group	Bank	Group
Total risk weighted assets (RWA) (LKR '000)				
RWAs for credit risk	331,726,504	332,340,053	331,750,969	332,256,322
RWAs for market risk	14,061,808	14,061,808	8,391,648	8,391,648
RWAs for operational risk	33,950,018	34,615,939	24,960,190	25,491,894
CET1 capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on d-sibs) (%)	11.49	12.46	10.09	9.94
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 (%)	11.49	12.46	10.09	9.94
Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on d-sibs) (%)	13.51	14.48	13.15	12.99
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

Credit Risk under Standardised Approach – Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

Asset Class	As at 31 December 2023					
	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	216,734,658	54,041,682	216,734,658	3,636,421	975,484	0
Claims on foreign sovereigns and their Central Banks	949,477	–	949,477	–	189,895	20
Claims on public sector entities	11,538,209	–	–	–	–	0
Claims on official entities and multilateral development banks	–	–	–	–	–	0
Claims on banks exposures	28,526,230	24,111,920	28,526,230	490,765	11,097,901	38
Claims on financial institutions	8,408,608	–	8,408,608	–	4,238,544	50
Claims on corporates	159,844,091	31,226,911	132,593,701	13,697,160	143,434,881	98
Retail claims	85,575,300	8,282,737	85,575,300	5,834,983	68,309,130	75
Claims secured by residential property	10,244,972	–	10,244,972	–	3,585,740	35
Claims secured by commercial real estate	50,132,495	–	50,132,495	–	50,132,495	100
Non-performing assets (NPAs) (i)	36,160,648	–	36,160,648	–	42,336,825	117
Higher-risk categories	532,628	–	532,628	–	1,331,570	250
Cash items and other assets	17,231,388	87,463,894	17,231,388	–	6,094,039	35
Total	625,878,704	205,127,144	587,090,105	23,659,329	331,726,504	
Group						
Claims on Central Government and CBSL	216,797,386	54,041,682	216,797,386	3,636,421	975,484	0
Claims on foreign sovereigns and their Central Banks	949,477	–	949,477	–	189,895	20
Claims on public sector entities	11,538,209	–	–	–	–	0
Claims on official entities and multilateral development banks	–	–	–	–	–	0
Claims on banks exposures	28,614,245	24,111,920	28,614,245	490,765	11,131,142	38
Claims on financial institutions	8,408,608	–	8,408,608	–	4,238,544	50
Claims on corporates	159,607,056	31,226,911	132,356,666	13,697,160	143,197,846	98
Retail claims	85,575,300	8,282,737	85,575,300	5,834,983	68,309,130	75
Claims secured by residential property	10,244,972	–	10,244,972	–	3,585,740	35
Claims secured by commercial real estate	50,132,495	–	50,132,495	–	50,132,495	100
Non-performing assets (NPAs) (i)	36,160,648	–	36,160,648	–	42,336,825	117
Higher-risk categories	585,274	–	585,274	–	1,463,184	250
Cash items and other assets	17,921,711	87,463,894	17,921,711	–	6,779,768	38
Total	626,535,381	205,127,144	587,746,782	23,659,329	332,340,053	

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 2023 (Post CCF and CRM)			
Asset classes / Risk weight	0%	20%	35%	50%
Claims on Central Government and CBSL	215,493,661	4,877,418	–	–
Claims on foreign sovereigns and their Central Banks	–	949,477	–	–
Claims on public sector entities	–	–	–	–
Claims on official entities and multilateral development banks	–	–	–	–
Claims on banks exposures	–	16,329,962	–	9,710,248
Claims on financial institutions	–	502,117	–	7,536,740
Claims on corporates	–	1,674,847	–	3,032,204
Retail claims	10,877,745	2,248,693	–	–
Claims secured by residential property	–	–	10,244,972	–
Claims secured by commercial real estate	–	–	–	–
Non-performing assets (NPAs)	–	–	–	501,057
Higher-risk categories	–	–	–	–
Cash items and other assets	10,811,747	407,001	–	–
Total	237,183,153	26,989,515	10,244,972	20,780,249

GROUP Description	Amount (LKR '000) as at 31 December 2023 (Post CCF and CRM)			
Asset classes / Risk weight	0%	20%	35%	50%
Claims on Central Government and CBSL	215,556,389	4,877,418	–	–
Claims on foreign sovereigns and their Central Banks	–	949,477	–	–
Claims on public sector entities	–	–	–	–
Claims on official entities and multilateral development banks	–	–	–	–
Claims on banks exposures	–	16,365,852	–	9,762,373
Claims on financial institutions	–	502,117	–	7,536,740
Claims on corporates	–	1,674,847	–	3,032,204
Retail claims	10,877,745	2,248,693	–	–
Claims secured by residential property	–	–	10,244,972	–
Claims secured by commercial real estate	–	–	–	–
Non-performing assets (NPAs)	–	–	–	501,057
Higher-risk categories	–	–	–	–
Cash items and other assets	10,816,341	407,001	–	–
Total	237,250,475	27,025,405	10,244,972	20,832,374

Amount (LKR '000) as at 31 December 2023 (Post CCF and CRM)					
60%	75%	100%	150%	>150%	Total credit exposures amount
–	–	–	–	–	220,371,079
–	–	–	–	–	949,477
–	–	–	–	–	–
–	–	–	–	–	–
–	–	2,976,785	–	–	29,016,995
–	–	369,751	–	–	8,408,608
–	–	141,583,810	–	–	146,290,861
393,040	41,068,954	36,821,851	–	–	91,410,283
–	–	–	–	–	10,244,972
–	–	50,132,495	–	–	50,132,495
–	–	22,806,180	12,853,411	–	36,160,648
–	–	–	–	532,628	532,628
–	–	6,012,640	–	–	17,231,388
393,040	41,068,954	260,703,512	12,853,411	532,628	610,749,434

Amount (LKR '000) as at 31 December 2023 (Post CCF and CRM)					
60%	75%	100%	150%	>150%	Total credit exposures amount
–	–	–	–	–	220,433,807
–	–	–	–	–	949,477
–	–	–	–	–	–
–	–	–	–	–	–
–	–	2,976,785	–	–	29,105,010
–	–	369,751	–	–	8,408,608
–	–	141,346,775	–	–	146,053,826
393,040	41,068,954	36,821,851	–	–	91,410,283
–	–	–	–	–	10,244,972
–	–	50,132,495	–	–	50,132,495
–	–	22,806,180	12,853,411	–	36,160,648
–	–	–	–	585,274	585,274
–	–	6,698,369	–	–	17,921,711
393,040	41,068,954	261,152,206	12,853,411	585,274	611,406,111

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 2023 RWA amount	
	BANK LKR '000	GROUP LKR '000
(a) RWA for interest rate risk	1,498,057	1,498,057
General interest rate risk	1,498,057	1,498,057
(i) Net long or short position	1,498,057	1,498,057
(ii) Horizontal disallowance	–	–
(iii) Vertical disallowance	–	–
(iv) Options	–	–
Specific interest rate risk	–	–
(b) RWA for equity	171,566	171,566
(i) General equity risk	91,971	91,971
(ii) Specific equity risk	79,595	79,595
(c) RWA for foreign exchange and gold	88,103	88,103
Capital charge for market risk [(a) + (b) + (c)] * CAR	14,061,808	14,061,808

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		
			2023	2022	2021
BANK					
The basic indicator approach	15%		37,008,546	30,754,817	17,111,682
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			

Business lines	Capital charge factor	Fixed factor	Gross Income (LKR '000) as at 31 December		
			2023	2022	2021
Capital charges for operational risk (LKR '000)					
The basic indicator approach	4,243,752				
The standardised approach					
The alternative standardised approach					
Risk weighted amount for operational risk (LKR '000)					
The basic indicator approach	33,950,018				
The standardised approach					
The alternative standardised approach					
Group					
The basic indicator approach	15%		37,679,641	31,340,647	17,519,559
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	4,326,992				
The standardised approach					
The alternative standardised approach					
Risk weighted amount for operational risk (LKR '000)					
The basic indicator approach	34,615,939				
The standardised approach					
The alternative standardised approach					

Main features of regulatory capital instruments

Description of the Capital Instrument (Bank Only)	Stated Capital
Issuer	DFCC Bank PLC
Unique Identifier (e.g., ISIN or Bloomberg identifier for private placement)	LK0055N00000
Governing Law(s) of the Instrument	
Original date of issuance	N/A
Par value of instrument (LKR)	
Perpetual or dated	Perpetual
Original maturity date, if applicable	N/A
Amount recognised in regulatory capital (in LKR '000 as at 31 December 2023)	13,866,557
Accounting classification (Equity/liability)	Equity
Issuer call subject to prior supervisory approval	
Optional call date, contingent call dates and redemption amount (LKR '000)	N/A
Subsequent call dates, if applicable	N/A
Coupons/dividends	
Fixed or floating dividend/coupon	Floating dividend
Coupon rate and any related index (%)	N/A
Non-cumulative or cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible
If Convertible, conversion trigger (s)	N/A
If Convertible, fully or partially	N/A
If Convertible, mandatory or optional	N/A
If Convertible, conversion rate	N/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
C-2394	C-2458	C-2457
Companies Act, No. 07 of 2007, Colombo Stock Exchange Regulations		
26 March 2018	23 October 2020	23 October 2020
100	100	100
Dated	Dated	Dated
29th March 2025	23 October 2025	23 October 2027
1,634,612	1,727,200	164,000
Liability	Liability	Liability
N/A	N/A	N/A
N/A	N/A	N/A
Fixed coupon	Fixed coupon	Fixed coupon
13.00% p.a	9.00% p.a	9.25% p.a
Non-Cumulative	Non-Cumulative	Non-Cumulative
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
Fully	Fully	Fully
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.

TEN YEAR SUMMARY

LKR Mn	Based on LKAS 39 For the year ended 31 March	For the 9 months ended 31 December	For the year ended 31 December	
	2015	2015	2016	2017
Bank				
Operating results				
Total income	10,394	10,036	26,754	35,942
Profit before income tax	3,771	1,589	4,414	5,792
Income tax expense	531	521	1,125	1,377
Profit after tax	3,240	1,068	3,289	4,415
Statement of financial position				
Assets				
Cash and short-term funds	2,296	9,859	13,744	21,355
Loans to and receivables from banks and other customers	73,933	160,548	185,872	213,704
Financial investments	29,909	71,233	84,675	91,330
Investment in associate, joint venture and subsidiary companies	6,648	823	902	957
Other assets	1,826	3,688	4,919	5,761
Total assets	114,612	246,151	290,112	333,107
Liabilities				
Due to depositors	22,485	110,891	140,514	193,307
Due to other borrowers	46,346	87,379	97,291	84,607
Other liabilities	1,686	5,062	6,457	7,316
Equity	44,095	42,819	45,850	47,877
Total equity and liabilities	114,612	246,151	290,112	333,107
Ratios				
Return on equity (%)*	12.8	5.0	11.0	13.4
Return on total assets (%)*	3.5	1.0	1.3	1.5
Dividend cover (times)	2.2	0.7	5.0	3.7
Liquid assets to liabilities (%)	47.6	22.5	27.2	27.0
Cost to income ratio (%)	29.2	51.8	44.7	41.1
Share information				
Market value per share (LKR)	202.80	168.10	122.50	124.00
Earnings per share (LKR)	12.22	4.03	12.41	16.65
Price earnings ratio (times)	16.59	41.71	9.87	7.45
Earnings yield (%)	6.03	2.40	10.13	13.43
Dividend per share (LKR)	6.00	2.50	4.50	5.00
Gross dividend (LKR Mn)	1,458	1,591	663	1,193
Other information				
Number of employees	495	1,445	1,642	1,770

* After eliminating fair value reserve

	Based on SLFRS 09					
	For the year ended 31 December					
	2018	2019	2020	2021	2022	2023
	39,154	43,297	43,300	42,649	74,960	106,883
	4,233	2,989	3,398	4,326	2,439	10,960
	1,464	915	1,010	1,105	(74)	3,741
	2,768	2,074	2,388	3,222	2,513	7,220
	17,307	14,282	28,040	26,336	40,378	45,724
	249,691	272,818	306,062	365,901	369,072	348,767
	97,165	108,170	120,932	81,223	115,696	204,675
	957	978	1,008	1,007	1,025	1,025
	9,788	8,649	9,035	11,038	39,769	40,307
	374,908	404,897	465,077	485,505	565,940	640,498
	242,238	247,787	310,027	319,861	370,314	407,225
	82,614	102,910	97,406	107,623	131,708	150,200
	6,210	6,720	8,287	9,035	13,197	15,332
	43,846	47,480	49,357	48,986	50,721	67,741
	374,908	404,897	465,077	485,505	565,940	640,498
	7.6	7.6	5.6	7.1	5.1	12.8
	0.8	0.8	0.8	0.9	0.5	1.8
	2.1	2.2	2.6	3.5	2.6	9.0
	23.9	27.0	35.0	21.0	26.0	36.6
	49.7	55.0	49.0	45.5	32.8	29.4
	93.00	91.90	65.30	60.00	32.00	79.60
	10.44	7.14	7.83	10.14	6.75	17.27
	8.91	12.87	8.34	5.92	4.74	4.61
	11.23	7.77	11.99	16.90	21.09	21.70
	3.50	3.00	2.98	3.00	2.00	5.00
	1,325	928	913	918	962	805
	1,860	2,076	2,072	2,191	1,989	2,109

GRI CONTENT INDEX

Statement of use: DFCC Bank PLC has reported in accordance with the GRI Standards for the period (1 January 2023 to 31 December 2023).

GRI 1 used: GRI 1: Foundation 2021

GRI Standard/ Other Source	Disclosure	Location	Omission		
			Requirement(s) Omitted	Reason	Explanation
GRI 2: General disclosures 2021	2-1 Organisational details	4-7, Back Inner page			
	2-2 Entities included in the organisation's sustainability reporting	4-7			
	2-3 Reporting period, frequency and contact point	4-7			
	2-4 Restatements of information	4-7			
	2-5 External assurance	4-7, 423-424			
	2-6 Activities, value chain and other business relationships	8-12, 26-29, 75-92, 132-135			
	2-7 Employees	127-130			
	2-8 Workers who are not employees	Refer to the explanation			As at year end, the services of 30 employees at the Contact Center and 8 employees at the PFS department were outsourced.
	2-9 Governance structure and composition	51, 182			
	2-10 Nomination and selection of the highest governance body	195 186-198			
	2-11 Chair of the highest governance body	22 – Chairman's message, 179			
	2-12 Role of the highest governance body in overseeing the management of impacts	51, 186-198			
	2-13 Delegation of responsibility for managing impacts	51, 186-198			
	2-14 Role of the highest governance body in sustainability reporting	51, 186-198			
	2-15 Conflicts of interest	186-198			
	2-16 Communication of critical concerns	51, 186-198			

GRI Standard/ Other Source	Disclosure	Location	Omission		
			Requirement(s) Omitted	Reason	Explanation
	2-17 Collective knowledge of the highest governance body	186-198			
	2-18 Evaluation of the performance of the highest governance body	51, 186-198			
	2-19 Remuneration policies	186-198			
	2-20 Process to determine remuneration	186-198			
	2-21 Annual total compensation ratio	Refer to the explanation			Information not disclosed due to confidentiality reasons
	2-22 Statement on sustainable development strategy	22-29			
	2-23 Policy commitments	94-98, 181			
	2-24 Embedding policy commitments	152-178, 181-183, 208-221			
	2-25 Processes to remediate negative impacts	152-178, 181-183			
	2-26 Mechanisms for seeking advice and raising concerns	95, 124, 152-178, 181-183			
	2-27 Compliance with laws and regulations	181-183			No penalties (fines) were imposed during the year
	2-28 Membership associations	135			
	2-29 Approach to stakeholder engagement	54-61			
	2-30 Collective bargaining agreements	Refer to the explanation			The DFCC bank staff do not belong to any unions. Hence, there are no collective bargaining agreements in place
Material topics					
GRI 3: Material Topics 2021	3-1 Process to determine material topics	4-7, 62-68			
	3-2 List of material topics	62-68			

GRI Standard/ Other Source	Disclosure	Location	Omission		
			Requirement(s) Omitted	Reason	Explanation
Economic performance					
GRI 3: Material Topics 2021	3-3 Management of material topics	64 – Resilient Business and Inclusive Economic Growth, 70-74 Financial Capital			
	201-1 Direct economic value generated and distributed	75			
GRI 201: Economic Performance 2016	201-2 Financial implications and other risks and opportunities due to climate change	Refer to the explanation			No significant impacts on the business due to climate change were identified during the reporting period.
	201-3 Defined benefit plan obligations and other retirement plans	307, 360-367			Refer to the Notes to the Financial Statements on Defined Benefits Plan and Employee Benefits.
	201-4 Financial assistance received from Government	Refer to the explanation			The Bank makes use of concessionary loan schemes provided by the Government of Sri Lanka
Market presence					
GRI 3: Material Topics 2021	3-3 Management of material topics	195 – Board HR and Remuneration Committee, 205 – Employment and Remuneration Policies			
GRI 202: Market Presence 2016	202-1 Ratios of standard entry level wage by gender compared to local minimum wage	Refer to the explanation			The minimum remuneration paid to entry level employees at DFCC Bank is above the national minimum wage rate. Both males and females are entitled to the same entry level minimum wage.
	202-2 Proportion of Senior Management hired from the local community	Refer to the explanation			All senior management are hired from the local community.
Anti-corruption					
GRI 3: Material Topics 2021	3-3 Management of material topics	95 – Anti Bribery and Corruption			
GRI 205: Anti-corruption 2016	205-1 Operations assessed for risks related to corruption	95, 124			
	205-2 Communication and training about anti-corruption policies and procedures	95, 124			
	205-3 Confirmed incidents of corruption and actions taken	205 – compliance with laws, regulations and prudential requirements			

GRI Standard/ Other Source	Disclosure	Location	Omission		
			Requirement(s) Omitted	Reason	Explanation
Energy					
GRI 3: Material Topics 2021	3-3 Management of material topics	144 – Energy Management			
GRI 302: Energy 2016	302-1 Energy consumption within the organisation	144-145			
	302-2 Energy consumption outside of the organisation	145			
	302-3 Energy intensity	145			
	302-4 Reduction of energy consumption	144-145			
	302-5 Reductions in energy requirements of products and services	Refer to the explanation			Reductions in energy requirements of products and services are not assessed at present.
Emissions					
GRI 3: Material Topics 2021	3-3 Management of material topics	145 – Emission Management			
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	145			
	305-2 Energy indirect (Scope 2) GHG emissions	145			
	305-3 Other indirect (Scope 3) GHG emissions	145			
	305-4 GHG emissions intensity	145			
	305-5 Reduction of GHG emissions	Refer to the explanation			The year 2023 will be considered as the base year for the GHG emission calculation, as it was the first time the calculation was verified by an accredited external body.
	305-6 Emissions of ozone-depleting substances (ODS)	145			
	305-7 Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	145			
Employment					
GRI 3: Material Topics 2021	3-3 Management of material topics	66 – Equal Opportunity Employment and Wellbeing, 205 – Employment and Remuneration Policies			

GRI Standard/ Other Source	Disclosure	Location	Omission		
			Requirement(s) Omitted	Reason	Explanation
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	128			
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	125, 306			
	401-3 Parental leave	130			
Occupational health and safety					
GRI 3: Material Topics 2021	3-3 Management of material topics	126 – Occupational Health and Safety			
GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system	126			
	403-2 Hazard identification, risk assessment, and incident investigation	126			The bank has identified hazards related to employee health & safety and has a secure environment policy and a BCP related risk assessment mechanisms in place. The bank ensures a safe, hazard free environment for its employees.
	403-3 Occupational health services	126			
	403-4 Worker participation, consultation, and communication on occupational health and safety	126			
	403-5 Worker training on occupational health and safety	126			
	403-6 Promotion of worker health	126			
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	126			
	403-8 Workers covered by an occupational health and safety management system	126			
	403-9 Work-related injuries	Refer to the explanation			No work related injuries on health incidents were reported.
	403-10 Work-related ill health	Refer to the explanation			

GRI Standard/ Other Source	Disclosure	Location	Omission		
			Requirement(s) Omitted	Reason	Explanation
Training and education					
GRI 3: Material Topics 2021	3-3 Management of material topics	123-Talent development			
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	126-127			Specific information on average training hours per employee by gender and employee categorisation has not been analysed
	404-2 Programs for upgrading employee skills and transition assistance programmes	123, 126			Specific information to be disclosed on transition assistance programmes has not been analysed
	404-3 Percentage of employees receiving regular performance and career development reviews	125			
Diversity and equal opportunity					
GRI 3: Material Topics 2021	3-3 Management of material topics	124 – Diversity, Equity and Inclusion			
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	128-129			
	405-2 Ratio of basic salary and remuneration of women to men	129			
Non-discrimination					
GRI 3: Material Topics 2021	3-3 Management of material topics	125 – Gender and Non-Discrimination			
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	Refer to the explanation			No incidents were reported during the year
Local communities					
GRI 3: Material Topics 2021	3-3 Management of material topics	50 – DFCC Approach towards Sustainability; 136-141 – Social Capital			
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	136-141			No impact assessment have been done during the reporting period.
	413-2 Operations with significant actual and potential negative impacts on local communities	Refer to the explanation			No impact assessment have been done and there are no negative impacts that we are aware of at present.

GRI Standard/ Other Source	Disclosure	Location	Omission		
			Requirement(s) Omitted	Reason	Explanation
Customer health and safety					
GRI 3: Material Topics 2021	3-3 Management of material topics	117 – Product and Services Responsibility			
GRI 416: Customer Health and Safety 2016	416-1 Assessment of the health and safety impacts of product and service categories	Refer to the explanation			As a financial service provider, the health and safety impacts of our products and services cannot be readily measured. But we strive to educate our customers on financial literacy so that they make the best use of products.
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services				
Marketing and labeling					
GRI 3: Material Topics 2021	3-3 Management of material topics	105 – Customer Centricity 118 – Marketing Communications			
GRI 417: Marketing and Labeling 2016	417-1 Requirements for product and service information and labeling	Refer to the explanation			Product and service information is published on the Bank's website (www.dfcc.lk) and in marketing communication material in all three languages; Sinhala, Tamil & English
	417-2 Incidents of non-compliance concerning product and service information and labeling	Refer to the explanation			No known incidents
	417-3 Incidents of non-compliance concerning marketing communications	Refer to the explanation			No known incidents
Customer privacy					
GRI 3: Material Topics 2021	3-3 Management of material topics	105-Customer Centricity			
GRI 418: Customer Privacy 2016	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	Refer to the explanation			No complaints relating to privacy/ data breaches were received from customers during the year

INDEPENDENT ASSURANCE REPORT ON SUSTAINABILITY REPORTING

Building a better working world

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Independent practitioner's assurance report to the Board of Directors of DFCC Bank PLC on the Sustainability reporting criteria presented in the Integrated Annual Report FY2023

Scope

We have been engaged by DFCC Bank PLC to perform a "limited assurance engagement," as defined by Sri Lanka Standard on Assurance Engagements, here after referred to as the engagement, to report on DFCC Bank PLC's Economic, Environment, Social and Governance (EESG) indicators (the "Subject Matter") contained in DFCC Bank PLC's (the "Entity's") Integrated Annual Report for the year ended 31 December 2023 (the "Report").

Other than as described in the preceding paragraph, which sets out the scope of our engagement, we did not perform assurance procedures on the remaining information included in the Report, and accordingly, we do not express a conclusion on this information.

Criteria applied by DFCC Bank PLC

In preparing the Subject Matter, DFCC Bank PLC applied the following criteria ("Criteria"):

- The Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines, publicly available at https://www.globalreporting.org

Such Criteria were specifically designed for the purpose of assisting you in determining whether Entity's Economic, Environment, Social and Governance (EESG) indicators contained in the Entity's Report is presented in accordance with the relevant criteria; As a result, the subject matter information may not be suitable for another purpose.

DFCC Bank PLC's responsibilities

DFCC Bank PLC management is responsible for selecting the Criteria, and for presenting the Subject Matter in accordance with that Criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the subject matter, such that it is free from material misstatement, whether due to fraud or error.

Ernst & Young's responsibilities

Our responsibility is to express a conclusion on the presentation of the Subject Matter based on the evidence we have obtained.

We conducted our engagement in accordance with the Sri Lanka Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (SLSAE 3000 (Revised), and the terms of reference for this engagement as agreed with the DFCC Bank PLC on 24 November 2023. Those standards require that we plan and perform our engagement to express a conclusion on whether we are aware of any material modifications that need to be made to the Subject Matter in order for it to be in accordance with the Criteria, and to issue a report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

Partners: D K Hulangamuwa FCA FCMA LLB (London), A P A Gunasekera FCA FCMA, Ms. Y A De Silva FCA, Ms. G G S Manatunga FCA, W K B S P Fernando FCA FCMA, B E Wijesuriya FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, N M Sulaiman ACA ACMA, Ms. L K H L Fonseka FCA, Ms. P V K N Sajeewani FCA, A A J R Perera FCA ACMA, N Y R L Fernando ACA, D N Gamage ACA ACMA, C A Yalagala ACA ACMA

Principals: T P M Ruberu FCMA FCCA MBA (USJ-SL), G B Goudian ACMA, Ms. P S Paranavitane ACA ACMA LLB (Colombo), D L B Karunathilaka ACMA, W S J De Silva Bsc (Hons) - MIS Msc - IT V Shakthivel B.Com (Sp)

A member firm of Ernst & Young Global Limited

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusions.

Our independence and quality management

We have maintained our independence and confirm that we have met the requirements of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and have the required competencies and experience to conduct this assurance engagement.

EY also applies International Standard on Quality Management 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services engagements, which requires that we design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Description of procedures performed

Procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.

Although we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for preparing the subject matter and related information and applying analytical and other appropriate procedures.

Our procedures included:

- Validated the information presented and checked the calculations performed by the organization through recalculation.
- Performed a comparison of the content given in the Report against the criteria given in the selected sustainability standards/frameworks.
- Conducted interviews with relevant organization's personnel to understand the process for collection, analysis, aggregation and presentation of data. Interviews included selected key management personnel and relevant staff.
- Read the content presented in the Report for consistency with our overall knowledge obtained during the course of our assurance engagement and requested changes wherever required.
- Provided guidance, recommendations and feedback on the improvement of the sustainability reporting indicators to improve the presentation standard.

We also performed such other procedures as we considered necessary in the circumstances.

Emphasis of matter

Economic, Environment, Social management data/information are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data. Such inherent limitations are common in Sri Lanka.

We also do not provide any assurance on the assumptions and achievability of prospective information presented in the Entity's Report.

Conclusion

Based on our procedures and the evidence obtained, we are not aware of any material modifications that should be made to the information on the Economic, Environment, Social and Governance (EESG) contained in the Integrated Annual Report of DFCC Bank PLC for the year ended 31 December 2023, in order for it to be in accordance with the Criteria.

Ernst + Young

19 February 2024
Colombo

INDEPENDENT ASSURANCE REPORT FOR INTEGRATED REPORTING

Building a better working world

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Independent practitioner's assurance report to the Board of Directors of DFCC Bank PLC on the Integrated Annual Report 2023

Scope

We have been engaged by DFCC Bank PLC to perform a "limited assurance engagement," as defined by Sri Lanka Standard on Assurance Engagements, here after referred to as the engagement, to report on DFCC Bank PLC's Information on how it's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation, preservation or erosion of value over the short, medium and long term (the "Subject Matter") contained in DFCC Bank PLC's (the "Entity's") Integrated Annual Report for the year ended 31 December 2023 (the "Report").

Other than as described in the preceding paragraph, which sets out the scope of our engagement, we did not perform assurance procedures on the remaining information included in the Report, and accordingly, we do not express a conclusion on this information.

Criteria applied by DFCC Bank PLC

In preparing the Subject Matter, DFCC Bank PLC applied the Integrated Reporting Framework (<IR> Framework) issued by the International Integrated Reporting Council (IIRC) ("Criteria"):

Such Criteria were specifically designed for the purpose of assisting in determining whether the capital management, stakeholder engagement, business model, strategy, organizational overview & external environment outlook presented in the Integrated Annual Report is presented in accordance with the relevant criteria; As a result, the subject matter information may not be suitable for another purpose.

DFCC Bank PLC's responsibilities

DFCC Bank PLC management is responsible for selecting the Criteria, and for presenting the Subject Matter in accordance with that Criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the subject matter, such that it is free from material misstatement, whether due to fraud or error.

Ernst & Young's responsibilities

Our responsibility is to express a conclusion on the presentation of the Subject Matter based on the evidence we have obtained.

We conducted our engagement in accordance with the Sri Lanka Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (SLSAE 3000 (Revised), and the terms of reference for this engagement as agreed with the DFCC Bank PLC on 24 November 2023. Those standards require that we plan and perform our engagement to express a conclusion on whether we are aware of any material modifications that need to be made to the Subject Matter in order for it to be in accordance with the Criteria, and to issue a report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

Partners: D K Hulangamuwa FCA FCMA LLB (London), A P A Gunasekera FCA FCMA, Ms. Y A De Silva FCA, Ms. G G S Manatunga FCA, W K B S P Fernando FCA FCMA, B E Wijesuriya FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, N M Sulaiman ACA ACMA, Ms. L K H L Fonseka FCA, Ms. P V K N Sajeewani FCA, A A J R Perera FCA ACMA, N Y R L Fernando ACA, D N Gamage ACA ACMA, C A Yalagala ACA ACMA

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A member firm of Ernst & Young Global Limited

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusions.

Our independence and quality management

We have maintained our independence and confirm that we have met the requirements of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and have the required competencies and experience to conduct this assurance engagement.

EY also applies International Standard on Quality Management 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services engagements, which requires that we design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Description of procedures performed

Procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.

Although we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for preparing the subject matter and related information and applying analytical and other appropriate procedures.

Our procedures included:

- Performed a comparison of the content of the Integrated Annual Report against the Guiding Principles and Content Elements given in the Integrated Reporting Framework (<IR> Framework).
- Checked whether the information contained in the Integrated Annual Report – Financial Capital element information has been properly derived from the audited financial statements.
- Conducted interviews with the selected key management personnel and relevant staff and obtained an understanding of the internal controls, governance structure and reporting process relevant to the Integrated Report.
- Obtained an understanding of the relevant internal policies and procedures developed, including those relevant to determining what matters most to the stakeholders, how the organization creates value, the external environment, strategy, approaches to putting members first, governance and reporting.
- Obtained an understanding of the description of the organisation's strategy and how the organization creates value, what matters most to the stakeholders and enquiring the management as to whether the description in the Integrated Report accurately reflects their understanding.
- Checked the Board of Directors meeting minutes during the financial year to ensure consistency with the content of the Integrated Report.
- Tested the relevant supporting evidence related to qualitative and quantitative disclosures within the Integrated Report against identified material aspects.
- Read the Integrated Report in its entirety for consistency with our overall knowledge obtained during the assurance engagement.

We also performed such other procedures as we considered necessary in the circumstances.

Emphasis of matter

Economic, Environment, Social and Intellectual capital management data/ information are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data. Such inherent limitations are common in Sri Lanka.

We also do not provide any assurance on the assumptions and achievability of prospective information presented in the Entity's Annual Report.

Conclusion

Based on our procedures and the evidence obtained, we are not aware of any material modifications that should be made to the information contained in the Integrated Annual Report of DFCC Bank PLC for the year ended 31 December 2023, in order for it to be in accordance with the Criteria.

Ernst + Young

19 February 2024
Colombo

CORPORATE INFORMATION

GRI 2-1

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 28 March 2024 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

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NOTES

This Integrated Annual Report is GHG-neutral

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