

# Report of the Audit Committee

## Composition

The Board appointed Audit Committee comprises three Independent Non-Executive Directors. The Committee is chaired by Mr P M B Fernando who is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka and possesses considerable experience in the field of finance and auditing.

The members of the Board appointed Audit Committee are as follows:

Mr P M B Fernando – Chairman  
Ms Hiroshini Fernando  
Mr H A J De Silva Wijeyeratne

Mr T Dharmarajah, Independent Director, retired during the year and the Board appointed Mr H A J De Silva Wijeyeratne as an Independent Director representing the membership of the Audit Committee with effect from 1 July 2020

Brief profiles of the members are given on pages 13 to 16.

## Mandate and role

The Terms of Reference of the Committee, which is subject to review periodically by the Board of Directors, clearly defines the mandate and role of the Committee. The Terms of Reference of the Committee was last reviewed and approved by the Board in October 2020. The Committee is responsible to the Board of Directors and reports on its activities regularly. The Committee assists the Board of Directors in fulfilling its general oversight of financial reporting, internal controls, internal and external audits.

The Committee has discharged the responsibilities assigned by Rule No. 3 (6) (ii) of the Corporate Governance Direction No. 11 of 2007, issued by the Central Bank of Sri Lanka. Where appropriate, more details are provided under separate headings in this Report.

## Meetings

The Head of Group Internal Audit functioned as the Secretary to the Committee for the year ended 31 December 2020. During the year, 12 Audit Committee meetings were held and proceedings of the Audit Committee meetings were reported regularly to the Board.

Attendance by the Committee members at the meetings is given in the table on page 110 of this Annual Report.

The Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer attend meetings by invitation. Senior Management also attend the meetings on invitation in order to brief the Audit Committee on specific matters. The Committee held three meetings with the External Auditor; KPMG independently, without the presence of the Executive Management, to discuss the progress and conclusion of the audits.

## Principal activities conducted during 2020

### Review of financial reporting

The Committee reviewed the effectiveness of the Financial Reporting System in place, to ensure reliability of information provided to the stakeholders. The Committee reviewed

that to the best of its knowledge and belief, the Financial Statements issued for external purposes by DFCC Bank PLC (the Bank), complied with generally accepted principles of accounting as enunciated in Sri Lanka Accounting Standards, and complies with the statutory provisions of Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988 and subsequent amendments thereto.

The Committee assisted the Board of Directors to discharge their responsibility for the preparation of true and fair Financial Statements in accordance with the books of accounts and Sri Lanka Accounting Standards. In carrying out the overseeing responsibilities, the Committee reviewed:

- The adequacy and effectiveness of the internal control system and procedures to provide reasonable assurance that all transactions are accurately and completely recorded in the books of accounts.
- All critical accounting policies, practices, related changes thereto, alternative accounting treatments, major judgement areas, material audit adjustments, compliance with accounting standards, going concern assumptions, financial reporting controls and compliance with applicable laws and regulations that could impact the Bank's Financial Statements, its Annual Report and its Quarterly Financial Statements prepared for publication in conjunction with the Management, External, and Internal Auditors.
- The assessment of adequacy of provision for Expected Credit Loss (ECL) recognised in the financial statements based on the internal models, management overlay computed based on stress testing the exposures to risk elevated sectors,

## Report of the Audit Committee

to address the potential implications of COVID-19 Pandemic and the moratorium schemes introduced to support the recovery of the economy.

- All quarterly unaudited interim Financial Statements and Financial Statements for the year ended 31 December 2020, together with supporting information that included significant assumptions and judgements made in the preparation of Financial Statements.
- Internal Audit Reports, Management Letter issued by the External Auditor and the responsibility statements in relation to the Financial Statements issued by the Chief Financial Officer and Chief Executive Officer in making an overall assessment on the integrity of the Financial Reporting System.
- The operations, future prospects, and sustainability indicators of the Bank and discussed with the Management regularly to ensure that all relevant matters have been taken into account in the preparation of the Financial Statements and that the 2020 Financial Statements are reliable and presents a true and fair view of the state of affairs of the Bank.

### Review of internal control system

The Audit Committee assessed the effectiveness of internal controls over financial reporting as at 31 December 2020 as required to comply with Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks, issued by the Central Bank of Sri Lanka. This process assesses the adequacy and effectiveness of the internal controls and the processes for controlling business risks to ensure compliance with laws and regulations. The Committee ensures that appropriate action is taken by the Management on the recommendations of the Internal Auditors to improve the effectiveness of the internal control

system of the Bank. The Board of Directors perform its responsibilities on the basis of the internal control framework, which enables the Board to pursue its functions and take necessary measures. The Board's statement on effectiveness of the Bank's internal control mechanism is published on pages 140 to 142.

### Group internal audit

The Audit Committee ensures that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency, and due professional care. The Audit Charter authorises and guides the Head of Group Internal Audit (HGIA) in carrying out independent audit functions of the Bank and its subsidiaries. The HGIA enjoys operational independence in conducting duties and has the authority to initiate, carry out, and report on any action, which is considered necessary. For the performance of duties, the HGIA and audit staff shall have unrestricted, unlimited, direct and prompt access to all records of the Bank and subsidiaries, officials or personnel holding any contractual status of the Bank and subsidiaries, and to all the premises of the Bank and subsidiaries. The Committee had necessary interactions with the Head of Internal Audit throughout the year. The Audit Committee monitored and reviewed the scope, resources, extent, and effectiveness of the activities of the Bank's Internal Audit Department.

The Group Audit function is governed by the Group Audit Charter which defines the internal audit's purpose, authority, independence, reporting, responsibility and access in order to assist Group Audit to discharge its function independently. The Group Audit Charter and Audit Manual were revised and approved in September 2020 by the Board Audit Committee.

The Committee reviewed the progress of the risk based audits carried out in accordance with the Internal Audit Plan approved by the Committee for the year 2020. During the year, the Internal Audit Department has reviewed business lines, critical operational processes, risk and compliance functions, branches, and subsidiary operations. Further, the Department has conducted thematic audits focusing on particular audit objective across the audited units/branches. Process Audits were conducted on specific business processes to review the adequacy, efficiency and effectiveness of the procedures, processes, related controls and further to ensure that the intended objectives and benefits are derived from the related processes of the Bank. The Potential Fraud Monitoring Unit under Internal Audit carry out testing and data analytics related to potential fraud risk areas on a continuous basis.

The start of the COVID-19 pandemic earlier during the year increased the level of attention of Internal Auditors to re-evaluate the internal audit activities and audit methodologies. A centralised monitoring function was commenced on selected high risk areas during the travel restricted period to assess the emerging risks and reassessment of internal control environment by internal audit as directed by the Board Audit Committee.

In 2020, the Board Audit Committee reviewed 198 audit reports of branches and departments, Information System Audits, Thematic Audits, Process Audits, and Special Investigations of the Bank. The Committee reviewed the Internal Audit Reports of the Bank's subsidiaries as well.

The Board Audit Committee advised Corporate Management to take precautionary measures on significant audit findings and obtained required assurances through affirmative confirmations from business units

on the remedial action in respect of the identified risks to maintain the effectiveness of the internal control system.

### Independence of external audit

The Committee reviewed and monitored the External Auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements. The Committee approved the policy in place as reviewed on Non-Audit Services provided by the External Auditors in September 2020.

The Committee ensured that the lead audit partner was rotated every five years in accordance with the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka. The Committee discussed with the Auditors their audit plan, scope and the methodology they propose to adopt in conducting the annual audit prior to its commencement. The Auditors were also provided with the opportunities to meet the Audit Committee separately, without the presence of Executive Management, to ensure that the Auditors had the independence to discuss and express their opinions on any matter. Further, additional meetings were held with the External Auditors from time to time to discuss the Bank's interim audit findings and financial reporting improvements and changes required as a result of the COVID-19 pandemic situation.

There was no limitation of scope and the Management has fully provided all information and explanations requested by the Auditors. The Committee also met the Auditors to review the Management Letter with the responses from the Management.

### Reappointment of External Auditor

The Committee performed an evaluation of the Bank's External Auditor Messrs KPMG based on certain key areas and recommended to the Board of Directors that, KPMG Chartered Accountants, to be reappointed for the financial year ending 31 December 2021 subject to the approval of shareholders at the next Annual General Meeting.

### Monitor the progress of implementation of new accounting pronouncements

The Committee reviewed the revised policy decisions relating to adoption of new and revised Sri Lanka Accounting Standards applicable to the Bank and made recommendations to the Board. Accordingly the Committee continuously monitored the progress of implementation of SLFRS 9 as per the requirements of Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" that has been issued with effective from 1 January 2018.

The Committee reviewed the Bank's Impairment Policy Manual on principles, methodologies, and assumptions during the year 2020 with consideration of elevated risks from the recent pandemic situation and also to be in line with the governing requirements. Further related changes were reviewed and approved by the Board Audit Committee and the Board.

The Committee continued to receive regular updates, detailed presentations from Management and results of independent reviews on same from the Bank's internal audit and External Auditor to ensure the compliance of SLFRS 9 on Financial Instruments. Special meetings were held to discuss many circulars issued by the regulator and accounting profession regarding

debt moratoriums and related accounting implications in assessing impairment provisions.

### Good governance and whistle-blowing policy

The Committee continuously emphasised on sustaining ethical conduct amongst staff members. In this regard, the whistle-blowing Policy of the Bank and its subsidiaries was reviewed during the year 2020 and all members of staff were educated and encouraged to practice Whistle-blowing if they suspect any wrong doing while further strengthening the Policy as a communication channel to raise any genuine concerns. The Policy is subject to annual review in order to further improve its effectiveness.

All appropriate procedures and techniques are in place to conduct independent investigations into incidents reported through Whistle-blowing or identified through other channels. The whistle-blowing Policy guarantees the maintenance of strict confidentiality of the identity of the whistle-blowers.

### Evaluation of the Committee

The effectiveness of the Committee is self-evaluated annually by its members. An independent evaluation of the effectiveness of the Committee was carried out by the other members of the Board and the Committee has been found to be effective.



**P M B Fernando**  
Chairman – Audit Committee

17 February 2021

# Report of the Human Resources and Remuneration Committee

## Composition

The Human Resources and Remuneration Committee appointed by the Board of Directors, presently consists of three Non-Executive Directors. J Durairatnam is the Chairman of the Committee. Ms S R Thambiyah and Ms H M N S Gunawardana are the other members. K P Cooray functioned as a member of the Committee until 19 August 2020.

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

## Mandate

Terms of Reference of the Committee adopted by the Board encompasses the tasks specified in Section 3 (6) (iii) of Direction No. 11 of 2007 of the Central Bank of Sri Lanka on corporate governance for licensed commercial banks.

The Committee in determining the remuneration policy relating to Directors, Chief Executive and Key Management Personnel of DFCC Bank, in terms of Directions ensures appropriate compensation levels in order to attract, retain, and motivate

talented staff with the core capabilities matched to its strategy and also to ensure that the Bank consistently delivers value to all stakeholders and to make the organisation more competitive. To achieve this, the Committee uses a mixture of fixed and variable pay to reward employees.

## Procedure

The Committee assists the Board in exercising its oversight on matters related to human resource strategies and policies and makes recommendations to the Board. Apart from the general review of remuneration, in keeping with the policy of pay for performance, the Committee reviewed the performance of the Bank against the historical performance, key performance indicators agreed at the beginning of the year as well as against a peer group when determining and recommending to the Board the annual salary increment pool and the performance based variable pay pool for DFCC Bank. The Committee also appraised the performance of the Chief Executive based on the pre-agreed targets and desired skills and reviewed his remuneration.

In addition, the Committee considers and recommends to the Board of Directors from time to time, the requirements of additional/new expertise/skills and also salary revisions. The Committee annually assesses the succession plan for key management positions and took appropriate steps to induct external skills to strengthen the Management of the Bank where it was deemed necessary.

## Meetings

The Committee held three meetings during the financial year to carry out its task. The attendance by members is given on page 110 of the Annual Report.



**J Durairatnam**  
Chairman – Human Resources and Remuneration Committee

17 February 2021

# Report of the Nomination and Governance Committee

## Composition

The Nomination and Governance Committee of the Board of Directors presently consists of three Non-Executive Directors. P M B Fernando an Independent Director is the Chairman with J Durairatnam, and Ms V J Senaratne serving as members. K P Cooray functioned as a member of the Committee until 19 August 2020.

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

## Mandate

During the year under review, the Committee carried out the tasks as set out in the Terms of Reference approved by the Board. The Terms of Reference approved by the Board encompasses the tasks set out in Section 3 (6) (iv) of Direction No. 11 of 2007 of the Central Bank of Sri Lanka on corporate governance in licensed commercial banks.

In terms of the mandate the role of the Committee is to review governance policies and procedures, evaluate the performance of the Board and identify, and evaluate persons with the required skills, knowledge, standing, fitness, and propriety to join the Board of the Bank and to evaluate the suitability of Directors who are seeking re-election. The Committee is also responsible for the task of implementing a procedure for the appointment of the CEO and Key Management Personnel.

## Procedure

The Committee meets when required and acts within its mandate approved by the Board of Directors and makes recommendations to the Board for consideration.

## Meetings

Six meetings were held during the year. The Committee considered and recommended to the Board the appointment of two new Directors. The Committee also identified persons to fill other key management positions after reviewing many candidates from time to time to ascertain the best fit for the Bank in terms of qualifications, ability and character, reviewed succession planning including the CEO succession planned for by end 2021 and assessed the fitness and propriety of Directors, and Key Management Personnel, in terms of the requirements of the Banking Act. The Committee which was formed to improve the process for succession planning for KMPs comprising a member of the Audit Committee, CEO, and Head of HR met and reviewed the progress.

As per the previous practice adopted, a declaration was obtained based on the format adopted by the Committee from Non-Executive Directors, confirming their status of independence. In addition to the annual evaluation of the Board carried out by the individual members, this year too an evaluation of the Board was carried out by the Nomination and Governance Committee members based on a separate check list approved by the Committee and the results were shared with the other members of the Board.

Individual Committee members do not participate in discussions in matters relating to them. The attendance by Directors at meetings is given on page 110 of the Annual Report. The Committee has recommended the re-election of the Directors offering themselves for re-election at the Annual General Meeting.



**P M B Fernando**  
Chairman – Nomination and Governance Committee

17 February 2021

# Report of the Board Integrated Risk Management Committee

## Composition of Board Integrated Risk Management Committee (BIRMC)

During the financial year ended in December 2020, the composition of the Board Integrated Risk Management Committee (BIRMC) of DFCC Bank changed due to the retirement of the Chairman of BIRMC – T Dharmarajah (Non-Executive Director of DFCC Bank).

Ms L K A H Fernando (Non-Executive Director of DFCC Bank) was appointed as the new Chairman of BIRMC. Further Ms H M N S Gunawardana who was appointed to the Board as a Non-Executive Director was subsequently appointed to the BIRMC as a member.

There are three Non-Executive Directors and an Executive Director as at 31 December 2020 as members of the Committee. The Chief Risk Officer, who has the voting power, functions as the Secretary to the Committee. Heads of key functional areas such as Lending, Finance, Treasury, Operations, Information Technology, Internal Audit, and Compliance attend the meetings on invitation. The membership of the BIRMC as at 31 December 2020 was as follows:

Ms L K A H Fernando –  
Chairman of the Committee/  
Non-Executive Director of DFCC Bank  
L H A L Silva – Executive Director/  
Chief Executive Officer of DFCC Bank  
Ms V J Senaratne – Non-Executive  
Director of DFCC Bank  
Ms. H M N S Gunawardana –  
Non-Executive Director of DFCC Bank  
A Goonesekere – Chief Risk Officer

## Charter and the responsibilities of the BIRMC

The approved Charter for the BIRMC stipulates authority, structure, responsibilities, and tasks of BIRMC. As per its Charter, the primary responsibilities of BIRMC are to review and ensure

- A. Integrity and adequacy of the risk management function of the Bank
- B. Adequacy of the Bank's capital and its allocation
- C. Risk exposures and risk profiles of DFCC Bank are within acceptable parameters and to make recommendations to the Board of Directors on any action required
- D. Review the adequacy and effectiveness of the Management Committees through a set of defined tools.
- E. Availability of a comprehensive and updated set of risk policies and guidelines covering overall operations of the Bank.
- F. The compliance of the Group's operations with relevant laws, regulations and standards including the adherence to the CBSL Direction on Corporate Governance.

The process through which the BIRMC discharges its responsibilities is detailed in the Risk Management section of this Annual Report.

## BIRMC meetings

As per the Charter, BIRMC should meet on quarterly basis. During 2020, the DFCC Bank convened five BIRMC meetings where an additional meeting was organised to review risk policies. The attendance of members is listed on page 110 of the Annual Report. The Committee continued to review policy frameworks, risk management strategies, risk capital position, key risk indicators and top and emerging risks at these meetings and was satisfied that the risk exposures of the Bank and the Group were being appropriately managed. During the financial year, the following key initiatives were achieved by the Committee.

- A. Reviewed and approved the Internal Capital Adequacy Assessment Process (ICAAP) of DFCC Bank, which was a regulatory requirement with effect from January 2014. BIRMC will continue monitoring and proposing future capital requirements as per the Bank's growth targets for the next few years.
- B. In relation to the management of compliance risk, compliance risk indicators with different risk scales were reviewed and specific areas of focus were recognised based on the possible impact and the probability of occurrence.
- C. Risk controls and monitoring tools were further improved with revisions to the overall risk limits system of the Bank from time to time as required. New advisory limits were put in place as trigger limits as required.



## Report of the Board Integrated Risk Management Committee

- D. All existing risk policies and practices were reviewed by the Committee in line with the Bank specific requirements, industry dynamics, and regulatory specifications and approved the necessary amendments to further strengthen the risk management processes in the Bank.
- E. The annual review of effectiveness and adequacy of the Management Committees was conducted by the BIRMC during the first quarter of 2020. The review results were shared with the respective committees for necessary improvements.
- F. Reviewed and approved all the new products and redesign of any existing products of the Bank while taking both business and risk management perspective.
- G. Reviewed and implemented the CBSL recommendations based on the examination report requirements in relation to the integrated risk management function of the Bank.
- H. Having duly recognised the trends in increasing threats on systems and information security, the Committee paid increased attention by reviewing the adequacy of the security in information systems and closely monitoring the action plans and implementation of new projects for further improving information systems security in the Bank.
- I. During 2020, the Committee paid more attention on reviewing risk in the increased operating environment due to COVID-19 pandemic. The Committee reviewed the adequacy of the risk mitigating actions taken and stress testing results under pandemic condition

### Reporting

The proceedings of the BIRMC meetings are reported to the Board through submission of the meeting minutes. Monthly Top and Emerging Risks and other specific matters are submitted separately for the Board's information. The recommendations made by the BIRMC during the year under review were duly approved by the Board.



**Ms L K A H Fernando**

Chairman – Board Integrated Risk Management Committee

17 February 2021

# Report of the Credit Approval Committee

## Composition

The Credit Approval Committee of the Board of Directors presently consists of three Non-Executive Directors and the Chief Executive Officer. J Durairatnam is the Chairman with P M B Fernando, N K G K Nemmawatta and L H A L Silva serving as members. K P Cooray functioned as a member of the Committee until 19 August 2020.

The Company Secretary functions as the Secretary of the Committee.

## Mandate

The Committee carried out the tasks set out in the Terms of Reference approved by the Board. The primary purpose of the Committee is to review and where appropriate recommend or approve credit facilities which require approval above the delegated limit of the Management Credit Committee of the Bank.

## Procedure

The Committee normally meets at least once a month and as and when required. The Committee invites the relevant officers to these meetings to clarify issues and for discussion relating to proposals that are submitted for review and also guides the Management in improving the credit policies, procedures and on process improvements for monitoring and recovery action.

## Meetings

The Committee held nine meetings during the financial year to carry out its task. The attendance by members is given on page 110 of the Annual Report. The proceedings of the Committee meetings have been regularly reported to the Board of Directors. Credit facilities recommended by the Committee were submitted to the monthly meeting of the Board for approval.



**J Durairatnam**

Chairman – Credit Approval Committee

17 February 2021



# Report of the Related Party Transactions Review Committee

## Composition

The Related Party Transactions Review Committee appointed by the Board of Directors, presently consists of two Non-Executive Directors and the Chief Executive Officer. P M B Fernando an Independent Director is the Chairman of the Committee. J Durairatnam and L H A L Silva are the other members. T Dharmarajah functioned as the Chairman of the Committee until his retirement in March 2020. K P Cooray functioned as a member of the Committee until 19 August 2020.

The Company Secretary functions as the Secretary of the Committee.

## Mandate

The Committee adopted as its mandate, the tasks specified in Section 9 of the Colombo Stock Exchange (CSE) Listing Rules. The Board has formally adopted the Terms of Reference of the Committee.

The primary purpose of the Committee is to evaluate and consider all transactions with related parties of the Bank except the exempted transactions as set out in Rule 9.5 of the Listing Rules of the CSE, in order to ensure that transactions with related parties are on normal commercial terms similar to those afforded to non-related parties.

## Procedure

The Committee meets as and when required and at least once in a calendar quarter and makes recommendations to the Board for consideration.

The Committee has put in place the necessary processes to identify, review, disclose, and monitor related party transactions according to the provisions contained in the Board approved Related Party Transactions Policy of the Bank.

The Bank obtains on a quarterly basis a declaration from all Key Management Personnel on a structured format to assist in the process of collating related party transactions. Relevant officers are aware of the applicable regulatory requirement relating to related party transactions and they submit a report in the prescribed format, to the Committee for transactions that require a review by the Committee.

## Meetings

The Committee held 11 meetings during the financial year to carry out its task. The attendance by members is given on page 110 of the Annual Report. The Committee reviewed the related party transactions carried out during the year at its meetings and the proceedings of the Committee meetings were regularly reported to the Board of Directors.



**P M B Fernando**  
Chairman – Related Party Transactions Review Committee

17 February 2021