

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.

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- 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