



## **DFCC Bank records moderate performance amidst extremely volatile economic and political environment**

*Amidst a turbulent economic environment, and significant disruption to the economy, as a result of Sri Lanka's multiple crises of economy, energy and foreign exchange, DFCC Bank has continued to deliver value to all stakeholders. The Bank has recorded a moderate performance for the 1<sup>st</sup> half of the year, ended 30<sup>th</sup> June 2022, battling against a volatile business environment, further compounded by external challenges and domestic political uncertainty.*

*The country is in the midst of its worst financial crisis, after its foreign exchange reserves plummeted to record lows, with dollars running out to pay for essential imports including food, gas, medicine and fuel. As a result, Sri Lanka faces a significant shortage of power, energy, imported products (including essential food), gas etc. Moreover, a highly inflationary environment within Sri Lanka has further compounded these issues, resulting in relatively subdued financial performance by the Bank.*

*Along with this, rising impairment costs and provisioning for the same have resulted in a negative impact on profitability for the period. However, this should ease as impairment mitigation measures take effect over the upcoming quarters, and inflation is expected to ease. The impact of corrective policy measures taken by the Central Bank and the expected improvements in both domestic and global supply conditions, coupled with the recent tightening of monetary policy and more effective communication of the same, is envisaged to help alleviate public concern with regard to inflation in the period ahead as well.*

The following commentary relates to the unaudited Financial Statements for the period ended 30 June 2022, presented in accordance with Sri Lanka Accounting Standard 34 (LKAS 34) on "Interim Financial Statements".

### **Financial Performance**

#### **Profitability**

The DFCC Group comprises of DFCC Bank PLC (DFCC), and its subsidiaries – Lanka Industrial Estates Limited (LINDEL), DFCC Consulting (Pvt) Limited (DCPL) and Synapsys Limited (SL), the joint venture company – Acuity Partners (Pvt) Limited (APL) and associate company – National Asset Management Limited (NAMAL).

In order to proactively address the current and potential future impacts of prevailing economic conditions, the Bank has made prudential provision on the lending and investment portfolio resulting in a 313% increase in the impairment provision compared to the comparable period.

After accounting for the higher charge for impairment loss, the Bank reported a profit before tax (PBT) of LKR 331 Mn and a profit after tax (PAT) of LKR 513 Mn for the period ended 30 June 2022. This compares with a PBT of LKR 2,753 Mn and a PAT of LKR 2,031 Mn in the comparable period.

The Group recorded a PBT of LKR 690 Mn and a PAT of LKR 824 Mn for the period ended 30 June 2022, compared with LKR 2,994 Mn and LKR 2,237 Mn, respectively, in June 2021.

### **Net Interest Income**

Due to the prevailing financial crisis, as a monetary policy tightening measure, the government decided to increase interest rates to arrest the development of demand driven inflationary pressures in the economy and preempt the escalation of adverse inflationary expectations, to provide the required impetus to stabilize the exchange rate and also to correct anomalies observed in the market interest rate structure. Accordingly, the interest rates on deposit and lending products of the banks have adjusted upwards considerably. The net interest income (NII), which is the core business of the Bank, recorded an increase of 97% and reached LKR 11.1 Bn by the end of Q2 2022. The increase in AWPLR by 1480 bps over the past 12 months and the time lag in repricing the existing deposits contributed to an increase in the interest margin from 2.66 % in December 2021 to 4.45% in June 2022.

### **Total Operating Income**

DFCC Bank posted a total operating income of LKR 12 Bn for the period ended 30 June 2022 compared to LKR 9 Bn in the comparative period, which is a 35% increase. Due to exchange rate depreciation, import restrictions and other unfavourable economic conditions, the momentum of the business was noticeably negatively affected. However, the concerted effort made has helped the Bank to record a non-fund income (NFI) of LKR 1,183 Mn for the period ended 30 June 2022, which is only a 9% decrease compared to the comparable period.

### **Impairment Charge on Loans and Other Losses**

The impaired loan (stage 3) ratio increased from 3.03% in December 2021 to 3.53% as at end June 2022. In order to address the current and potential future impacts of prevailing economic conditions on the lending portfolio, the Bank has made adequate impairment provisions during the quarter, by introducing changes to internal models to cover unseen risk factors in the present highly uncertain and volatile environment including additional provisions made for the Bank's exposure to foreign currency denominated financial instruments issued by the Government of Sri Lanka. With these additional provisions made to cover the additional risk in the economic environment, the impairment charge has recorded an increase of 313% compared to the comparative period and was LKR 6,808 Mn for the period ended 30 June 2022 compared to LKR 1,649 Mn in the comparable period of last year.

## **Operating Expenses**

During the period ended 30 June 2022, the Bank's operating expenses increased from LKR 4,095 Mn to LKR 4,831 Mn, compared to the corresponding period in 2021, primarily due to the increase in inflation. With the implementation of the core banking system during the last year, the Bank created multiple channels for service delivery to customers through a strong digital drive, providing access to enhanced banking services. This resulted in an increase in IT related expenses in order to support the infrastructure upgrades. However, the numerous process automation and workflow management systems introduced helped to facilitate effective cost controls, which resulted in operating expenses being curtailed and managed at these levels.

## **Other Comprehensive Income**

Changes in fair value of investments in equity securities and fixed income securities (treasury bills and bonds) and movement in hedging reserve are recorded through other comprehensive income. Total other comprehensive expense that was reclassified during the period to the income statement mainly includes the negative movement of LKR 13,594 Mn from hedging reserve which was due to the currency depreciation which impacted the hedged foreign currency borrowing (hedge item) and the swap arrangement (hedge instrument). As per the option given under the Statement of Alternative Treatment (SoAT) on Reclassification of Debt Portfolio issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), the Bank has reclassified the investment in long term debt instruments from fair value through other comprehensive income to amortized cost. A fair value loss of LKR 4,729 Mn was recorded on account of equity securities outstanding as at 30 June 2022.

## **Business Growth**

As a result of rising interest rates, high inflation and currency depreciation, the Bank did not pursue an aggressive lending growth strategy. The gross loan portfolio of the Bank of LKR 416,619 Mn as of 30 June 2022 recorded an increase by LKR 31,660 Mn compared to 31 December 2021. The net increase reflected is mainly due the effect of the devaluation of rupee on the foreign currency lending portfolio in spite of steps being taken by the Bank to reduce the foreign currency lending portfolio by over LKR 9 Bn during the period ended 30 June 2022.

Similarly, the deposit portfolio of the Bank also experienced an increase of LKR 23,663 Mn to record LKR 343,524 Mn as at 30 June 2022 compared to LKR 319,861Mn as at 31 December 2021. This resulted in a loan to deposit ratio of 114% as at 30 June 2022. The CASA ratio decreased to 29.20% as at 30 June 2022. DFCC Bank will continue to tap local and foreign currency related long to medium term borrowing opportunities to facilitate lending to deserving segments of the market whilst maintaining a high-quality portfolio.

### **Equity and Compliance with Capital Requirements**

As at 30 June 2022, the Bank has recorded Tier 1 and Total Capital Adequacy ratios of 10.84% and 14.14%, respectively. The Bank's Net Stable Funding Ratio (NSFR) was 124.58% and Liquidity Coverage Ratio (LCR) – all currency was 133.37% as at 30 June 2022. All these regulatory ratios were maintained above the minimum regulatory requirement. During the quarter, with the objective of increasing Tier 1 capital in order to assist future asset growth, the Bank raised LKR 3.6 Bn by way of a Rights Issue of shares at an issue price of LKR 55/- per share.

**Thimal Perera**

**Director / Chief Executive Officer**

**08 August 2022**

**DFCC Bank PLC**  
**Income Statement**

Notes	Bank						Group					
	For the period ended			For the quarter ended			For the period ended			For the quarter ended		
	30.06.2022 LKR 000	30.06.2021 LKR 000	Change %	30.06.2022 LKR 000	30.06.2021 LKR 000	Change %	30.06.2022 LKR 000	30.06.2021 LKR 000	Change %	30.06.2022 LKR 000	30.06.2021 LKR 000	Change %
<b>Gross Income</b>	<b>27,148,449</b>	21,418,037	27	<b>15,078,845</b>	10,328,194	46	<b>27,460,622</b>	21,664,330	27	<b>15,224,272</b>	10,427,366	46
Interest income	25,454,196	17,701,664	44	14,436,348	8,730,789	65	25,454,783	17,701,935	44	14,436,344	8,719,999	66
Interest expense	14,403,996	12,100,554	19	8,112,874	5,808,377	40	14,378,718	12,086,848	19	8,097,096	5,790,550	40
<b>Net interest income</b>	<b>11,050,200</b>	5,601,110	97	<b>6,323,474</b>	2,922,412	116	<b>11,076,065</b>	5,615,087	97	<b>6,339,248</b>	2,929,449	116
Fee and commission income	1,505,362	1,413,553	6	711,744	698,919	2	1,506,002	1,413,245	7	711,905	698,738	2
Fee and commission expenses	322,138	115,138	180	167,669	51,407	226	322,138	115,138	180	167,669	51,407	226
<b>Net fee and commission income</b>	<b>1,183,224</b>	1,298,415	(9)	<b>544,075</b>	647,512	(16)	<b>1,183,864</b>	1,298,107	(9)	<b>544,236</b>	647,331	(16)
Net (loss) / gain from trading	(1,365,714)	96,772	(1,511)	(404,182)	113,070	(457)	(1,365,714)	96,772	(1,511)	(404,182)	113,070	(457)
Net gain / (loss) from financial instruments at fair value through profit or loss	156,732	(1,175,624)	113	2,429,591	(307,933)	889	156,732	(1,175,624)	(113)	2,429,591	(307,933)	(889)
Net gains from derecognition of financial assets												
Fair value through other comprehensive income	10,407	1,321,855	(99)	170	887,457	(100)	10,407	1,321,855	(99)	170	887,457	(100)
Net other operating income	1,387,466	2,059,817	(33)	(2,094,826)	205,892	(1,117)	1,698,412	2,306,147	(26)	(1,949,556)	316,035	(717)
<b>Total operating income</b>	<b>12,422,315</b>	9,202,345	35	<b>6,798,302</b>	4,468,410	52	<b>12,759,766</b>	9,462,344	35	<b>6,959,507</b>	4,585,409	52
Impairment charge for loans and other losses												
Loans to and receivables from other customers	6,225,054	1,573,613	296	3,472,506	1,065,355	226	6,242,553	1,573,613	297	3,490,005	1,065,355	228
Other financial assets	585,410	71,644	717	520,730	232,789	124	585,410	71,644	717	520,730	232,789	124
Others	(2,927)	3,452	(185)	(2,927)	(5,008)	42	(2,927)	3,452	(185)	(2,927)	(5,008)	42
<b>Net operating income</b>	<b>5,614,778</b>	7,553,636	(26)	<b>2,807,993</b>	3,175,274	(12)	<b>5,934,730</b>	7,813,635	(24)	<b>2,951,699</b>	3,292,273	(10)
Operating expenses												
Personnel expenses	2,252,744	1,951,367	15	1,104,692	963,187	15	2,368,747	2,049,555	16	1,165,651	1,017,616	15
Depreciation and amortisation	559,906	480,582	17	284,751	245,861	16	590,300	505,004	17	300,014	258,191	16
Other expenses	2,018,289	1,662,614	21	1,021,419	854,647	20	1,981,866	1,625,657	22	991,985	820,459	21
<b>Total operating expenses</b>	<b>4,830,939</b>	4,094,563	18	<b>2,410,862</b>	2,063,695	17	<b>4,940,913</b>	4,180,216	18	<b>2,457,650</b>	2,096,266	17
<b>Operating profit before taxes on financial services</b>	<b>783,839</b>	3,459,073	(77)	<b>397,131</b>	1,111,579	(64)	<b>993,817</b>	3,633,419	(73)	<b>494,049</b>	1,196,006	(59)
Taxes on financial services	452,745	706,351	(36)	209,300	274,081	(24)	452,745	706,351	(36)	209,300	274,082	(24)
<b>Operating profit after taxes on financial services</b>	<b>331,094</b>	2,752,722	(88)	<b>187,831</b>	837,498	(78)	<b>541,072</b>	2,927,068	(82)	<b>284,749</b>	921,925	(69)
Share of profits of associate and joint venture	-	-	-	-	-	-	149,110	66,973	123	79,638	36,247	120
<b>Profit before income tax</b>	<b>331,094</b>	2,752,722	(88)	<b>187,831</b>	837,498	(78)	<b>690,182</b>	2,994,041	(77)	<b>364,387</b>	958,172	(62)
Income tax expense	(181,889)	721,317	(125)	41,405	284,644	(85)	(134,101)	757,538	(118)	66,468	304,593	(78)
<b>Profit for the period</b>	<b>512,983</b>	2,031,405	(75)	<b>146,426</b>	552,854	(74)	<b>824,283</b>	2,236,503	(63)	<b>297,919</b>	653,579	(54)
<b>Profit attributable to:</b>												
Equity holders of the Bank	512,983	2,031,405	(75)	146,426	552,854	(74)	754,462	2,171,561	(65)	268,272	623,785	(57)
Non-controlling interests	-	-	-	-	-	-	69,821	64,942	8	29,647	29,794	(0)
<b>Profit for the period</b>	<b>512,983</b>	2,031,405	(75)	<b>146,426</b>	552,854	(74)	<b>824,283</b>	2,236,503	(63)	<b>297,919</b>	653,579	(54)
Basic/Diluted earnings per ordinary share (LKR)	1.50	6.45	(77)	0.43	1.75	(76)	2.20	6.89	(68)	0.78	1.98	(60)

**DFCC Bank PLC**  
**Statement of Profit or Loss and Other Comprehensive Income**[illegible]

**DFCC Bank PLC**  
**Statement of Financial Position**

As at	Notes	Bank			Group		
		30.06.2022	31.12.2021	Change	30.06.2022	31.12.2021	Change
		LKR 000	(Audited) LKR 000	%	LKR 000	(Audited) LKR 000	%
<b>Assets</b>							
Cash and cash equivalents		16,387,723	10,688,255	53	16,422,501	10,690,873	54
Balances with Central Bank of Sri Lanka		9,216,142	9,359,241	(2)	9,216,142	9,359,241	(2)
Placements with banks		12,941,063	6,288,006	106	12,941,063	6,332,533	104
Derivative financial assets		6,270,283	280,235	2,138	6,270,283	280,235	2,138
Financial assets measured at fair value through profit or loss		245,810	218,875	12	245,810	218,875	12
Financial assets at amortised cost - Loans to and receivables from other customers	9	390,422,564	365,900,540	7	390,422,564	365,900,540	7
Financial assets at amortised cost - Debt and other instruments		56,199,519	26,674,962	111	56,199,519	26,674,962	111
Financial assets measured at fair value through other comprehensive income		8,302,064	54,329,436	(85)	8,302,064	54,333,429	(85)
Investments in subsidiaries		234,934	217,436	8	-	-	-
Investments in associate		35,270	35,270	-	33,184	35,608	(7)
Investments in joint venture		755,000	755,000	-	3,744,456	2,804,871	33
Investment property		9,879	9,879	-	473,064	469,841	1
Property, plant and equipment		3,307,357	3,237,124	2	3,451,444	3,389,102	2
Intangible assets and goodwill		2,064,140	2,227,577	(7)	2,242,863	2,408,816	(7)
Deferred tax asset		5,431,302	1,358,895	100	5,431,302	1,358,895	300
Other assets		3,441,175	3,924,505	(12)	3,672,892	3,998,987	(8)
<b>Total assets</b>		<b>515,264,225</b>	<b>485,505,236</b>	<b>6</b>	<b>519,069,151</b>	<b>488,256,808</b>	<b>6</b>
<b>Liabilities</b>							
Due to banks		1,698,039	3,349,836	(49)	1,698,039	3,349,836	(49)
Derivative financial liabilities		1,875	814,219	(100)	1,875	814,219	(100)
Financial liabilities at amortised cost - Due to depositors	10	343,523,602	319,861,013	7	342,904,143	319,362,372	7
Financial liabilities at amortised cost - Due to other borrowers		91,802,854	69,589,129	32	91,802,854	69,589,129	32
Debt securities in issue		15,334,971	16,297,256	(6)	15,334,971	16,297,256	(6)
Retirement benefit obligation		716,923	688,598	4	745,790	716,477	4
Current tax liabilities		685,903	951,645	(28)	724,950	1,031,557	(30)
Deferred tax liability		-	-	-	98,441	112,514	(13)
Other liabilities		5,582,531	6,580,166	(15)	6,026,597	6,831,147	(12)
Subordinated term debt		18,520,360	18,387,276	1	18,520,360	18,387,276	1
<b>Total liabilities</b>		<b>477,867,058</b>	<b>436,519,138</b>	<b>9</b>	<b>477,858,020</b>	<b>436,491,783</b>	<b>9</b>
<b>Equity</b>							
Stated capital		13,182,025	8,600,457	53	13,182,025	8,600,457	53
Statutory reserve		2,746,968	2,746,968	-	2,746,968	2,746,968	-
Retained earnings		20,386,612	22,091,649	(8)	24,293,077	25,831,589	(6)
Other reserves		1,081,562	15,547,024	(93)	602,082	14,268,853	(96)
<b>Total equity attributable to equity holders of the Bank</b>		<b>37,397,167</b>	<b>48,986,098</b>	<b>(24)</b>	<b>40,824,152</b>	<b>51,447,867</b>	<b>(21)</b>
<b>Non-controlling interests</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>386,979</b>	<b>317,158</b>	<b>22</b>
<b>Total equity</b>		<b>37,397,167</b>	<b>48,986,098</b>	<b>(24)</b>	<b>41,211,131</b>	<b>51,765,025</b>	<b>(20)</b>
<b>Total equity and liabilities</b>		<b>515,264,225</b>	<b>485,505,236</b>	<b>6</b>	<b>519,069,151</b>	<b>488,256,808</b>	<b>6</b>
<b>Contingent liabilities and commitments</b>							
		156,414,644	148,131,691	6	156,414,644	148,131,691	6
<b>Net assets value per share, LKR</b>							
		92.87	152.83	(39)	101.38	160.51	(37)

	Bank		Group	
	30.06.2022	31.12.2021	30.06.2022	31.12.2021
<b>Memorandum Information</b>				
Number of Employees	2,118	2,072	2,234	2,182
Number of Branches (Including Service centres)	139	139		

# Statement of Changes in Equity

	Stated capital	Statutory reserve	Other reserves			Retained earnings	Total equity
	LKR 000	Reserve fund LKR 000	Fair value reserve LKR 000	Hedging reserve LKR 000	General reserves LKR 000	LKR 000	LKR 000
<b>Bank</b>							
<b>Balance as at 01 January 2021</b>	<b>7,682,465</b>	<b>2,583,968</b>	<b>5,882,811</b>	<b>(224,095)</b>	<b>13,779,839</b>	<b>19,652,169</b>	<b>49,357,157</b>
Profit for the period	-	-	-	-	-	2,031,405	2,031,405
Other comprehensive (expenses) / income , net of tax	-	-	(816,023)	161,757	-	-	(654,266)
<b>Total comprehensive (expense) / income for the period</b>	<b>-</b>	<b>-</b>	<b>(816,023)</b>	<b>161,757</b>	<b>-</b>	<b>2,031,405</b>	<b>1,377,139</b>
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	-	-	(199,311)	-	-	199,311	-
<b>Transactions with equity holders of the Bank, recognised directly in equity</b>							
Final dividend for 2020 - Scrip	917,992	-	-	-	-	(917,992)	-
<b>Total contributions from and distribution to equity holders</b>	<b>917,992</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(917,992)</b>	<b>-</b>
<b>Balance as at 30 June 2021</b>	<b>8,600,457</b>	<b>2,583,968</b>	<b>4,867,477</b>	<b>(62,338)</b>	<b>13,779,839</b>	<b>20,964,893</b>	<b>50,734,296</b>
<b>Balance as at 01 January 2022</b>	<b>8,600,457</b>	<b>2,746,968</b>	<b>2,096,627</b>	<b>(329,442)</b>	<b>13,779,839</b>	<b>22,091,649</b>	<b>48,986,098</b>
Adjustment on surcharge tax (Note 03)	-	-	-	-	-	(1,232,490)	(1,232,490)
<b>Adjusted balance as at 01 January 2022</b>	<b>8,600,457</b>	<b>2,746,968</b>	<b>2,096,627</b>	<b>(329,442)</b>	<b>13,779,839</b>	<b>20,859,159</b>	<b>47,753,608</b>
Profit for the period	-	-	-	-	-	512,983	512,983
Other comprehensive expenses net of tax	-	-	(4,121,927)	(10,331,409)	-	-	(14,453,336)
<b>Total comprehensive (expense) / income for the period</b>	<b>-</b>	<b>-</b>	<b>(4,121,927)</b>	<b>(10,331,409)</b>	<b>-</b>	<b>512,983</b>	<b>(13,940,353)</b>
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	-	-	(12,126)	-	-	12,126	-
<b>Transactions with equity holders of the Bank, recognised directly in equity</b>							
Rights issue	3,620,001	-	-	-	-	(36,089)	3,583,912
Final dividend for 2021 – Scrip	961,567	-	-	-	-	(961,567)	-
<b>Total contributions from and distribution to equity holders</b>	<b>4,581,568</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(997,656)</b>	<b>3,583,912</b>
<b>Balance as at 30 June 2022</b>	<b>13,182,025</b>	<b>2,746,968</b>	<b>(2,037,426)</b>	<b>(10,660,851)</b>	<b>13,779,839</b>	<b>20,386,612</b>	<b>37,397,167</b>



## Statement of Changes in Equity

Group	Attributable to the equity holders of the Bank									
	Stated Capital	Statutory reserve	Other reserves				Retained earnings	Total	Non- controlling interests	Total equity
		Reserve fund	Fair value reserve	Exchange equalization reserve	Hedging reserve	General reserve				
	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000
<b>Balance as at 01 January 2021</b>	<b>7,682,465</b>	<b>2,583,968</b>	<b>4,439,846</b>	<b>103,054</b>	<b>(224,095)</b>	<b>13,779,839</b>	<b>23,061,084</b>	<b>51,426,161</b>	<b>282,589</b>	<b>51,708,750</b>
Profit for the period	-	-	-	-	-	-	2,171,561	2,171,561	64,942	2,236,503
Other comprehensive (expense) / income, net of tax	-	-	(815,575)	77,240	161,757	-	(16)	(576,594)	-	(576,594)
<b>Total comprehensive (expense) / income for the period</b>	<b>-</b>	<b>-</b>	<b>(815,575)</b>	<b>77,240</b>	<b>161,757</b>	<b>-</b>	<b>2,171,545</b>	<b>1,594,967</b>	<b>64,942</b>	<b>1,659,909</b>
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	-	-	(199,311)	-	-	-	199,311	-	-	-
<b>Transactions with equity holders of the Bank, recognized directly in equity</b>										
Final dividend for 2020 - Scrip	917,992	-	-	-	-	-	(917,992)	-	-	-
<b>Total contributions from and distribution to equity holders</b>	<b>917,992</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(917,992)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance as at 30 June 2021</b>	<b>8,600,457</b>	<b>2,583,968</b>	<b>3,424,960</b>	<b>180,294</b>	<b>(62,338)</b>	<b>13,779,839</b>	<b>24,513,948</b>	<b>53,021,128</b>	<b>347,531</b>	<b>53,368,659</b>
<b>Balance at 01 January 2022</b>	<b>8,600,457</b>	<b>2,746,968</b>	<b>655,255</b>	<b>163,201</b>	<b>(329,442)</b>	<b>13,779,839</b>	<b>25,831,589</b>	<b>51,447,867</b>	<b>317,158</b>	<b>51,765,025</b>
Adjustment on surcharge tax (Note 03)	-	-	-	-	-	-	(1,307,849)	(1,307,849)	-	(1,307,849)
<b>Adjusted balance as at 01 January 2022</b>	<b>8,600,457</b>	<b>2,746,968</b>	<b>655,255</b>	<b>163,201</b>	<b>(329,442)</b>	<b>13,779,839</b>	<b>24,523,740</b>	<b>50,140,018</b>	<b>317,158</b>	<b>50,457,176</b>
Profit for the period	-	-	-	-	-	-	754,462	754,462	69,821	824,283
Other comprehensive (expense) / income , net of tax	-	-	(4,119,935)	796,699	(10,331,409)	-	405	(13,654,240)	-	(13,654,240)
<b>Total comprehensive (expense) / income for the period</b>	<b>-</b>	<b>-</b>	<b>(4,119,935)</b>	<b>796,699</b>	<b>(10,331,409)</b>	<b>-</b>	<b>754,867</b>	<b>(12,899,778)</b>	<b>69,821</b>	<b>(12,829,957)</b>
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	-	-	(12,126)	-	-	-	12,126	-	-	-
<b>Transactions with equity holders of the Bank, recognized directly in equity</b>										
Rights issue	3,620,001	-	-	-	-	-	(36,089)	3,583,912	-	3,583,912
Change in holding through joint venture	-	-	-	-	-	-	-	-	-	-
Final dividend for 2021 – Scrip	961,567	-	-	-	-	-	(961,567)	-	-	-
<b>Total contributions from and distribution to equity holders</b>	<b>4,581,568</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(997,656)</b>	<b>3,583,912</b>	<b>-</b>	<b>3,583,912</b>
<b>Balance as at 30 June 2022</b>	<b>13,182,025</b>	<b>2,746,968</b>	<b>(3,476,806)</b>	<b>959,900</b>	<b>(10,660,851)</b>	<b>13,779,839</b>	<b>24,293,077</b>	<b>40,824,152</b>	<b>386,979</b>	<b>41,211,131</b>

## Statement of Cash Flows

	Bank		Group	
For the six months ended 30 June	2022	2021	2022	2021
	LKR 000	LKR 000	LKR 000	LKR 000
<b>Cash flows from operating activities</b>				
Interest receipts	20,962,991	12,622,609	20,967,353	12,621,190
Interest payments	(14,602,099)	(15,494,517)	(14,581,391)	(15,482,742)
Net commission receipts	1,501,385	1,350,685	1,501,385	1,350,685
Net trading income	20,037	39,950	20,037	39,950
Recoveries from loans previously written off	130,521	9,451	130,521	9,451
Receipts from other operating activities	17,044,895	2,805,791	17,334,937	3,220,654
Payments on other operating activities	(2,476,747)	(1,733,258)	(2,476,057)	(1,933,946)
Cash payments to employees	(2,545,130)	(1,882,311)	(2,913,351)	(1,882,311)
Taxes on financial services	(323,079)	(820,924)	(323,079)	(820,924)
<b>Operating Cash flows before changes in operating assets and liabilities</b>	<b>19,712,774</b>	<b>(3,102,524)</b>	<b>19,660,355</b>	<b>(2,877,993)</b>
<b>Increase / (decrease) in operating assets:</b>				
Balances with Central Bank / deposits held for regulatory or monetary control purposes	1,383,834	(534,043)	1,383,834	(534,043)
Financial assets at amortised cost - Loans to and receivables from other customers	(29,117,365)	(24,961,252)	(29,117,365)	(24,961,252)
Others	(8,217,801)	(2,622,551)	(7,681,123)	(2,367,574)
<b>Increase /(decrease) in operating liabilities:</b>				
Financial liabilities at amortised cost - Due to depositors	23,469,555	18,091,049	22,971,568	17,715,071
Negotiable certificates of deposits	(310,017)	(45,238)	(310,017)	(45,238)
Others	(538,615)	866,590	(539,513)	851,810
<b>Net cash flows from/(used in) operating activities before income tax</b>	<b>6,382,365</b>	<b>(12,307,969)</b>	<b>6,367,740</b>	<b>(12,219,219)</b>
Surcharge tax paid	(616,245)		(618,288)	
Income tax paid	(843,882)	(615,476)	(871,764)	(664,954)
<b>Net cash flows from/(used in) operating activities</b>	<b>4,922,238</b>	<b>(12,923,445)</b>	<b>4,877,688</b>	<b>(12,884,173)</b>
<b>Cash flows from investing activities</b>				
Dividends received from investmenet in subsidiaries, joint venture, and associate	-	3,500	-	-
Dividend received from other investments	1,072,839	629,248	1,072,839	629,248
Interest received	3,078,331	5,013,751	3,099,770	5,027,085
Government Securities- net	12,045,798	(11,564,042)	12,045,798	(11,564,043)
Proceeds from sale and redemption of securities	99,305	3,600,372	114,342	3,615,972
Purchase of financial investments	(802,499)	(6,829,294)	(802,499)	(6,829,294)
Purchase of property , equipment ,intangibles and investment property	(467,088)	(399,075)	(471,381)	(391,982)
Proceeds from sale of equipment, investment property and others	7,768	106	7,768	4,406
<b>Net cash flows from/( used in) investing activities</b>	<b>15,034,454</b>	<b>(9,545,434)</b>	<b>15,066,637</b>	<b>(9,508,608)</b>
<b>Cash flows from financing activities</b>				
Issue of new shares under Right Issue	3,620,001	-	3,620,001	-
Borrowing , medium and long - term	2,828,944	4,452,514	2,828,944	4,452,514
Other borrowings - net	(251,216)	13,603,748	(251,216)	13,603,748
Repayment of borrowing ,medium and long - term	(13,802,569)	(10,390,364)	(13,802,569)	(10,390,364)
Dividends paid	673	232	673	232
<b>Net Cash flows ( used in) /from financing activities</b>	<b>(7,604,167)</b>	<b>7,666,130</b>	<b>(7,604,167)</b>	<b>7,666,130</b>
Net increase /(decrease) in cash and cash equivalents	<b>12,352,525</b>	<b>(14,802,749)</b>	<b>12,340,158</b>	<b>(14,726,651)</b>
Cash and cash equivalents at the beginning of year	<b>16,976,261</b>	<b>23,138,651</b>	<b>17,023,406</b>	<b>23,160,931</b>
<b>Cash and cash equivalents at the end of year</b>	<b>29,328,786</b>	<b>8,335,902</b>	<b>29,363,564</b>	<b>8,434,280</b>
<b>Reconciliation of cash and cash equivalents with items reported in the statement of financial position</b>				
Cash and cash equivalents	16,387,723	8,335,902	16,422,501	8,339,860
Placements with banks	12,941,063	-	12,941,063	94,420
	<b>29,328,786</b>	<b>8,335,902</b>	<b>29,363,564</b>	<b>8,434,280</b>

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.

## Explanatory Notes

### Note 1. Statement of Compliance

The consolidated financial statements of the Group and the separate financial statements of the Bank have been presented in accordance with the Sri Lanka Accounting Standards 34 (LKAS 34) "Interim Financial Statements" issued 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.

### Note 2. Accounting Policies and Accounting Estimates

There were no changes to the accounting policies and method of computation since the publication of the last annual financial statements.

#### Note 2.1 Basis of preparation of financial statements

The tax liability arising from the Surcharge Tax Act No: 14 of 2022 has been accounted as recommended by the Statement of Alternative Treatment (SoAT) issued by the Institute of Chartered Accountants of Sri Lanka as disclosed under the note 3 on imposition of surcharge tax.

### Note 3 Imposition of Surcharge tax

As per the Surcharge Tax Act No. 14 of 2022 which was certified on 8 th April 2022, the Bank and Group are liable for the surcharge tax of LKR. 1,232 and LKR 1,309 million respectively pertaining to the year of assessment 2020/21. According to the said Act, the surcharge tax shall be deemed to be an expenditure in the financial statements relating to the year of assessment which commenced on 1 April 2020. Since the Act supersedes the requirements of the Sri Lanka Accounting Standards, the surcharge tax expense is accounted as recommended by the SoAT on Accounting for Surcharge Tax issued by the Institute of Chartered Accountants of Sri Lanka, in April 2022.

The impact of the surcharge tax under the Surcharge Tax Act on the comparative year would have been as given below:

	<b>Bank</b>	<b>Group</b>
	<b>LKR Mn</b>	<b>LKR Mn</b>
Profit after Tax for 31/12/2020	2,388	2,847
Surcharge tax levied under Surcharge Act	(1,232)	(1,309)
Comparable Profit for the year 31/12/2020	<u>1,156</u>	<u>1,537</u>

### Note 4. Group Financial Statements

The Group Financial Statements comprise the Bank and its subsidiaries DFCC Consulting (Pvt) Limited, Lanka Industrial Estates Limited and Synapsys Limited and group interest in associate company National Asset Management Limited and group interest in joint venture Acuity Partners (Pvt) Ltd. Investments in Subsidiaries, joint venture and associate companies are accounted under cost method in Bank's financial statements. Investment in associate and joint venture are accounted under equity method in group's financial statements.

#### Note 4.1 31 March Financial Year Company

This is Lanka Industrial Estates Ltd.

### Note 5. Rights Issue

The Bank issued 65,818,199 shares each at LKR 55/- per share to raise LKR 3.6 Billion to increase the Tier 1 capital of the Bank.

**Note 6. Net loss from trading**

	<b>Bank</b>		<b>Group</b>	
For the period ended 30 June	<b>2022</b>	2021	<b>2022</b>	2021
	<b>LKR 000</b>	LKR 000	<b>LKR 000</b>	LKR 000
Foreign exchange from banks	<b>(1,179,599)</b>	47,273	<b>(1,179,599)</b>	47,273
Government securities				
- Net capital gain /(loss)	<b>3,368</b>	(728)	<b>3,368</b>	(728)
Equity securities				
- Net marked to market loss	<b>(209,774)</b>	(4,305)	<b>(209,774)</b>	(4,305)
- Net capital gain	<b>16,669</b>	54,232	<b>16,669</b>	54,232
- Dividend income	<b>3,622</b>	300	<b>3,622</b>	300
	<b>(1,365,714)</b>	96,772	<b>(1,365,714)</b>	96,772

**Note 7. Net loss from financial instruments at fair value through profit or loss**

	<b>Bank</b>		<b>Group</b>	
For the period ended 30 June	<b>2022</b>	2021	<b>2022</b>	2021
	<b>LKR 000</b>	LKR 000	<b>LKR 000</b>	LKR 000
Forward exchange fair value changes				
Contracts with commercial banks	<b>174,633</b>	(1,201,332)	<b>174,633</b>	(1,201,332)
Contracts with CBSL	<b>(11,507)</b>	-	<b>(11,507)</b>	-
(Loss)/gain on financial assets fair value through profit or loss - equity securities	<b>(6,394)</b>	25,708	<b>(6,394)</b>	25,708
	<b>156,732</b>	(1,175,624)	<b>156,732</b>	(1,175,624)

**Note 8. Net Other Operating Income**

	<b>Bank</b>		<b>Group</b>	
For the period ended 30 June	<b>2022</b>	2021	<b>2022</b>	2021
	<b>LKR 000</b>	LKR 000	<b>LKR 000</b>	LKR 000
Financial assets measured at fair value through other comprehensive income				
Dividend income	<b>1,069,217</b>	897,344	<b>1,069,217</b>	897,344
Dividend income from subsidiaries, joint venture and associate	-	3,500	-	-
Net (loss) / gain from repurchase transactions	<b>(58,157)</b>	172,368	<b>(58,157)</b>	172,368
Gains on revaluation of foreign exchange	<b>191,556</b>	973,265	<b>191,556</b>	973,265
Others	<b>184,850</b>	13,340	<b>495,796</b>	263,170
	<b>1,387,466</b>	2,059,817	<b>1,698,412</b>	2,306,147

**Note 9. Financial Assets at Amortized Cost - Loans to and Receivables from Other Customers**

As at	Bank		Group	
	30.06.2022	31.12.2021 (Audited)	30.06.2022	31.12.2021 (Audited)
	LKR 000	LKR 000	LKR 000	LKR 000
Gross loans and receivables (Note 9.1)	416,618,861	384,958,591	416,618,861	384,958,591
Less: Allowance for impairment (Note 9.2)	(26,196,297)	(19,058,051)	(26,196,297)	(19,058,051)
<b>Net loans and receivables</b>	<b>390,422,564</b>	<b>365,900,540</b>	<b>390,422,564</b>	<b>365,900,540</b>

**Note 9.1 Loans to and Receivables from Other Customers - By product**

As at	Bank		Group	
	30.06.2022	31.12.2021 (Audited)	30.06.2022	31.12.2021 (Audited)
	LKR 000	LKR 000	LKR 000	LKR 000
By product-Domestic Currency				
Overdrafts	54,467,653	45,718,734	54,467,653	45,718,734
Trade finance	23,193,669	23,698,670	23,193,669	23,698,670
Credit cards	4,287,214	3,669,701	4,287,214	3,669,701
Pawning	7,240,452	5,970,069	7,240,452	5,970,069
Staff loans	2,939,879	2,656,268	2,939,879	2,656,268
Term loans	226,123,866	230,954,588	226,123,866	230,954,588
Lease rentals receivable	21,652,947	23,761,600	21,652,947	23,761,600
Asset back notes	298,078	681,528	298,078	681,528
	<b>340,203,758</b>	<b>337,111,158</b>	<b>340,203,758</b>	<b>337,111,158</b>
By product-Foreign Currency				
Overdrafts	1,063,248	413,968	1,063,248	413,968
Trade finance	21,562,948	16,176,908	21,562,948	16,176,908
Term loans	53,788,907	31,256,557	53,788,907	31,256,557
	<b>76,415,103</b>	<b>47,847,433</b>	<b>76,415,103</b>	<b>47,847,433</b>
Gross loans and receivables	<b>416,618,861</b>	<b>384,958,591</b>	<b>416,618,861</b>	<b>384,958,591</b>

**Note 9.2 Movement in Impairment during the period**

	Bank		Group	
	30.06.2022	31.12.2021 (Audited)	30.06.2022	31.12.2021 (Audited)
	LKR 000	LKR 000	LKR 000	LKR 000
<b>Stage 1</b>				
Balance at beginning	2,202,670	1,305,740	2,202,670	1,305,740
Charge to income statement	155,789	896,995	155,789	896,995
Write-off during the period	-	(65)	-	(65)
Balance at end	<b>2,358,459</b>	<b>2,202,670</b>	<b>2,358,459</b>	<b>2,202,670</b>
<b>Stage 2</b>				
Balance at beginning	1,989,584	1,065,570	1,989,584	1,065,570
Charge to income statement	1,296,025	924,214	1,296,025	924,214
Write-off during the period	-	(200)	-	(200)
Balance at end	<b>3,285,609</b>	<b>1,989,584</b>	<b>3,285,609</b>	<b>1,989,584</b>
<b>Stage 3</b>				
Balance at beginning	14,865,797	12,951,965	14,865,797	12,951,965
Charge to income statement	4,773,239	2,024,892	4,773,239	2,024,892
Effect of foreign currency movement	942,340	102,856	942,340	102,856
Write-off during the period	(29,147)	(213,316)	(29,147)	(213,316)
Other movements	-	(600)	-	(600)
Balance at end	<b>20,552,229</b>	<b>14,865,797</b>	<b>20,552,229</b>	<b>14,865,797</b>
<b>Total Impairment</b>	<b>26,196,297</b>	<b>19,058,051</b>	<b>26,196,297</b>	<b>19,058,051</b>

**Note 10. Financial liabilities at amortized cost - Due to depositors**

As at	<b>Bank</b>		<b>Group</b>	
	<b>30.06.2022</b>	31.12.2021 (Audited)	<b>30.06.2022</b>	31.12.2021 (Audited)
	<b>LKR 000</b>	LKR 000	<b>LKR 000</b>	LKR 000
<b>By product-Domestic Currency</b>				
Demand deposits (current accounts)	<b>7,919,189</b>	9,844,879	<b>7,919,111</b>	9,844,815
Savings deposits	<b>49,627,793</b>	65,299,886	<b>49,567,337</b>	65,263,188
Fixed deposits	<b>205,354,137</b>	197,597,692	<b>204,843,909</b>	197,173,942
Other deposits	<b>481,623</b>	1,272,521	<b>481,623</b>	1,272,521
Certificate of deposits	<b>2,005,819</b>	2,328,082	<b>2,005,819</b>	2,328,082
	<b>265,388,561</b>	276,343,060	<b>264,817,799</b>	275,882,548
<b>By product- Foreign Currency</b>				
Demand deposits (current accounts)	<b>862,323</b>	866,504	<b>862,323</b>	866,504
Savings deposits	<b>41,273,570</b>	22,494,093	<b>41,259,530</b>	22,474,930
Fixed deposits	<b>35,840,487</b>	19,934,389	<b>35,805,830</b>	19,915,423
Other deposits	<b>158,661</b>	222,967	<b>158,661</b>	222,967
	<b>78,135,041</b>	43,517,953	<b>78,086,344</b>	43,479,824
<b>Total</b>	<b>343,523,602</b>	319,861,013	<b>342,904,143</b>	319,362,372

**Note 11. Reclassifications of Financial Instrument**

Considering the unprecedented changes in the macro-economic conditions, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has decided to issue the "Statement of Alternative Treatment (SoAT) on Reclassification of Debt Portfolio". This SoAT will provide a temporary practical expedient to permit the entities to reclassify the debt portfolio measured at Fair Value through Other Comprehensive Income (FVTOCI) to Amortised cost.

The Bank used this option to reclassify long term debt instruments subsequent to the initial recognition. The following table illustrates the investment classified as fair value through other comprehensive income;

<b>Investment Type</b>	<b>Face Value as at 30<sup>th</sup> June 2022 LKR "000"</b>
Sovereign Bonds	1,799,400
Treasury Bond	18,836,222

**Note 12. Events after the reporting period**

There were no material events that took place after the reporting date which require adjustment to or disclosure in the Financial Statements.

**Note 13. Disclosures under Listing Rules**

**13.1** During the year, there were no material changes in the composition of assets, liabilities and contingent liabilities. All known expenditure items have been provided for.

There is no management fees or similar expenditure provided for in the Financial Statements

**13.2 Stated capital**

	<b>Number of shares</b>	
As at	<b>30.06.2022</b>	31.12.2021
Number of shares of the Bank	<b>402,666,056</b>	320,522,436

**13.3 Market price of a share**

Information on shares of the Bank for the quarter ended	<b>30.06.2022</b>	31.12.2021
- Highest price LKR	<b>50.50</b>	69.00
- Lowest price LKR	<b>34.00</b>	57.60
- Market price LKR	<b>35.30</b>	60.00

### 13.4 Twenty Major Shareholders as at 30.06.2022

	Name of Shareholder/Company	Shareholding	%
1	Hatton National Bank PLC A/C No 1	50,224,072	12.47
2	Bank of Ceylon-No2 A/C (BOC PTF)	42,124,141	10.46
3	LOLC Investment Holding Three (Private) Limited	40,266,605	9.99
4	Sri Lanka Insurance Corporation Ltd-Life Fund	30,537,974	7.58
5	Don And Don Holdings Private Limited	28,873,821	7.17
6	Employee's Provident Fund	26,985,361	6.7
7	Mr. M.A. Yaseen	25,684,181	6.37
8	Melstacorp PLC	24,786,820	6.15
9	Seafeld International Limited	19,618,948	4.87
10	Mr. H.H. Abdulhusein	10,080,000	2.5
11	People's Leasing & Finance PLC / Don And Don Holdings (Private) Limited	9,439,441	2.34
12	Commercial Bank of Ceylon PLC / M.A.Yaseen	8,216,644	2.04
13	Renuka City Hotels PLC	7,670,569	1.9
14	Renuka Hotels PLC	4,510,693	1.12
15	Employees Trust Fund Board	4,416,115	1.09
16	Seylan Bank PLC / Senthilveri Holdings (Pvt) Ltd	3,547,601	0.88
17	Akbar Brothers Pvt Ltd A/C No 1	3,005,179	0.74
18	Anverally International (Pvt) Limited	2,928,654	0.72
19	Cargo Boat Development Company PLC	2,766,417	0.68
20	Sri Lanka Insurance Corporation Ltd-General Fund	2,384,981	0.59

### 13.5 Public Holdings as at 30.06.2022

Public holdings percentage	67.02%
Number of Public shareholders	10,452
Float adjusted market capitalisation	LKR 9,526 million
Applicable option as per CSE Listing Rule 7.13.1 (a)	Option 2

### 13.6 Directors' Interests in Shares

	No of Shares As at 30.06.2022
J. Durairatnam	Nil
L.K.A.H. Fernando ( Ms.)	Nil
P M B Fernando (Retired with effect from 30 June 2022)	2,213
H.M.N.S Gunawardana (Ms.)	Nil
N.K.G.K. Nemmawatta	Nil
N.H.T.I.Perera	24,635
V J Senaratne (Ms.)	2,006
A.L.Thambiayah (Ms)	100,292
N.V.Kumar	Nil
H.A.J. de Silva Wijeyeratne	12,316

### Certification

These Financial Statements have been prepared in compliance with requirements of the Companies Act No 07 of 2007.

### Chinthika Amarasekera Chief Financial Officer

We, the undersigned, being the Chairman, the Chief Executive Officer of DFCC Bank PLC certify that:

- (a) the above statements have been prepared in compliance with the format and definitions prescribed by the Central Bank of Sri Lanka.
- (b) the information contained in these statements have been extracted from the unaudited financial statements of the Bank and the Group unless indicated as audited.

**J. Durairatnam**  
Chairman

**Thimal Perera**  
Director & Chief Executive Officer

## Listed Debentures

Debenture Category	Interest rate	Effective	Coupon	Interest rate of	Balance as at	Market price LKR			Yield	Last
	Frequency	Rate	Rate	Comparative		Highest	Lowest	Last Traded	Last Traded %	Traded Date
		%	%	Government Securities (Gross) p.a.						
					30.06.2022					
					LKR 000					
<b>Fixed Rate</b>										
2016/2023	Annually	12.75	12.75	20.82	6,521,021	N/T	N/T	N/T	N/A	N/A
2018/2023	Annually	12.60	12.60	20.45	3,001,418	N/T	N/T	N/T	N/A	N/A
2018/2025	Annually	13.00	13.00	20.33	4,209,067	N/T	N/T	N/T	N/A	N/A
2019/2024	Annually	13.50	13.50	20.55	3,926,555	N/T	N/T	N/T	N/A	N/A
2019/2026	Annually	13.75	13.75	22.90	1,840,927	N/T	N/T	N/T	N/A	N/A
2019/2029	Annually	13.90	13.90	21.15	4,550,619	N/T	N/T	N/T	N/A	N/A
2020/2025	Annually	9.00	9.00	21.77	4,571,535	N/T	N/T	N/T	N/A	N/A
2020/2027	Annually	9.25	9.25	21.50	217,319	N/T	N/T	N/T	N/A	N/A

N/T -Not traded



**Selected Performance Indicators**

	Bank		Group	
	30.06.2022	31.12.2021	30.06.2022	31.12.2021
<b>Regulatory Capital ( LKR '000)</b>				
Common Equity Tier I	43,054,673	34,259,288	42,033,720	34,265,838
Tier 1 Capital	43,054,673	34,259,288	42,033,720	34,265,838
Total Capital	56,167,204	47,968,017	55,146,251	47,974,567
<b>Regulatory Capital Ratios %</b>				
Common Equity Tier 1 Capital Ratio (Minimum requirement - 7%)	10.838	9.305	10.556	9.283
Tier 1 Capital Ratio (Minimum requirement - 8.5% )	10.838	9.305	10.556	9.283
Total Capital Ratio (Minimum requirement - 12.5%)	14.139	13.029	13.848	12.997
<b>Leverage Ratio ( Minimum requirement is 3%)</b>	7.68	6.61	7.51	6.62
<b>Regulatory Liquidity</b>				
Statutory liquid assets LKR 000				
Domestic Banking Unit	150,203,152	93,333,115		
Off-Shore Banking Unit	74,153,214	31,186,738		
Statutory liquid assets ratio % (Minimum requirement 20%)				
Domestic Banking Unit	39.21	21.60		
Off-Shore Banking Unit	64.04	41.79		
Liquidity Coverage Ratio (%) – Rupee (Minimum Requirement - 2022 - 90%, 2021 - 100%)	184.15	152.86		
Liquidity Coverage Ratio (%) – All Currency (Minimum Requirement - 2022 -90% , 2021 -100%)	133.37	136.18		
Net Stable Funding Ratio (%) (Minimum requirement - 2022 - 90%, 2021 - 100%)	124.58	122.43		
<b>Asset Quality</b>				
Impaired Loans (Stage 3) Ratio (%)	3.53	3.03		
Impairment (Stage 3) to Stage 3 Loans Ratio (%)	51.45	48.76		
<b>Profitability</b>				
Interest margin %	4.45	2.66		
Return on assets ( profit before tax) %	(0.01)	0.91		
Return on equity (profit after tax) %	0.93	6.55		
<b>Other Ratios</b>				
Debt to equity ratio (times)	2.54	2.26		
Interest cover (times)	1.21	1.85		

## Analysis of Financial Instruments By Measurement Basis

	Bank				Group			
	Fair value through profit or loss - mandatory	Fair value through other comprehensive income	Amortised cost	Total	Fair value through profit or loss - mandatory	Fair value through other comprehensive income	Amortised cost	Total
As at 30 June 2022	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000
<b>Financial Assets</b>								
Cash and cash equivalents	-	-	16,387,723	16,387,723	-	-	16,422,501	16,422,501
Balances with Central Bank of Sri Lanka	-	-	9,216,142	9,216,142	-	-	9,216,142	9,216,142
Placements with banks	-	-	12,941,063	12,941,063	-	-	12,941,063	12,941,063
Derivative financial assets	6,270,283	-	-	6,270,283	6,270,283	-	-	6,270,283
Financial assets measured at fair value through profit or loss	245,810	-	-	245,810	245,810	-	-	245,810
Financial assets at amortised cost -Loans to and receivables from other customers	-	-	390,422,564	390,422,564	-	-	390,422,564	390,422,564
Financial assets at amortised cost - Debt and other instruments	-	-	56,199,519	56,199,519	-	-	56,199,519	56,199,519
Financial assets measured at fair value through other comprehensive income	-	8,302,064	-	8,302,064	-	8,302,064	-	8,302,064
Other assets	-	-	2,077,347	2,077,347	-	-	2,298,025	2,298,025
<b>Total financial assets</b>	<b>6,516,093</b>	<b>8,302,064</b>	<b>487,244,358</b>	<b>502,062,515</b>	<b>6,516,093</b>	<b>8,302,064</b>	<b>487,499,814</b>	<b>502,317,971</b>
<b>Financial Liabilities</b>								
Due to banks	-	-	1,698,039	1,698,039	-	-	1,698,039	1,698,039
Derivative financial liabilities	1,875	-	-	1,875	1,875	-	-	1,875
Financial liabilities at amortised cost -Due to depositors	-	-	343,523,602	343,523,602	-	-	342,904,143	342,904,143
Financial liabilities at amortised cost - Due to other borrowers	-	-	91,802,854	91,802,854	-	-	91,802,854	91,802,854
Debt securities issued	-	-	15,334,971	15,334,971	-	-	15,334,971	15,334,971
Other liabilities	-	-	3,165,504	3,165,504	-	-	3,554,194	3,554,194
Subordinated term debt	-	-	18,520,360	18,520,360	-	-	18,520,360	18,520,360
<b>Total financial liabilities</b>	<b>1,875</b>	<b>-</b>	<b>474,045,330</b>	<b>474,047,205</b>	<b>1,875</b>	<b>-</b>	<b>473,814,561</b>	<b>473,816,436</b>

	Bank				Group			
	Fair value through profit or loss - mandatory	Fair value through other comprehensive income	Amortised cost	Total	Fair value through profit or loss - mandatory	Fair value through other comprehensive income	Amortised cost	Total
	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000
<b>As at 31 December 2021</b>								
<b>Financial Assets</b>								
Cash and cash equivalents	-	-	10,688,255	10,688,255	-	-	10,690,873	10,690,873
Balances with Central Bank of Sri Lanka	-	-	9,359,241	9,359,241	-	-	9,359,241	9,359,241
Placements with banks	-	-	6,288,006	6,288,006	-	-	6,332,533	6,332,533
Derivative financial assets	280,235	-	-	280,235	280,235	-	-	280,235
Financial assets measured at fair value through profit or loss	218,875	-	-	218,875	218,875	-	-	218,875
Financial assets at amortised cost -Loans to and receivables from other customers	-	-	365,900,540	365,900,540	-	-	365,900,540	365,900,540
Financial assets at amortised cost - Debt and other instruments	-	-	26,674,962	26,674,962	-	-	26,674,962	26,674,962
Financial assets measured at fair value through other comprehensive income	-	54,329,436	-	54,329,436	-	54,333,429	-	54,333,429
Other assets	-	-	2,855,254	2,855,254	-	-	2,916,565	2,916,565
<b>Total financial assets</b>	<b>499,111</b>	<b>54,329,436</b>	<b>421,766,258</b>	<b>476,594,804</b>	<b>499,110</b>	<b>54,333,429</b>	<b>421,874,714</b>	<b>476,707,253</b>
<b>Financial Liabilities</b>								
Due to banks	-	-	3,349,836	3,349,836	-	-	3,349,836	3,349,836
Derivative financial liabilities	814,219	-	-	814,219	814,219	-	-	814,219
Financial liabilities at amortised cost -Due to depositors	-	-	319,861,013	319,861,013	-	-	319,362,372	319,362,372
Financial liabilities at amortised cost - Due to other borrowers	-	-	69,589,129	69,589,129	-	-	69,589,129	69,589,129
Debt securities issued	-	-	16,297,256	16,297,256	-	-	16,297,256	16,297,256
Other liabilities	-	-	4,470,499	4,470,499	-	-	4,601,683	4,601,683
Subordinated term debt	-	-	18,387,276	18,387,276	-	-	18,387,276	18,387,276
<b>Total financial liabilities</b>	<b>814,219</b>	<b>-</b>	<b>431,955,009</b>	<b>432,769,228</b>	<b>814,219</b>	<b>-</b>	<b>431,587,552</b>	<b>432,401,771</b>

## Fair Values of Financial Instruments

### Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

#### (a) Derivatives

Derivative products valued with market-observable inputs are mainly currency swaps and forward foreign exchange contracts. Such valuations incorporate various inputs such as foreign exchange spot and forward rates.

#### (b) Financial Assets at Fair Value through Other Comprehensive Income

Financial Assets at Fair Value through Other Comprehensive Income are valued using valuation techniques or pricing models primarily consisted of unquoted equities.

#### (c) Financial Assets at Fair Value through Profit or Loss

Quoted Equities and Sri Lanka Government Securities - are included under Financial Assets at Fair Value through Profit or Loss are valued using market prices.

### Determination of Fair Value and Fair Value Hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market

The following table shows an analysis of financial instruments and non financial assets and liabilities recorded at fair value by level of fair value hierarchy

As at 30 June 2022	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
<b>Financial Assets</b>				
Derivative financial assets				
Forward foreign exchange contracts		6,270,283		6,270,283
Financial assets measured at fair value through profit or loss				
Equity securities - quoted	214,756			214,756
Units in Unit Trusts - Quoted	3,740			3,740
Units in Unit Trusts - Unquoted		27,314		27,314
Financial assets measured at fair value through other comprehensive income				-
Government of Sri Lanka Treasury Bills and Bonds	-			-
Sri Lanka Sovereign bonds	-			-
Equity shares- quoted	8,085,462			8,085,462
Equity shares- unquoted			216,602	216,602
	<b>8,303,958</b>	<b>6,297,597</b>	<b>216,602</b>	<b>14,818,157</b>
<b>Financial Liabilities</b>				
Derivative financial liabilities				
Forward foreign exchange contracts		1,875		1,875
	<b>-</b>	<b>1,875</b>	<b>-</b>	<b>1,875</b>

As at 31 December 2021	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
<b>Financial Assets</b>				
Derivative financial assets				
Forward foreign exchange contracts		280,235		280,235
Financial assets measured at fair value through profit or loss				
Equity securities - quoted	181,425			181,425
Units in Unit Trusts - Quoted	3,740			3,740
Units in Unit Trusts - Unquoted		33,710		33,710
Financial assets measured at fair value through other comprehensive income				-
Government of Sri Lanka Treasury Bills and Bonds	40,780,663			40,780,663
Sri Lanka Sovereign bonds	994,984			994,984
Equity shares- quoted	12,337,187			12,337,187
Equity shares- unquoted			216,602	216,602
Preference shares			-	-
	<b>54,297,999</b>	<b>313,945</b>	<b>216,602</b>	<b>54,828,546</b>
<b>Financial Liabilities</b>				
Derivative financial liabilities				
Forward foreign exchange contracts		814,219		814,219
	<b>-</b>	<b>814,219</b>	<b>-</b>	<b>814,219</b>

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

	As at 30th June 2022		As at 31st December 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash and cash equivalents	16,387,723	16,387,723	10,688,255	10,688,255
Balances with Central Bank of Sri Lanka	9,216,142	9,216,142	9,359,241	9,359,241
Placements with banks	12,941,063	12,941,063	6,288,006	6,288,006
Financial assets at amortised cost - Loans to and receivables from other customers	390,422,564	375,171,832	365,900,540	348,256,773
Financial assets at amortised cost - Debt and other instruments	56,199,519	55,466,189	26,674,962	26,162,922
Other assets	2,077,347	2,077,347	2,855,254	2,855,254
<b>Financial Liabilities</b>				
Due to banks	1,698,039	1,698,039	3,349,836	3,349,836
Financial liabilities at amortised cost - due to depositors	343,523,602	329,029,931	319,861,013	319,604,601
Financial liabilities at amortised cost - due to other borrowers	91,802,854	91,802,854	69,589,129	69,589,129
Debt securities in issue	15,334,971	11,630,400	16,297,256	14,932,065
Other liabilities	3,165,504	3,165,504	4,470,497	4,470,497
Subordinated term debt	18,520,360	15,436,267	18,387,276	16,580,539

#### Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Financial Statements.

#### Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity, it is assumed that the carrying amounts approximate their fair value. This assumption is applied for Cash and Cash Equivalents, Balances with Central Bank of Sri Lanka, Placements with Banks and Securities Purchased under Re-sale Agreements. This assumption is also applied to demand deposits, savings accounts without a specific maturity, floating rate instruments and fixed rate instruments having maturities within 12 months.

#### Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities (other than assets and liabilities with maturities within 12 months) carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments.

**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.

	<b>Equity Securities</b>	
	<b>Bank/Group</b>	
	<b>2022 LKR 000</b>	<b>2021 LKR 000</b>
Balance at 1 January	216,602	213,810
Purchased during the year		
<b>Gain included in OCI</b>		
– Net change in fair value (unrealised)	-	2,792
Balance at end of the period	216,602	216,602

**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.

	<b>OCI Net of Tax</b>	
	<b>Increase LKR 000</b>	<b>Decrease LKR 000</b>
<b>Equity securities as at 30.06.2022</b>		
Adjusted net assets value (5% movement)	10,830	(10,830)

**OPERATING SEGMENTS - GROUP**  
**Information about reportable segments**

	30 June 2022					30 June 2021				
	Corporate Banking LKR.'000	Banking LKR.'000	Treasury LKR.'000	Other LKR.'000	Total LKR.'000	Corporate Banking LKR.'000	Banking LKR.'000	Treasury LKR.'000	Other LKR.'000	Total LKR.'000
<b>External revenue</b>										
Interest income	7,702,183	13,549,129	2,989,251	25,866	24,266,429	4,299,705	8,435,966	4,137,207	13,978	16,886,856
Net fees and commission income	296,323	1,139,782	69,256	-	1,505,362	461,009	674,670	277,872	-	1,413,551
Net (loss) / (gain) from trading	-	-	(1,365,714)	-	(1,365,714)	-	-	96,772	-	96,772
Net gain / (loss) from financial instruments at fair value through profit or loss	-	-	156,732	-	156,732	-	-	(1,175,624)	-	(1,175,624)
Net gain from derecognition of financial assets	-	-	10,407	-	10,407	-	-	1,321,855	-	1,321,855
Net other operating income	65,551	81,940	133,399	464,846	745,736	8,518	4,008	1,145,632	376,633	1,534,791
Income from external customers	8,064,057	14,770,851	1,993,331	490,712	25,318,952	4,769,232	9,114,644	5,803,714	390,611	20,078,201
Inter segment revenue	-	-	-	(178,538)	(178,538)	-	-	-	(144,318)	(144,318)
<b>Total segment revenue</b>	<b>8,064,057</b>	<b>14,770,851</b>	<b>1,993,331</b>	<b>312,174</b>	<b>25,140,414</b>	<b>4,769,232</b>	<b>9,114,644</b>	<b>5,803,714</b>	<b>246,293</b>	<b>19,933,883</b>
<b>Other material non-cash items:</b>										
– Impairment losses on financial assets	-	-	-	-	(6,825,036)	-	-	-	-	(1,648,709)
– Depreciation and amortisation	-	-	-	-	(590,300)	-	-	-	-	(590,300)
Other expenses	-	-	-	-	(19,051,469)	-	-	-	-	(15,877,198)
<b>Segment profit before tax</b>	-	-	-	-	(1,326,391)	-	-	-	-	1,817,676
<b>Segment assets</b>	107,755,606	275,365,651	104,253,828	1,052,461	488,427,547	139,087,326	187,377,363	147,008,108	1,044,995	474,517,792
<b>Segment liabilities</b>	55,358,282	287,636,367	127,887,052	610,421	471,492,121	89,592,126	235,767,804	106,365,164	493,625	432,218,719
<b>Information on cash flows</b>										
Cash flows from operating activities	-	-	-	-	4,877,688	-	-	-	-	(12,884,173)
Cash flows from investing activities	-	-	-	-	15,066,637	-	-	-	-	(9,508,608)
Cash flows from financing activities	-	-	-	-	(7,604,167)	-	-	-	-	7,666,130
<b>Net cash flows generated during the year</b>	-	-	-	-	12,340,158	-	-	-	-	(14,726,651)
<b>Capital expenditure:</b>										
Property, plant and equipment	-	25,457	-	-	25,457	-	156,713	133	43,003	199,849
Intangible assets	-	162,618	-	-	162,618	-	111,320	-	38,796	150,116

**Reconciliations of information on reportable segments to the amounts reported in the financial statements**

	<b>2022</b> <b>LKR.'000</b>	<b>2021</b> <b>LKR.'000</b>
<b>Revenues</b>		
Total revenue for reportable segments	25,318,952	20,078,201
Unallocated amounts	2,320,208	1,730,447
Elimination of inter-segment revenue	(178,538)	(144,318)
Consolidated revenue	<u>27,460,622</u>	<u>21,664,330</u>
<b>Net Interest Income</b>		
Total net operating income for reportable segments	9,888,298	4,811,069
Unallocated amounts	1,213,633	817,996
Elimination of inter-segment adjustments	(25,866)	(13,978)
Consolidated net operating income	<u>11,076,065</u>	<u>5,615,087</u>
<b>Assets</b>		
Total assets for reportable segments	488,427,547	474,517,792
Other unallocated amounts	30,641,604	15,261,482
Consolidated total assets	<u>519,069,151</u>	<u>489,779,274</u>
<b>Liabilities</b>		
Total liabilities for reportable segments	471,492,121	432,218,719
Other unallocated amounts	6,365,899	6,826,259
Consolidated total liabilities	<u>477,858,020</u>	<u>439,044,978</u>